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TABELL'S MARKET LETTER

July 17, 1959

Uncertainty about the duration of the steel strike will probably call a temporary halt in the recent stock market upturn and result in a broad trading shelf in the averages for a period of time. During this period, individual issues will pursue their own independent courses as dictated by earnings, new developments, etc. As far as the averages are concerned, the Dow-Jones Industrials will probably meet support at around the 650-640 level as compared with the recent high of 668.26, and the Rails should meet support in the broad 170-157 area in the Rail average in which they have held for six months until the recent mild upside penetration. The eventual emergence of this contemplated trading range in both averages will be on the upside with short term timing dependent on developments on the labor front. During the current irregularity, I would add to holdings in groups with favored long term technical potentials and showing the best relative strength patterns at the moment. Such a classification would include selected issues in groups such as airlines, aluminum, chemical, coal, electrical equipment and electronics; liquor, machinery, meat packing, movies, railroads, soft drinks, steel and textiles, and other miscellaneous issues mentioned in my various technical studies.

To many investors, the past two or three years have been puzzling ones. It has appeared that on the basis of all traditional yardsticks, the stock market is terrifically overvalued. Perhaps a look at the broad pattern of growth trends, market evaluations and price movements might be of value in clarifying the present position of the market.

The long term major trend of our economy, and, therefore, of stock prices, is toward higher levels. This basic trend will remain in force as long as America continues to grow and there is no reason to believe that there is any change in this long term growth concept. The investor who has continuously invested in the common stocks of a broad segment of American industry has fared very well over the years.

Unfortunately, this long term upward movement in stock prices has not been a straight line progression. There have been many interruptions as witness 1929, 1937, and to a lesser extent, 1946 and 1957. These interruptions, and subsequent advances, cannot be entirely explained by changes in earnings and dividends and bond/stock yield ratios. If these yardsticks were the only reason for price movements, all the successful investor would need would be a slide rule and an adding machine.

Stock prices are influenced by four factors. Three of these are fundamental and basic. They are: earnings, dividends and money rates. The fourth factor, and sometimes the most important, is very intangible. It is a thing called investor confidence. Investor confidence is that intangible thing that makes a stock earning $5.00 a share sell at $125.00 a share, or twenty-five times earnings, when investor confidence is high, and makes the same stock still earning $5.00 a share sell at $35.00 a share or seven times earnings when investor confidence is low. Investor confidence is impossible to measure by figures. It is an emotional something that cannot be put down on paper. Perhaps the best approach to how investors feel at a given time period is by watching the technical action of the market. That is why I maintain a library of 2000 graphs of individual issues and breadth-of-the-market studies.

At the moment, investor confidence is extremely high. Immediate earnings and dividends are not important. Many stocks are selling today on the basis of what they will earn several years from now, and the investor is confident that earnings will be higher. This confidence has not always been with us. In the 1948-1950 period, blue chip issues like General Electric sold as low as seven times earnings to yield over 7%. Earnings were improving, but investors did not believe the improvement would last. Investor confidence was low and everybody was waiting for the usual post-war depression that never happened. Technical market action during the 1946-1950 period built up the huge accumulation patterns that resulted in the present rise.

At the moment, investor confidence remains high. Until something happens to change this intangible factor, the stock market can and will move higher. As I have stated before, I believe the stock market is in the final phase of the advance that started in 1949. There are no technical indications as yet that this final phase has ended.

Dow-Jones Ind. - 657.13
Dow-Jones Rails - 166.95

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