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TABELL'S MARKET LETTER

March 25, 1960

The Dow-Jones Industrials closed lower on Friday after reaching an intra-day high of 627.86 earlier in the week. The average has now spent almost two months in roughly the 600-640 range and could be in the process of forming a base pattern. At the moment, this potential base is not broad enough to indicate an extensive advance. Probably more time will be needed to broaden the potential base. My technical indicators gave short term buy signals at both the February low of 603.44 and the March low of 596.20, but as yet they have not given an intermediate term buy signal. This will also probably require more time. My breadth-of-the-market index, which warned of the market top in early January, has turned upward, but not enough to signal an intermediate term upward trend. The downside count of the top formed by the highs of August and January at around the 680 level indicated, from a technical viewpoint, three possible downside objectives, depending on which type graph was used. One objective was 604. a second was 578, and the third and most pessimistic was 550. The first possible downside objective was reached at the February and March lows. Whether these lows prove to be the lows of the move is not yet certain, but improvement in my breadth-of-the-market index would go a long way toward confirming this possibility.

The rail average has had a sharp recovery from the March low of 137.63 to reach 147.37. This average reached the top of the 137-133 downside indication of the distributional top formed early in 1959. The rail average is now running into heavy overhead supply in the 145-160 area and its action from here on should give some clue as to the ultimate possibility of pushing through this overhead resistance.

The utility average has been the best performer of the three. At this week's high of 88.83, the utility average was back to the January high of 88.55. This is quite remarkable when it is remembered that the January high in the Industrial average was 688.21 and Friday's close was 622.47. Also, the utility average was the only one of the three averages that held above the September low. It is still well below its high of 95.07 reached a year ago.

Actually, the price movements of the averages are more or less of only academic interest. Harold X. Schreder of Distributors Group, Inc. pointed this out very neatly in a recent talk. Despite the fact that the Dow-Jones average of thirty industrial stocks at 625 is 100 points or 19% above the 1956-1957 high of 525, sixteen of the thirty stocks in the industrial average are lower than their 1955-1957 tops. One is as much as 50% lower, and all sixteen stocks are lower by an average of 20%. In fact, only eight of the thirty stocks have actually acted better than the average itself since the 1955-1957 highs, and only four have really accounted for most of the rise in the average. They are: General Foods, Eastman Kodak, Procter & Gamble and American Telephone & Telegraph. Proper selection between two stocks would have been the difference of 100% profit and a 50% loss if both stocks were bought at the 1955-1957 highs.

Regardless of the movement of the various averages, individual selections of stocks will be of considerable importance in a market that will probably hold in a relatively narrow price area for quite some time to come. I envision a possible 700-550 range for the Industrial average for the next few years, with individual issues and groups showing diverse action. Ability to find these issues and groups will be much more important than the ability to forecast the swings back and forth in the averages.

In the letter of March 11th, we tabulated the groups that have acted better than the market since the September lows. You will note that most of the groups fall into two categories. The first category includes electronics, radio-TV issues, electrical equipment and office equipment. These are mostly "glamor" type groups in new industries with a vast growth potential. They are all selling at high price-earnings multiples. The second category includes telephone, soaps, soft drinks, food, tobacco and utilities. These are more or less defensive type issues selling, in most cases, at relatively reasonable price-earnings ratios. In the March 11th letter we also listed the groups that have been acting worse than the market. In this category you will find steel, automobiles, aluminum, oils, papers, rubbers and chemicals. It is interesting to note that many of the stocks in the "Favorite Fifty" of institutional investors are to be found in these groups. This might indicate an important switch in investor preference.

EDMUND W. TABELL

Dow-Jones Ind. 622.47
Dow-Jones Rails

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