

Technical Market Action

The rail averages are being watched closely by market technicians as a clue to the direction of the next important move in the general market. Ability to penetrate the July intra-day high of 51.92 or the closing high of 51.63 (depending on which school of thought one belongs) would indicate to most followers of the Dow Theory that a new bull market was in force. Monday's intra-day high was 51.67 and the closing was 51.19. A little ground was lost on Tuesday, but at the closing level of 50.88, the average was within striking distance of its objective.

However, although the rail average is close to its high of July and only a few points away from the intra-day high of 53.65 and closing of 53.42 in February, individual rail issues show very divergent patterns. For example, Union Pacific reached 152 $\frac{3}{4}$ on Tuesday. At this level it was above both the February high of approximately 137 and the July high of approximately 147. The October 1946 low was 110 and the May low 120. On the other hand, Pennsylvania Railroad closed at 18 $\frac{1}{2}$ on Tuesday. At that level it was more than seven points below the October low of 25 and just about at the May low. The February high was approximately 29 and the July high approximately 23. Other examples could be given of rails selling at or above their former highs while others are selling near the lows and still other groups are selling in middle ground. As in the industrials, selection is of prime importance.

Only four rail stocks have been mentioned in our recommended list. Two of these issues, Illinois Central and Union Pacific, have shown excellent action with the latter in new high territory and the former only a point away from the year's high. The other two, both issues of reorganized roads, are Seaboard Airline and Chicago Northwest which have been sluggish. Chicago Northwest has been particularly heavy and at its closing of 17 $\frac{3}{4}$, was closer to the year's low of 14 $\frac{1}{4}$ than the high of 27 $\frac{5}{8}$. This issue has evidently been meeting heavy selling but its potentially favorable technical pattern is still intact. Seaboard Airline, at 18, also appears to be an attractive speculation on the probability of an upside penetration by the rail average.

Other issues with potentially favorable patterns are Alleghany, pfd. which closed at 42 $\frac{1}{2}$ and would give an upside indication at 45 and Northern Pacific which closed at 21 $\frac{5}{8}$ and would give an upside indication at 23. Would avoid the eastern carriers.

The market continues, on heavy volume, to batter at the 1947 highs in both averages. Believe a penetration will occur shortly followed by a quick runup to approximately 190-194, followed by a correction to 185-187 and then a consolidation for a week or two and then a resumption of the rise.

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SHIELDS & COMPANY

Closings

Dow-Jones Industrials	185.09
Dow-Jones Rails	50.88
Dow-Jones 65-Stock	66.14

The opinions expressed in this letter are the personal interpretation of charts by Mr. Edmund W. Tabell and are not presented as the opinions of Shields & Company.