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OFFICES COAST TO COAST AND OVERSEAS

TABELL'S MARKET LETTER

February 5, 1960

After two days of rally that carried the Industrial average back to an intra-day high of 640.30, the market drifted lower for the rest of the week. Friday's intra-day low was 623.63 as compared to last week's low of 619.51 and the September low of 613.30. There is no change in the unfavorable action of my breadth-of-the-market indicator.

I am always suspicious of unanimity of opinion. In the past several months there have been three almost unanimous forecasts by economists, analysts and news commentators -

(1) At the year-end there was an almost unanimous opinion by government and business economists that business would reach new highs in the first half of 1960 and then level off in the last half, and that the 1961 outlook was doubtful. (2) Most stock market analysts in their year-end forecasts believed the stock market would reach its high in the first half of 1960 at the 700-750 level and that the year's lows would be reached in the second half. (3) In the last two weeks, almost every newspaper, business magazine and business service has had a feature article on either the wavering bull market or the end of the bull market.

In my opinion, there is a pretty good chance that all three of these forecasts could be somewhat off base. The business pattern might not be as optimistic as expected in the first half of 1960, but could hold up well into 1961. In my letters and addresses in October and November, I also expressed the thought that the averages could reach 700-750 in the first half of 1960 and then react. The fact that everyone else seemed to have the same opinion made me rather uncertain, and when the breadth-of-the-market indices failed to move ahead with the stock market averages in December, I became extremely cautious. The way it looks now, the market could very possibly double cross the experts and make its low in the first half of the year and its high in the second half. As far as the end of the bull market is concerned, maybe we saw the highs in the averages in August, but it would be rather unusual to have a market reach its top at a time when many people are uncertain about the future. Bull markets usually end during a period of unbridled enthusiasm.

I have expressed the opinion for quite some time that the advance that started in October, 1957 is the fifth and final phase of the long term advance from the terrific undervaluation that existed at the 1949 lows. When the move is completed, it will be followed by a long and lengthy consolidation period before a broad overall advance resumes. This period could be quite similar to the 1946-1949 period when the averages held in a narrow 15% trading area for three years. When the low is reached, it will probably be around the 550 level. When the low will be reached is problematical. The upper limit of the range could be around the 700 level. It is entirely possible that three years from today the averages will be right where they are today, but possibly with stock A twenty points higher and stock B twenty points lower.

This hardly fits the concept of a classical bear market, but it must be realized that swings in the stock market have been narrowing in recent years. The yearly range from high to low was over 44% in pre-war markets and has narrowed down to 19% in the past ten years. Selectivity has increased. Holders of quite a few blue chip industrial stocks might question the fact that the Industrial averages have been in a bull market for the past several years. You might have bought a very good growth stock like duPont at 250 in July, 1955, and almost five years later found it was selling at 235 despite the fact that the Industrial average has moved from 460 to 625. On the other side of the picture, the averages declined 20% in 1957, but holdings in utilities, drugs, food chains and tobaccos would have shown a good profit. In the market I envision for the next several years, stock selection will be much more important than ability to catch the moves in the averages.

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Dow-Jones Ind. 626.77

Dow-Jones Rails 151.50

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