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TABELL'S MARKET LETTER

July 15, 1960

Unsettling foreign news resulted in a sharply lower market in the first two trading days. Pressure lifted somewhat in the later part of the week, but the Industrials lost 16.67 points from last Friday's close, and the Rails dropped 3.40 points. The only favorable technical development was the failure of trading volume to increase on the decline. The week's volume was at the lowest level for quite some time.

From a technical point of view, the main trouble with the stock market has been a lack of breadth. This simply means that, despite the action of the averages, there have been more stocks going down than up. This is not a new development. In March, 1959, with the Dow-Jones Industrial average at 610, my breadth-of-the-market index started to decline and the decline has continued without a significant rally in the index in fifteen months. This is despite the fact that the average itself has had several wide price movements between 685 and 600 during this period, and quite a few individual stocks in the electronic and leisure-time field have moved ahead 100% or more. Regardless, the main bulk of the market has failed to move ahead and most issues have declined, some quite sharply. This action has made it extremely difficult for the investor to significantly increase his capital worth unless he had switched out of the "bread and butter" groups, like the aluminums, autos, chemicals, oils, paper, rubber and steels, into drugs, foods and utilities, or into the "super-growth" stocks selling at thirty to fifty times earnings. This is most confusing to the average investor because the first named groups had been the investment favorites of the 1949-1956 rise, the "Favorite Fifty" of the decade. To repeat an illustration used in the May 27th letter - "Evidence can be produced to show that this trend began even before June of last year. For example, at its recent price, the Dow-Jones Ind. average was some 18% above its April 1956 high, yet a $10,000 investment four years ago in equal amounts of DuPont, Standard Oil of N.J., Aluminum Co. of America, and International Paper, would be worth less than $7500.00 today. The price history of other leading equities has been equally desultory.....If our theoretical investor with his $10,000.00 had chosen to divide his investment among such stodgy, defensive issues as American Telephone, General Foods, Reynolds Tobacco and Woolworth, his $10,000.00 would be worth $18,000.00 today, and had he chosen Poloroid, Texas Instruments, Brunswick-Balke, and Zenith (stocks which, it must be admitted, are easier to pick by hindsight than foresight), his $10,000.00 would have grown to the rather astounding sum of $124,335.00."

Is there any technical indication that this confusing price action will change? Actually, there is not. It must be remembered that the major price advance from 1949 is eleven years old and has obviously reached a mature stage of development. The market advance started at a time when the market was grossly undervalued, probably more undervalued than at any time in our financial history. This undervaluation has been corrected, and the market is no longer on the bargain counter. Many stocks are selling at extremely high price to earnings ratios because of the investor confidence that the rate of growth in earnings over the past several years will continue into the future. This could result in some rather drastic declines in individual issues if the growth fails to live up to expectations.

Is the market vulnerable to an extremely sharp decline? I do not believe so. I rather believe that the market needs a lengthy consolidating period. By lengthy, I mean a period of several years. In terms of the Industrial average, it is entirely possible that the 700-750 area will be the upper limits and 550-500 will be the lower limits. Over the next three to five years, the market may traverse this whole range several times. It is possible that On July 15th, 1964 the Dow-Jones Industrial average will be selling at exactly the same spot that it is today, but that stock A may be 50% higher and stock B 50% lower. This will seem a quite startling prospect for the new investor who has been accustomed to the market reaching new high territory year after year, but it is nothing startling to the older investor in the market place.

Dow-Jones Ind. 630.24
Dow-Jones Rails 138.89

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