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TABELL'S MARKET LETTER

March 4, 1960

In the emotional climate of Wall Street, it is very easy for the most objective of analysts to be swayed by near term market action. From February 17th to the beginning of this week traders were becoming progressively more optimistic as the market rallied from a low of 603.24 to a high a week ago of 636.30. This week saw five consecutive days of market decline and the atmosphere of hope turned abruptly to one of gloom and doom. Fuel was added to the flames of pessimism by a rather questionable "Dow Theory" bear market signal purportedly caused by a new low in the Dow-Jones Rail average on Thursday. As the Industrials, after reaching an intra-day low of 600.36 on Friday, rallied sharply in the last hour of trading and erased most of the losses, optimism again began to run rampant.

Despite all these near term swings, the one point which must be emphasized is that this letter's thinking concerning the market has changed not one iota since early January. At that time it was pointed out that breadth-of-the-market action was deteriorating and that prudent investment policy dictated the sale of unfavorably situated holdings and the accumulation of a cash reserve. It has never since been recommended that this cash reserve be reinvested, nor is it so recommended now. For us to make such a recommendation, one of two things would have to take place. Either the market would have to approach the 572-550 level, which has previously been suggested as a possible downside objective, or it would have to hold around current prices with breadth action improving. Until one of these two courses of action takes place, a cash reserve position should be maintained.

For the investor who failed to establish a reserve at a higher level, the market is currently rather low to consider aggressive selling. The ultimate downside objective of 550 is, of course, only less than 10% below current levels. A thin margin such as this gives little room to turn around except on a trading basis.

Despite the recent desultory action of the rails, it still seems to make a good deal of sense to consider stocks in this group for possible purchase on further market weakness. The Dow-Jones Rail average closed Friday night at 141.83. A count across the distributional top formed in early 1959 gives a downside objective somewhere in the 137-133 range, - around 5% under current levels. In terms of the Standard & Poor's Rail Index, which closed Friday at 30.57, the downside projection is 29. Individual rails are also close to downside objectives. The list which follows gives the closing prices of a few rail equities, together with downside potentials based on chart action. In most cases, these potentials are intermediate term while long term patterns can be interpreted to indicate much higher levels.

	Downside Potential	March 4, 1960 Close
Atchison, Topeka & Santa Fe	24	24 1/8
Chicago Great Western	34	34 1/2
Northern Pacific	40-35	42 1/8
Denver & Rio Grande Western	15	16 3/8
Great Northern	47-43	45 1/4
Southern Railway	42-40	45
Western Pacific	19-16	19

Not only are the rails close to support, but if downside objectives mentioned above are reached, they would be as statistically cheap as they have been in some time. A close study shows that at its year's low each year, the Dow-Jones Rail average tends to sell at around 7 1/2 times earnings. Projecting earnings for this average in 1960 at $17-$18, the low of 133 mentioned above would give a p/e ratio of between 7.8 and 7.3.

There is, furthermore, ample reason for fundamental optimism concerning the industry. Without attempting to go into detail, there are several fundamental changes that could, slowly to be sure, result in an improving picture. Briefly, they are (1) a gradual elimination of unprofitable passenger traffic, (2) elimination over a period of time of the more onerous featherbedding practices, (3) gradual elimination of unprofitable branch lines, (4) the sale of costly terminals and stations, (5) the rise of piggy-back operation, and (6) possible savings by mergers. While near term action may be rather slow, selected rails seem appropriate for accumulation on any further weakness and over the long term could show above average investment performance.

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WN 301

Dow Jones Rails 141.83

A W T.BRO