

# Walston & Co. Inc.

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## TABELL'S MARKET LETTER

September 1, 1961

As was to be expected, the stock market put on a rather dull performance in the pre-holiday week. A number of issues showed above-average performance, but they were offset by an equal number of stocks that showed declining tendencies.

Despite the fact that the various Industrial averages reached new high territory in August, both market breadth and upside volume are considerably below the peaks reached in April and May and, on a twenty-five-week moving total, there are almost as many stocks declining as advancing. The indiscriminate buying of new issues and glamour stocks in the early part of this year has left its mark on the market pattern, and the fast trading speculative buyers of early Spring have become involuntary "investors" with most of their buying power tied up in issues that are considerably below the highs. The over-speculation in April and May also caused some uncertainty in more erudite circles and has resulted in the confining of purchases to better grade securities with clearer near-term prospects.

The irregular action of the past several months has not been brought about by any great increase in selling pressure, but rather by a diminution of the buying urge. On our shorter-term volume indices, selling volume reached its peak in June-July and has been declining ever since. However, there has been no increase in buying volume. Our ten-week moving total of upside volume is near the low of the year.

If there is going to be any increase in both the speculative and investment buying urge, it should begin to show up pretty soon. Just what will be the cause of an increasing desire to buy is problematical. The obvious answer, of course, is an improving business pattern. Economists are practically unanimous in expecting better business for the balance of 1961 and into 1962. Earnings on the Dow-Jones Industrials for the second quarter of this year will be around \$8.20. This is up sharply from the first quarter earnings of \$5.70. By the fourth quarter it is possible that the Industrial average will be earning at the rate of \$40.00, even though total earnings for the entire year of 1961 may not be above the \$32.30 earnings of 1960, due to the low first half results. Earnings in 1962 could reach the \$40.00 level, or slightly higher.

The question is how much the market has already discounted the anticipated earnings increase. Earnings on the Dow Industrials for the twelve months ended June 30th were approximately \$29.30. At present price levels, the Industrial average is selling at 24.6 times earnings. This historically high P/E ratio is obviously discounting a sharp earnings rise. In 1950, the Dow-Jones Industrial average earned \$30.70, which was just about the same as the earnings of the past twelve months. However, the Dow-Jones Industrials in 1950 sold at a high of 235.05, or at about one-third of present levels. Obviously, the market was greatly undervalued in 1950, but also obviously such undervaluation does not exist today.

This letter has not changed its general market views expressed in this letter for quite some time. It is our opinion that the stock market is in the final wave of an advance that started in 1949 at the 160 level. Our objective is 725-835. The lower part of that level was reached this month at the intra-day high of 730.17. Although some preliminary warning signs have been given, there is no indication as yet that the top has been reached and it is our expectation that the averages will work higher into the 725-835 range. Most of our objectives center around the 750-775 level.

However, it must be realized that the risks are greater as the market approaches closer to what we think is the upside objective. It must also be realized that selectivity will increase. Probably a great many stocks have already reached their highs. For the intermediate term, the groups showing the best relative strength action, which are still some distance from their upside potentials, include: Automobiles, Auto Equipment, Chemicals, Gold, Paper, Rails, Rubber and Textiles.

Dow-Jones Ind. 721.19

Dow-Jones Rails 144.19

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WALSTON & CO. INC.

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