

# 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

## EDMUND W. TABELL INSTITUTIONAL LETTER

April 18, 1956

Back on the job after an extended business trip and a vacation in Florida, I find that there is little change in the technical pattern outlined in my letter of March 5th. The Dow-Jones industrial average reached a high of 524.37 early in April and subsequently reacted to 506.73. As outlined in my 1956 forecast, it is probable that the industrials will again contact the uptrend line connecting the July high of 471.73 and the September high of 489.94. This uptrend line was around the 525-535 level in March. It has now moved forward to the 530-540 level for April. When this level is reached it is possible that the market will have reached its high for quite some time. On the downside, there is very strong support at the 490-480 level. At the present price level of 506.55 the industrial average is about midway between the two projections. It is possible that the 540-480 level will contain the averages for the next six months unless news events more dramatic than now envisioned occur.

While this does not appear to be a very vulnerable pattern, it must be realized that the market is in high territory and, particularly in the blue-chip section, is discounting increasing future earnings and dividends rather than immediate prospects. At a price-earnings ratio of 14.1 and a yield of 4.2%, the industrial average is not selling at levels as high as those reached at previous market peaks, but it is still at a relatively high level. The weakness in the bond market has also brought the spread between high grade bonds and stocks below 1%. This is a level from which it is difficult to project a dynamic upside move in stock prices.

From a technical point of view, both the averages and individual stocks have not as yet formed distributional top patterns of any great importance and it would appear that more time will be needed if such patterns are to be formed. However, the market at this level must be watched closely for signs of deterioration not yet evident. One potentially disturbing factor is that the twenty-five week moving total of downside volume has been slowly increasing despite the rise in the averages and also upside volume has not materially increased. If the moving total of downside volume should expand to new high territory for the past twelve months accompanied by a downside penetration the 200-day moving average (which now stands at around 475), the technical picture would be quite disturbing. Until some of these potentially unfavorable factors actually take place, however, an attitude of cautious optimism is warranted with emphasis on special situations and a willingness to buy selected issues on moderate weakness.

It is in the technical action of individual issues and groups that the real clue to market movement will be found. The indications are quite diverse. In a broad sense, groups fall roughly into the following categories, but the situation is further complicated by the fact that even within a group individual issues are both favorable and unfavorable. As an example, National Distillers has a favorable pattern while other issues in the group show mediocre relative strength action.

FAVORABLE: Air-conditioning, Building Supplies, Drug, Electrical Equipment, Machinery, Oils, Paper.

GOOD ACTION BUT HIGH: Aluminum, Business Machines, Coal, Glass Containers, Railroad Equipment.

NEUTRAL: Aircraft Mfg., Auto Equipment, Brass, Cement, Chemicals, Communications, Finance, Food Chains, Mining & Smelting, Rails, Rubber, Steel, Sugar, Tin Cans, Tobacco, Utilities.

POOR ACTION BUT IMPROVING: Airlines, Electronics, Fertilizer, Gold, Meat Packing.

UNFAVORABLE: Automobiles, Farm Machinery, Food Products, Gas, Liquors, Movies, Retail Chains, Soft Drink, Textile.

The above compilation does not show the entire picture. For example, the steels are close to an upside breakout and could reverse their hitherto inability to reach new highs since September. The airlines and electronics are forming strong patterns but the timing of the potential rise is difficult and patience may be required. Automobile issues are acting poorly and may work lower over the near term, but should be watched on weakness for a buying spot and a possible rise later in the year.

EDMUND W. TABELL

This memorandum is not to be construed as an offer or solicitation of offers to buy or sell any securities. It is intended to provide information only. It is based upon information believed reliable but not necessarily complete, is not guaranteed as accurate or final, and is not intended to foreclose independent inquiry.