TABELL'S MARKET LETTER

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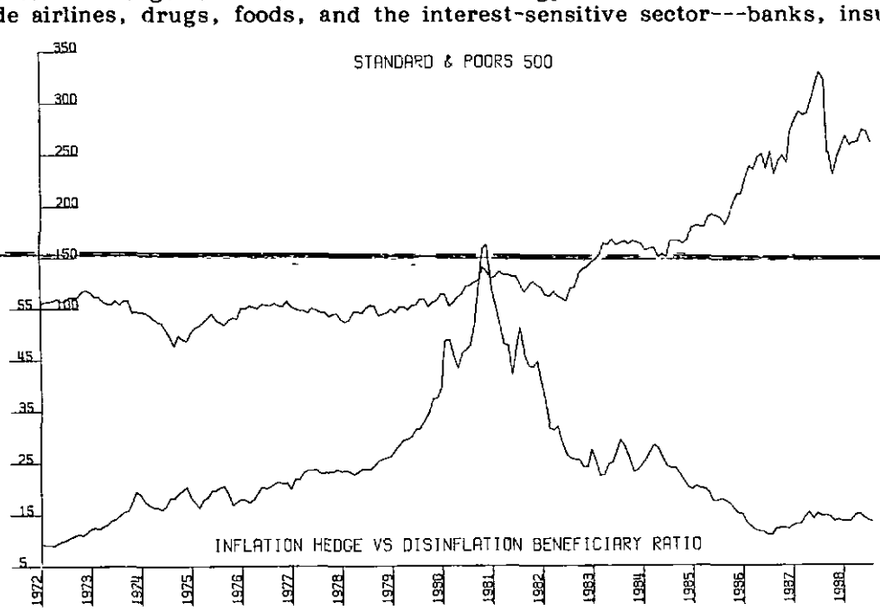
The investment community continues to suffer from those post-October, 1987 blues. Decreased trading volume, decreased volatility, and a new-issue market that is all but non-existent has made many investors reluctant to return to the stock market; and it is not surprising.

The type of markets we had been accustomed to prior to October, 1987 might best be demonstrated by the announcement of the Boesky revelations in November, 1986. You remember those days---DJIA down 40+ points on volume of 185 million shares only to regain the ground lost the next trading session. Most recently, however, the announcement of the Milken indictment was treated as a non-event by the stock market---even last Friday's triple witching hour reflected a general lack of interest---suggesting continued dullness may have to be endured. There is, of course, the other side to all of this doom and gloom. The 300-point consolidation that has contained the DJIA since the first of the year may continue, together with low volume, but, as this letter has pointed out in the past, low volume, albeit bad for the brokerage community, is not necessarily bad for the stock market. Within this framework, continued rotation of leadership has been apparent and some interesting groups are emerging as potential new market leaders. To help show this, we have updated a monthly average of S & P groups that either constitute an inflation hedge or would be a disinflation beneficiary and have created two separate indices. Inflation hedge groups would include, among others, metals, gold, steel, and the entire energy sector. Disinflation beneficiary groups would include airlines, drugs, foods, and the interest-sensitive sector---banks, insurance, and utilities.



The chart above shows the monthly close of the S & P 500 and the ratio of the inflation hedge index to the disinflation index from January, 1972 through August, 1988. If the inflation hedge index is advancing more than the disinflation beneficiary index, the ratio line is going up (1972-1980). Clearly, it can be shown from the chart above that the inflation hedge sector has underperformed those groups which are disinflationary beneficiaries since the start of the bull market, August, 1982. But it is possible to go back even further than this date, to identify the beginning of this significant change in the market environment. The ratio reached its high at the end of 1980 coincident with the high in the S & P 500. This date, by hindsight, signaled the peak of the ratio of inflation hedge stocks relative to those stocks that are beneficiaries of disinflation. It was during the subsequent correction in the market to the August, 1982 low that the inflationary hedge index turned down. This occurred while the disinflationary beneficiary index continued to move ahead in the face of a 15% decline in the S & P 500. The final confirmation of this significant internal change came when the market rallied dramatically in August, 1982, but failed to include the inflation hedge sector. More recently, from the ratio peak of November, 1980, the inflation hedge sector has declined with minor interruptions, approximately 55% through July, 1986. The disinflation beneficiary index, on the other hand, has increased 176% over the same period.

Where are we now in terms of this ratio? As we can see from the chart, since the ratio low established in July, 1986, the inflation hedge index has performed relatively better than the disinflation beneficiary index. However, short-term improvement in the disinflation sector may be signaling a possible shift between indices. Next week we will examine individual S & P Groups in order to identify these changes occurring within the broad trading range that has contained the Dow Jones Industrial Average.

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Dow Jones Industrials (12:00)	2084.10
S & P 500 (12:00)	268.36
Cumulative Index (9/22/88)	3883.16

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