

Walston & Co.

INC

Members New York Stock Exchange

NEW YORK • SAN FRANCISCO • LOS ANGELES • PHILADELPHIA • CHICAGO

OFFICES COAST TO COAST CONNECTED BY DIRECT PRIVATE WIRE SYSTEM

TABELL'S MARKET LETTER

October 17, 1958

The stock market covered a wide range of territory in the past week. After reaching an intra-day high of 549.71 on Tuesday, the Dow-Jones Industrials dropped twenty points to an early Thursday low of 529.42. This loss was almost entirely recovered at Friday's high of 548.97. It is necessary to go back to the hectic down markets of October a year ago to find a swing comparable to the forty-point range of the past three trading days.

Percentage-wise, the decline of the past week of 3.6% was the steepest decline witnessed since the present advance started in April. Has it any important technical significance? From both a shorter term and intermediate term point of view, it is a bit too soon to answer that question definitely. Action of the market in the 550-530 range in the next few days should furnish a clue. Inability of the market to move out of this area on the upside would indicate the possibility of a potential top formation, and the end of the first phase of the advance. From a longer term point of view, I do not think last week's decline has any great significance.

From a technical viewpoint, I think the market is headed higher over the long term. The graphs of the averages indicate this, but much more important is the fact that the graphs of the great majority of individual stocks have favorable long term patterns. The conclusion to be drawn from my technical work is that we are in a major upswing that will continue for quite some time. The only question is whether the straight line advance is to continue with only minor interruptions or whether we are near the end of the first phase of the advance, with the necessity of a further technical correction and some consolidation before the long term advance into new high territory is resumed.

The base formed in the Industrial average in the 420-460 range during the six-month period between October last year and April indicated an upside potential of 480-490 followed by a later 530-540. The Industrials reached the first objective in June and hesitated only momentarily. By mid-July the advance was resumed and the market has now moved ahead to slightly above the 530-540 potential. The time-table of the advance has been greatly accelerated by the much faster recovery in business than generally anticipated. It appears that fourth quarter earnings will be near a new peak and that earnings in 1959 will be at a new high. Some segments of the market may have discounted this rapid improvement in business at the present level of prices. It would be a constructive technical pattern if the market rested for a while in the 550-500 level and then resumed the broad advance at a later date. During this resting period, individual issues could move ahead while the rest of the market consolidates. A consolidation from around present levels would be logical.

The other alternative is for the advance to continue with only minor interruptions. Many issues have somewhat higher longer term objectives and the entire advance could be accomplished in a relatively short period of time with a probable objective of 600.

This letter has taken the position that it is probably wiser to ignore the averages and to concentrate on the action of individual issues. This has resulted in some worthwhile upward moves in most issues in my recommended list. I would continue this policy regardless of the near term action of the general market. The main trend is, in my opinion, toward higher levels regardless of possible interruptions. No major decline appears probable at the moment. Before such a development could occur it would be necessary for the market, from a technical viewpoint, to form a major distributional top. This would take time and there are no signs at the moment of even the start of such a pattern. The market could, of course, have a technical correction. It would be normal technical procedure to have, at some time, a 30% to 40% retracement of the advance from the lows. That would mean somewhere around the 500 level in the Dow from present levels. With the longer term trend toward higher levels, I would ignore such possibilities and concentrate on individual issues.

EDMUND W. TABELL
WALSTON & CO. INC.

This market letter is not, and under no circumstances is to be construed as, an offer to sell or a solicitation to buy any securities referred to herein. The information contained herein is not guaranteed as to accuracy or completeness and the furnishing thereof is not, and under no circumstances is to be construed as, a representation by Walston & Co., Inc. All expressions of opinion are subject to change without notice. Walston & Co., Inc., and Officers, Directors, Stockholders and Employees thereof, purchase, sell and may have an interest in the securities mentioned herein. This market letter is intended and presented merely as a general, informal commentary on day to day market news and not as a complete analysis. Additional information with respect to any securities referred to herein will be furnished upon request.

W.N. 301