TABELL'S MARKET LETTER

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"But many that are first shall be last."
Matthew XIX, 30

On the face of it, last week's stock market was rather a dull proposition. Just a week ago, the Dow-Jones Industrial Average, in the course of its rather impressive followthrough after President Reagan's recovery, had posted yet another new alltime high accompanied by a breadth confirmation. By week's end, the average had beaten a modest retreat to around 1352, an almost unnoticeable decline of less than 1%. However, underneath the surface of all this, the market seemed bent on trying to prove the biblical adage. Essentially, what took place was an all-out assault launched against those stocks which had treated investors best over the past five years.

One could pull a hundred or so individual examples of this sort of thing out of the week's trading, but perhaps the best simple proxy is probably the Dow-Jones Utility average. This relatively staid indicator had, until just recently, been scoring new peaks along with the Industrials. Its alltime high had been on July 12 at 168.92. Over a period of eight trading days ending on Wednesday, it had declined to 157.83, a drop of 6.56%. This rather extraordinary performance included a one-day decline of 3.27% on Tuesday.

The word "extraordinary" is here used advisedly. There have been, over the 35 years since 1949, only 10 trading days on which the Utility Average declined by an amount greater than 3%. Over those 10, only two saw a drop significantly greater than the one which occurred this week, a 7.3% decline on May 28, 1962 and a 4.84% decline on April 23, 1974. The drop brought the Dow Utilities back to a level they had not seen since early May. On a relative-strength basis, the decline was even steeper. Utilities had, in general, been achieving peaks relative to the S & P as recently as last month. Many of them dropped off this week to a position relative to the 500 that they had not seen since March, shortly after the latest leg of the bull market began.

As we said above, we are, here, only using the Utility Average as a proxy for a much wider phenomenon. The declines were equally as dramatic in such industries as Food, Drugs, Banks, and Insurance. The mugging victims, in other words, were precisely those disinflation-beneficiary stocks identified in this space by our colleague, Bob Simpkins, two weeks ago. As the chart in that letter demonstrated, these issues have been superior relative performers since late 1980. They were essentially resistant to the bear market which continued from that date to the 1982 lows, managed to participate in the first upleg of the subsequent bull market to mid-1983, and have been outperforming on the upside since the overall market turned up again in July of last year. As noted two weeks ago, the ratio of these disinflation-beneficiary issues to inflation-hedge stocks had returned to levels not seen since 1972.

Last week's trading, then, represented an apparent sudden disenchantment with the sort of market action which has been going on more or less consistently for half a decade. The ostensible reason for the action was the simultaneous emergence of large numbers of institutional selling programs which appeared to be concentrated in the sorts of issues we have been talking about. A modest pickup in volume on Tuesday and Wednesday lent credence to this theory. While trading activity (143 million shares on Tuesday) did not set records, it was in the vicinity of the peak levels generally seen for 1985 so far.

One of the things that makes technical analysis a fascinating discipline is that markets always constitute a blend of the old and the new. The institutional selling program, which, as last week's trading demonstrated, can create sudden and unexpected effects, certainly constitutes a trading factor that has achieved significance only in recent years and is likely to become more significant as time goes on. Classical technical theory would call for declines such as were seen last week to be preceded by long periods of distribution. Such was most emphatically not the case in recent days. The bulk of the isues that were hit hardest showed no tops of any significance.

The retracement, however, conformed to the classic pattern in terms of lack of followthrough. By and large, despite the vicousness of most of the declines, they appeared to be petering out by the end of the week. Thus, while sudden large sales at distress prices may be a new phenomenon which the technician will have to live with, we think that the classical pattern will adhere in the present case --- in other words, that the stocks hit hard this week will demonstrate decent price recoveries over the near term on both an actual and relative basis. Such a recovery may turn out to be part of a longer and more important distribution process. This, however, remains to be seen.

AWT:rs

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Dow-Jones Industrials (12:00 p.m.)	1351.69
S & P Composite (12:00 p.m.)	191.87
Cumulative Index (7/25/85)	2619.43