

## Technical Market Action

At times, it seems that earnings and balance sheets are but minor factors in evaluating the price of a security and that the state of mind of the investing and speculating public is the predominating element. Of course, over the longer term, this is not true. Stock prices ultimately reach their approximate true value. However, the distortions due to temporary mass psychology are sometimes quite fantastic.

It is difficult to rationalize, for example, the fact that Illinois Central, in 1947, failed to reach the 1937 high of 38. In 1937, Illinois Central earned 70 cents a share. The previous year, 1936, it showed a deficit of 26 cents a share. The following year, 1938, it earned 8 cents a share. In 1937, it had a top-heavy funded debt with fixed charges of 17.3 million. The balance sheet showed cash and equivalent of 9.6 million. Why the stock ever sold as high as 38 is a mystery. It was an excellent example of mass optimism. Later in the year, the stock reached a low of 8.

Now let us look at Illinois Central today. Estimated earnings for 1947 are \$8.50. It earned \$4.67 in 1946. By the end of 1946 the funded debt had been reduced 125.7 million from the 1937 figure. Fixed charges were down 5.3 million to 11.4. The balance sheet showed that cash and equivalent had increased 55 million to 66.6 million. Why the stock ever sold as low as 18 1/8 in 1947 may turn out to be equally mysterious. I believe it will turn out to be an excellent example of mass pessimism.

The technical pattern of Illinois Central in early 1937 indicated that the stock was in a distributional area. The present pattern indicates the reverse. The recent upside penetration out of the long sixteen month 18-30 trading range is extremely constructive. The first upside objective appears to be 37-39 followed by substantially higher levels.

The same basic pattern is present in other rail issues. However, selection is important. Some of the rail patterns, notably the eastern roads, are below average and indicate that further backing and filling is needed before a worthwhile rise occurs. My recommended list of rail issues include the following:-

	1946 <u>High</u>	Last <u>Sale</u>
Alleghany, pfd.	69 1/4	41
Atchison, Topeka & Santa Fe	121	95 1/4
Chicago & Northwestern	43 1/2	18 3/8
Gulf, Mobile & Ohio	30 1/2	14 3/4
Illinois Central	45 1/2	31 1/8
Kansas City Southern	40 1/4	28 1/2
Northern Pacific	36	20 1/2
Seaboard Air Line	39 1/2	17 1/4
Southern Pacific	70	49
Union Pacific	168 1/2	161 5/8

It will be noted that I am again including Chicago Northwestern in the list. The above stocks, in my opinion, represent above average appreciation possibilities in a group that shows better than average technical action. Believe the above rails should be bought on any market softness.

EDMUND W. TABELL

January 9, 1948

SHIELDS & COMPANY

### Closings

Dow-Jones Industrials	180.09
Dow-Jones Rails	52.85
Dow-Jones 65-Stock	65.08