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INSTITUTIONAL LETTER

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Looking at the current gyrations of the stock market, it is very easy to attach a great deal of importance to President Eisenhower's recent illness and the possibility that he may not now be able to run for a second term. Viewed in the context of market happenings over the past fourteen months, however, it would appear that the political situation does not alter the fundamental long range investment climate.

It is rather instructive to look at the action of the Dow-Jones industrial average over the past fourteen months as shown on a geometric scale which shows moves in a percentage rather than a dollar amplitude. In April of 1955 the averages broke through a March high of 421.83. They broke back below this high for a short time then rose sharply to 489.84 in September of last year. Mr. Eisenhower's illness then drove the averages to an October low of 433.19, when it became "obvious" that Mr. Eisenhower would not run for a second term. Then after spending four months attempting to break through resistance at 490, the averages continued to a high in April, this year, of 522.18. They have since declined to a low of 463.85 and are now at 487.08. What all this proves is that for most of the past fourteen months the Dow-Jones average has held in an approximately 25% trading range.

There is no need, however, to cite to the professional investor the terrifically diverse action which has characterized the market during this time. Many stocks are now selling at close to their lows for the past fourteen months and many even today are posting new all-time highs. Thus the market action for more than a year has been very similar to that encountered in 1951-53. As has been reiterated in this letter many times, this action can be expected to continue.

It is difficult to envision a roaring bull market for the next year or so since it must be conceded that many stocks are adequately priced and that there is likely to be no drastic improvement in the business picture such as witnessed in 1954-55. It is, however, obvious to the security analyst who seeks values that many such are still available and that in many cases, despite the general business picture, earnings in 1956-57 may be increased sharply. It would thus seem that the task of the portfolio manager over the next year or so will be one of weeding out equities which have become unattractive or over-priced and replacing them with stocks which still appear to offer sound value and appreciation possibilities. It will be the attempt of this letter to pinpoint securities which can be expected to act worse than the general market over the coming months and to attempt to pick out securities in groups which can be expected to outperform the general list.

The following equities all seem to be improving in quality, which should justify their inclusion in institutional portfolios. In each case, technical and fundamental factors seem to indicate higher prices and they are accordingly recommended for purchase.

Allegheny Ludlum Steel
Blaw-Knox Co.
Certainteed Products
Dresser Industries
Eastern Airlines
Food Machinery & Chemical Corp.
General Railway Signal
Hewitt-Robins, Inc.
International Nickel
Joy Manufacturing
Masonite Corp.
Monsanto Chemical
Richfield Oil
Sylvania Electric Products
United Shoe Machinery

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