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TABELL'S MARKET LETTER

The old adage that sometimes "one can't see the forest for the trees" also applies to security investment and speculation. Quite often one gets so engrossed in the near term movement of the averages or in the sudden rise or fall of an isolated security that he loses sight of the broad overall pattern. Perhaps a review of my thoughts on the probable outlook for security prices over the longer term based on my interpretation of technical market action and a discussion of the prudent policy to follow under such probable circumstances, is in order.

It has been my belief for a considerable period of time, and it is still my belief, that we are in a long term war and postwar upward cycle in prices similar to that of 1914 to 1929. I believe the advance started in 1942 from 95 in the Dow-Jones industrial average and is still headed upward. The World War I advance lasted for fifteen years. Considering that the present advance started from a relatively low level of stock prices, and after ten years of a low level of business and economic conditions, it appears reasonable to expect that the present long term advance may last somewhat longer than the 1914-1929 market. I project it forward to approximately 1960-1962. It also appears reasonable to expect that the 1929 high of 386 will be substantially surpassed. An advance of only 40% from present levels would bring the industrials to the 1929 highs. This does not appear to be an unreasonable expectation over a period of eight years. MANY ISSUES ARE NOW SELLING CONSIDERABLY AB

Quite obviously such an advance will not be in a straight line. Long term upward cycles of this nature usually consist of five phases. The first phase is a broad advance from a depression level with the entire market participating - investment stocks, secondary stocks, marginal stocks and also the very speculative issues. This phase occurred from 1942 to 1946 with an advance over 125% from 95 to 213. The second phase is a sharp correction of the overspeculation. This occurred in late 1946 when the market dropped 25% in six months from 213 to 160, but with many overexploited speculative situations suffering declines of from 60% to 80%. After a long period of consolidation, the third phase started in June, 1949. The third phase generally is an advance more moderate than the first advancing phase. The better grade securities and special situations are featured while the lower grade stocks usually participate to only a minor extent. This has been true of the present rise. The average has advanced 80% from 160 to the ~~September, 1951~~ RECENT high of 289, but the leaders have been the better grade institutional type issues. There has been very little overspeculation with the possible exception of the Canadian oil stocks and possibly some rather high grade overinvestment in excellent quality growth stocks that has forced prices up to twenty or thirty times earnings and yields down to 2% to 3%. The fourth phase is a corrective phase of relatively moderate proportions in line with the relatively moderate previous advance. After a decline and a period of consolidation, the fifth and final phase begins. This phase usually lasts for a considerable period of time with a heavy volume of trading and broad market participation similar to-but on a more moderate scale-the 1924 to 1929 period.

I believe we have either reached the end of the third phase at the September high of 277 or we are very close to the high. The advance from the June, 1949 low has lasted for three years and we must now not only ask ourselves the question "how high can the market go from this level", but also the question "how low can it go". I can see the possibility (but not the probability)of 285-300 in the industrial average. That is slightly more than 10% above present levels. I can also see the possibility of a decline to 235 and even the possibility of a decline to 200. That is slightly less than 13% in the first case and slightly more than 25% in the second case. Obviously, the odds are not as favorable as in 1948 when I envisioned a possible 50% advance as against a possible 10% drop.

To the longer term investor, this should cause no particular concern. Holdings of sound, good quality dividend paying issues should be retained - particularly when bought at considerable lower price levels.Holdings should be upgraded,however, with a good percentage of funds in defensive issues but a 100% invested position should be maintained as the longer term trend indicates higher price levels and good grade issues should continue dividend payments at approximately present rates. The individual concerned primarily with capital appreciation over a six months period rather than income,however, should keep a proportion of funds liquid in order to take advantage of the possibility of lower market levels.

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