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MEMBERS NEW YORK STOCK EXCHANGE AND OTHER LEADING STOCK AND COMMODITY EXCHANGES

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TABELL'S MARKET LETTER

October 7, 1955

There is nothing new in the technical market pattern. Volume has fallen to the level prevailing before the unfortunate news of President Eisenhower's illness. The important points to watch are the August intra-day lows of 445.67 on the Dow-Jones industrials and 150.14 on the rails. Ability to hold above these levels followed by a long trading area would be constructive. A downside breakout would indicate 430-420 followed by a possible 400-385 in the industrials and 140-135 followed by a possible 125-120 in the rails.

There are four factors which make up stock prices, and the price of a given stock at any time represents the product of these four elements. The first three of these elements, namely earnings, dividends and money rates are, to a great extent, absolutely measurable and if these were the only factors affecting price, price fluctuation would be far less violent than is actually the case. It is the fourth factor which makes for a great deal of wide fluctuations. This factor is investor confidence.

Investor confidence can represent the difference between a stock's selling at ten times earnings and twenty times earnings. It explains the fact that although corporate earnings generally rose during the period 1946-1949, the market declined. And it explains to a great extent the bull market of the past year.

A dramatic demonstration of the importance of investor confidence was afforded by the terrific one-day break in the market following the news of President Eisenhower's sickness two weeks ago. The public was supremely confident of the political future with the continuance of a Republican administration. When this prop was suddenly removed, prices declined sharply. The most important lesson learned from the market break was the great extent to which prices depended on investor confidence of the continuance of a favorable investment climate rather than on already demonstrated earnings.

A further example of this fact is provided by the following table showing the Dow-Jones industrial average and seven leading stocks. The first two columns show the average price-to-earnings ratios for 1954, only a year ago, and the average over the past ten years. The third column estimates 1955 earnings. The fourth column shows the current price and the following two columns show what the price would be if these earnings were capitalized at 1954 and at ten-year average multiples.

	1954 Ave.P/E Ratio	10-Yr. Ave.P/E Ratio	1955 Est. Earn.	Current Price	Price At 1954 Ratio	Price At 10-Year Ratio
Alum.Co.of Amer.	17.4	11.2	$3.40	78	59	38
Crown Zeller.	13.3	7.3	3.00	56	40	22
Du Pont	18.0	16.9	9.00	215	162	152
General Elec.	16.5	12.6	2.60	49	43	33
General Motors	8.4	8.1	13.00	138	109	105
Goodrich, B.F.	11.0	6.5	5.50	72	60	36
U. S. Steel	7.9	6.8	6.00	57	49	41
Dow-Jones Ind.Av.	11.9	9.9	36.00	460	428	356

It can thus be seen that, despite the favorable business picture, stocks COULD sell at lower prices than they are now selling. In many cases, notably Aloca, Crown Zellerbach and Goodrich in the table above, higher P/E ratios than the 10-year average are undoubtedly justified due to improving quality. Still, confidence plays a large part in current high multiples.

It is to measure investor confidence that this office maintains a large portfolio of technical charts and graphs. When these charts indicate, as they do at this time, that investment odds over the nearer term are relatively unfavorable, the investor should use periods of strength to dispose of heavily exploited commitments and switch to less exploited ones. Examples of such unexploited stocks are shown in the table below. Equally good examples could be drawn from some of the issues in our recommended list.

Abbott Lab.	20.5	16.4	$2.60	41	53	43
Amer.Tobacco	9.9	11.5	7.00	76	69	80
Coca-Cola	19.2	20.2	6.50	125	124	143

Confidence is changeable as the wind and it should be recognized as being a large component of today's stock prices.

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