

# TABELL'S MARKET LETTER

*Delafield, Harvey, Tabell Inc.*

5 VAUGHN DRIVE, CN 5209, PRINCETON, NEW JERSEY 08543-5209

MEMBER NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC  
(609) 987-2300

May 31, 1991

The technician's function is the study of markets, and that study is broad enough, in our view, to include not only price action but also the institutional arrangements of said markets. We could not, therefore, resist giving some thought to the recently announced scheme for extending trading hours on the New York Stock Exchange, now approved in a split decision by the SEC and due to commence on June 13th.

To those of us old enough to recall Rube Goldberg the plan possesses a certain whimsical charm. Briefly, it calls for two after-hours sessions. The first of these, from 4 to 5 p.m. simply allows for the electronic placement of orders at the regular-way closing price, these orders to be matched automatically at the end of the session. The second, lasting until 5:15, will permit the off-floor trading of "baskets" of stocks comprising at least 15 issues and worth at least \$1 million.

There are a number of vantage points from which one may consider this particular plunge into the brave new world. It has, for one thing, been noted that the first late session is totally computerized, bypassing the trading floor and, in the process, the specialist system. These two traditional elements are regarded by many as being synonymous, a contention we have never quite understood. The computer has been around for quite some time now, and, since its arrival, we can see little justification for the traditional preference for trading securities by having grown men stand around in a confined space shouting at one another.

Long ago, we were fond of taunting a friend of ours, an NYSE specialist, with the comment that he would, some day be replaced by a machine. His exasperated rejoinder was, "How are you going to get a machine to risk money?". He had a point. Machines, as every computer professional knows, are the creation of human beings, and breadth and depth of markets are the results of human beings willing to commit capital to those markets. It seems to us, though, that the issue of sufficient depth and means of trading are totally separate, and we see no reason why a change in one necessarily applies to a change in another.

The ostensible reason for the after-hour sessions, of course, had nothing to do with computers. It was billed as a step toward 24-hour trading, such a practice being a part of the internationalization of financial markets, a phenomenon proclaimed, in almost all quarters, as being the wave of the future. Global investing, it seems, has become one of those Wall Street visions which attains the status of revealed religion.

Now we are not about to question the basic desirability of the free movement of capital across national borders. We also have no doubt that the trading of U.S. securities in London and Tokyo will increase as will the use of foreign securities by American money managers. We would, however, hate to see this increase become an excuse for battles for turf between various trading centers, especially if those conflicts involve the relaxation of traditional disclosure standards.

We think, in other words, that changes in market structure should be considered in light of the basic attributes of truly efficient markets, not the least of which is disclosure, a cornerstone of U.S. securities trading since Edison invented the ticker. We have a special bias toward this attribute since reported trading figures are, it goes without saying, the lifeblood of the technician.

For this reason, the reduced disclosure requirements for the "basket" trading session are, for us, a cause for some concern. After thinking about this, we began to wonder, however, whether basket trading figures should indeed be included in the price action traditionally analyzed by the technician. The technical analyst's goal is, after all, the detection of changes in investor preference for a particular financial instrument by studying the price action of that instrument. The trading of securities in a basket is, in a sense, the admission of no knowledge of, or preference among, the individual components of that basket. To those of us who believe that knowledge, intelligence and hard work are useful components of the investment process, index trading may, in the long run, turn out to provide opportunities for the rational asset manager.

ANTHONY W. TABELL  
DELAFIELD, HARVEY, TABELL INC.

Dow Jones Industrials (12:00)	3006.93
S & P 500 (12:00)	387.22
Cumulative Index (5/30/91)	6148.58

AWT:jb