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## TABELL'S MARKET LETTER

April 24, 1959

The F. R. B. Index of production, and most other business indices, reached their lows just about a year ago and began to move upward. This advance slowly gained momentum over the months, and what started out to be a recovery phase has now blossomed into a new boom. Present indications are that this boom will continue both in terms of time and volume. Earnings for the first quarter are sharply above those of a year ago, and the improvement should continue into the second quarter. To the novice investor, all of this presumably means that the stock market will continue to move ahead at the same rate as the business pattern improves. This assumption may not necessarily be correct.

The stock market usually acts as a barometer rather than a thermometer. It must be remembered that the stock market ignored the dismal earnings reports of a year ago and started to advance three to six months before business reached its low. This is not an unusual phenomena, even though it may appear unusual to the new investor. If past technical action means anything, the stock market will probably reach its high before the indices of business reach their highs. Neither of these highs appear imminent at the moment.

I believe that the present advancing phase in the stock market that started in October-December 1957 at around the 420 level in the Dow-Jones Industrials will continue into 1960-1961 and will reach a level around 800--give or take 5% in either direction.

However, we have probably completed the initial part of the upswing wherein the market advances in more or less straight-line fashion with only moderate, short-lived technical declines. The swings from now on could be wider. In the advance from October, 1953 to April, 1956, the advance from October, 1953 to March, 1955 was of the straight-line variety from 255 to 425. After that, although the market averages continued to advance, the general market became more selective. The actual high in the averages was reached at 524 a year later in 1956, followed by another year of several wide swings up and down before the general market declined in late 1957.

As noted in these letters before, the present market is approaching the equivalent of March 1955. The price swings may be wider and individual issues may be reaching their tops, just as they did as early as 1955 in the 1953-1956 rise. While at the moment, advances continue to outnumber declines, we are probably approaching the stage (like 1956 and early part of 1957) when just as many stocks decline as advance, despite the fact that the averages may continue to rise.

Relative strength action—the price action of each individual issue as compared to the price action of the general market—is often helpful as a clue to future price action. INTERNATIONAL MINERALS & CHEMICAL (32 1/8), which has probably been the most disappointing issue on my recommended list, has at last begun to show signs of improving relative strength. One reason for this improving action is the favorable earnings report for the first quarter. Earnings were reported at 83¢ for the three months ended March 31st as compared to 33¢ in the 1958 quarter. This stock has been building up a substantially potential base area in the 26-33 range since late 1955. Ability to reach 34 would have favorable technical significance. NEWPORT NEWS SHIPBUILDING (42) suffered some selling last week because of a rather pessimistic report in Tuesday's Wall Street Journal on the U. S. Shipbuilding industry. This article points out the current slowdown in the replacement program due to a depressed world shipping market. These conditions, in my opinion, are temporary and in the meantime the present backlog assures a satisfactory rate of operation for some time. Earnings for 1959 should be above the \$4.19 reported for 1958 and the \$2.00 dividend paid in 1958 (35¢ quarterly + 60¢ extra) yields 4.7% at present price level. Stock should be bought on present weakness. NORTHWEST AIRLINES (40 5/8) declined to 39 1/4 during the past week from a recent high of 46 1/8, and also should be bought during periods of market correction. Earnings projections for 1959 still indicate an earnings probability of \$5.00 a share plus, for the year.

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