TABELL'S MARKET LETTER

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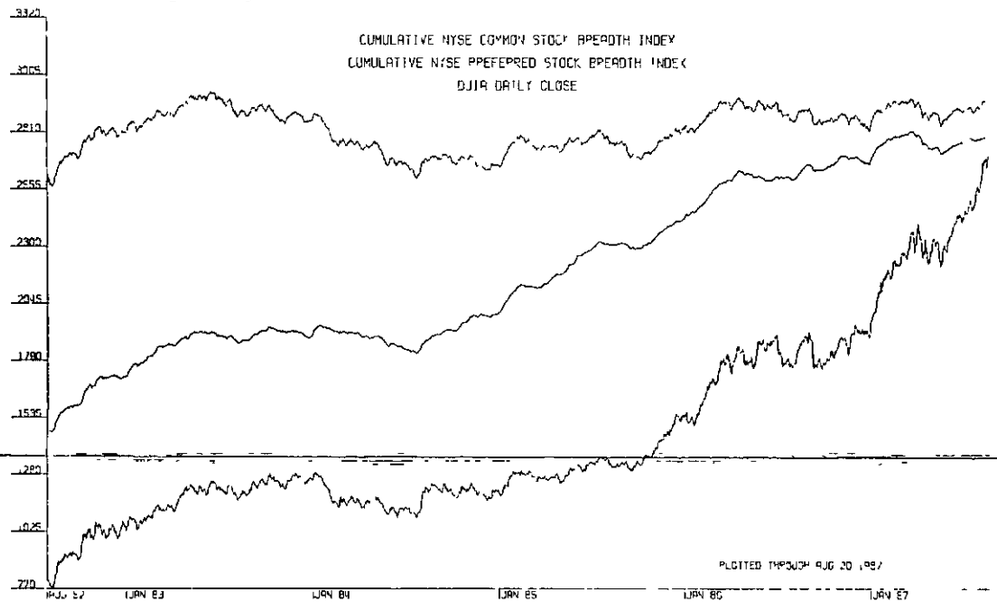
For the fifty-third time this year, the Dow Jones Industrial Average has set a new record high, closing Thursday at 2706.79. This was achieved in spite of a 45.91 point correction on Tuesday, the seventh largest one-day point decline in the industrial average. In terms of percentage decline, this 1.70% correction registered was, of course, not historically as significant. Within this framework, the recent performance of the Financial stocks and Utilities stocks has greatly improved, posting impressive gains within recent weeks, suggesting that interest rates may be on their way down and inflation fears temporarily arrested.



The potential significance of this recent strength in the interest-sensitive sector of the stock market can be shown by examining a traditional technical tool---market breadth---in a slightly different manner. The NYSE, for some sixty years, has recorded the advances, declines, and unchanged of all issues traded. More recently, breadth figures have become available for common stocks only. This new series constructed as a breadth index (advances - declines divided by total issues traded) is shown in the upper third of the chart above. As expected, this common stock index behaves in a similar manner to that of the traditional total issues breadth index. By subtracting common stock issues from total issues traded, we are also able to develop a preferred stock breadth index representing over one quarter of the total issues traded. This interest-sensitive index is shown above in the middle of the chart. Both of these breadth indexes are compared to the DJIA in the lower third of the chart from the August, 1982 low to date.

It is interesting to point out that the common stock breadth index spent most of the second half of 1983 declining, while the DJIA went on to new highs in October, 1983. This divergence was followed by a correction of 15.39% in the DJIA lasting until July, 1984. The preferred stock breadth index during this period, however, went to a new high, reflecting the ongoing strength in the interest-sensitive sector during the general market decline.

From the July, 1984 low to date, the DJIA has advanced without major interruption, 149.11%. However, as this letter has pointed out in recent weeks, there continues to exist a divergence in the breadth of the market-measurements partially as a result of the poor relative performance of the interest-sensitive sector during the second quarter of this year, and partially due to the narrow, selective quality of the leadership. Currently, both breadth indexes discussed above are improving, but they have not posted new highs above their previous March, 1987 high. Also, the daily raw advance-decline line has not yet posted new highs which would confirm the ongoing bull market, but it is improving. A move through these levels would negate the potential negative divergence. Representing a major component of the stock market, the interest-sensitive sector of the market, using this unique breadth index as a proxy, should monitor the continued improvement in the sector in order to determine if market breadth is signaling a change from the narrow, selective leadership of the advance, to a more broad-based participation.

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RJS:ebh

Dow Jones Industrials (12:00)	2710.78
S & P 500 (12:00)	336.02
Cumulative Index (8/20/87)	4105.38

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