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TABELL'S MARKET LETTER

May 8, 1959

The market suffered its sharpest break in some time on Thursday as the Dow Jones Industrials plunged 8.75 points and reached an intra-day low of 611.68. A rally starting late Thursday afternoon carried through into Friday's market and most of the lost ground was regained.

As has often been the case, the decline took place quickly. The downside objective of the top formed by the Dow-Jones Industrials was 615-612, just about the level reached at Thursday's low. Significantly enough, during the decline, the rail average did not break out of the trading range in which it has held since the beginning of 1959.

For the past few weeks this letter has tried to characterize the present market by drawing an analogy to the market of mid-1955. This comparison becomes more interesting as it is examined closely.

From a low of 254.4 in September 1953, the Dow-Jones Industrials started a straight line advance which was interrupted by only three minor corrections. A 4.4% drop took place in January 1954. This was followed by a 5.4% drop in August and a 4.4% drop in October. These minor down-swings were the only important corrections which took place during the period.

For most weeks during 1954, advances sharply outnumbered declines, and in the few weeks where this was not the case, the two figures were practically equal. There were seldom more than 5 or 10 new lows for the year in any week, and new highs often numbered as many as 200 a week. It was hard not to own at least a few stocks that were acting well.

As 1955 began, the swings became wider. The Dow average dropped 6.5% in January. Two months later, in March, an 8.1% drop took place. The rise continued through the summer, but in September and October, a decline of 10.8% took place.

All this time the bull market was beginning to show some signs of loss of momentum. In March 1955's drop, for example, 362 new 1954-5 lows were made during the week of March 14-18. In the previous week only 200 stocks had advanced while 1173 declined. In the September correction, 1183 stocks declined during the week of September 26-30, vs. 184 advances. Two weeks later, 200 new 1955 lows were posted. It is obvious that many of the stocks that were making new lows at this time continued declining as 1955 went on.

The sequel, of course, is well known. The market eventually made a new high reaching 524.37 in April 1956 and holding in a range between these levels and 453.07 for fifteen months. During the entire period action was extremely diverse, with many individual issues acting well and others acting very poorly.

How does this action compare with the current market?

So far, the upswing which started in October 1957 has been underway 18 months. The previous bull market lasted 30 months between low and high. The first signs of internal weakness, as noted above, took place in March 1955, 17 months after the start of the bull market.

Significantly, the same signs have begun to manifest themselves. For the past two weeks, declines have outnumbered advances. For the week ended May 4th, 122 new 1959 lows were posted. If the similarity continues, what type of market action may be expected? Probably, something on the order of the following:

1. The averages will continue on into new high ground.
2. However, wider swings will take place, and broader corrections than those experienced so far may be expected.
3. It will still be possible to acheive capital gains in selected issues, but the number of issues in uptrends will be decidedly smaller.
4. The number of stocks acting poorly will increase sharply.

It would thus appear that the time again has come to separate the men from the boys. Losses will become more prevailent, and stock selection will again be the sine qua non of investment success.

EDMUND W. TABELL
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