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Investment Securities

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TABELL'S MARKET LETTER

For the past ten days the industrial average has held in a trading range bounded by 277.51 and 271.91 with volume averaging above two million shares daily. This is the heaviest volume since the present phase of the advance started on June 29th. The character of the market also has changed. Some of the chemicals and oils and drugs that have been the market leaders up to this point are showing signs of liquidation. Despite the fact that the industrial average reached a new high during the week, Standard Oil of New Jersey reached its lowest price since July. On the other hand, the rails and some of the secondary issues have been stronger and volume in some of the very low priced speculative issues has increased sharply. The lowered quality of leadership is not encouraging, particularly after a sharp advance in prices. The fact that the industrial average on Friday broke below the low of the previous ten days to reach 270.21 is also a cautionary signal despite the fact that the rails are in an uptrend and closed unchanged on Friday while the industrials closed 2.16 points lower.

If we look at the market from the viewpoint of individual issues rather than the averages, the technical pattern appears to be somewhat clearer. Several points are outstanding:

(1) The market leaders of the summer rise appear to have reached or about reached their upside objectives. They have formed only minor tops but are vulnerable to profit taking.

(2) There are numerous better quality secondary issues just a shade below institutional quality that still have favorable technical patterns and appear undervalued. Whether or not advances in this type of issue will take place immediately, or will be delayed until after a general market reaction, is not certain. However, most of these issues are of good defensive quality and should react only moderately in the event of a decline.

(3) The above paragraph should not be confused with the outlook for low grade speculative issues. Most issues of this type have mediocre technical patterns and indicate very little marketwise at the moment. They appear to need considerable time before they complete their base patterns.

(4) From the minor tops built up in the leaders, it is possible to estimate a decline to about 265 in the industrial average. This level is the first support point. After that, another rally attempt is to be expected. These up and down fluctuations might result in building up larger distributional tops.

The above four points suggest that the market will hold in a range bounded by roughly 280 and 265 for the next few weeks. During this period, individual issues will have wide price movements. After the pattern is completed, the extent of the next move will be indicated. The direction of the move is not yet certain but from my technical work, I believe it will be downward.

For the short term trader, a period such as this offers excellent trading opportunities. But a word of caution. A possible distributional pattern of this sort ends quite abruptly and can result in severe losses. The trader should be willing to abandon commitments if storm signals appear.

For the intermediate term trading account interested in long term capital gains, the situation is different. The outlook six months from now is uncertain. Would confine commitments to better quality secondary issues with favorable technical patterns and have 75% of funds liquid as a buying reserve.

For the long term investor depending on income, I continue to advise a fully invested position but would concentrate holdings in issues of prime investment and defensive quality.

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Dow-Jones Ind. - 272.11
Dow-Jones Rails- 85.34

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