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TABELL'S MARKET LETTER

May 20, 1960

Despite the incredible performance of Khrushchev in Paris and the possible consequences therefrom, the events of the past ten days have not greatly altered the technical pattern of the stock market. The Dow-Jones Industrial average still remains within the confines of the 637-596 range in which it has held since February. At the 596 low, the industrials had reached the first of three possible downside potentials outlined by the August-January double top at the 683-688 level. The first downside potential was 604. The others are 578 and 550. The first intra-day low was reached in March at 596.20. It was successfully tested early in May at 596.61. The top in the rail average, formed at the 174-170 level in the first half of 1959, indicated a downside potential of 137-133. A low of 136.29 was reached earlier this month. The utility average has a somewhat different pattern. The low in this average was reached as early as September, at 84.64. This low has been successfully tested on four occasions, and in March of this year the downtrend line from the March, 1959 high of 95.07 was penetrated on the upside.

It thus becomes a possibility that the general market has reached its low. This would become more positive if the breadth-of-the-market index improved. This index turned down in April, 1959 considerably ahead of the general market averages. It became quite bearish in December just before the Dow-Jones Industrial average reached its high. Since January, the index has moved with the market whereas it had previously been acting worse than the market. This could indicate that an upward reversal in the breadth-of-the-market index could occur shortly. It has not happened yet. While the averages advanced with increased trading activity on the first three days of the week, there were more declining stocks than advancing stocks on each day indicating that the rise was due to advances in special situations (in this case, defense stocks) rather than a broadening-out and improvement in the general list. However, on Thursday, advances exceeded declines and continued action of this sort could result in an upward trend in the weekly breadth-of-the-market index. The daily index is very close to breaking a downtrend line from the January high. On the favorable side also, downtrend lines on both the industrials and rails have been penetrated on the upside. In both cases the downtrend lines descended from the January highs of 688.21 and 161.00.

The potential bases formed on the industrials and rails since the March lows indicate an upside objective of 660-680 on the industrial average and 149-51 on the rails. These objectives could be increased by a further broadening of the potential bases.

Thus the technical outlook remains the same as prior to the events of the past ten days, but technical indications point to an eventual improvement in the breadth-of-the-market index and an upside penetration of the broad trading range in which the averages have held since February.

I have mentioned the rails in several recent letters, and I continue to be impressed by the long term potentials of this group. I believe that there will be continued discussions of merger possibilities that could eventually result in considerable savings for the carriers involved. That, together with increased "piggy-back" operations and the elimination of the unprofitable passenger operations and terminal costs, could produce some startling earnings improvements. There is also some hope that "featherbedding" pressures will gradually be lessened. Uncertainty regarding strike developments may hold the group back temporarily, but I would suggest accumulating rail issues during periods of minor weakness.

Dow-Jones Industrials 625.24
Dow-Jones Rails 143.91

EDMUND W. TABELL
WALSTON & CO. INC.

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WN 301