

TABELL'S MARKET LETTER

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By now everyone is almost agonizingly familiar with the lateral trading range that has contained the Dow-Jones Industrial Average since late February following its meteoric rise in the first two months of the year. Likewise, anyone who has been reading any form of technical market comment is aware of the fact that, throughout this period, the Dow has been outperforming most breadth indices, indicating below-average performance by the broad range of stocks. We conducted, this week, an investigation to ascertain whether this underperformance extended to the American Stock Exchange and the Over-The-Counter market as well, and the general conclusion is that this is, indeed, the case. While American and Over-The-Counter issues underperformed the Dow in the early phase of the advance, they moved with it and even ahead of it on into mid-February. Since that time, both Amex and OTC indices have been performing less well than the Dow, and as measured by breadth, the average ASE issue has been underperforming the average NYSE issue. Finally, interestingly enough, there is some suggestion that this trend, at least as far as the Amex is concerned, may now be reversing itself.

The following table shows some relevant market statistics for selected dates since the December 5 low. The first column shows the DJIA, the second, the American Stock Exchange Market Value Index and the third, the ratio of the latter to the former. Obviously, when this statistic is rising, it means the Amex index is outperforming the Dow and vice versa. The next two columns are breadth indices for the New York and American Stock Exchanges starting from an identical base. The last two columns give the NASDAQ OTC Composite Index and its ratio to the Dow.

Date	DJIA	ASE Mkt.Val. Index	Ratio ASE/ DJIA	NYSE Breadth	ASE Breadth	OTC Comp.	Ratio OTC/ DJIA
12/5/75	818.80	82.40	.1006	780.62	781.20	74.72	.0913
12/26/75	859.81	82.58	.0960	785.46	780.58	77.13	.0897
2/24/76	993.55	105.11	.1058	826.98	804.09	91.73	.0923
2/25/76	994.57	105.25	.1058	826.45	803.92	92.09	.0926
2/26/76	978.83	104.17	.1064	823.57	802.66	91.45	.0934
3/5/76	972.92	103.65	.1065	820.99	800.54	89.47	.0920
3/11/76	1003.31	105.30	.1050	823.75	801.23	91.21	.0909
3/24/76	1009.21	104.71	.1038	822.56	799.17	90.93	.0901
4/21/76	1011.02	103.47	.1023	820.02	795.14	90.77	.0898
5/12/76	1005.67	105.01	.1044	818.70	794.10	90.64	.0901
5/13/76	1001.10	105.48	.1054	817.95	793.85	90.22	.0901
5/19/76	988.90	104.67	.1058	815.91	792.44	89.25	.0903

Scanning down the dates reveals some interesting facts. Both the American and OTC markets underperformed the Dow on the initial phase of the rise as shown by the declining ratios between December 5 and December 26. Indeed, in that period the Amex index hardly moved at all. When we come to the three days at the end of February, however, some interesting changes have taken place. First of all, both the ratios have improved dramatically, indicating relatively stronger moves on the part of secondary issues. NYSE breadth reached its high for the year on February 24 as did American Stock Exchange breadth. A glance down both columns shows the failure of breadth on either exchange to post new peaks after February. This suggests that the average stock on both exchanges has been underperforming senior issues, since the capital-weighted Market Value Index on the ASE, like the Dow, reflects largely the action of larger companies. The OTC index reached its high on February 25, and that high has not yet been duplicated. Likewise, the ratio of the OTC index to the Dow reached its peak on the next day. A few days later, on March 5, the ratio of the Amex index to the Dow reached a peak at .1065, a high that, likewise, has not been duplicated since then. As the table shows, we have seen a series of successive highs on the Dow unaccompanied by new peaks on any of the other indicators. This remained true until May 13 when, as the table shows, the ASE index moved into new high territory, if only marginally, while the Dow remained below its high. At .1058, its ratio to the Dow on May 19 was just about the highest it had been since back on March 5.

It is yet too early to tell whether this recent awakening on the Amex is the precursor of any wave of interest in secondary issues or just a flash in the pan. It is also worthy of note that it has not to date been confirmed with rising breadth action. Nonetheless, we think the figures suggest a total absence of any sort of speculative activity, and, while speculative activity is not the only precursor of market tops, it is generally the precursor of the more dangerous sort of decline.

Dow-Jones Industrials (12:00 p.m.) 994.21
S & P Comp. (12:00 p.m.) 101.73
Cumulative Index (5/20/76) 601.66
AWT/jb

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