TABELL'S MARKET LETTER

Delafield, Harvey, Tabell Inc.

600 ALEXANDER ROAD, CN 5209, PRINCETON, NEW JERSEY 08543-5209

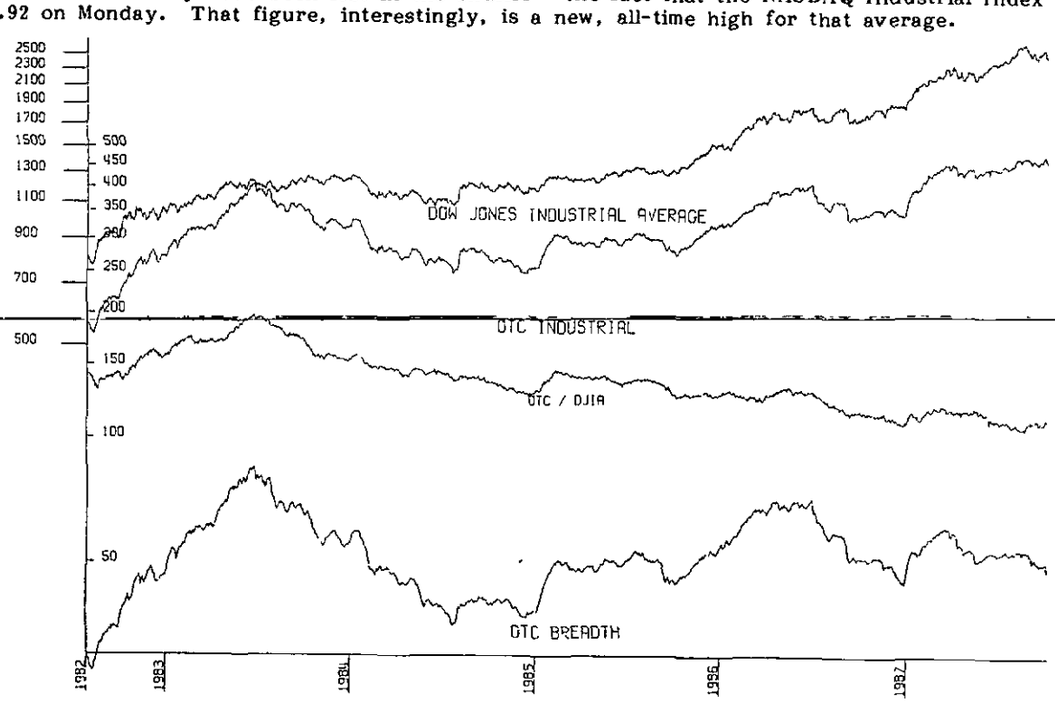
MEMBER NEW YORK STOCK EXCHANGE, INC
MEMBER NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC
(609) 987-2300

October 9, 1987

Short-term forecasts, although it is amusing to indulge in them, often have a way of proving embarrassing. Last week we pointed out that the Dow, since September, had spent the bulk of its time in an approximate range between 2500 and 2600. We proposed the concept that this area might constitute a base, the result of which could be a test of the late-August highs. A test indeed did ensue this week, but it was a test of the low rather than the high, as the index on Thursday dropped to around the 2500 level prior to a closing rally. A further test of that level was underway on Friday morning.

Despite the embarrassment, our inclination at the moment is to hang in there with the expectation that the August peaks will be further tested. We have taken note in this space of the internal weakness suggested by a number of macromarket indicators, but patterns on individual stocks still seem to argue against an immediate, severe fall. Even at the worst levels of the week, relatively few downside breakouts seemed to be taking place.

With all the excitement engendered by last week's gyrations, such as Tuesday's 91-point drop, one obscure statistic may have been lost in the shuffle---the fact that the NASDAQ Industrial Index reached 488.92 on Monday. That figure, interestingly, is a new, all-time high for that average.



This fact can barely be perceived in the upper, right-hand corner of the chart above, but it may still possess some significance. The Dow, we all remember, topped out at 2722.42 on August 25. However, the NASDAQ Industrials continued to rise for another four days and reached 484.5 on August 31. Both indices bottomed on September 21, but the decline for the DJIA was twice that of the junior index, 8.43% versus 4.19%. This, in turn, was followed by the new peak in the OTC indicator on Monday.

Now there is no clear indication in the action so far that OTC issues have reversed their underperformance vis-a-vis blue chips shown by the OTC/DJIA ratio, the third line down on the chart. Yet one could have bought the OTC average at year-end, 1986 and done just as well as with the Dow to date. We have just been through what may be the only nine-month period since June, 1983 about which such a statement could be made. The OTC peak in that year was 408.4, and the index at last night's close was only 15% above its 1983 high. Over the same period the Dow had appreciated some 102%. There is here, in other words, a possibility of a significant relative strength reversal for secondary issues, those largely composing the OTC index. Such a swing, if it persists, would indicate a shift of leadership in the direction of a relatively unexploited group.

It is possible to make this statement even while being less than sanguine over the general-market outlook. It does not require too long a memory to recall 1976 - 1978, when the Dow dropped from 1014.05 to 742.12, a 26.8% decline. The most astonishing fact regarding this period was that the OTC index was 10% higher at the end of it than at the beginning. Not-too-long-ago history, therefore, could wind up repeating itself.

ANTHONY W. TABELL
DELAFIELD, HARVEY, TABELL INC.

AWT:ebh

Dow Jones Industrials (12:00)	2513.71
S & P 500 (12:00)	314.91
Cumulative Index (10/8/87)	3939.13