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TABELL'S MARKET LETTER

October 7, 1960

Last week's market action provided little comfort for either the bull or the bear. On the bullish side, the popular averages did advance, and volume on the last three days of the week when the market moved ahead was considerably heavier than was the case on Monday and Tuesday when the averages were off. A short-term buy signal was registered in the earlier part of the week on a rebound from an oversold condition. Advance-decline figures, however, could have been more impressive, and, on an overall basis, volume was light compared with the trend of recent weeks.

There is, therefore, still no certainty that the September 29th low of 565.49 in the Dow-Jones Industrials will be the final bottom of the current declining phase. It is possible however, to reiterate the thesis with which we concluded last week's letter, namely, that "current weakness provides an opportunity for the purchase of carefully-selected common stocks on a long term basis". In other words, now more than ever, it is a time to forget about what the averages may or may not do and concentrate on attractive investment opportunities. While such opportunities do not appear to be in prolific abundance, they certainly exist. One of the oldest of the stock market's numerous old saws is the one about the best stocks to buy after a decline being those that have acted the best and those that have acted the worst. As is the case with all such aphorisms, this one contains much truth. Along these lines, we can pick out two broad groups of stocks which appear currently attractive.

The first group is composed of stocks which went down little, if at all, during the market break. Selected aircraft-missile shares are an example. Martin Co. (52 1/2) for example, closed at 56 5/8 just before the Dow broke 600. At the bottom of the decline it never got lower than 48 1/4, and the subsequent rebound into the low 50's was sharp and decisive. The stock, currently, is selling for less than twelve times estimated 1960 earnings of $4.60, with improvement projected for 1961. It is entirely identified with the missile-electronics phase of the defense business and has no dependence on the airframe portion which has recently proved so disastrous for a number of companies. While the possibility of cancellation of a major contract, such as that for the Titan weapon system, is a risk that must be faced, this risk would appear smaller than many investors suppose. Meanwhile, the stock has strong support at 45 with an upside objective of 87-97, making the investment odds in favor of purchase rather strong. Other stocks in the defense group appear equally attractive for various reasons, notably, North American Aviation (41 1/4).

At the other end of the scale from the aircrafts are those stocks which have been in private bear markets of their own, some for as long as four years. This includes oils, papers, airlines and railroads, many of which are selling at discounts of more than 50% from their bull-market highs and have come very close to downside objectives. Paper stocks provide a case in point. International Paper (89) has declined from a high of 144 in 1956 to a recent low of 85 1/8. The downside objective, based on the 1959 distributional top, was in the 90-85 range. Current prices mark it at some 14 times projected 1960 earnings at a time when excess capacity in the paper and paperboard industry is slowly being utilized. It would certainly appear that in the mid-80's, its prospects are being rather soberly valued. Other paper companies seem to have a similar fundamental and technical outlook.

It is, of course, not enough to buy stocks simply because they are down from earlier highs. First of all, in issues such as the papers, no bases have yet been formed, so there appears to be no excessive hurry to make immediate purchases. They can be bought, rather, on additional weakness. Furthermore, buying levels should be considered in the light of downside objectives of the original tops. While the papers for the most part were fairly close to these objectives at recent lows, there appears to be the possibility of more room on the downside in many steels and chemicals. Purchase of these issues should be deferred until the pattern clarifies.

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NOTE: My father has asked me to convey his sincere thanks to the hundreds of readers of this letter all over the country who sent him cards and letters during his stay in the hospital. His recovery has progressed normally and he will probably leave the hospital early next week. He will be recuperating at home for a few weeks thereafter. AWT