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TABELL'S MARKET LETTER January 20, 1961

The following is a summary of an address delivered by the writer on Wednesday, January 19th, 1961, to the Association of Customers' Brokers.

The price of a stock is determined by four factors. Three of these factors, earnings, dividends and money rates, are tangible and measurable, and probably 95% of the time devoted to security analysis is devoted to a study of these three fundamental phenomena. However, there is a fourth factor that is intangible, cannot be measured by dollars, percentages or index numbers, but can, for a period of time, be more important in influencing stock prices than the three fundamental factors mentioned above. The fourth factor is investor confidence. It can result in wide extremes in price/earnings ratios, depending on the confidence of the investor in the future trend. In the case of a stock earning $10.00, a low confidence factor might result in a price of 75 or 7 1/2 times earnings, while high investor confidence might produce a price of 250 or twenty-five times earnings. There is no way to measure these ups and downs of investor psychology except by the technical action of the stock market itself.

Despite the fact that the market appears extremely high on the basis of fundamentals, technical factors lead to the conclusion that the stock market averages will move higher in 1961. In fact, 1961 price action will probably be the reverse of 1960 with the lows reached early in the year and the highs late in the year. The low on the Dow-Jones Industrials in 1961 will probably be above 600 as compared with the 1960 low of 565. On the upside, a testing of the 1959-1960 high of 685 is expected with the probability of a new high in the 700-750 range.

For the nearer term, the market has advanced from an intra-day low of 564.23 in late October. Probably some technical correction of this three-month advance is needed. Our upside objective has been the 640-660 level. The recent high was 639.17. After a temporary high is reached in January or February, normal technical action would call for a consolidating period in February and March with a possible downside objective of 625-615, followed by a resumption of the advance to at least a testing of the 1959-1960 highs later in the year.

Breadth-of-the-market action has improved considerably since November and I would expect new groups to take over market leadership. Technical action indicates that the "glamour" issues that were the leaders of 1960 will be replaced by some of the more cyclical groups. We also expect upward price movements in selected issues that have been slowly building up extremely attractive technical patterns over a period of time. The issues listed below have done very little marketwise for several years, but are selling at reasonable price-to-earnings ratios and are yielding 4% to over 5%. The downside risk in these issues appears relatively small as compared to the general market and the upside potential is above average. This group includes Anderson Clayton (38) which has a worldwide operation in cotton, vegetable oils, and food products. Foreign operations are large. Yield is 5.3%. Cluett, Peabody (65) with a yield of 4.2% appears reasonably priced on its Arrow line of men's apparel and its Sanforized Division, but there is an added "kicker" in its Clupak Division and its extensible paper process. Diamond National (41) is becoming a packaging company, and while its past record has been unimpressive, the future is most interesting. Eastern Gas & Fuel (32) yields over 5% and among other reasons has appeal because of its large holdings of Norfolk & Western and Algonquin Gas Transmission. Great Western Sugar (32) is the largest domestic beet sugar producer and should fully participate in the expanding sugar market in the U.S. Yield is 5.0%. Intern'l Minerals & Chem.(38) recently released sharply higher earnings for the second quarter of the fiscal year. World demand for the company's two major products, phosphate and potash, is growing strongly. The company has large potash deposits in Saskatchewan. Swift & Co. (47) is the largest meat packing company in the world and should benefit from the modernization of this industry.

Other attractive situations where yield is low but growth potential is good, include Amer. Potash & Chem. (46), Great Northern Paper (55), Electric Storage Battery (56), Microwave Assoc. (38), National Aviation (28), Pitney Bowes (42), and U.S. Borax (42).

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WALSTON & CO. INC.

Dow-Jones Ind. 634.37

Dow-Jones Rails 142.84