

Walston & Co. Inc

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 20, 1956

The Dow-Jones industrials made a decisive downside penetration of the thirty-eight day trading range between 490 and 477 and reached an intra-day low of 463.16 on Friday. As mentioned in previous letters, this downside penetration indicates at least, a return to the lower part of the broad 490-433 range in which the market has held since June. The top pattern formed since November appears to indicate that the downside objective is around 445.

The price action of individual groups has been quite diverse. Possibly the oils and natural gas issues have shown the best action. The action of the steels has been on the unfavorable side. If the average reaches somewhere around 445, would add to holdings in my recommended list last published in the December 2nd letter.

A year ago this letter made a compilation which aroused a good deal of interest. The introduction to this compilation read as follows:

"Few people realize how diverse the action of the market has been over recent years. Regardless of the fact that the Dow-Jones industrial-average has advanced for over five years with just a few minor interruptions, the action of various types of securities has been quite different. Many holders show losses on individual securities despite the fact that the general market has been in a broad advance since 1949. As always, it has been dangerous to buy the wrong securities at the wrong time. In the main, it has definitely paid to own quality issues over recent years. The following compilation may be of interest. It presupposes an investment of \$100,000 in four different groups of stocks at the 1946 highs. The first group is composed of twenty growth issues and presupposes an investment of \$5,000 each in such growth companies as Dow Chemical, Corning Glass, I.B.M., etc. The second group is composed of twenty stocks of investment quality. It was selected from the twenty favored issues of 130 Common Trust Funds of leading trust companies. It includes such issues as General Motors, Standard Oil of New Jersey, General Electric, National Dairy, Sears Roebuck, etc. The third group consists of good quality dividend-paying issues a bit below the investment quality of the second group. It consists of issues like Allied Stores, Allis Chalmers, Babcock & Wilcox, National Gypsum, Sylvania, etc. The fourth group consists of lower-priced, more speculative issues. It comprises the twenty most actively traded issues in 1953 selling at around 20 or lower. It includes the issues in which the general public usually trades. It consists of issues like Armour, Avco, International Telephone, New York Central, Pennsylvania, Pepsi-Cola, etc.

The figures in the above mentioned compilation have been brought up to date and the results are tabulated below. Here is how the purchase of \$100,000 at the 1946 highs of each of these groups would have looked at December 31, 1955. The table also shows the action of each group during the year 1955 alone:

	<u>1946 High</u>	<u>Dec. 31, 1955</u>	<u>Plus % Rise 1954-55</u>
Growth Issues	\$100,000	\$396,499.	26%
Investment Issues	100,000	272,573.	22
Medium-Grade Issues	100,000	165,431.	21
Low-Priced Issues	100,000	88,549.	16

The most interesting thing to note about the above table is that the purchaser of low-priced speculative stocks at 1946 highs still has a loss nine years later. It is further interesting to note that the relative action of the four groups, with the growth issues showing the best action and the low-priced issues showing the least favorable action, continued during the year 1955 just as it had during the eight years previous.

This market letter is not, and under no circumstances is to be construed as, an offer to sell or a solicitation to buy any securities referred to herein. The information contained herein is not guaranteed as to accuracy or completeness and the furnishing thereof is not, and under no circumstances is to be construed as, a representation by Walston & Co., Inc. All expressions of opinion are subject to change without notice. Walston & Co., Inc., or any Officer, Director or Stockholder thereof may have an interest in the securities mentioned herein. This market letter is intended and presented merely as a general, informal commentary on day to day market news and not as a complete analysis. Additional information with respect to any securities referred to herein will be furnished upon request. WN 301

The obvious conclusion to be drawn from the above is the terrific advantage involved, especially for the younger man who is not concerned with current income, in the purchase of growth stocks. It will be seen that even though purchases were made at previous bull market highs that in a period of less than ten years the growth stock investment has appreciated almost four times. It is also interesting to note that although the growth investment yielded only 2½% at the time of purchase, the current yield on the original investment is better than 8%. A tabulation of the earnings and dividends behind each of the above theoretical groups is also very instructive:

<u>EARNINGS</u>	<u>1946 High</u>	<u>1955</u>	<u>Plus % Rise 1946-55</u>	<u>Plus % Rise 1954-55</u>
Growth Issues	\$5,998	\$18,177	203	27
Investment Issues	6,482	18,783	174	12
Medium-Grade Issues	7,724	15,619	102	25
Low-Priced Issues	5,530	9,451	71	106

<u>DIVIDENDS</u>	<u>1946 High</u>	<u>1955</u>	<u>Plus % Rise 1946-55</u>	<u>Plus % Rise 1954-55</u>
Growth Issues	2,503	8,707	248	11
Investment Issues	3,520	9,676	175	10
Medium-Grade Issues	3,080	6,908	121	8
Low-Priced Issues	1,543	4,996	223	122

It will be noted that the rise of the Growth, Investment and Medium quality groups has been sparked during the first-eight years of the market cycle by increasing earnings and dividends -- a factor which, until this year, had been strikingly absent in the case of most low-priced stocks. A look at the figures showing the percentage rise during the year 1955, however, shows that both earnings and dividends for the low-priced group have doubled with very little corresponding market action.

Various conclusions may be drawn from this fact. It is possible on one hand to say that the current bull market cycle will not be complete until low-priced issues move ahead beyond all reasonable value with an accompanying flurry of public participation in the market. It is also possible to conclude, however, that the current market is perhaps a more intelligent one and the investor in 1955 is eying askance the earnings and dividends of companies which can improve profits only during a terrific business boom. The above is also borne out by a look at the yields and P/E ratios of the four groups mentioned:

	<u>YIELD %</u>			<u>P/E RATIO</u>		
	<u>1946</u>	<u>1949</u>	<u>1955</u>	<u>1946</u>	<u>1949</u>	<u>1955</u>
Growth Issues	2.5	4.5	2.2	16.5	10.2	21.8
Investment Issues	3.5	7.3	3.5	15.4	7.1	14.5
Medium-Grade Issues	3.1	9.0	4.2	12.9	5.3	10.6
Low-Priced Issues	1.5	4.2	5.6	18.0	9.4	9.4

It will currently be seen that while the growth and investment issues are close to their 1946 highs on both a yield and P/E basis, the medium-grade issues still have some room for appreciation and the low-priced issues have attracted practically no public demand. This perhaps is at it should be.

On the basis of the above figures, it can be seen that the Growth and Investment issues are quite adequately priced at present and it may be even concluded that some are due for a fairly sharp correction. It can also be seen, however, that on any weakness profit opportunities may become available in the Medium-Grade or even in some of the better Low-Priced issues.

EDMUND W. TABELL
WALSTON & CO. INC.

note

P.S. The names of the individual issues in the four groups mentioned above will be furnished upon request.