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TABELL'S MARKET LETTER

September 5, 1958

The market still remains in a trading shelf. The Dow-Jones Industrials managed to better the previous August intra-day high of 514.44 by a small amount to reach 516.59 on Thursday, but failed to follow through. Friday's close was 512.77. The rail average just about reached its comparable high of 134.48 at 134.46 on Thursday. Friday's close was 132.43. Various other averages just about reached their previous highs.

By all accepted statistical yardsticks the stock market is high. Based on earnings for the 12 months ended June 30th, the D-J Industrials are selling at 17.4 times earnings, and based on estimated earnings for the 12 months ending Sept. 30th, the average is selling at 18.9 times earnings. This is the highest P/E ratio since 1946 when the P/E ratio reached roughly, 21 times earnings. It compares also with 14.6 times earnings at the 1956 high, and 15.2 times earnings at the 1957 high. Also, the bond-stock yield spread of 0.20% is the smallest since mid-November, 1936. On Central Value, which we have mentioned several times in this letter, the market is also high. Based on $27 earnings on the D-J. Industrials for 1958, and capitalizing these earnings at twice the yield of AAA bonds of 3.8% shows a central or normal value of 387. Allowing for 20% above normal in a period of high investor confidence works out to 465. At 513, the D-J Industrials are over valued on Ben Graham's Central Value Theory.

However, when we look at the market from a technical viewpoint the picture does not seem particularly ominous. Breadth-of-the market action on volume, for example, continues to show no signs of deterioration. The 10-week moving total of upside volume is at the highest level since early 1955, and the 10-week downside volume is at the lows of the last 45 months. This is also true on the longer term 25-week moving totals. In fact, on this longer term graph the downside volume is the lowest since 1954 when the 1953 to 1956 bull market was in its early stages. It is only on the moving totals of advances and declines that some slight signs of deterioration appear. It is interesting to note that despite the rise in the averages, the market has become more selective. The 10-week moving total of advances reached its high some 12 weeks ago and fewer issues have been advancing since that time. Also, the number of declining stocks on the 10-week moving basis reached its low at the same time and since then the number of declining stocks has been showing an increase. This is not so apparent on the longer term 25-week moving totals, but the trend is still there. However, this type of action can continue for quite some time before it results in a really vulnerable situation.

On the point and figure charts there are yet no signs of any great vulnerability. Quite a few groups have reached their immediate upside objectives, but there are no really dangerous top formations formed as yet. The same thing is true of the point and figure charts of the various averages. In most cases they have reached upside objectives, or are very close to it. Also, the averages and some individual stocks are in areas of heavy supply, as is evidenced by the action of the past month. It appears, as mentioned in recent letters, that the market may be forming a broad accumulation area very similar to 1946 to 1949, with the major part of the work being done in an area bounded roughly by 525 and 460. I believe that the opinion held by many investors and analysts that the present advance from the October lows is merely a rally in a bear market must be abandoned. Breadth and scope of the buying has been too substantial to be written off as a mere speculative phase. However, I do not believe that this is the start of a major advance. On the averages and in individual groups and stocks, there appears to be more work needed to build up a pattern similar to the 1946 to 1949 accumulation range. This should result in considerable backing and filling in an area bounded roughly by the aforementioned 525 to 460. On a short term basis, the market appears overbought. It is possible that a buying climax might occur that could carry the market back to the 1956 highs, or even slightly higher, but it is difficult to read much beyond that. On the other hand, a decline below 500 would probably indicate a technical correction to at least the 485-480 level. That is the first support point. The second downside resistance level would be around 460 in the averages. The prospects, therefore, appear to be that the market, as measured by the averages is probably reaching a temporary top but that the overall picture is one of strength and that any declines will do not much more than retrace a third to a half of the advance from the Oct. lows. Obviously, while this applies to the averages, it will not apply to individual groups and issues. Some will show above average action and others below average action. Therefore, the action of individual stocks is undoubtedly much more important over the next year or so than the action of the averages.

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