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TABELL'S MARKET LETTER April 1, 1960

There have been many forecasts concerning the shape of the economy in the 1960's. One cynic has said that, if we are to believe what the stock market is telling us about the next decade, it will be one in which everybody spends their working life pushing buttons on computers, quitting at 3 o'clock, going boating, taking pictures, and bowling in the evening. While this may or may not be the trend of the economy, it is certainly a fairly accurate description of how the stock market has been acting in recent months.

While the electronics, "super-growth", and "leisure time" issues have been skyrocketing, the performance of the rest of the market, including many old-line favorites, has been rather desultory. Recent study of relative strength charts shows that the following groups are all acting worse than the market as a whole: Aircraft manufacturing, air transport, aluminum, auto, chemical, copper, drug, industrial machinery, international oil, paper, and steel. This type of action is of a special significance when it is realized that, included in the above categories, are most of the classic growth stocks which have tended to outperform the market ever since 1949 and which constitute the backbone of most investment portfolios, both individual and institutional. If the shift in investor preference which has become marked in recent months continues, most investment portfolios will have to be drastically revised if below average results are not to be expected.

Beside the electronics and leisure time companies, another group of stocks has also tended to act better than the classic favorites in recent months. This includes a number of more solidly based, if less spectacular groups, such as grocery chains, variety chains, soft drinks, meat packers, tin cans, foods, tobaccos and utilities. An attempt to demonstrate the possible reason for this shift in preference was made in our letter of February 19, 1960 which compared American Tobacco and Union Carbide. In this letter it was pointed out that, in the period 1954-1959, while American Tobacco's earnings had grown just as fast as Union Carbide's, its price had risen only half as much. The shift away from the "favorite fifty", therefore, may well indicate that price-earnings ratios of these companies have already become high enough to discount their long term growth possibilities and that investors are seeking securities with equally good growth prospects, which are available on a cheaper basis in relation to earnings.

This letter has, recently, tried to point up securities in this category. Two weeks ago we suggested the attractiveness of the grocery chains. Leading equities in this group are available at 16-17 times earnings, despite the fact that earnings of many companies have increased at ratios from 10% to 20% annually over the past ten years and this growth can be expected to continue. Ferro Corporation, which has been on our recommended list for some time, is available at only 8-9 times estimated 1960 earnings, yet not only is the company's basic business, porcelain frit, growing as the architectural shift to curtain wall construction continues, but it is also the largest supplier of molded fiberglass to the boating industry.

Other stocks could also be mentioned. Soft drink companies are still selling at ratios which seemingly ignore the fast expanding teen-age market of the next decade; variety chain stock prices seem to be largely ignoring the potential inherent in store modernization programs and expanding foreign markets; utilities have done little marketwise recently although the growth trend many companies have shown is expected to continue.

In short, the 1960's may well be a decade in which growth will turn up in hitherto unexpected places. The successful investor will be the one who foresees these areas of growth and who purchases stocks in a position to participate therein at bargain basement prices.

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