Walston & Co.

MEMBERS NEW YORK STOCK EXCHANGE AND OTHER LEADING STOCK AND COMMODITY EXCHANGES
NEW YORK • PHILADELPHIA • LOS ANGELES • SAN FRANCISCO • LUGANO (Switzerland)
OFFICES COAST TO COAST CONNECTED BY DIRECT PRIVATE WIRE SYSTEM

**TABELL'S MARKET LETTER**

January 7, 1955

With the rise in margin requirements as a reason - or rather, as an excuse - the stock market suffered its first decline of consequence in over fifteen months. A market that has advanced 60 points in two months without any correction and over 155 points in fifteen months with only one minor decline is obviously in need of shakeout somewhere along the line. William Bloeth of the New York World-Telegram & Sun put it rather neatly when he said: "Any time the market puts on a sensational advance, which is about the description for the last yaar-plus, a lot of neophytes get the idea that they have the magic touch and nothing can go wrong. The market functions best when approached with a reasonable amount of caution and a full realization that it has never been a one-way street and no "New Era" is on the horizon to change the established pattern."

The correction would have occurred sooner or later whether the Federal Reserve Board had raised margin requirements or not. The mild action of the F.R.B. is more in the nature of a warning against future overspeculation rather than a thought that overspeculation has already occurred.

To compare the present market with 1929 is rediculous. The difference is as great as the difference between black and white. Just as one instance, loans on securities were five times greater in 1929 than they are today. There is no need for a Senate study of why the market has advanced over the past fifteen months. The answer is obvious. In 1953, stocks were grossly undervalued in terms of historic price to earnings ratios and stock to bond yields. The advance since that time has simply brought prices more in line with actualities, but has not resulted in general overspeculation. Many issues appear high enough but many others appear undervalued. Until such a time when public speculation results in general overvaluation of all types of securities regardless of quality, I do not feel the market is vulnerable to more than technical corrections.

This week's decline from Monday's all-time high of 409.21 in the Dow-Jones industrials to Thursday's low of 387.09, is a 5.8% correction. This is the tenth correction of more than 5% that has occurred since the start of the bull market in 1949. So far it isthe third smallest decline ofthe five-year period. The greatest decline was 15% in the 1950 Korean invasion market and the smallest was 5.4% last August.

If the present decline is to be simply a correction of the over-rapid 60-point advance of the last two months, it should not carry much further. A minimum one-third correction was about 390 and a minimum two-thirds correction would mean about 370. This fits in with support areas. There is strong support in the 395-385 area and again at 375.

From my technical work, a decline below 375 is extremely unlikely at this stage of the pattern. Practically no individual issue has formed a distributional top that would indicate a decline of great magnitude. To form a vulnerable pattern considerably more time would be needed. It is possible that the present decline is a preliminary warning of the formation of a distributional top just as the February 1946 decline was a warning that a possible top was forming then. But just like 1946, the present decline must be followed by a rally to possibly new high territory in the averages with definite signs of weakening internal action. No signs of such deterioration has as yet occurred and, until it does, I do not believe the market is vulnerable to more than the overdue technical correction that is not taking place.

It is my opinion that the market is now in a buying range as far as a great many individual securities are concerned. In recent letters, I have discussed all the securities I have recommended during the past two years. I have recommended the sale of some because they appear high enough or have not lived up to their projected technical performance.

This still leaves a large number that still indicate higher levels. The nineteen stocks I am listing below represent, in my opinion, above average chances for price appreciation over the intermediate term. They are of varying investment quality, but all have attractive technical patterns. Three issues - CUTLER HAMMER, the leading producer of electrical control devices and manufacturer of industrial electronic equipment, MISSION CORP., an oil holding company and MONTANA,DAKOTA UTILITIES a growth utility company with an important oil background are new additions to the list and will be reviewed in more detail in future letters. It will be noted that a large percentage of the issues are oils or related to oils. This is because I believe the oil group has perhaps the most favorable intermediate term pattern of any of the major groups.

| | PRICE | YIELD | QUALITY |
|---|---|---|---|
| American Potash | 68 | 3.0% | Growth |
| Atlantic Refining | 37 | 5.4% | Medium |
| Black & Decker | 49 | 4.0% | Medium |
| Blaw Knox | 26 | 4.5% | Medium |
| Cities Service | 120 | 4.2% | Medium |
| Cutler Hammer | 57 | 5.2% | Medium |
| Dresser Industries | 38 | 5.3% | Medium |
| Eagle Picher | 27 | 5.5% | Medium |
| Hewitt Robins | 33 | 6.0% | Medium |
| Joy Mfg. | 44 | 5.7% | Medium |
| Lion Oil | 47 | 4.3% | Growth |
| Mission Corp. | 38 | Stock | Medium |
| Montana-Dakota Utilities | 26 | 3.9% | Speculative |
| Ohio Oil | 67 | 4.5% | Medium |
| Pan American World Air. | 18 | 4.4% | Speculative |
| Simmons Co. | 40 | 6.2% | Medium |
| Sylvania Electric | 44 | 4.5% | Medium |
| United Shoe Machinery | 50 | 5.0% | Medium |
| Yale & Towne | 53 | 3.8% | Medium |

EDMUND W. TABELL
WALSTON & CO.