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TABELL'S MARKET LETTER July 25, 1958

The occupational disease of market letter writers, one to which we must plead partially guilty, is a compulsion to talk about the stock market in terms of the Dow-Jones Industrial Average. In this connection it would be very easy to compose a long letter about how the average in crossing the 500 level on Friday is running into the overhead supply at 480-520, and how at least a minor correction from these levels should be required. Such a discourse would be perfectly valid, but it detracts from what is, after all, the main function of security analysis -- to find securities which appear undervalued from a fundamental viewpoint and which appear technically ready to show positive price action.

Along these lines, the following tabulation may be of interest. It divides the market into the four major phases which have existed from August 1956 to the present day. (1) The decline from 523.33 to 453.07 in February 1957. (2) The rise to 523.11 in July 1957. (3) The decline to 416.15 in October 1957, and (4) the rise to an intra-week high of 502.64 this week.

For each of these phases the percentage change in the Dow-Jones Industrial Average is listed together with the percentage rise or fall of the three best acting industry groups as measured by Standard & Poor's Industry averages. For the two advancing phases, the three worst acting groups are also tabulated.

Table I

August 1956 - February 1957

Dow-Jones Ind. Aver.	- 13%
Aircraft Mfg.	+ 5%
Agricultural Mach.	- 1%
Machinery, Gen'l	- 1%

Table II

February 1957 - July 1957

Dow-Jones Ind. Aver.	+ 15%
Business & Off. Equip.	+ 38%
Electrical Equip.	+ 28%
Oil	+ 23%
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Agricultural Mach.	+ 1%
Air Transport	- 1%
Cigarettes	- 1%

Table III

July 1957 - October 1957

Dow-Jones Ind. Aver.	- 20%
Cigarettes	+ 7%
Dept. Stores	- 4%
Food Companies	- 4%

Table IV

October 1957 - July 23, 1958

Dow-Jones Ind. Aver.	+ 21%
Utilities	+ 31%
Cigarettes	+ 29%
Radio & TV	+ 28%
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Aluminum	+ 2%
Electrical Equip.	+ 4%
Autos	+ 5%

The above tables give rise to some interesting assumptions. Let us assume that Investor A had been absolutely correct in predicting the course of the Dow-Jones Average since ~~last~~ August 1956. He bought at the absolute bottom and, in addition, sold short at the absolute top on every one of the major moves. Unfortunately, however, he was so busy guessing the averages he did not have time to try to pick the right stocks and was unlucky enough to divide his investment among the three worst acting groups in the bull markets and the three best acting groups in the bear markets. Despite the fact that he called every market turn correctly, his ~~capital~~ would have ~~appreciated~~ suffered ~~only~~ a net loss of 3 1/2% during the period. Investor B, on the other hand, forgot about the market and concentrated only on buying the groups he thought would act best. He was long of stocks during the entire period. Despite the fact that the average ~~is now some twenty~~ was only forty points ~~lower~~ higher than the day he started, his capital has ~~managed to~~ shown ~~60%~~ 80% appreciation in ~~two~~ four years.

It is obvious that the two above instances represent extremes which are unattainable. They nevertheless point up the fact that a good deal of energy is wasted in predicting the course of the averages which could more profitably be devoted to selecting attractive stock commitments. In the type of market we foresee for the next ~~two~~ few years, it can be expected that this will continue to be the case.

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