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TABELL'S MARKET LETTER

June 12, 1959

In the short span of seven trading days, the Dow-Jones Industrials covered almost the entire range of the 650-610 area that I have recently suggested as the probable trading zone for the next few weeks. From a June 1st intra-day high of 648.65, the average plummeted downward to 613.11 on Tuesday and then sharply recovered to 634.14 on Thursday. I would expect less volatile action for the near future with the Industrial average continuing to hold within the rough confines of 650 and 610. A continuation of a consolidating phase for some weeks would be a constructive development from a technical viewpoint and would correct some of the speculative excesses that have occurred over the past few months. When the advance is resumed, probably new groups will be among the leaders.

Since business reached its recession low in April, 1958, and the stock market reached its low six months sooner in October 1957, a perennial question has been, "How much longer can the business and stock market recovery continue?" A glance at history should show us that we are still in the relatively early stages of the business and stock market cycle.

In March of this year the Federal Reserve Board Index of Industrial production passed its December 1956 high of 146. It had thus required eleven months to stage a recovery from the April 1958 low. It would appear that we are now entering upon the expansion or boom stage of the business cycle in which the FRB Index and other economic indexes go on to new peaks. The length of this stage in previous business cycles since 1922 has been extremely diverse, but conservatively, it would seem reasonable to expect a continuance for at least another ten to twelve months with a further expansion of at least 5% in the FRB Index. There is ample precedent for a move of even wider amplitude and duration.

Further evidence that the business recovery is still in its infancy is provided by the action of economic indicators which usually tend to lag behind the business cycle. For example, installment credit and bank rates have passed their July 1957 pre-recession levels, but not as yet by any great extent. Manufacturers' inventories -- despite the threat of a steel strike -- are still some 7% below the July 1957 level. In practically every previous business upswing the advance in these indicators has been considerably sharper before the end of the cycle took place.

Historically, the stock market has tended to top out before business reaches its peak. However, as mentioned in our letter of March 9, 1959, a study of fourteen bull markets since 1885 indicates an average duration of thirty months and an average advance of 111%. To date, the market has advanced only 56% in eighteen months.

It would thus appear, on an historical basis, that the advancing phase of the market is not yet over. The question arises -- "What securities or groups of securities will be the best media for participation in a further advance?" A glance at the thirty stocks in the Dow-Jones Industrial average points out a few interesting facts. Of the thirty stocks now in the average, only sixteen are above their 1955-57 peaks. The remainder are considerably below these peaks, with declines of as much as 35%. Of the stocks in the average during the advance (the composition of the average was altered last week) five stocks had advanced from 37% to 78%. They were: General Foods, Corn Products Refining, Eastman Kodak, Goodyear Tire and Procter & Gamble. As can be seen, these issues are largely identified with the consumer or soft goods fields. It is this group which caused the new highs in the averages, not such heavy industry issues as Chrysler, American Smelting, Standard Oil of New Jersey, United Aircraft and International Nickel which are 17% to 35% below their 1955-57 highs. Since capital goods expansion normally takes place during the latter part of an advancing cycle, capital goods and heavy industry securities would seem logical candidates for further advance since they are relatively underpriced as compared to the averages. Among groups in this category favored by this letter are: Aluminum, Cement, Chemicals, Electrical Equipment, Machinery, Machine Tools, Non-Ferrous Metals, Rails, Steel.

Other groups appearing attractive are: Airlines, Fertilizer, Soft Drinks and Textile issues.

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