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TABELL'S MARKET LETTER

May 16, 1958

Faced with disturbing developments abroad, the stock market declined sharply on Wednesday, but recovered some of its losses later in the week. At the intra-day lows of the week, the Dow-Jones Industrials at 453.84 were down over ten points from the recent high of 465.14 and the Standard & Poor's 500-Stock Index was down over a point from the recent high of 44.23 to 42.91. As noted in last week's letter, a technical correction of the advance from the October lows is needed. No definite tops have been formed but a correction could retrace a third to two-thirds of the advance from the October lows. This could mean a decline to roughly the 443-430 range in the Dow-Jones and the 42-40 range on the Standard & Poor 500-Stock Index.

I have mentioned several times in my letter that I felt the market, as measured by the averages, was building up a wide accumulation base similar to 1946-1949 and 1951-1953. I believe that the market will, therefore, hold in a wide trading range bounded roughly by 460-480 on the upside and 430-420 on the downside for quite some time. The market is, in my opinion, in the early stages of this trading area. It may continue to hold in such a trading range for as long as two years. The economy probably has about reached its low point, but it may be quite some time before it again advances sharply.

Another factor that indicates a longer consolidation area is that the market is much higher today, in terms of price/earnings ratios, than in either 1949 or 1953. This is particularly true in the case of the high grade "blue chip" issues. Let us take 1953 as an example. The Dow-Jones Industrials started an advance in September 1953 from 254 that finally culminated in a high of 525 in April 1956. The market started its advance while business was still declining. The Federal Reserve Board Index of Production was 133 in September 1953 and did not reach its low of 123 until July of 1954 by which time the Dow-Jones Industrials had advanced to around 330. The FRB Index subsequently reached a high of 147 in late 1956. Thus, a case might be made that the present market is anticipating a similar advance in business in 1959 and beyond. However, many stocks are greatly overvalued as compared with 1953 as the table below shows:

	Earned 1953	Aver. Price 1953	P/E Ratio	Earned 1958-Est.	Recent Price	P/E Ratio
General Electric	$1.93	26	13.4	$2.10	59	28.1
Union Carbide	3.55	69	19.4	3.10	86	27.7
Goodrich	4.08	35	8.6	4.00	54	13.5

These three issues, based on a continuation of the trend of the 1958 first quarter, will earn about the same amount as in 1953 yet General Electric, for example, is selling at 58 7/8 today as compared with an average price of 26 in 1953 and at 28 times earnings as compared with 13.4 times earnings in 1953.

This, fortunately, is not true of the entire market. Some of the consumer goods type issues that we have been recommending over the past nine months compare favorably with 1953 ratios:

	Earned 1953	Aver. Price 1953	P/E Ratio	Earned 1958-Est.	Recent Price	P/E Ratio
First Nat'l Stores	$4.17	47	11.3	$5.75	64	11.1
National Dairy	2.32	31	13.4	3.40	45	13.2
Philip Morris	5.01	48	9.6	5.25	54	10.3
Zenith Radio	6.31	37	5.9	10.00	75	7.5

It will be seen that these three consumer goods issues and special situations are still modestly priced.

In terms of the general market, it appears that a great many issues are too high to support a further price rise at this point. A sharp earnings increase is needed for the market to move above the 460-480 level and that does not appear to be a near term possibility. Therefore, a long continuation of the trading range is anticipated as probably earnings have about reached their lows. In the meantime, issues with still advancing earnings and issues still in declining trends, but with a chance of a nearby upward trend will still present good possibilities of price appreciation. I will endeavor to point out issues of this type in subsequent letters.