Technical Market Action

Both Pepsi-Cola and Cities Service, recommended last week, have shown excellent market action.

Pepsi-Cola reached a high of 30 5/8 on Wednesday, up over five points from last week's low of 25 1/4. The stock is near the 1947 high of 31 1/2 reached in February. Wednesday's close was 30 1/4. The technical pattern indicates no important upside resistance until the 34 level. Ultimate indications point much higher.

Cities Service also approached its 1947 high of 32 5/8 to reach 31 1/2 on Wednesday. At that price, the stock was six points above last week's low of 25 3/8. The technical pattern does not indicate much resistance until the 36-38 area. Wednesday's close was 30 7/8. Would continue to accumulate both Pepsi Cola and Cities Service on soft spots.

Another issue with an encouraging technical pattern is Westinghouse Electric. Its early 1946 distribution area indicated a reaction to 21. The October low was 21 1/8. Since that time, the stock has built up a sizeable base pattern between, roughly, 23 and 28. Last week's low was 22 1/2. The base pattern, if penetrated upside, suggests a return to the 40 level. Westinghouse closed at 25 5/8 on Wednesday. It is interesting to note that Westinghouse, after adjusting for the 4 for 1 split in 1945, sold higher than its present price of 25 5/8 in every year since 1936 with the exception of 1942 and 1943. The earnings for the first quarter were released Wednesday and showed 81 cents a share. Advise purchase of Westinghouse Electric as an undervalued better quality issue.

Technical action of the general market is extremely impressive. The market successively met the test of last week's low on Tuesday when liquidation dried up and the market rallied to close unchanged. The rally continued on Wednesday with gains of $1.89 for the industrials and $1.18 for the rails. Since September, the market has declined to the 165-160 area six times and has held each time. In the process, it has built up a sizeable base pattern that would indicate the possibility of a rally to the 197-205 level if the February highs were passed. However, the February highs are quite a distance above the market. A nearer confirmation of the upswing would be indicated at 173. That level is important because, if it were reached, it would result in the breaking of not only the downtrend line from the February highs but also the major downtrend line connecting the May 1946 high and the February high. It would also result in the upside penetration of the 200 day moving average. In such an event, the backbone of the downtrend would be broken. This possibility is quite out of line with the overwhelmingly popular predictions that the average will decline to the 145-125 level before the bear market ends. However, it is in line with the constantly reiterated opinion of this letter that the 170-160 area is a long term buying range.

EDMUND W. TABELL

May 28, 1947

SHIELDS & COMPANY

Closing

Dow-Jones Industrials	168.06
Dow-Jones Rails	43.64
Dow-Jones 65-Stock	59.41

May 28, 1947

SF AND ALL WIRES

Despite the general pessimism, there is a potentially bullish technical pattern that could possibly be in the process of formation. The first constructive point was the ability of the Dow-Jones industrial average to meet support last Monday, May 19th, at an intra-day low of 161.38. This low was a fraction above the October 30th low of 160.49. The second constructive point is based on yesterday's action. After a rally from the May 19th low of 161.38, to a high of 167.68 on May 23rd, the average re-acted to a low of 164.59 yesterday. At this point (an approximately 50% correction of the six point rally from last Monday's lows) the selling dried up and the major part of the day's declines were regained. Volume indications were also favorable. The third favorable point would be the ability of the industrial average to penetrate the May 23rd high of 167.68. If this happened, the minor trend would be indicated as up. The fourth favorable indication would be the ability of the industrial average to rally above 173. In such an event, not only the downtrend line from the February 10th high of 184.96 through the successively lower highs of 182.48 on March 6th, 179.68 on March 28th and 175.06 on May 5th would be penetrated, but also the downtrend line from the May 29th, 1946 high of 213.36 through the February 10th high of 184.96 would also be penetrated. In such an event, the backbone of the downtrend would be broken. If that happened, the fifth favorable indication would be a penetration of the February high of 184.96. In that event, the base pattern built up from September 1946 to May 1947 would indicate a potential rally to 197-205. Admittedly, this projection presupposes five possibilities and only two of the five have actually come to pass. However, from a study of the technical patten, I consider it a much better probability than the overwhelmingly popular prediction that the averages will decline to the 145-125 area before the bear market ends.

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