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TABELL'S MARKET LETTER

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HOTEL WALDORF-ASTORIA

Under a deluge of selling brought about by the sudden unexpected Korean crisis, the industrial average toppled to a low of 206.33 on Tuesday and, after rallying back to 216.99 on Wednesday, again reacted to the same low on Thursday. The rail average dropped to 50.66, rallied to 53.84 and then declined to 51.10. The market rally on Friday carried the averages back to highs of 211.96 and 52.52. The ability to hold above Tuesday's lows and above the strong 205 support level is an encouraging technical indication.

The present market is dominated by fears and emotions and flash news happenings rather than values, earnings and dividends. This is liable to continue until the present crisis clarifies. In the long run, the present happenings should result in higher stock prices. Ask yourself the question of whether you would rather own cash than stocks in the event of a huge increase in our national debt and the consequent inflationary pressure. Of course, it may take some time for this reasoning to assert itself and under the stress of fear and hysteria, stock prices might work temporarily lower first.

Let us try to divorce emotion from reason and present the technical pattern entirely apart from our fears of what may or may not happen.

When the industrial average penetrated the June double bottom lows of 218.66 and 218.99 and the rails penetrated the 53.62 low of June, the intermediate trend was indicated as down. It then becomes a question of whether the 229.20 top of June 12th was a bull market high to be followed by a bear market or whether the 229.20 high was just an intermediate term top to be followed by correction, consolidation and new highs.

I believe the latter to be the case. The June 12th high had none of the characteristics of a major top. There was no heavy volume of trading in low-priced speculative issues with widespread public participation. The leadership was in higher grade investment issues and even at their tops, these issues were yielding above 6% in comparison with 2 5/8% on high grade bonds and after paying out less than half their earnings and selling at prices well below eight or nine times earnings. There were no undigested new offerings or large purchases on slim margin. There were no large distributional tops formed. Compare these conditions with those present at the 1929, 1937 and 1946 tops.

If the June 12th high is just an intermediate top to be followed by new highs after an intermediate correction, how low could the intermediate correction carry? The industrial average has advanced approximately sixty-nine points from the June 1949 low and the rails have advanced eighteen points. A normal intermediate correction usually retraces one-third to one-half of the advance. That would mean approximately 206 to 194 in the industrials and 52 to 49 in the rails. The first objective has been reached in both averages.

How do these objectives check with the technical pattern? There is strong support at 205 in the industrials and so far the average has held above this figure. There is also strong support all the way down from 205 to 195. Below that is the heavy support at the top of the three-year accumulation range. There is strong support in the rails at 50-49 and all the way down to 45.

What are the downside objectives on the point and figure charts? The industrial average has built up no top pattern so no indication is available. However, top counts on individual issues indicate the possibility of moderately lower levels in some issues. It is hard to translate this into terms of the industrial average but I would hazard the opinion it is within 205-195 area. The downside indication on the rails is 49-46.

What is the outlook for the short term and intermediate term indicators? The short term indicator is in a sharply oversold condition, the lowest since the 1946 break. The intermediate term indicator has not yet reached an oversold condition as yet but it is very close to such a condition and is in a position to do so in the next 22 trading days whether the averages do or do not reach new lows. In conclusion, from a purely unemotional technical viewpoint, believe we are in an intermediate term correction of a major upswing. The low may have been reached at 206.33. Further unsettling news might carry the averages temporarily lower. Favor purchase of issues that would benefit from a semi-war or defence economy. Rails and steels are outstanding groups of this type.

EDWARD W. TABELL

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