

# 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

September 27, 1963

The Dow-Jones Industrials reached a new intra-day high of 753.04 on Wednesday. This price level was very close to the 760 intermediate term objective indicated by the 730-685 base formed during April-August. The new high was followed by a sharp decline with the Industrials reaching an intra-day low of 731.55 on Friday.

Short term breadth has been deteriorating for the past two weeks and the averages appear headed for somewhat lower levels over the short term. There is no important top pattern in the Industrial average, but a normal technical one-third to one-half correction of the 68-point advance from the July low of 684.41 would bring the average back to the 730-720 range. The potential top in the Rail average suggests a possible decline to the 165-160 support level.

Despite the poor action of short term breadth, the longer term pattern has not changed. As we mentioned in last week's letter, we prefer to follow the major changes in market breadth rather than attempt to interpret the short term fluctuations. As yet, under our interpretation, there has been no major divergence between breadth and the averages. Both indices reached new high territory above the June high and the 1961 high early in September. The averages continued to move ahead by a small amount (about 1%) for two more weeks while the long term breadth index declined. This, in our opinion, is a short term indication rather than of longer term significance. At the moment, both indices are moving down together. A major divergence would occur if, on the next rally, the average reaches new high territory and this action is not confirmed by the breadth index. Even if this occurs, it is usually a preliminary warning signal. In 1956-1957, the Industrial average rallied back to about its previous high after giving an unfavorable signal. It was twelve months before the market declined drastically. In 1959, the averages continued ahead to new high territory after giving a warning breadth signal and it was almost eight months before a drastic decline occurred. In the 1961-1962 market, the breadth index showed a divergence in August, 1961, but the average continued ahead to a new high and did not decline drastically until seven months later. It is, of course, possible that the long term breadth index will, on the next rally, confirm the recent unfavorable action of the shorter term index. If that occurs, we would change our basic investment philosophy to "selling on strength" rather than our present policy of "buying on weakness".

Breadth action is only one of many indicators that must be used in a technical approach to the market. The price action of individual stocks on point and figure graphs still indicates that the market is in a long term accumulation area and different issues and groups are in various stages of forming long term base patterns that will eventually result in a higher price level. Unfortunately, in order to form a base, a stock must move down as well as up. It has been our opinion for quite some time that, after the drastic 1962 decline, the market would have to spend a lengthy period in backing and filling in a trading range. This process of stocks moving from weaker hands to stronger hands takes time. We believe it is taking place in a large number of issues, but individual issues are at different stages of development and, therefore, the action of individual issues is of much more importance than the action of the averages.

We continue to advocate the policy instituted in mid-1962 of buying on weakness. We would suggest the following issues for purchase for long term capital appreciation at price levels mentioned below:

Beaunit Corp.	26-25	International Minerals	56-55
Cenco Instruments	47-45	Korvette (E. J.) Inc.	30-28
Clark Equipment	42-40	Storer Broadcasting	40-38
Container Corp.	32-30	Sundstrand Corp.	23-22
Cluett Peabody	47-45	Swingline, Inc.	35-33
Disney, Walt	40-38	United Fruit	22-20
First Charter Fin.	40	U. S. Plywood	60-58

EDMUND W. TABELL  
WALSTON & CO. INC.

Dow-Jones Ind. 737.98

Dow-Jones Rails 170.65 rails 170.55 rails