TECHNICAL MARKET ACTION

The market, on sharply reduced volume, has engaged in a slow recovery from the lows of early last week. The three weeks decline, from the March 7th highs to the March 26th lows, has been quite drastic in both the industrial and rail averages. Based on closing prices, both averages have declined approximately 6%. In the industrial average, this has been the sharpest decline in sixteen months and has erased all the gain since January 24th. The rails have lost approximately half their comparable gain. The reaction has undoubtedly strengthened the market technically and has placed it in a much better position to withstand any unexpected (?) war news. At the moment, the industrials and rails have slightly different technical formations and a separate analysis of each average seems in order.

The industrial average, while it has declined approximately the same amount as the rails percentagewise, has lost a larger amount of its advance since early in the year. In so doing, the average has completed the reaction called for by its top or distributional area. Before a substantial rally or decline, it would seem that the industrial average must engage in a broad backing and filling movement in a rather wide area bounded roughly by the extremes of 160 and 150. After such a broad formation has been built up, a penetration of the range would indicate the direction and extent of the next important move. A considerable period of time might elapse before this backing and filling movement is completed, during which time there will undoubtedly be excellent trading opportunities in individual issues.

The rail average, however, seems to be in a position to have a fairly sharp move without much further backing and filling. Last week's downside penetration was only fractional (49.44 on March 27th against 49.69 on March 9th on intra-day lows). In fact, on the basis of the half point charts, using hourly averages, no penetration occurred and the average still remains in the broad trading area bounded by roughly 53 and 50. A breakout of this range could result in a fairly wide move percentagewise. An upside penetration would indicate 56 while a downside penetration would indicate 47-43. Thus, the rails must be more closely watched than the industrials because while weakness in the industrials, at this stage, would place the average in the 152-150 buying range, any weakness in the rails sufficient to cause a penetration would indicate a possible further dip to the 47-43 zone. Would abandon all trading positions in the rails if the hourly average declines below 49.50.

Retention of recommended issues is advised with emphasis being placed on special situations for new purchases. As an example, Hercules Motors was recommended for purchase in the 25-26 area. It reached a low of 25 1/2 and on Monday rallied to a new high at 29 3/8. Still like the issues listed below - if available in buying zone.

	Buying Zone	Recent Low	Last Sale
Air Reduction	44-43	43 7/8	44 1/4
Allis Chalmers	42-41	41 1/4	43 1/2
American Bank Note	24-23	22 1/4	24 1/4
Bethlehem Steel	72-70	69 1/2	72 5/8
Celanese	42-40	42	44 3/8
Chicago Pneumatic Tool	25-24	23 1/4	24 1/4
Gulf Oil	55-53	53 1/2	54 1/4

Also advise trading purchases of rails on dips provided positions are abandones if the rail average declines below 49 1/2 on an hourly average.

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SHIELDS & COMPANY

April 2, 1945

Closing - Dow-Jones Industrials 155.86
Dow-Jones Rails 51.27