TABELL'S MARKET LETTER

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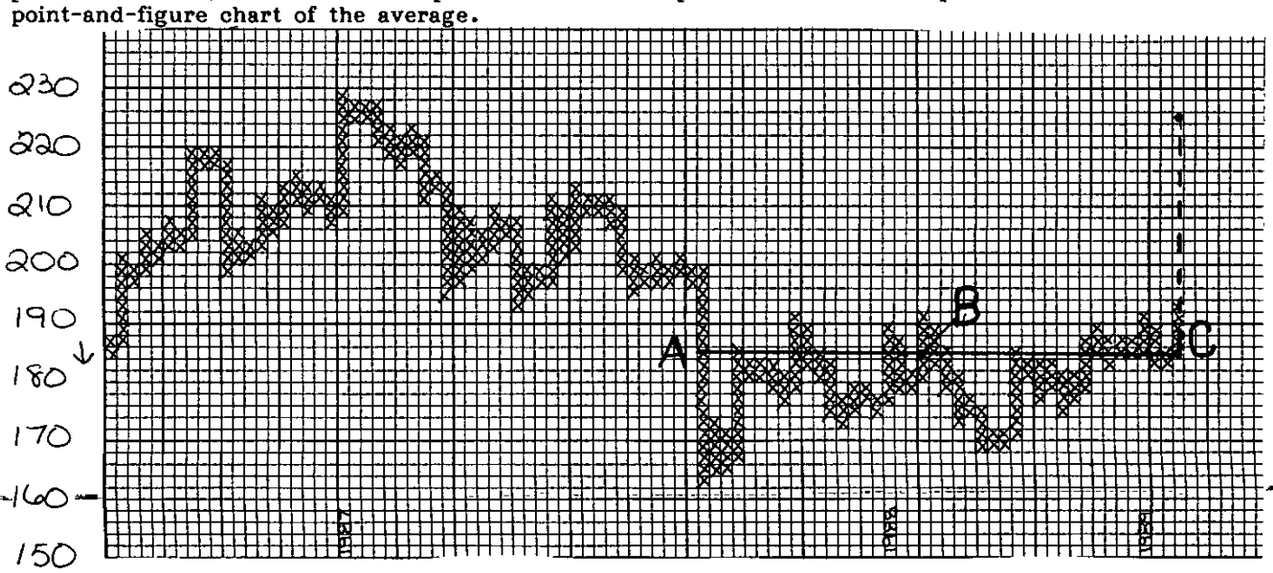
In a week generally characterized by dullness, with pullbacks from last week's highs in the widely followed indicators, one minor bright spot went largely unnoticed, and may, therefore, be worthy of comment. On Monday, the Dow Jones Utility Average closed at 192.80 and extended this gain slightly (above 193) on Tuesday morning before pulling back. This marked the first time that the average had traded at the 192 level subsequent to its downward plunge through that price in October, 1987. This has produced the chart pattern below on a 2-point-unit point-and-figure chart of the average.



The posting at 192 can, obviously, be read as an upside breakout, with the most conservative upside target, resulting from a reading at B-C, of 226 which, of course, would be a test of the 1987 high. A reading of the entire base at A-C would produce a truly startling price target of 256.

Now at this point, the first of a whole series of caveats must be introduced, this one relating to the massive overhead supply starting at around the 200 level. As we have noted here, many issues have already tested their comparable supply and have encountered a great deal of resistance. We would expect the utilities to experience equal difficulty.

Individual stock patterns, of course, vary. A fair number of gas utilities have already broken out of their base formations, while most electric utilities have not, and those individual companies beset by nuclear problems generally have no bases at all. However, a typical current example might be Public Service Enterprise Group, now around 24, which has held, since the crash, between 20 and 26. A breakout from this range could suggest a possible 35 followed by higher levels.

It may well be asked why we are discussing a laggard average at a time when the Transportation Index has posted a new all-time high and other major indices continue in cycle bull markets. The reason is the possibility that the utility indicator may be telling us something about interest rates. The current dividend for the Dow utilities is just over $15, producing a yield of 7.81% at current levels. Were the first objective of 226 to be reached, that yield would become 6.64% and, at the second objective, 256, the yield would be 5.86%. At 35, PSEG would yield 5.83% versus its current 8.24%.

These calculations assume no change in dividends, but, allowing for modest increases, we are looking at the possibility of utility commons producing 6-7% yields in the next couple of years. Attempting to project a plausible relationship between these levels and other money rates, a yield for AA Utility Bonds might be 1.2 to 1.3 times the utility-common yield. This could mean a rate for these issues of 7 1/4-9% versus the current 9.87%. Long governments returning around the 7% range would be consistent with such a structure.

Given current conventional thinking at least, such yields ought to be highly bullish for stocks. This is, of course, not totally certain, since such rates, were they to come under the stimulus of extended recession, would hardly be encouraging for equities. Nonetheless, the action of utility stocks as potential harbingers of interest-rate changes could be an important factor in today's markets.

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Dow Jones Industrials (12:00)	2402.49
S & P 500 (12:00)	309.86
Cumulative Index (5/4/89)	4402.17

AWT:cg

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