FILE COPY

Walston & Co.
Inc.

Members New York Stock Exchange

NEW YORK • SAN FRANCISCO • LOS ANGELES • PHILADELPHIA • CHICAGO

OFFICES COAST TO COAST AND OVERSEAS

TABELL'S MARKET LETTER June 23, 1961

With trading volume at the lowest levels of the year, the market made little progress in either direction over the past week. The intra-day low of 673.49 on the Dow-Jones Industrials on Monday was followed by a rally to 691.42 by mid-week. The week's low of 673.49 compared with the April low of 671.64 which was reached prior to the new all-time intra-day high of 714.69 in May. The breadth-of-the-market index has flattened out since March and has acted just about the same as the general market. The correction of the overspeculation in the "glamour" issues has taken place so far without too much damage to the general market pattern. The Industrial average has advanced approximately 150 points from the October low of 564.23. A one-third correction of the advance would bring the average back to 665 and a one-half correction would mean a decline to 640. A one-third to one-half retracement would be normal technical action after a temporary overextension of an advance. So far, the market has held above both these points. What has occurred, however, has been a definite loss of upside momentum as revealed by the sharp drop in turnover with short-term traders in the overexploited issues now becoming involuntary "investors".

The technical pattern of the market indicates several probabilities that this letter has been stressing for quite some time. To summarize --

(1) The market is in the final phase of a twelve-year major bull market that started in 1949 and has resulted in a 309% advance in the Industrial average and much wider advances in individual issues.

(2) The Industrial average did not reach its ultimate high for the bull market at the May high of 714.69. The technical indications are that a high will be reached somewhere between 725 (which seems low) and 825 (which seems high). An advance from present levels to the higher objective would be an advance of about 20%. Individual issues obviously could do much better.

(3) After the high is reached, a long consolidating period of several years' duration may take place with the Industrial average in a trading area between 800 and 550. The Industrial average probably will not decline below 500 in the lifetime of any present investor. The October low was 564.23. The 1956 high was 525.

(4) For the shorter term, the market completed the first phase of the advance from the October low in April. Prior to that time the market leaders had been, (a) the defensive groups such as Utilities, Foods, Tobaccos, etc., whose earnings held up or even advanced during the mild recession, and (b) the glamour issues where the reasoning was that immediate earnings were of no great significance when compared to projections or anticipation of continued growth of over the next five years or more. Most of the stocks in these two groups have probably made their highs for a long time to come. There will be exceptions, of course. The leaders of the next advancing phase will probably be found in the more basic but cyclical groups where earnings comparisons have been poor but should, by the third or fourth quarter, become increasingly favorable.

(5) The market will probably remain in a trading area for some further time with the correction of the excesses in some new issues, over-the-counter speculative glamour stocks and other overpriced issues continuing. The distributional tops formed in the Industrial average indicate two possible downside objective zones. One at the 680-670 level has already been reached. There is also a possibility of 665-650, which more or less coincides with a 33 1/3%-50% retracement of the advance from the October lows. In any event, I would consider the 680-650 zone to be a broad buying area. I expect the Industrial average to reach a new high by late summer.

Of course, any general prediction, even if correct, is meaningless unless the right securities are bought and sold. Many issues have probably made their high for the advance. Many others still have a long way to go. Even in the present shorter term consolidating phase numerous issues have reached their lows while others may work somewhat lower. One of the issues in our recommended list, Swift & Co. (39 3/4) has acted poorly since its originally recommended level of 44 1/2, but appears undervalued at present levels. Earnings for the 26 weeks ended April were very poor with a decline to 69¢ as against $1.54 in the same period a year ago. Higher livestock prices resulting in reduced profit margins were the reason for the poor showing. However, livestock population has reached its low and supplies are likely to increase for the next several years. This should be very constructive. Believe the stock should be bought.

EDMUND W. TABELL

Dow-Jones Ind. 687.16
Dow-Jones Rails 139.90

WN 301