

# TABELL'S MARKET LETTER

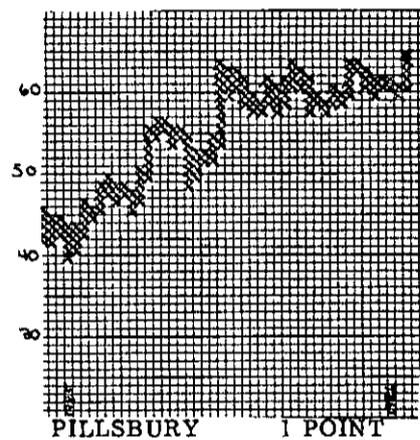
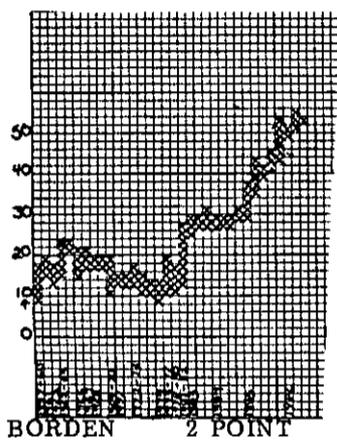
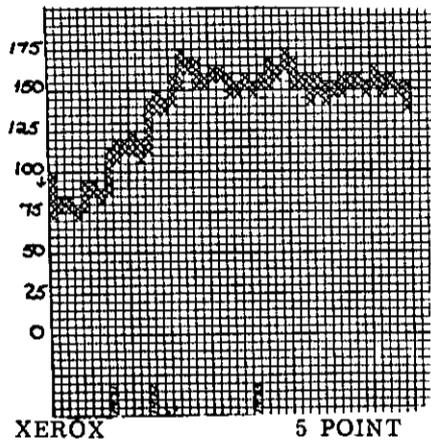
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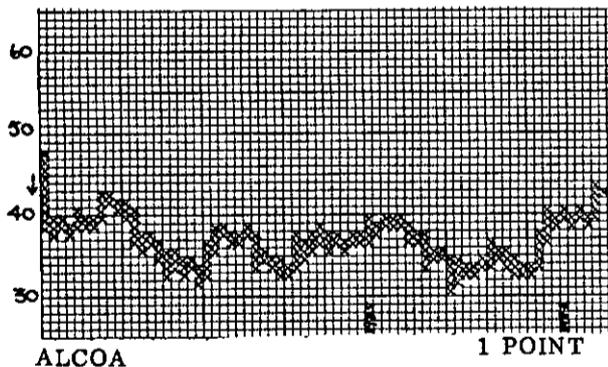
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February 7, 1986

Readers of this letter are, by this time, well aware of our general feeling regarding the current stock market. We recognize, along with most of the rest of the financial community, that the Dow has doubled over 3-1/2 years and that the current cycle, at least in terms of conventional interpretation, has reached a mature phase. Despite this, we have recommended a continued positive attitude toward common stocks, pointing out that the sort of deterioration which the conventional wisdom would expect at this stage has simply not materialized. We will try, this week, to illustrate this point graphically using the point-and-figure charts which we regard as the most useful historical summary of price action.



The chart at left above, an historical artifact, is a shining example of the sort of pattern which is conspicuous by its absence today. On a 5-point-unit basis, it traces the history of Xerox in the early 1970's, with the last posting being in November, 1973. No chart expertise is required to see that the distributional pattern between 150 and 170 is massive. The stock, of course, was at 46 a year later and below 28 at its 1982 low.

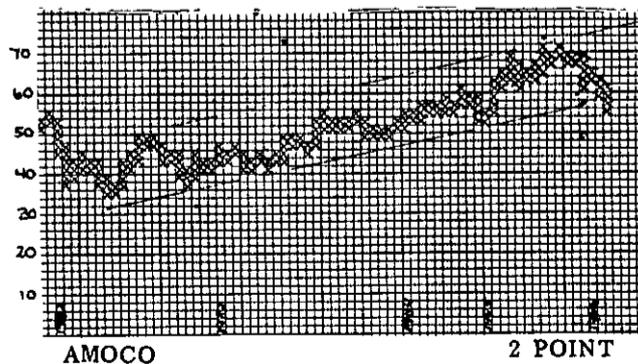


Many stocks today---Borden is an example--- appear fully exploited, but what is totally absent, as its chart shows, is any sort of distributional top. Such a formation would require time. (The Xerox top took over a year to build). Furthermore, a typical occurrence in recent markets has been for potential distributional patterns to turn into continuation bases. Pillsbury, during late 1985, formed a pattern which could have been interpreted as a triple top. The recent upside breakout casts doubt on this and now suggests a further extension of the upside move.

Rather than massive top formations, a large number of stocks today possess patterns something like that of Alcoa, shown at left. Its major feature is a recent upside breakout from a massive accumulation base between 30 and 39, suggesting that the stock could be in the early stages of an important upward move. This sort of formation is typical of a large number of basic-industry stocks.

Top formations are currently, it must be admitted, not totally absent, but where they exist, as in the energy sector, the patterns are similar to that of Amoco at right. The stock did, indeed, form a top at 70-60 and the downside objective is 48. However, it has already declined from 70 to a low of 53 1/8 and is approaching an area of strong support from its 1982-1983 trading suggesting that the bulk of downside action has already been seen.

The fact that most individual patterns today can be typified by one of the four latter examples rather than by the sort of pattern Xerox and so many other stocks exhibited 15 years ago suggests that no serious market weakness is imminent until distributional patterns build further.



Dow-Jones Industrials (12:00 p.m.) 1592.43  
S & P Composite (12:00 p.m.) 209.33  
Cumulative Index (2/6/86) 2764.16

ANTHONY W. TABELL  
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