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TABELL'S MARKET LETTER

September 16, 1960.

Apparently, the most important question confronting the financial world at the moment is whether or not the triple bottom formed by the Dow-Jones Industrial average at 596.20 in March, 596.96 in May and 597.30 in July will hold and, if it does not hold, how much selling will come into the market on the downside penetration. Seeing that Thursday's intra-day low was 598.26, and Friday's low was 598.22, the Industrial average is, in football parlance, holding on the one-yard line. Perhaps a few technical observations might be in order at this point.

(1) In my opinion, whether or not the triple bottom holds is relatively unimportant outside of a temporary psychological effect. Regardless of the opinion expressed in a book that is on the "best seller" list, buying or selling on upside or downside penetrations on "stop orders" can be an expensive procedure, particularly when there are a large number of individuals doing the same thing.

(2) My technical opinion continuously stressed for over a year is that the stock market is in the fifth and final phase of an advance that started in 1949, and is no longer undervalued. Whether the tops have been reached is still problematical. Final market phases are usually quite dynamic and are accompanied by excessive volume turnover in low-priced speculative shares.

(3) This letter feels that the stock market, as measured by the Industrial average, is going to hold in a wide trading range for several years. The upper limit of this range will probably be about 700, with possible upside excursions to the 750 level. The downside potential appears to be 550 with temporary dips to around the 525 level. If the average is to hold mainly between the 700 and 550 level for the foreseeable future, it would appear that the upper third of this range should be used to lighten holdings in undesirable situations and that the lower third of this range, between 600 and 550, should be used as an accumulation area for situations with attractive fundamental and technical backgrounds. New lows in the average might bring in some selling, but, in my opinion, it would be "weak selling".

(4) As mentioned in this letter since January, the technical top formed at the August, 1959-January 1960 top at around 685 had three downside potentials. The first was around 600, which has been reached on four occasions. The other two were 578 and 550. I, therefore, consider the 600-550 area as a broad buying range.

(5) If the March-May-July lows hold, a very sizable potential base will have been formed. The upside potentials will not be ascertainable until the pattern is completed, but the potential would be well above 700. A downside penetration would, of course, destroy the pattern and necessitate a new base in the 600-550 area.

(6) Breadth-of-the-market action has been slowly improving. The fact that this is happening while the market is going down is not at all unusual. For example, breadth action started to deteriorate late in 1956, and the averages continued higher until mid-1957. Breadth started to improve in January, 1958, but the market did not start its advance until four months later. The breadth action started to deteriorate in April, 1959, despite the fact that the advance continued until late July. The failure of breadth to improve in October-December, 1959 indicated the decline that started at the turn of the year. Improving action in the breadth index does not mean that new lows may not be reached by the averages. It simply indicates that the buying appears to be slowly turning better than the selling, particularly on periods of price weakness.

(7) The next advancing phase when it occurs will be selective. For the investment holder, safest purchases today can be found in the issues that haven't advanced sharply, but have a good fundamental and technical background. Issues that fall into this category include: American Viscose (35 1/2), Cluett Peabody (56 3/4), Daystrom (35 3/8), Diamond National (36), Electric Storage Battery (51 3/4), Johns Manville (53 1/4), Singer Mfg. (55 3/4) and Swift & Co. (42 1/4).

For the speculator, suggest a package purchase of the low-priced issues in the August 12th letter.

EDMUND W. TABELL
WALSTON & CO. INC.

Dow-Jones Ind. - 602.18

Dow-Jones Rails - 132.42

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