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TABELL'S MARKET LETTER

July 21, 1961

The market, as measured by the Industrial average, continues to swing back and forth in a relatively narrow trading area. With the exception of a short period in May and early June when the Dow-Jones Industrial average moved above 700, the Industrials have held in a narrow trading shelf between roughly 700 and 670 for over three and a half months. This is a trading range of less than 5%. While this is true of the Industrial average composed of investment issues, it does not apply to the market as a whole. Some of the "dream boat" issues that were pushed up to unwarranted highs have had declines of 30% to 50% in the same period of time. The fact that the investment sector has held up so well while the speculative excesses of the early months of the year were being corrected is a constructive indication. This action highlights the thought that this letter has stressed since April that the market leadership was changing and that the stocks of larger basic companies would be the new leaders of the remaining portion of the advance.

A breakout of the trading area in which the market has held since April would undoubtedly be of some technical significance for the near term. Ability to reach a new high would indicate a minimum advance to the 725-750 area. A downside breakout of the trading area would indicate a decline to the 645-635 range which would be an approximately 50% correction of the advance from the October low of 565. Rather than being disturbed at such a development, if it occurs, I would welcome it as a buying opportunity for the purchase of sound, well situated issues. I believe the 680-630 range is a longer term buying area similar to the 600-550 area which we suggested as a buying area in the last half of 1960.

The Canadian stock market has also been in an advancing phase since late 1960 and the Toronto Industrial average has had a slightly larger percentage rise than ours. Also, it has held up relatively well because of the absence of some of the speculative excesses that existed in some sectors of our markets earlier in the year. With the Canadian dollar selling at a discount rather than a premium, companies that do not have to purchase raw materials outside of Canada, but sell their product in the United States, are in a position to benefit from the change in the relative valuation of Canadian and U.S. dollars. Canada, like the United States, also seems to be in the earlier stages of a business recovery.

Five Canadian companies are already on our recommended list and the purchase of another Canadian issue, Dominion Tar & Chemical (18 3/8) is now suggested. Listed on the American Stock Exchange, it is one of the larger Canadian companies ($375 million in assets and $330 million in sales). The acquisition of Howard Smith Paper Mills and St. Lawrence Corporation brings pulp and paper to 40% of sales with building materials 35% and chemical-processing 25%. This diversified company should benefit from the long term growth of Canada.

Three other Canadian issues on our list are traded on the American Stock Exchange as well as in Canada. They are Pacific Petroleum (10 7/8), Consolidated Mining & Smelting (24) and Campbell Chibougamau (8). The first company owns substantial oil and gas reserves. In 1960, Pacific Petroleum acquired the Canadian operations of Phillips Petroleum Co. and Phillips now owns 39% of the common shares. This should strengthen management and the company, though speculative, should be an important factor in Canadian oil and gas. Consolidated Mining & Smelting is one of the largest lead-zinc-silver companies in the world. It sold as high as 40 in 1955 and yields 3.8% (subject to 15% non-resident tax). Campbell Chibougamau is a most interesting speculation on the possibility of the company becoming an important copper producer through the development of its Henderson Mine. Gold development could be relatively important.

The other two Canadian issues on our recommended list, Dome Mines (23 1/2) and McIntyre Porcupine (34 5/8) are listed on the N.Y. Stock Exchange. McIntyre Porcupine has moved up a bit from its originally recommended level of 27 3/4, but still has considerable appeal. The company mines gold and silver, but also has a large investment portfolio including 700,000 shares of Ventures, Ltd. Market value of the portfolio was equivalent to $35 a share on December 31, 1960. Dome Mines is an interesting speculation on a possible rise in the price of gold. From a technical point of view, the gold stocks have been building up what may turn out to be potential bases. These issues appear to have a very sizable upside potential and not too much downside risk. The main error could be in timing. The two issues noted above are relatively conservative. Some of the lower-priced Canadian issues could have a much wider percentage appreciation.

Dow-Jones Ind. 682.81
Dow-Jones Rails 224.93

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