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TABELL'S MARKET LETTER

Earlier in the year, this letter expressed the opinion that the general stock market, as measured by the Dow-Jones industrial average, would most likely pivot around the 490 level, with moves limited to 40 or 50 points above or below 490, for a long period of time. Nothing new has occurred to change that opinion substantially. In fact, the average, with the brief exception of the Eisenhower illness decline to 433.19 in October, has held in an area bounded roughly by 525 and 450 since June 1955. This is a range of 35 points above 490 and 40 points below. I would expect this range to continue for some further time. After all, there is no particular reason, as far as earnings are concerned, for the average to move very far in either direction. Earnings on the thirty stocks in the Dow-Jones industrial average jumped from the \$28.05 in 1954 to \$35.43 in 1955. Earnings for 1956 should not be much above \$37.00 for the industrial average. Therefore, it would seem logical to expect the market to pivot around the 490 level for the balance of the year. When the news is cheerful and speculative confidence high, the market will undoubtedly hold in an area bounded roughly by 40 or so points above 490. When the news is temporarily unfavorable and speculative confidence uncertain, the market may drop to the lower level bounded roughly by 40 or so points below 490. This trading plateau could rise in 1957 because competent sources estimate possible earnings of \$40 or over on the Dow-Jones industrial average. This is in line with my opinion that while the averages may continue to hold for some time longer in the broad trading area in which they have held for over a year, this may be the last opportunity to buy the general market in this year-old price range prior to an advance to a higher plateau.

As far as individual stocks are concerned, the pattern has been, and will continue to be, different from that of the averages. While average earnings in 1956 will show little change from 1955, individual companies will show considerable change. In companies where earnings are rising, there has been also a sharp advance in stock prices. In companies where there has been a decline in earnings, the result has been a market decline. This is only normal and desirable and is the reason why the action of individual stocks is much more important than the action of the averages in this highly selective and more intelligent market whose main motivating power is furnished by professional institutional managers rather than short term speculators.

The market continues to meet overhead resistance. For some ten trading days in late July, the resistance was at 517. In the first ten or so trading days of August the supply was encountered at around the 524 level which was the area of the March-April high of 524.37. The high for the first week of August was 523.33. The high for the past week was 523.24. Friday's close was 517.38.

For twenty-one trading days the industrial average has ranged between roughly 524 and 507. The direction of the penetration of this trading area depends largely on the short term trading interpretation of coming news events. The upside potential is probably 540-550 and the downside potential about 490-480 again dependent on the state of short term speculative confidence. Any decline to the level mentioned above should be used to add to holdings in our recommended list which was last published in my letter of July 20th. Three issues in my buy list of July 27th reached buying levels and are added to the list. They are: Illinois Central in the 64-62 area, Penn-Dixie Cement in the 39-37 range and Rayonier in the 40-38 area.

If any further weakness develops, would also buy the following issues at levels specified.

	Friday's Close	Buy Level		Friday's Close	Buy Level
Bristol Myers	37 1/4	35-34	Northern Natl Gas	49 1/2	48-47
Carborundum	41 1/2	40-39	Northern Pacific	41 5/8	40-39
Carrier Corp.	60 1/8	58-57	Richfield Oil	76 1/4	75-74
Crucible Steel	58 3/8	56-55	U. S. Steel	64 3/4	62-60
Gen'l Dynamics (new)	49 3/8	47-46			

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Errata: In last week's letter under heading of General Railway Signal, the sentence in the fourth line starting "Sales were \$2.5 million this year" should read "Pre-tax earnings were \$2.5 million this year". EWT

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