**TABELL'S MARKET LETTER**

*Delafield, Harvey, Tabell Inc.*

600 ALEXANDER ROAD, PRINCETON, NEW JERSEY 08540

MEMBER NEW YORK STOCK EXCHANGE, INC
MEMBER NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC
(609) 987-2300

December 20, 1985

Our regular readers are well aware of the ritual traditionally observed by this letter at each year-end. We first devote one issue to looking backward, reviewing the year just past plus any previous relevant history. The following issue then attempts to draw on this background to look ahead and formulate a forecast for the year to come. This week's piece, the first of the customary duo, will therefore be a review of the year 1985.

Our task this year is an unusually pleasant one. 1985 was the best stock-market year in the past decade. Or, if you prefer, the fourth best year in the past fifty. It becomes slightly less impressive when one takes the early years of the century into account. It is only the fourteenth best year for the Dow-Jones Industrial Average since it was first computed in 1897. However, the market did distinguish itself by consistency. We noted a couple of weeks ago that 1985 will probably be one of the only three instances of a year which passed without a 5% correction.

In any case, at its high close so far (1553.10 on December 16), the DJIA was up 28.19% from its December, 1984 close of 1211.57. The most recent better year was 1975, which saw a 38% advance in the Dow. 1954 and 1958 produced 44% and 33% rises respectively. All the other larger advances go back more than 50 years, the latest being 1935. For the record, the biggest-ever full-year advance for the Dow was 82% in 1915.

In order truly to lay the groundwork for a forecast, however, it is necessary, as we have been mercilessly reminding our readership, to confine examination not just to 1984, but the entire process which began on August 12, 1982. Almost every financial commentator has recently made the discovery that, since that date, the DJIA has just about doubled. (To be precise, it has advanced from 776.92 to 1553.10, a 99.9% rise.) This is, admittedly, impressive, but, as us old folks are fond of reminding our younger colleagues, "The trouble with you kids is you've never seen a real bull market." This is illustrated by the fact that two of the years which outperformed 1985 were out of the 1950's. For that decade and the previous one, bull-market advances of approximately the current magnitude were the rule rather than the exception.

Since we are presenting in this letter an historical review, it is perhaps worth taking a truly long-range look. It has been demonstrated here in the past that the period of the 1940's through the early 1960's constituted a stock-market era --- one in which the supercycle trend was upward at a rate of a bit more than 9%. A second such era was entered around 1966, when the Dow first approached 1000, a level it was unable significantly to better until two years ago. That trend was, obviously, flat.

With the Dow now at 1500, it is apparent that we are in the middle of a third such epoch, which started either in August, 1982, or, arguably, eight years before, in 1974. Based on the evidence so far, admittedly flimsy for the time period with which we are dealing, bull markets of this new era have a tendency toward magnitudes reminiscent of the 1950's. We have even less evidence for the characteristics of the typical new-era bear market. Based on the 1978-1980 experience, the current breed of bear may be a somewhat mild and less than ferocious creature.

A possible reason for this may be the recently demonstrated tendency for large market sectors to fluctuate out of syncronization with each other. A most recent obvious example is the Over-the-Counter market. It was the leading participant in the early stages of the current rise, with the OTC Industrial Index moving from 178 to 408 by June, 1983. Over the next year, accompanied by no more than an intermediate-term correction in the listed sector, it had dropped to 250. It was not too far from that level, at 278, just last October. It is now, at around 326, still at a 20% discount from its 1983 high. Quite clearly, the rosy outline of stock-market history we have been discussing in this space so far must read like fiction to investors in smaller stocks.

A review of recent stock-market history, therefore, becomes more and more complex as we probe it more deeply. On the simplest level, of course, we are looking at a market, measured by the Dow or the S & P, which has doubled over three and a half years. If history teaches us anything, it is that such markets are vulnerable. On the other hand, there exists a large subset of the stock universe for which the picture is quite different and where the component stocks are still available not too far from two-year lows. We are further, on the evidence, in the early stages of what appears to be a new stock-market environment, one in which the past 20 years or so of historical experience may be somewhat less than relevant. All these factors must be synthesized in order to arrive at a 1986 forecast.

AWT:rs

ANTHONY W. TABELL
DELAFIELD, HARVEY, TABELL INC.

| | |
|---|---|
| *Dow-Jones Industrials* (12:00 p.m.) | 1555.39 |
| S & P Composite (12:00 p.m.) | 210.62 |
| Cumulative Index (12/19/85) | 2668.46 |

A VERY MERRY CHRISTMAS TO ALL.