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TABELL'S MARKET LETTER

December 30, 1959

As the end of the year arrives economists, security analysts, and financial writers are issuing forecasts for 1960. The most interesting thing to note about these forecasts is their unanimity. Most analysts appear to be looking for new highs in the 700-750 range to be made sometime in middle or early 1960, followed by a reaction in the latter half of the year. From a technical point of view, this forecast seems plausible, and it has been the view adhered to by this letter.

A forecast is of little value, however, unless it aids us in determining investment policy. In determining such policy, it is necessary to realize that the market is not a one-way street -- that it can go down as well as up. If, indeed, the Dow-Jones Industrials do advance to 750, this would constitute a gain of some 12% from current levels. Considering the fact that the market has already advanced some 300% since 1949, and is statistically rather high, a possible 12% advance seems somewhat picayune when measured against the downside risk inherent in a great number of stocks. Admittedly, the outlook for certain individual issues appears much brighter than that for the averages. After a ten-year bull market, however, a good deal of risk must be said to be present.

This risk is underscored by the rather desultory breadth-of-the-market action in recent weeks. The market definitely appears to be losing upside momentum and this loss, combined with the factors mentioned above, certainly constitutes a caution signal. It must be noted, however, that the unfavorable breadth figures may be distorted somewhat by tax loss selling and by higher money rates. For example, on Tuesday, December 29th, there were only seven new highs versus some forty-five new lows. Of these forty-five new lows, however, twenty-five were preferreds which move in response to interest rates.

The effect of tax selling on breadth action is more difficult to measure. However, as this letter has previously noted, its effect at the end of each of the past twenty years has produced a pattern of market action which can be helpful in determining the course of stock prices during the following year. In this connection, a number of facts are worthy of note.

(1) In each year since 1935 there has been a year-end rally starting in December and carrying through into January of the following year.

(2) If the market has been higher for most of the given year, the December low is usually reached early in the month. The reverse is usually true if the trend has been down. This was the case in 1957 when the low was reached on December 23rd, whereas in 1958 the low was reached on December 3rd. This year, the low in the Dow-Jones Industrials was reached on December 3rd, and on Standard & Poor Stock Index the bottom was reached on December 1st.

(3) In every year since 1937, an advance of 10%, or more, from the December low has indicated an up market in the following year.

(4) Since 1937, the December low, if ever broken, has always been broken before mid-March-- usually in early January. Thus, the December lows of 658.48 in the Dow-Jones Industrial average and 62.70 in the Standard & Poor Index become important figures to watch. The longer the market holds above these lows, the more likely an uptrend for 1960 becomes. If the market could move 10% above these lows -- to some 725 in the Dow-Jones Industrials, and to 69.00 in the Standard & Poor Index -- the likelihood of an uptrend market is even greater. If, on the other hand, the lows should be broken in January, extreme caution would certainly be indicated.

A VERY HAPPY NEW YEAR TO ALL FROM MYSELF AND THE STAFF.

AWT:amb

EDMUND W. TABELL
WALSTON & CO. INC.

Dow-Jones Ind. 676.97
Dow-Jones Rails 154.02