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TABELL'S MARKET LETTER

May 4, 1962

At Tuesday's intra-day low of 655.14, the market became at least temporarily oversold. There were 959 declining stocks on Monday and only 182 advances. This climactic action had been preceded by 837 and 738 declines on the two previous days. Volume on the decline increased to over four million shares on Friday and Monday, and reached 5,100,000 shares on Tuesday. The decline carried down very close to the top of the 650-610 area which, in our opinion, is the lowest possible downside objective indicated by technical work. The breadth index, which has been in a downtrend for a year, obviously reached new low territory. However, this index, which has been acting worse than the market since May, is now acting like the market. This is a necessary prelude to better-than-market action. Of course, no long-term trend change for the better has yet occurred. This will take further time. Since Tuesday's low, the Industrial Average has rebounded back to an intra-day high of 679.20. Normal technical action calls for a one-third to one-half retracement of the 72-point decline from the March intra-day high of 727.14. This would call for an advance to 679 to 691, which has been about reached. Probably at least a testing of the low is needed before a turn in the long-term trend is indicated.

This letter has been cautious since last Summer. We envisioned an extremely selective market with a minimum upside objective of 725 and a possible 750-775. A high of 741.30 was reached in November. On the downside we could see a possible 650. Of more importance, we felt that individual issues could show extremely diverse action with some issues acting much better than the market and others much worse than the market. Our recommendations were concentrated on issues that were showing better-than-market action and we advised avoiding the "glamour and growth" issues selling at extremely high earnings multiples. Thoughts were concentrated on selling on strength.

The decline in the market has changed our thinking. We would now be inclined to be a buyer on weakness. The rally earlier this year enlarged the potential top from 650 on the Dow-Jones Industrial average to 650-610. It is entirely possible that the average will work somewhat lower, but in many individual stocks we have probably seen the worst of the decline. We cannot envision a cataclysmic bear market at the moment. The market became technically vulnerable because of the ridiculous overvaluation that occurred in a great many issues early in 1961. It has slowly been correcting itself for the past year. The correction is reaching a climactic phase. Usually, the market has to find a reason for a needed technical correction. The U. S. Steel-Kennedy fiasco was as good a reason as any. If it had not been that, it would have been something else. Only a somewhat unusual news event was needed to tip the balance.

As far as individual stocks are concerned, the market breaks down roughly into three patterns. In the first group are issues that still indicate fairly substantial declines. This group is growing smaller. In the second classification are issues that have declined substantially and have reached or are close to downside objectives. These issues may need a long time to base out and it is probably wiser to wait until their technical action improves. These issues, however, should be attractive to patient, long-term investors provided that the fundamentals are attractive. In the third category are the issues that have acted better than the market. In most cases, these issues have already built up substantial base patterns over a period of time and are in a position to move ahead when the market climate improves. A list of twenty-two stocks that, in our opinion, fall into this category, was included in last week's letter. They should be bought during periods of market weakness. In addition, we mention Cluett Peabody (43 1/4), Ex-Cell-O (44) Murphy Corp. (23), Northern Pacific (37 1/8) and United Biscuit (44 5/8). All of these issues are on the recommended list. Would also add Container Corp. (26 7/8), Libbey-Owens-Ford (54 1/2) and National Acme (55 3/4) on market weakness.

For long-term speculation we suggest Chrysler Corp. (51 1/8) and Eastern Airlines (23 5/8.

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WALSTON & CO. INC.

Dow-Jones Ind. 671.20
Dow-Jones Rails 140.68