

TABELL'S MARKET LETTER

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July 3, 1986

It has been the thesis of this letter for some weeks now that the stock market underwent a transition to a new behavior pattern about three months ago. That behavior pattern can be characterized as a trend whose direction, for the time being at least, continues upward, but in a much slower and narrower fashion. This week's market action was entirely consistent with this hypothesis. The first three days of trading all saw new peaks for the Dow, but Wednesday's interday high of 1922.67 was less than 4% above the comparable figure posted over three months ago on March 27th. That March 27th peak, for most averages, was followed by three subsequent new highs, in mid-April, early June, and, lastly, this week.

We attempted, this week, to examine the four-month period March-June in terms of the action of individual stocks. We examined 1306 NYSE issues and recorded the date on which each one made its high for the period, the date and percentage decline to the subsequent low, and the portion of that decline recovered as of Monday's close. Despite the action of the averages, individual issues have not behaved all that well over the past four months. Almost half of the stocks under study made highs in March-April, which they have not been able to exceed since. The average stock, for the period, posted a 15% loss from its high to its subsequent low and had, as of Monday, recovered a modest 40% of that loss.

DATE OF HIGH	NO. OF STOCKS	AVERAGE DECLINE	E X T E N T O F D E C L I N E					
			<10%	10%-20%	20%-30%	30%-40%	40%-50%	50%+
March	341	24.64	8	138	115	48	15	17
April	297	18.78	22	179	66	23	3	4
May 1-June 13	301	14.02	108	144	39	5	2	3
June 16-Date	367	4.31	340	25	2	0	0	0
Total	1306	15.15	478	486	222	76	20	24

The table above records some relevant statistics. It shows the number of stocks reaching their March-June high in four periods--March, April, May 1st-June 13th and June 16th-June 30th. The second column shows the average decline for each group of stocks and the number of stocks which dropped by various amounts. While the number of serious declines is small, the large number of issues which peaked early and subsequently exhibited dips in the 10-30% range is striking.

DATE OF HIGH	NO. OF STOCKS	AVERAGE RECOVERY	<20%	E X T E N T O F R E C O V E R Y			
				20%-40%	40%-60%	60%-80%	80%-100%
March	341	30.86	135	101	60	36	9
April	297	38.84	79	82	71	50	15
May 1-June 13	301	35.66	103	77	55	48	18
June 16-Date	367	50.45	77	63	74	74	79
Total	1306	39.29	394	323	260	208	121

The table above focuses on the amount of recovery, and that recovery is, in our view, surprisingly limited. The stocks that made their highs through June 13th have, on average, been able to regain only 35% of the ground lost, and almost a third of them have recovered less than 20%. What is also interesting is the persistence of declines in these issues once individual highs were made. Of the 341 issues which made their high in March, 145 were still posting new lows subsequent to June 13th, and the same is true of 103 of 297 stocks that peaked in April.

What evidently exists, therefore, is a rise in the averages being supported by an ever decreasing number of issues. This condition, of course, need not be permanent. Rotation of leadership could take place if stocks that peaked early in the period complete corrections and move on to new highs. The point of the study above, is that they apparently, to date, have not done so.

AWT:vfl

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Dow Jones Industrials 1902.84
S & P 500 251.84
Cumulative Index (July 2, 1986) 3217.32