TABELL'S MARKET LETTER

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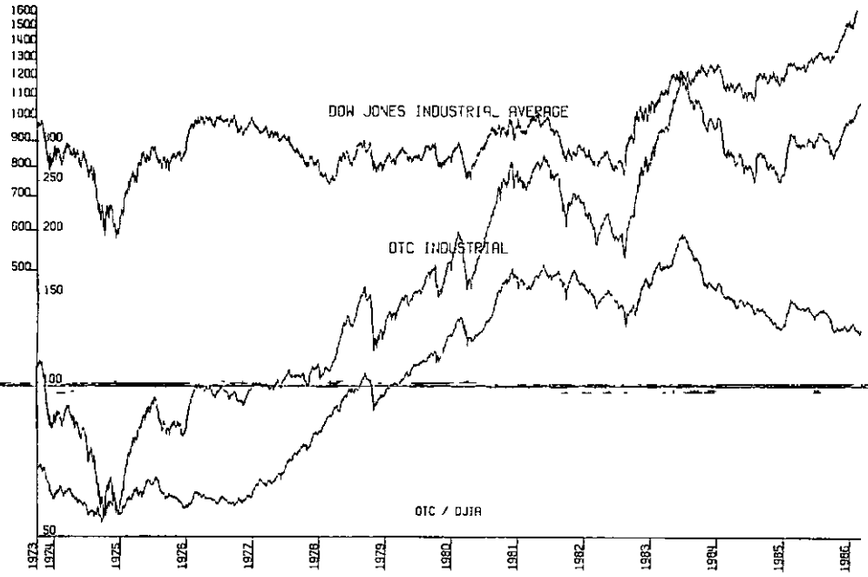
Disinflation is now a household word, the interest-sensitive sector is where the action is, long-term interest rates are quoted in single digit figures and lower crude oil prices are all viewed by the investment community as constructive for the stock market. It almost seems too easy.

While the Dow Jones Industrial Average spent most of the week trading just under its recent all-time high of 1713.99, some fairly interesting market action has been taking place in the NASDAQ OTC Industrial Average which posted a new 52 week high yesterday at 358.66. The general subject of OTC issues is a rather interesting one at this stage. The chart below presents a 12-plus year history of the Dow as compared to the OTC Industrial Index. The upper line is the DJIA, the center line is the NASDAQ Index, and the lower line is the relative strength ratio, the NASDAQ Index divided by the DJIA.



To briefly review the last few years, the NASDAQ Industrials has moved from 177.70 at the August 1982 low to a high of 408.40 in June 1983, a 129.83% advance as opposed to a 65.68% comparable rise in the DJIA. The OTC Average then corrected itself 38.76% in July 1984 verses a correction over a similiar time period of 15.59% in the Dow. Although very dramatic, both of these moves in the OTC Index are not surprising, as we know a characteristic of the OTC Average is its historical tendency to rise and fall more sharply than the Dow, i.e. a higher beta. A glance at the chart above will show that this has been true in most major swings. However much of the superior relative action of the OTC stocks stem from their behavior bewteen 1976 and 1980, which constituted an exception to this rule. During that time OTC issues moved moderately upward during a downward and then flat market in the DJIA. Since then until the July 1984 low the action has been normal. However, recent strength in the OTC market relative to the Dow has been poor. True, the OTC Index has risen 43.41% from the July 1984 low, but this compares with a 57.75% increase in the DJIA. The OTC Index is still trading 12.22% below its June 1983 high while the DJIA continues to flirt with new highs, over 400 points above its November 1983 previous high.

As we had superior relative performance in the 1976-1980 period in the OTC sector, while the DJIA was moving down, since July 1984 we are seeing the OTC/DJIA ratio under-perform as the DJIA continues to move up. Monitoring this ratio may give us a clue to the ability of the general market to sustain its upward movement.

Dow-Jones Industrials (12:00 p.m.)	1691.68
S & P Composite (12:00 p.m.)	225.67
Cumulative Index (3/6/86)	2955.56

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