This does not mean that all common stocks will share in the advance. There are many that will do little or nothing marketwise. Quite a few will be selling lower at the year-end but the degree of vulnerability does not appear to be as great as in 1952 or 1953.

Favorable Action Concentrated in Investment and Growth Issues

The better grade investment and growth issues, which have been the market bulwarks since 1949, will undoubtedly continue their favorable action. However, this group has shown some excellent price gains over the recent months and may be in need of some rest and consolidation before their main advance is resumed later in the year. Even in this group, proper selection is of prime importance.

The most interesting profit possibilities appear to be in what might be described as the "light blue chips" These compose the type of equities just a bit below the quality grade of the investment issues. They might also be classified as "businessmen's risks." I drew attention to this group a year ago but, with a few exceptions, they have done little marketwise. They are still available at five to eight times earnings to yield 7% to 9% on a 50% payout Technically, they have been in what appear to be accumulation patterns for several years and are in a position to advance out of these areas without further need of consolidation. They could become possible candidates for institutional investment over a period as their quality improves and as the supply of higher grade issues gradually diminshes.

A few examples of "light blue chips" follow:

Allegheny Ludlum Steel
Allis Chalmers
Bucyrus Erie
Chain Belt
Deere & Co.
Joy Manufacturing
Mead Corp.
National Gypsum
Penn-Dixie Cement
Shamrock Oil & Gas
Sylvania Electric
Western Auto Supply
Yale & Towne

At this stage of the market pattern, there does not seem to be any great chance of wide appreciation in the marginal or speculative issues. There will be outstanding exceptions of course, but most issues of this type are in the hands of tired holders who may be willing to sell them on any minor price rise Until there is enough of a speculative public following to absorb this overhead supply, there is apparently little chance for this type of issue to move appreciably higher. Broad public speculation may again again come into the market, but there are no immediate signs of this developing.

In the main, 1954 should be a good year for the investor who continues to hold, and buy, the common stock equities that will ultimately benefit from the continued long term growth of the country This, as always, will require careful selection not only as to quality but as to price level. From a technical approach, there seems to be little likelihood of a major decline in the stock market in 1954. The chances rather favor a rise of about 25% from current levels by the end of the year. This will be the start of an advance that will gradually broaden out to include a larger segment of the market.

Market Letter of January 15, 1954

Reprinted from

The COMMERCIAL *and* FINANCIAL CHRONICLE

Thursday, January 7, 1954

1954—The Beginning of A New Bull Market

By EDMUND W. TABELL
General Partner, Walston & Co.,
Members of the New York Stock Exchange

Market analyst predicts selective market with an advance of 25% in the industrial average by the year-end. Lists most interesting profit possibilities in the "light blue chips." Expects subsequent gradual broadening-out of advance to include larger market segment. Maintains there are few issues technically vulnerable to sharp price declines. Cites market's past and current performance as confirming his expectation of long-trem advance lasting until 1960.

Business will be lower in 1954 That is almost a unanimous opinion. The forecasts vary from almost the same level of business as in 1953 to a 5% to 15% decline. By definition, the decline varies between a recession, a shake-down, a correction, a leveling-out, a gentle slide or a consolidation. Virtually nobody expects the business level to be substantially higher in 1954 On the other hand, no one (except the professional pessimists) expects another 1929. Should majority opinion hold true, it seems fairly obvious that the investor or speculator in the stock market should pursue a very conservative course He should concentrate on defensive issues such as utilities, foods, food chains, tobaccos (which haven't turned out so well) or on growth companies that, although they appear to be selling rather high in relation to present earnings and dividends, possess continuing growth potentials which should result in higher earnings and dividends over a period of time.

Edmund W. Tabell

To the speculator, it appears evident that the cyclical, secondary and marginal companies should be avoided until the business pattern improves. Some holdings of speculative growth companies should be retained but, in the main, liquidity should be stressed in speculative situations This has been the opinion of the professional investor rather than the general public and it has worked out very well over the past two or three years. It has accounted for the extremely diverse action of the market since February, 1951 and the simultaneous bull markets and bear markets in individual issues during that period. Will this type of selective market action continue into 1954? Or will

the relatively unfavorable business prospects result in a general decline in equity prices regardless of quality?

This subject has been pretty thoroughly explored both from an economic and a statistical viewpoint. The conclusions arrived at are not very definite but appear, in the main, to favor a somewhat lower level of common stock prices in 1954. Perhaps another viewpoint might shed some further light on the picture.

The Technical Approach to Long-Term Action

As a market analyst or market technician, most of my work has been concentrated on the technical approach to market action. Lay or uninformed opinion believes that the use of charts or graphs is mainly related to the shorter term swings of the market. I do not think this is true. There is no method, fundamental or technical, that can succeed in continuously forecasting short term market movements. Even if it could, the costs involved would most likely invalidate its findings. However, a study of supply and demand factors, *when coupled with an analytical* or statistical approach, can be of inestimable value in selecting favorable equities for longer term investment or speculation. More and more, professional investors are using the technical approach as a check against their fundamental or statistical findings.

I use over 1,500 graphs to check my technical opinions. These graphs relate mainly to the price and volume action of individual securities listed on the New York Stock Exchange or the American Stock Exchange. A study of these graphs combined with an evaluation of internal market action such as volume, advances and declines, new highs and lows and other factors gives a fairly definite indication of whether the buying and selling strength is predominant in individual issues as well as the general market.

What does the technical approach to market analysis show at the moment?

The Present Indication

Before attempting to answer that question, it might be advisable to review the last five years or so of market action. In late 1948, I ventured the opinion that, in 1942, the stock market had started a long term uptrend. ("Commercial & Financial Chronicle," Sept 9, 1948.) It would be a war-postwar-inflation advance similar to that which occurred from 1914 to 1929 but, because the *uptrend had started from a comparatively* lower price level, it would most likely last longer than the 15-year advance that commenced at the beginning of World War I. I projected the present advance to at least 1960. At the peak, stock prices would most likely be considerably above the 1929 highs. Of course, such an advance would not be in a straight line and would be interrupted by a number of rather drastic intermediate term declines. Long term advances of this nature usually consist of at least five phases, three of advance and two of decline.

By 1948, the market had undergone the first advancing phase from 1942 to 1946 (the Dow-Jones industrial average had moved from 96 to 213). This advance was too rapid and, in 1945-1946, a large number of speculative issues were over-exploited. A correction was needed and the market dropped from 213 to 160. By late 1948, the technical pattern indicated that the second phase, one of decline, had been largely completed despite the fact that, as today, most business forecasts indicated a decline. Technical work suggested that the next important move in the market would be toward higher levels and that the next phase of the long term advance should carry to about the 250 level in the Dow-Jones industrials by the early 1950s. After some further irregularity, the market advance started from the 160 level in June, 1949 and reached a high of 295 early in 1953.

Actually the action of the averages in the past three years has not accurately portrayed the action of the average stock. Most

stocks reached their highs in 1951 when the Dow-Jones industrial average was approximately 265.

To the holder of the average stock rather than the stock market averages, we have been in a bear market for about three years. Since January, 1951, the market has undergone a piecemeal readjustment The steels reached their highs in January, 1951, and have declined 33%. The textiles reached their highs in February, 1951, and have declined almost 40%; the distillers reached their highs in October, 1951, and declined over 30%; the coppers reached their high in January, 1952, and have declined 33%; the oils reached their highs from March to July, 1952, and have declined 25%. The farm equipment issues reached their highs in October, 1952, and have declined over 30%. Even the rails, which reached their high as recently as January of 1953, have declined almost 20%.

*In 1951, my technical work in*dicated that the market, as far as most stocks were concerned, had reached a temporary top ("Commercial & Financial Chronicle," March 8, 1951) and needed a readjustment or consolidation period to correct the temporarily overbought condition. This correction has been taking place for three years with the majority of issues working lower regardless of the relative firmness of the various stock market averages.

At the start of 1953, the readjustment had not yet been completed. An analysis of the price action of over 1,400 individual stocks led to the conclusion that, while quite a few issues had completed their correction and were in an uptrend, there were a larger number that needed additional consolidation before an important upward move was indicated. There were also a relatively large number of issues that still had vulnerable patterns and indicated the probability of sharply lower levels. All of this led to the conclusion that price action in 1953 would be highly selective with individual issues having private bull and bear markets of their own but the general market would not get very far in either direction ("Commercial & Finnacial Chronicle," Jan. 1, 1953). For this reason, I projected a relatively narrow range for the Dow-Jones industrial average for 1953 with a high of 300 and a low of 250. The actual intra-day high and low was 295.06 and 254.36.

Great Selectivity Ahead

In 1954, technical indications are that the market will again be very selective. Again there are a con*siderable number of issues that* appear to be in an untrend. Again there are a considerable number of issues that appear to need further consolidation before an important upward move is indicated. But—and this is the most important change—there are relatively few issues that appear technically vulnerable to sharp price declines. That is why I find it difficult to visualize a real bear market in 1954. Most issues have *about reached the downside ob*jectives outlined by their 1951-1952 tops. That is why I expressed the opinion, after the Dow-Jones industrial average had reached the September low of 254.36 that the market was less vulnerable than at any time in the past two years ("Commercial & Financial Chronicle," Oct. 8, 1953)

The market rallied from the September low to a December high of 285 20. The advance was *led by the high grade issues.* At the year end, the industrials were at 280.90 or some 15 points below the January, 1953 high. There may or may not be some further irregularity. It is possible that the market might again decline to about the 265 level If this happens, it will most likely occur in the first six months of the year and, in my opinion, will be the last opportunity to buy selected common stocks at the very favor*able price-to-earnings and price*-to-dividend ratios that are now available. Some time during the year, in my opinion, the market will start a selective advance that could carry the industrial aver*age to about 325 by the end of* 1954.