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TABELL'S MARKET LETTER

May 1, 1959

The days of the straightline advance may well be numbered.

For the first time since October, 1957, the market has shown some initial signs of loss of momentum. This shows up most obviously in ratio of advances to declines. In the week ended April 24, 535 stocks advanced in price, and 741 declined. This ratio was maintained on daily figures last week. This simply indicates that it is becoming more and more difficult to select issues that are in an advancing phase, a typical characteristic of a mature bull market. At this stage, the careless investor begins to find that it is possible for poorly-chosen stocks to go down as well as up.

This is not to imply that the bull market is over. The analogy of the current market, and that of 1955, has been drawn before, but it bears restating. By the middle of 1955, the Dow-Jones Industrial average had reached a high above 470, and was still to advance to its ultimate high of 524. However, the period between mid-1955 and mid-1957 saw many wide swings of more than 10% in the averages, and in addition many stocks topped out a long time before the averages reached their peak. This could happen again. The other side of the coin is, of course, that many stocks had worthwhile upside moves in the 1955-1957 period. The job of the analyst today is to select such stocks.

One clue as to a possible investment opportunity may be gained from the recent action of the rail group. As most investors are aware, the Dow-Jones Rail average has refused to follow the Industrials into new high territory and is still below its 1956 high of 182. During the past two weeks, action has been more encouraging. Last week while the Industrials declined, the rails held reasonably firm. From a fundamental point of view, it would be unusual for an industrial recovery of the current magnitude to take place without concurrent sharp improvement in the earnings of the better railroads.

One rail on our recommended list is CHICAGO, MILWAUKEE, ST. PAUL & PACIFIC (26 3/8). Both 1958 and first-quarter results for this company were surprisingly good. For the year, per-share earnings improved to $2.73, despite a decline in operating revenues. In the first three months of 1959, net railway operating income increased to $1.75 million from $22,000 in 1958. Net loss for the carrier, which produces most of its earnings in the Summer months, was chopped to $720,000 from $1.8 million. On this basis, it seems plausible to expect that the post-war earnings peak of $3.27 in 1955 will be surpassed in 1958 — perhaps by a comfortable margin.

Another stock on our recommended list which has been temporarily weak is NORTHROP AIRCRAFT (39 1/2). Investors who seem to be willing to pay almost any price for "glamour" electronic stocks have as yet failed to realize that almost two-thirds of Northrop's sales fall into this category. The fact that the company's Snark program may come to an end in 1960, has been much overdone, and new programs are expected to take up the slack. At current levels, the stock is available for slightly over nine times last reported annual earnings, despite the fact that these earnings should increase in the fiscal year to end July 1959.

As time goes on, and stocks on our recommended list advance it becomes necessary to make deletions in order to make room for new canditates, HERCULES POWDER originally recommended at 48 1/8, closed this week at 70 1/2. The stock has an objective of an initial 78 followed by a longer-term possible 95, but as the initial objective has almost been reached, it is being dropped from our list. Meanwhile, despite the fact that one major company cut its dividend last week, favorable patterns have been building up in the aluminum group. KAISER ALUMINUM (41 3/8) has been building up a strong long-term base in the 48-22 area, and ability to reach 49 would indicate considerably higher levels. U.S.FOIL"B" (50 1/4), the holding company for Reynolds Metals, has also built up a favorable pattern. Both these stocks are being added to our recommended list.

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