

Technical Market Action

The industrial average continues to drift lower and, at Thursday's low of 171.37 was near the top of the indicated reaction objective of 171-167. The rails, on the other hand, continue their better-than-market action with the average closing at a small gain on Thursday and an even smaller loss on Friday.

This divergence of the industrial and rail average is an interesting development. This type of action has occurred at almost every important top and bottom of the market since May, 1947. In May, the rails reached a new low while the industrials held above the low of the previous October. At the July top, the industrial average reached a new high which the rails failed to confirm. In each case, the divergence signalled an important turn in the market. Also, in December, the rail average made a shallow new low while the industrials held above the September low.

This divergence has also been evident in the various combined averages. While the Dow-Jones 65-Stock average and the New York Herald-Tribune 100-Stock average has held above the December low, the New York Times 50-Combined has penetrated the December low by approximately a full point. Penetrations and fluctuations within a trading range, such as the seventeen month shelf of the present market, are apt to have less significance than those taking place in the clear.

While there is an outside possibility that the lows of the decline may have been witnessed at Thursday's low of 171.37, believe a further moderate dip into the 171-167 range is more probable. The short term indicator signalled an oversold position on Friday, but the longer term indicators have, as yet, failed to give a comparable signal. Also, the technical patterns of individual issues indicate slightly lower levels. The signal on the short term indicator may point to a technical rally to the 174-175 area to be followed later by a dip into the 171-167 area before the major advance is resumed.

Believe the current decline will result in a broadening of the trading range of the past seventeen months and that the eventual penetration will be on the upside. Weakness between here and 167 should be used for buying recommended issues.

Listed below are the possible downside objectives of a number of issues in our recommended list. These should be the buying ranges for each individual issue regardless of the action of the averages: American Cyanamid 38-37, Atchison Topeka & Santa Fe 88-86, Barnsdall 30, E.W.Bliss 26-24, Borg Warner 45, Campbell Wyant 24, Celotex 22, Chicago Northwest 17-16, Distillers Seagram 13, Doehler-Jarvis 31, Eagle Picher 20, Elliott 16-15, Flintkote 30-28, General Railway Signal 22-20, Hewitt Robins 23-21, Illinois Central 28-26, Interlake Iron 12-11, International Minerals 27-25, International Paper 47-45, Joy Mfg. 33-31, Kansas City Southern 24-23, Phelps Dodge 41-40, Rayonier 23, Revcre Copper 16-14, Schenley 28-25, Shamrock Oil & Gas 27-25, Sharon Steel 30-27, Simmons 29, Southern Pacific 44-43, Union Carbide 92-87, Wheeling Steel 37-35, Youngstown Sheet & Tube 70-66.

Some of these issues have reached indicated downside objectives but the majority are a point or two away.

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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.