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TABELL'S MARKET LETTER

September 30, 1955

The market, in one day, lost almost the entire August-September advance from 445.67 to 489.94 that took thirty-one days to accomplish. Then, in a quick two-day reversal, it regained the normal two-thirds retracement to rally back to 475.13. The rails also almost covered the complete range of a five-month trading area between 165 and 150 in one day. Thus, in three days, the market completed a full cycle that usually would take a month or two to accomplish. Both averages at Monday's intra-day lows of 446.74 and 150.67 held above the August lows.

There are apparently three courses now open to the market.

- (1) The market could advance to a new high in both averages shortly.
- (2) The market could hold in a trading area bounded roughly by the August lows and the September highs for a long period of time and eventually break out on the upside.
- (3) The market could shortly penetrate the August lows.

The first course might result in an advance to about the 500 level. It seems difficult to envision an advance much higher than that on the basis of the present technical patterns. It might also result in a deeply overbought condition.

The second course would be the most constructive one. It would result in building up re-accumulation areas that would result in eventually higher price levels. There would be no indication of the upside objective of such a pattern until it was completed, but it would undoubtedly indicate considerably higher levels.

The third course would result in a price decline to the 420-400 level in the industrials and 125-120 in the rails. Of course, this pattern could broaden before the downside penetration occurs. In that event, somewhat lower levels would be indicated.

Just which one of the three patterns occurs is, of course, not yet certain. However, a check with other types of technical work indicates that the market has shown signs of waning upside momentum for quite some time. For example, while industrial average was reaching successively new highs, the volume has been steadily declining. This is also true of new highs and advances and declines. In fact, before this week's break, at the high of the market, there were almost as many stocks declining as advancing on a ten-week moving total. Market Action, Inc., a service that specializes in breadth-of-the-market action, has a series of eleven graphs based on this type of technical work. Its September 23rd compilation showed only one graph favorable with three unfavorable and seven doubtful. Of course, these indicators could improve and change the picture at a later date, but present action dictates a certain amount of caution.

The fact that the possible thirty-point potential advance in the market is countered by a potential seventy-point decline makes it apparent that the investment odds are relatively unfavorable at this stage of the market pattern.

This letter has been advising lightening accounts on strength and continues to do so. Would also advise switching out of issues with unfavorable investment odds into situations with more favorable patterns such as the issues in my recommended list. This list, which was reviewed last week, contains only issues that, over the longer term, have a wide upside potential and a relatively minor downside potential.

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