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TABELL'S MARKET LETTER

October 5, 1956

If one wishes to be interested in what "the market" is doing as reflected in the price swings of the various averages, the Dow-Jones industrial average met the first test successfully during the past week by holding in the strong 470-460 support level. The week's low on Monday of 463.83 was followed by a sharp rebound to 484.06 on Wednesday and a close for the week of 482.42. At the week's high, the market had, in a little over two days, recovered almost a third of the 60-point drop from the August 2nd high of 523.33. This recovery appears a bit too rapid and normal technical procedure appears to call for a re-testing of the lows by a possible dip to around the 470 level. If this price action occurs over the next week or ten days, it is possible that my technical indicator might register the first buy signal since the sell signal given late July.

The lows of October 1st now become a rather important testing point, particularly if the current rally continues for another couple of weeks. A subsequent decline below 463.83 would suggest that trading between the double top of 523.33 of April and 524.37 of August was a distributional area with a downside potential of 430-420. This is the worst I could envision out of the present pattern. However, the action of individual issues indicate a very good possibility that last week's low in the industrial average will hold.

All of the above is largely of academic interest. The action of many individual issues continues to bear little relationship to the averages and, as this letter has constantly stressed, this divergence is likely to continue for the foreseeable future in a market where the professional manager of institutional funds has taken over the reins from the shorter term trader. A study of the price action of over a thousand individual issues indicates that a sizeable group of stocks continue to show favorable action while another group still indicates lower levels and a still larger group show no signs of any immediate move of great importance in either direction. The net result in the various averages will probably be a further extension of the broad consolidation area in which the general market has held for well over a year. It will be similar to the 1951-1953 consolidation area when the industrial average held in a 15% trading range for twenty-eight months. The present market has held in a similar trading area for only fifteen months.

Among individual issues, the steels have been outstanding. U.S. STEEL at Friday's close of 67 $\frac{3}{4}$ was still higher than on August 2nd despite the fact that the industrial average is 45 points lower. The same applies to the two metallurgical steels in our recommended list, ALLEGHENY LUDLUM (53 $\frac{1}{4}$) and CRUCIBLE STEEL (60 $\frac{1}{2}$). All three of these issues appear attractive on minor weakness. Three other recommended issues, GENERAL RAILWAY SIGNAL (88 $\frac{1}{2}$) GLENN L. MARTIN (39 $\frac{5}{8}$) and NATIONAL DISTILLERS (28 $\frac{5}{8}$) are also selling above August 2nd prices and continue to show very strong relative strength action. Other issues in our recommended list that appear attractive because of either good relative strength action or because they are near strong support levels include -

	Price	Support Level
American Cyanamid	69 $\frac{3}{8}$	63-58
Bell & Howell	40 $\frac{3}{4}$	37-35
Carborundum Corp.	41 $\frac{1}{4}$	40-38
Columbian Carbon	48 $\frac{3}{4}$	47
Eagle Picher	43	40-38
Food Machinery	63	63-58
Magma Copper	107	100-95
Northern Natural Gas	47 $\frac{1}{4}$	46-44
Panhandle Eastern	94 $\frac{3}{4}$	87-83
Western Pacific	68 $\frac{1}{2}$	67-63

All of the sixteen issues mentioned above have substantial upside potentials over the longer term.

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