Walston & Co.
Inc
Members New York Stock Exchange
NEW YORK • SAN FRANCISCO • LOS ANGELES • PHILADELPHIA • CHICAGO
OFFICES COAST TO COAST AND OVERSEAS

TABELL'S MARKET LETTER February 15, 1963

Again last week the great majority of stock market indices moved into new high territory. The Dow-Jones Industrials reached a high of 689. 67, on Friday, and the Rails and Utilities also achieved new peaks The Rail action was particularly impressive as the carriers bettered their 1961 high, and, at the week's high of 155. 85, the Dow-Jones Rails were at a level not matched since the early part of 1960.

Although the rise since the October lows has been persistent, its recent momentum has slacked somewhat. As an example, by the end of November, the Industrial average had advanced 106 points or almost 20% in the short period of 25 trading days. The high reached at the end of November was 655. 95. Since that time the average has been able to advance only 5% in 48 trading days. A substantial minority of stocks, moreover, have not, so far this year, moved ahead of their November-December peaks.

This sort of action is hardly unexpected. As the market strength goes on, individual issues continue to reach the objectives outlined by the bases formed in 1962. As more and more of these objectives continue to be reached, it is logical to expect the averages, even while making new highs, to lose momentum. This is a process which can continue for some time and, indeed, there will not be too much reason to worry seriously about the level of the market until such time as the strength in the averages fails to be confirmed by breadth, volume and other indices. This failure has not yet occurred.

Yet, this letter has repeatedly stated that we expect 1963 to be an "inside" year in the market -- that is, a year in which the averages will make neither a new high nor a new low. With the Dow-Jones Industrials now at 6 8 6, versus the former high of 740, this obviously does not leave a great deal of room on the upside. By contrast, there is a good deal of room between present levels and the old low or, more realistically, between current prices, and the major support area in the 600-570 zone.

Before becoming alarmed about the situation, however, it is necessary to put it in its proper perspective Common stock price movements have one almost universal attribute After moving up sharply, prices do not decline immediately but, rather, move sideways for a period of time in a distributive process prior to turning downward. Conversely, prices seldom move straight up again after a sharp decline but, rather, spend a period of time in a so-called base area before commencing another major advance. Indeed, the very reason we feel that the market will not make new highs on this move is the fact that it has not yet formed a sufficient long-term base to indicate such highs. In order to do this, it would, on a long-term basis, have to continue to move for some time back and forth within the confines of the broad 525-700 area, with the probability that a great majority of the subsequent work will be done in the upper part of this range. Parallel action can be found in the 1946-1949 period. After the sharp decline in the Fall of 1946, it will be recalled, the averages moved up sharply into the Spring of 1947 in a move quite similar to the present one - although not quite as great in terms of length or percentage advance. The following two years saw the market trade back and forth in a relatively narrow range, laying the base for the terrific advance that commenced in 1949. Although it will probably not need two more years to enlarge the present base, it will certainly take a goodly period of time.

And yet, during this basing-out period, the action of individual stocks will undoubtedly be quite diverse. Here, in fact, is the probable key to stock market success over the next year. For a great many stocks, which made their highs as long ago as 1956, have already formed bases which indicate important new highs. To take a well known example, Standard Oil of New Jersey reached a high of 68 in 1957. Its low of 38 in 1960 was not even approached in the 1962 break. Viewed on a chart, the action of Standard of Jersey since late 1958, appears to be a long v-shaped base pattern -- a pattern already sufficient to indicate considerably higher levels. A great many other stocks, by contrast, made their highs in 1959 or 1961 and have undergone practically no consolidation since reaching lows in mid-1962. It is quite evident that stocks of this type, and they are still in the majority, will have to do a great deal more work before long-term upside moves are indicated. Any decline that might take place from present levels would have a different meaning in different securities. For some stocks it would be a temporary drop, providing a buying opportunity just prior to a major upside move. In others, it would simply mean a return to, or through, the old lows as part of the process of forming a long-term base.

Dow-Jones Ind. 686. 07
Dow-Jones Rails 154. 96

ANTHONY W. TABELL
WALSTON & CO. INC.