File

Walston, Hoffman & Goodwin

Investment Securities

NEW YORK 5, N. Y. 35 Wall Street DIGBY 4 4141
PHILADELPHIA 2, PA 1420 Walnut Street PENNYPACKER 5-5977
LOS ANGELES 13, CALIF. 550 South Spring Street MADISON 9-3232
SAN FRANCISCO 4, CALIF. 265 Montgomery Street SUTTER 1-2700

TABELL'S MARKET LETTER

This weekend I am leaving on a four-week trip to visit the California, Oregon and Washington offices of my firm. During that period, my letter will continue to be issued although it will be written on the West Coast.

It might be appropriate at this time to restate my general market opinion.

For the longer term my thoughts have changed but little from my forecast of 1948. At that time, I stated that the stock market appeared to be in a long uptrend similar to the war and post-war period of 1914 to 1929. The present uptrend started in 1942 and, if the same time span were used, would continue to 1957. Such long term moves obviously have their interruptions. Usually they consist of five phases - three of advance and two of decline. The first phase was the advance from 95 in the Dow-Jones industrials in June 1942 to 213 in May 1946. The next phase was the decline from 213 to 160. This low point was tested each year from 1946 to 1949. In my 1948 forecast I expressed the opinion that the next advancing phase would carry from a low of 160 to about the 250 level with 5% leeway either side. The advance would be followed by a decline to about the 200 level. After that, there would be the final dynamic advance phase that would carry the average well above the 1929 high of 386 to probably 450 or higher. I see no reason to change the broad outline of this pattern.

The present advance is, in my opinion, nearing its end. Whether the industrials will rally somewhat above last week's top of 264.44 or whether the rails will rally somewhat above the February high of 90.82 is unpredictable and of minor significance as far as the long term trend is concerned. In my opinion, the market is only in the early stages of forming a distributional top. It may require considerable time and wide fluctuations in a broad twenty-five point range in the industrial average before the top is completed. The downside implications of such a pattern are not predictable until the formation is more complete but, in my opinion, the decline will be relatively mild as compared with the 1946 or 1937 decline, both as to price and as to time. The 1942-1946 advance lasted four years and was 123%. The 1949-1951 market has advanced 67% in a two-year period. The next decline will most likely be about in the same ratio when compared to the 1946 decline of 25%. That would mean a decline of about 15% or 20%, or about forty or fifty points to approximately 225-215. Of course, a broadening of the top may occur later but that appears to be all that is indicated at the moment. The duration of such a move is guesswork but, as a guess, I would say it would occupy a time period of six months to a year.

This does not mean that all securities will decline 15%. Many stocks have had little price advance during the past two years and are not overbought. Their decline would be comparatively moderate. There are other issues that could even advance moderately during such a period of re-adjustment. The most vulnerable issues would be those that have advanced sharply from the 1949 lows and are in need of consolidation and re-accumulation at lower levels.

To the longer term investor such a decline as envisaged should be of no great significance and hardly warrants disturbing sound holdings. New funds, however, should be invested only in defensive-type issues. For those interested in intermediate term capital gains of six months or so, the pattern has much greater significance. While some issues may work temporarily higher, it would appear that most will be lower six months from now and, therefore, the greater part of funds should be liquid awaiting buying opportunities. For the short term trader, it would appear that the market is no longer a one-way street and a great deal more caution is necessary."

EDMUND W. TABELL
WALSTON, HOFFMAN & GOODWIN

May 11, 1951

Closing Averages
Dow-Jones Industrials - 258.56
Dow-Jones Rails - 83.17