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TABELL'S MARKET LETTER

June 19, 1959

The market successfully met the first test of the June lows with both the Industrials and Rails holding above last week's lows of 613.11 and 159.68. An encouraging development was the sharp drop in volume. Trading on the decline on Monday and Tuesday was at the lowest rate since last August. However, there was only a mild increase in trading during the rally days of Wednesday and Thursday.

The market is going through a technical readjustment brought about by over-speculation in some of the electronic and "space", and land speculation stocks. This has been evident by the weakening breadth-of-the-market statistics for the past several weeks. So far, the correction of the gyrations in these over-exploited issues has been brought about without any great harm to the better grade stocks.

Outside of the wide price movements in the type of issues mentioned above, the general market has done very little pricewise since mid-April. The Dow-Jones Industrials have fluctuated in a range of about 6% with a June high of 648.85 and a May low of 611.88, which has held despite the decline of the past two weeks. Technical patterns indicate that probably some further correction is needed in some of the over-exploited issues. If such action has as little effect on the rest of the market as it has had so far, I would expect a prolongation of the consolidating period with the Industrials continuing to remain in approximately the 650-610 range. During such a consolidating period, the diverse price movements of individual groups and issues will continue, as witness the excellent action of the steels and aluminums during the past week as compared to the disappointing action of the oils and utilities. This selectivity will continue. It is interesting to note what has happened to two of the world's largest corporations since the October, 1957 lows. The Dow-Jones Industrial average has advanced from 417 to 648, or roughly 55%. If an investor bought U.S. Steel at 50 at the approximate October, 1957 low, he would have 100% profit at yesterday's high of 100. If he had bought Standard Oil of New Jersey at the approximate 1957 low of 50, he would be just about even at today's closing price despite the sharp price advance in the averages since that time. Ability to forecast the swings in the market will continue to be of only academic interest unless the "right" stocks are bought or sold.

I continue to believe that the market will consolidate for some further time in order to correct some of the speculative excesses of the past several months. With business pattern still improving, the low will probably be around 610. Unexpected unfavorable news developments might bring the market back to the 580 level for a full one-third correction of the 230-point advance of the October, 1957 lows. This appears doubtful at the moment. During this period, I would expect above average action by the groups mentioned in last week's letter. These are mainly in the heavy industry and transportation classification.

The rails have built up a very interesting potential. They have done nothing marketwise for over five months. The range in the Dow-Jones Rails has been a low of 157.20 in February, and a high of 171.35 in May. Either this formation is a consolidating period prior to a further rise, or a distributional top. With the improving business pattern and improving carloadings, the latter alternative appears unlikely. Also, the rails are still reasonably priced and are selling below ten times expected 1959 earnings to yield over 5% in many cases. The few breakouts of this five-months trading range that have occurred have been on the upside, as witness the recent new highs in Northern Pacific, N.Y., Chicago & St. Louis and Minneapolis & St. Louis, and this week's upside breakout of Southern Pacific. Ability of the average to decisively break out on the upside would be a very constructive development and indicate at least 185 or more for the nearer term. Probably the market is waiting for a clearer view on the possible duration of the steel strike which would, of course, have an important effect on carloadings. Only rail on my recommended list is Chicago, Milwaukee, St. Paul & Pac. (28 3/4). Its breakout point is 31. Other potentially attractive rails together with breakout points are: Atlantic Coast Line (58) at 64, Baltimore & Ohio (45) at 48, Chesapeake & Ohio (71) at 75, Kansas City Southern (81) at 89, New York Central (27) at 31, and Western Pacific (78) at 82.

Dow-Jones Industrials: 629.76
Dow-Jones Rails: 164.21

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