TABELL'S MARKET LETTER

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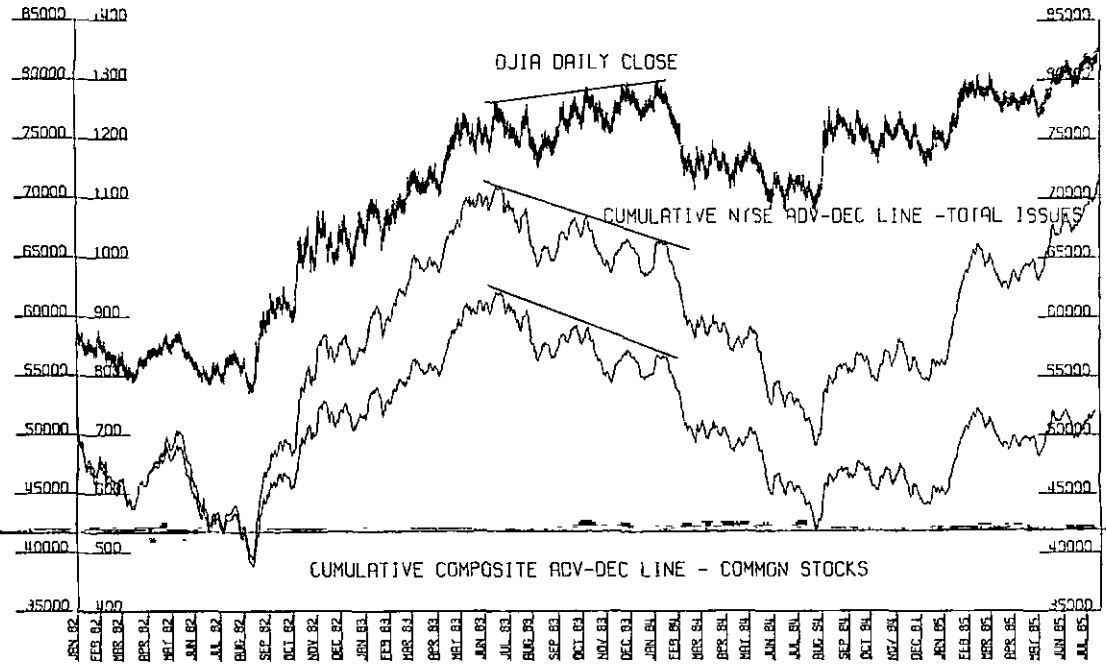
On Wednesday of this week, the Dow-Jones Industrial Average posted a new closing record high of 1357.97. With inflation at a low level and interest rates appearing to want to work lower, there seems to be a switching of assets from bonds to stocks taking place. Coupled within this market environment is the continued dominance by the institutional investor overshadowing an uncertain individual investor. Confirming this impressive action of the market averages has been the continued strength in market breadth statistics. The chart below shows the DJIA from the August, 1982 low to date, together with two daily breadth indexes which are computed based on the number of advancing and declining issues for each day.



We have had breadth statistics available to us for total issues traded on the New York Stock Exchange on a daily basis for over 60 years. Historically, interpretation of this indicator has suggested that if successive new highs on the Dow were not confirmed by new highs in the breadth index, lower stock prices were indicated. An obvious example of this type of divergence occurred from June, 1983 through January, 1984, and is shown on the chart above with appropriate trend lines drawn. On the other hand, when breadth continues to outperform the Dow over time, a bull-market condition continues to exist. Such is the case today.

The action of the breadth indicator of total issues traded from the August, 1982 low to date has been extremely informative. From this low, each rally in the Dow to a new high through June, 1983 was followed shortly by a confirming new high in market breadth. Subsequently, new highs in the Dow were not confirmed by the new highs in the breadth index and the market corrected itself 15.59% to the August. 1984 low of 1086.57. Since that time, each new high in the Dow has been followed by a new high in breadth. In fact, this week, the cumulative NYSE advance/decline total issue breadth index confirmed the recent high in the Dow, and in so doing reached a level exceeding its June, 1983 high.

As comforting as this seems, and it is, it should be pointed out the total issue index has been distorted because of the recent strong performance of the preferred stock sector within the total issue index. Preferred stocks represent approximately 25% of total issues traded daily. During the late 1960's, the NYSE began reporting daily breadth statistics of total issues traded and, also of common stocks. The technician was now able to construct a breadth index of only common stocks as shown above. For the past few years, the total issues breadth index has outperformed the common stock breadth index by a relatively constant margin. Both indices moved in concert and any measured differences were insignificant. This was true until the Fall of 1982. As can be seen by inspecting the two breadth indexes, the inclusion of preferred stocks in the total issue breadth index has provided an upward bias to this series. This we must logically assume is because of the strength in the overall interest-sensitive sector of the market. Even while lagging, the common-stock breadth index is currently close to posting a new high for the year, albeit clearly well below its high of June, 1983.

The condition of the maturing bull market is indeed healthy. Overall breadth figures remain positive, the major stock-market indices are at record highs with no indication of negative divergence conditions existing. There is good reason for the market to continue to sustain itself. We should only respect its age.

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DELAFIELD, HARVEY, TABELL INC.

Dow-Jones Industrials (12:00 p.m.)	1354.84
S & P Composite (12:00 p.m.)	194.46
Cumulative Index (7/18/85)	2636.10