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TABELL'S MARKET LETTER

May 20, 1955

Both averages have broken out on the downside of month-old trading ranges but the decline has halted at initial support areas. The Dow-Jones industrials dropped out of the 432-420 trading shelf but met support in the 415-410 area to reach a low of 412.60. By the week end, the industrials had rallied back to 423.84. The rails have followed a similiar pattern. The downside breakout of the 162-157 trading shelf was halted in the upper part of the 155-150 initial support area at 153.73, and the average has rallied back to 157.91. Whether the decline reached its ultimate lows is still problematical. My technical indicator which signalled sell in late April has not yet reversed the sell signal, but is in a position to do so shortly. In any event, there are successive support areas in both averages not too far below the weeks lows and I would expect any decline at this stage of the market pattern to be extremely selective.

From a technical viewpoint, it is difficult at this time to envision a wide move in the general market in either direction. Technically speaking, the present market has a somewhat similiar pattern to that of the 1951-1953 market. During that period, the industrial average held in a range between roughly 240 low and 295 high, a range of a little over 20% from low to high. During this period, the blue chip growth issues consolidated and held in narrow trading areas. Du Pont, for example, held in the 80-100 area for twenty eight months and most other growth equities underwent similiar reaccumulation patterns. On the other hand speculative groups had wide price fluctuations both upside and down.

So far this year the industrials have held in the 432-385 area, a range of roughly only 12%. I would expect this trading area to broaden somewhat, but whether it will broaden on the upside or the downside is still problematical. On the basis of present earnings and dividends the market would seem overvalued at about 450 and undervalued at around 350. From a timing viewpoint, it is probable that after some further irregularity, the market will have its traditional Memorial Day to Labor Day advance. After that, it would be normal to expect a return to the lower part of the wide trading area later in the year.

This contemplated pattern suggests a market that will necessitate owning the right issues if capital appreciation is the prime motivation. It also suggests a market where over-exploited issues should be avoided. In the 1951-1953 market, Celanese dropped from 58 to 20 at the same time that Seaboard Air Line was advancing from 18 to 48. Similiar divergience will undoubtedly occur in the contemplated trading shelf in which the market may hold for a considerable period of time.

To the long term investor, the contemplated pattern suggests no radical change in program. I would maintain a fully invested position in good sound growth investment equities. My belief is that the Dow-Jones industrials will reach 600 in 1958-60. For new purchases, would stress defensive qualities rather than appreciation prospects.

For those interested in longer term capital-gains, would be a bit on the cautious side and would lighten committments on strength into the 435-450 area or on strength in industrial issues. It is possible that this area will not be reached and it may be necessary to advise lightening committments at a lower level. However, from present technical indications I continue to expect a somewhat stronger market during the summer months. This should allow building up partial liquidity in order to be in a position to re-enter the market at the lower part of the contemplated trading area. I would limit new committments to issues in groups where relative strength action has been above average in recent weeks. I particularly like selected rails, chemicals, natural gas, department stores, electronics, airlines, utilities, oils and textiles.

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