Forecast

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TABELL'S MARKET LETTER

December 24, 1958

It has been the custom of this letter to devote each year's last issue to a forecast of the probable trend of the stock market in the twelve months ahead. At this time, both technical and fundamental factors seem to point to one conclusion:

1959 will see a continuation of the long term bull market upswing which began in 1949, commenced its final phase in October, 1957, and which will ultimately carry the market to considerably higher levels.

Let us first consider the technical factors that lead to the above forecast.

Price movements, over a period of time, both long and short term, quite often take place in five phases, or waves, three up and two down in the case of an upward movement, and three downwaves and two upwaves in the case of a downward adjustment. Hindsight tells us that the current advance began in 1949 with the first upward wave from 1949 to 1951. This was followed by a second correctionary wave from 1951 to 1953, a third, or advancing cycle, from 1953 to 1956, with a fourth or corrective cycle from 1956 to 1957. With the market in new high ground, it now appears that we are in the fifth and final phase of this upward movement.

This is confirmed by other technical data. After reaching its low last October, the market formed a base with an upside indication above 500. The normal expectation would have been for the Dow-Jones Industrial average to halt somewhere in the heavy overhead supply which existed between 480 and 520 and broaden the accumulation area before breaking through into new high ground. This it did not do. Instead, the upswing carried through into new high territory with practically no cessation of the advance. Now that new highs have been reached, it appears that the entire trading area in which the market held from 1956 until recently was a base with implications of substantially higher levels. This is confirmed by a reading of the chart patterns of over 1300 individual issues. In a majority of cases, potential bases have been formed or are in the process of formation, many of them indicating sizeable upside potentials.

In addition, despite the "straight-line" character of the advance, long term technical work shows no signs of interior vulnerability. A market which has advanced as sharply as this one has is always vulnerable to flash corrections such as the one which occurred in November. It is impossible at this point, however, to foresee any decline of serious magnitude.

From a fundamental point of view, it is also possible to justify higher prices. The market is, it is true, selling at a record P/E ratio --- if the past twelve months' earnings are used as a criterion. It must be remembered, however, that these results were attained in the depths of the recession and a sharp improvement appears inevitable. It becomes more and more probable that 1959 will see greatly increased earnings for the Dow-Jones Industrial average -- perhaps equalling or bettering the record $36.08 of 1957. Indeed, it is not at all difficult to visualize earnings of $50 on the Dow in 1961-1962. Such earnings would call for nothing more than an extrapolation of the long term growth trend which prevailed in the years 1947-1957. Given $50 earrings, a price/earnings ratio of 15 would result in a price of 750, and a ratio of 18 would result in a price of 900.

However, as this letter has stressed for many years, individual stock selection is far more important than trying to guess the averages. As has been mentioned above, we seem to be in the fifth and final phase of a long upward cycle. Such a phase often tends to be the most dynamic with secondary and tertiary stocks coming to the forefront. Some of this type of action has already been seen, with low-priced stocks participating in the advance for the first time since 1946. Many stocks, some speculative, some high-grade companies which have been "overlooked", which have done little

or nothing for ten years or longer, are breaking out of long-term base patterns on the upside. It is this development which leads to the belief that we will have an entirely new set of market leaders, many of which have participated only to a limited extent in the advance to date. Meanwhile, other stocks which have been favorites in the past may do little or nothing as the market moves ahead.

Thus stock selection remains the most important concern of the investor. In the list below we have tried to indicate a few issues which seem to have above-average technical patterns. Some are in our recommended list and others will be added in the future. All appear relatively attractive over the long term.

AIR-CONDITIONING - Fedders Quigan (16), Trane Co. (63).
AGRICULTURAL IMPLEMENT - J.I. Case (20).
AIRCRAFTS - Boeing (46), Gen'l Dynamics (65), North American (43), Northrop (34).
AIRLINES - American (24), Pan American (23), Western Airlines (26).
AMUSEMENT - Decca (18), U.S. Playing Card (90).
APPAREL - Bond Stores (21), Cluett (50), Hart Schaffner (34).
AUTOS, TRUCKS, APPLIANCES - Clevite (25), Divco (24), Elec. Storage Bat. (38) Freuhauf (19) Gould (36), Hertz (51), Houdaille Ind. (20), Nat'l City Lines (29), United Industrial (16) Young Spring & Wire (33).
BUILDING - Philip Carey (45), Flintkote (58), National Gypsum (59), Ruberoid (39).
CHEMICAL - Chemtron (35), Filtrol (44), Hercules Powder (57), Monsanto (39), Pennsalt (82), Stauffer (100), Victor (33), Wallace & Tiernan (36).
CONTAINER - American Can (49), Crown Cork (30), National Can (13).
DRUGS - Abbott Laboratories (64).
ELEC. & ELECTRONIC EQUIP. - Bendix (70), Consol. Electronics (40), Consolidated Electrodynamics (42), Daystrom (37), Robertshaw Fulton (33), Tungsol (34).
FERTILIZER - International Minerals & Chemical (28), Tennessee Corp. (52).
FINANCE - Commercial Credit (62).
FOOD - Heinz (62), National Dairy (47), Wilson (30).
GOLD - Dome Mines (18).
GLASS - Corning Glass (98).
INSURANCE - Continental Insurance (61), Fidelity Phenix (65).
LIQUOR - American Distilling (38, Nat'l Distilling (29), Publicker (13), Schenley (44).
MACHINERY - Amer. Mach & Fdry (53), Babcock & Wilcox (31), Bucyrus Erie (29), Combustion Engineering (31), Jaeger (22), Joy Manufacturing (48), United Eng. & Fdry (16).
METALS - Fansteel (48), Minerals & Chem. (18), Molybdenum (35), Vanadium (36).
MOTION PICTURES - Loew's (21), 20th Century-Fox (37), Universal Pictures (26).
OIL - Atlantic Refining (45), Barber (61), Getty (27), Gulf (124), Mission Corp. (41), Mission Development (22), Monterey (36), Pacific Petroleum (18), Royal Dutch (47), Standard Oil of California (58), Socony Mobil Oil (47), Tidewater (23).
OIL EQUIPMENT - Dresser Industries (40).
PAPER - Crown Zellerbach (55), Great Northern (51), Mead (42), Union Bag & Paper (41), West Virginia Pulp (50).
PRINTING & PUBLISHING - Amer. News (33), Curtis Pub. (14), Hall Printing (26).
RADIO-TELEVISION - Magnavox (50), Radio Corp. (45).
RAILROAD - Chicago, Mil. & St. P. (25), Minneapolis & St. Louis (27), Minneapolis, St. Paul & SSM (19), Northern Pacific (48), Western Pacific (68).
RAILROAD SUPPLIES - A.C.F. Industries (48).
RETAIL STORES - Gimbel (38), Macy (36), Spiegel (22).
RUBBER - Dayton (26), Goodrich (78).
SHIPBUILDING - Bath Iron (53), Newport News Shipbuilding (45).
SHOES - Endicott Johnson (33).
SOAP - Colgate Palmolive (87).
STEEL - Allegheny Ludlum (46).
SUGAR - Great Western (29), Holly (24).
TEXTILES - Amer. Viscose (37), Amer. Enka (25), Cannon (64), Celanese (28), Stevens (27).
TOBACCO - Bayuk Cigars (31), DWG Cigar (23), Philip Morris (61), Reynolds Tob. B (87).
MISCELLANEOUS - Alleghany Corp. (9), Amer. & Fgn. Pr. (17), ASR Prod. (10), City Products (44), Singer Mfg. (45).

A VERY HAPPY NEW YEAR TO ALL

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