

TABELL'S MARKET LETTER

January 4, 1963

We see no reason to alter the advice given in our letter of December 21st which said - "Our technical objective for the price advance from the October low of 549.65 was the 650-685 level. The lower part of this range has been reached, but we believe the Industrial average will move above the early December high during January. A sizable number of technical patterns on individual stocks suggest moderately higher price levels, and no distributional top pattern of importance has as yet been built up. Market strength in January should be used to lighten commitments in issues with below-average prospects."

The Dow-Jones Industrials have penetrated the December intra-day high of 658.76 to reach a high of 665.66 on Friday. Breadth-of-the-market action remains good and there is still no indication of any distributional top. The market still appears able to advance closer to the heavy overhead supply in the 685-740 area in which the market held for over a year between May 1961 and 1962. We would use periods of strength to eliminate issues with unfavorable long-term prospects.

As we have mentioned in previous letters, we expect 1963 to be an inside year with the market, as measured by the averages, reaching neither a new high nor a new low as compared to 1962. This suggests a broad trading area in which the action of individual stocks will be much more important than the action of the various averages.

The market has now recovered over 60% of the 215-point drop in the Industrial average from 740 to 525. This is about the expected normal technical recovery after a decline of the proportions witnessed in May and June. For the market to advance further will require a powerful stimulant. On the business front, there appears to be no indication of an increase in earnings in 1963 of sufficient proportions to generate a new bull market. The one factor that could change the picture is tax reduction. In our opinion, the importance of this factor cannot be overemphasized. The only question is timing. The chances appear to be no better than even that important tax reductions will take place in 1963. The chances for 1964 will be much better. If no important tax legislation is enacted in 1963, the market will undoubtedly continue to move back and forth in a wide trading area between roughly 700 and 600. This wide trading area will ultimately become the base for a broad advance in 1964 and 1965. This fits into the technical pattern. The base formed during the past six months is not substantial enough to suggest new highs until the pattern is substantially enlarged. This will probably require a longer period of backing and filling. While this is true of the general market, many individual issues have already formed base patterns that require no further work. This is particularly true of the cyclical-type issues that reached their highs in 1956 to 1959, and have been gradually basing out for a number of years. Purchases should be concentrated in this group.

Why is tax reduction so important? A quote from the December 29th issue of Business Week explains this nicely. After noting the excess capacity that exists in most industries since 1955, the article says - "What has caused demand to grow so slowly that the nation's industrial capacity has been underemployed for half a decade?"

"The chief culprit, virtually all economists now agree, has been a tax system constructed to fight inflation during World War II and reinforced during Korea. But by 1957 the U. S. economy had moved out of the so-called 'postwar period' when private demand for all sorts of goods - especially autos, housing, appliances - seemed insatiable, into a period when private demand flagged. The tax system constructed for earlier needs imposes excessive restraint on this later economy."

"The U. S. tax system has been hailed as our most important 'automatic stabilizer', a powerful check on recessions. Increasingly, economists have come to see that the tax system is also a powerful damper on expansions."

"For instance, from the spring of 1958, the trough of that recession, to the spring of 1960, the peak of the expansion, GNP climbed 15%. But tax revenues climbed 29% - twice as much as the rise in incomes. Thus taxes cut heavily into final demand for goods and services, causing the expansion to lose momentum and finally fade out. Again, in the Kennedy years, GNP rose 11% from first-quarter 1961 to third-quarter 1962 - but the tax bite increased 18% -- again nearly twice as fast."

Dow-Jones Ind. 662.23
Dow-Jones Rails 147.51

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