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TABELL'S MARKET LETTER

November 9, 1962

The market is following the expected technical pattern, but the pace of the advance, at least in terms of the averages, has been a bit more rapid than anticipated. Several weeks ago this letter suggested that an upside penetration of the August intra-day high of 622.02 in the Dow-Jones Industrial average would occur around the turn of the year. However, with an advance of over seventy points (or over 12%) in only ten trading days, the Industrials are already very near an upside breakout. The week's intra-day high was 620.06.

The advance so far has been concentrated in the big name stocks which is why the Dow-Jones-Industrial average, consisting of 30 such stocks, is nearer its August high than the broader Standard & Poor's Industrial index which consists of 425 stocks. The August high in the S & P Industrial index was 63.28, and this week's high was 61.91. This selective action is also reflected in our breadth index which is well below the high registered in August. However, an advance brought about by an abrupt change in the emotional background usually starts with an advance in the better known stocks and the secondary issues follow along at a later date. This is the anticipated action at the moment. Breadth indices will probably furnish the clue to the timing and extent of the present advance. On the favorable side, some of the more sensitive breadth indices, such as 25-week moving totals of volume and of advances and declines, have already given a significantly bullish signal. Various shorter term graphs of market action indicate the need of some consolidation at this point, but the intermediate-term pattern still remains the same. We anticipate an advance to the 650-685 level in the first half of 1963. We continue to suggest a basic policy of buying selected issues on weakness.

The important question, of course, is what to buy. Probably this is a time when it is wise not to try to master-mind the market as far as individual issues are concerned. Fashions in stocks change just as fashions in clothes change. In the last few years while the market was reaching the mature stage of the twelve-year advance from the 1949 lows, the search was for the exotic and unusual, and the growth stock theory reached the height of its popularity. The theory of paying a premium for growth stocks is basically a very sound one if it is applied to the right stocks. Unfortunately, there aren't very many real growth stocks. In 1961, there were far too many issues that were classified as growth stocks and did not deserve the title. The growth theory in stocks is comparable to the bikini in the swimsuit field. A bikini looks awfully good on the right girl, but, unfortunately, there aren't too many girls that look good in a bikini. In stock market terms, too many stocks were getting growth multiples in 1961. Probably a more conservative fashion will be popular over the next several years.

This letter believes that the stock market reached a major top in 1961 and a major bottom in 1962, and the sequel will be a long and lengthy consolidation and accumulation area in, roughly, the 700-500 range. This is similar to the pattern formed in the 1946-1949 period which laid the base for the 1949-1961 advance. Once the advance started, the leaders of the first phase of the advance from 1949 to 1956 were big, strong blue chip issues of the type mentioned in our compilation of the 35 largest industrial companies in last week's letter. It is our belief that issues of this type will also be the leaders of the next broad advance. Unlike the market averages, which reached their highs in November, 1961, many of these blue chip issues reached their highs in 1956 to 1959 and have done little marketwise since that time. The leaders of the latter phase of the 1949-1961 period were largely in the consumer goods field. The last important capital goods boom was in the 1956-1957 period. By 1965, the need for capital spending will be more apparent, and the leaders of the advance in the market will probably include the kind of company, such as General Electric, which benefits from a high-volume, durable goods economy. Accompanying such a rise will, of course, be the good, sound growth companies, but the number will be smaller than in the recent past.

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Dow-Jones Ind. - 616-13
Dow-Jones Rails - 126.05

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WN 301