

# TABELL'S MARKET LETTER

*Delafied, Harvey, Tabell Inc.*

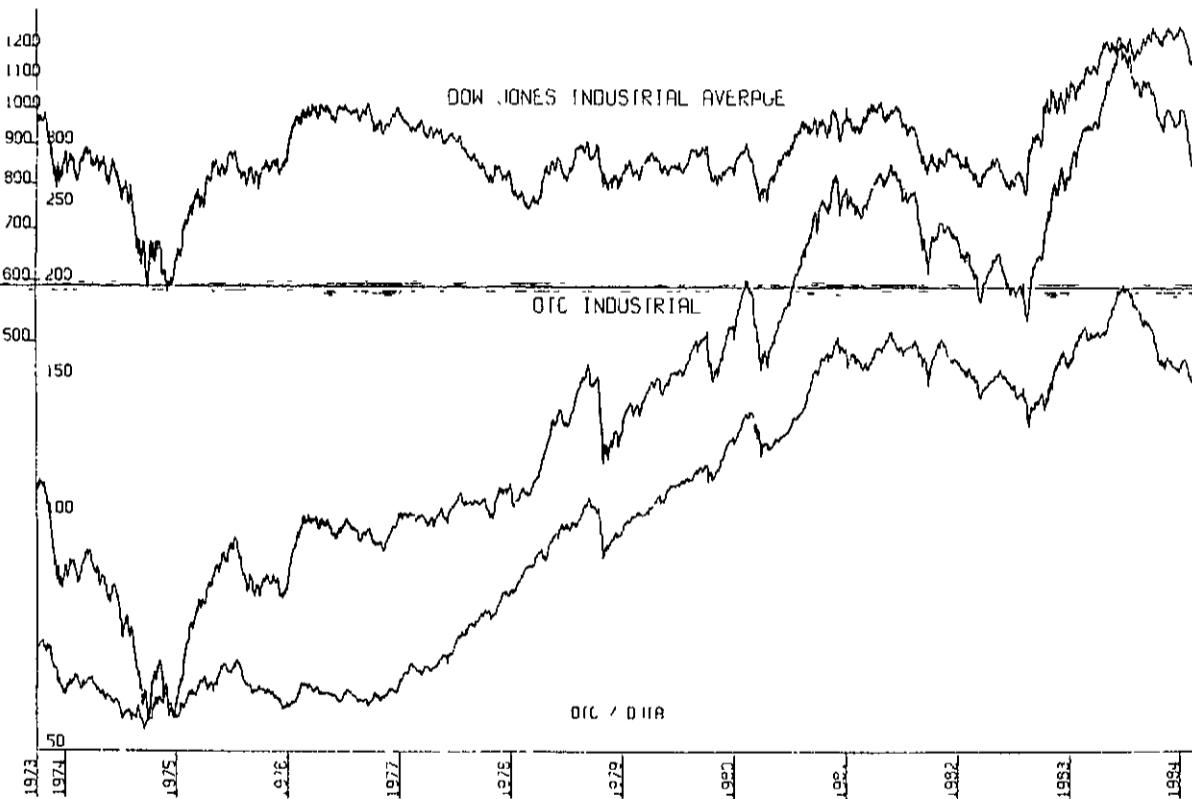
909 STATE ROAD, PRINCETON, NEW JERSEY 08540

MEMBER NEW YORK STOCK EXCHANGE, INC  
MEMBER NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC  
(609) 924-9660

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Announcements from the government concerning one of the most stunning economic turnarounds in U.S. history on the one hand, and the widening federal budget deficit on the other, begin to sound to us like "newspeak", the official language of Oceanic devised by George Orwell some 35 years ago in his novel, 1984. Orwell coined the term "doublethink", the power of holding two contradictory beliefs in ones mind simultaneously and accepting both of them. This brings us to the current 1984 stock market.

We have argued in this letter and still support the thesis that the recent decline of 11.89% to date in the DJIA from its November, 1983 high of 1287.20 represents an intermediate-term correction in a bull market. At the same time, however, the weakness in the Over-the-Counter sector has clearly been significantly greater. The NASDAQ industrial index peaked prior to the DJIA on June 24, 1983 at 408.40 closing last week at 278.50. This represents a 31.81% decline, reaching full-scale bear market proportions by any measure. The chart below, utilizing a semi-log scale, attempts to place this decline into longer-term perspective. The two upper lines are the DJIA and the NASDAQ industrial index. The lower line is the ratio of the two which move upward when OTC issues are outperforming the Dow and vice versa.



With minor interruptions the OTC/DJIA ratio has basically reflected an uninterrupted bull market from the mid-1970's through April, 1981 at which point the OTC index together with the DJIA declined. The spectacular advance in the overall market from the August, 1982 low to June, 1983 brought the ratio to a new peak. The NASDAQ industrial index, for example, increased 129.83% which is 1.5 times greater than any previous advance in this index. Since then, a significant divergence has occurred. While the DJIA moved on to slightly higher levels before its recent correction from November, 1983, the OTC sector simply collapsed. There have been greater percentage declines in the OTC index such as the periods ending October, 1974 (-39.62%) and August, 1982 (-35.31%). Measured by the ratio, however, the decline is now greater than any of the previous periods discussed and could even test the 1982 lows on a relative basis. As unlikely as this seems, further deterioration of the long-term OTC sector could be possible within the confines of an ongoing bull market. Remember, this is 1984 and "doublethink" would allow us to accept two contradictory events happening at the same time.

RJS:rs

Dow-Jones Industrials (12:00 p.m.) 1171.59  
S & P Composite (12:00 p.m.) 159.43  
Cumulative Index (3/1/84) 1948.63

ROBERT J. SIMPKINS, JR.  
DELAFIELD, HARVEY, TABELL INC.

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