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TABELL'S MARKET LETTER

December 27, 1963

The forecasts for business and industrial activity for the first half of 1964 are decidedly on the favorable side and most opinions are almost as unanimously certain about a continuation of the uptrend into the final half of the year. In the face of such universal optimism, it is difficult to envision a contrary trend in the stock market. However, from a technical viewpoint, there are a number of factors that will bear watching and that cast considerable doubt on the ability of the stock market to move ahead on a broad scale at this particular stage of the market pattern.

Before going into the probable market trend for 1964, it might be advisable to review our thoughts on the longer term trend. We feel that the market made a major top in the period between 1957 and 1961 and a major bottom in the period between 1960 and 1962. This is difficult to envision in terms of the averages because the highs and lows in individual issues were reached at different times. It will be noted that the two time periods mentioned above actually overlap. Standard Oil of New Jersey, for example, reached its high in 1957 at 68 and reacted 45% to 38 in 1960. This drastic correction occurred before IBM even reached its high. The high in IBM was reached in 1961 at 600 and was followed by a 50% decline to 300 in 1962. In 1962, Standard Oil of New Jersey held above its 1960 low despite the sharp drop in many stocks.

If we move the various highs and lows of the thirty stocks in the Dow-Jones Industrial average together, we find that every stock has followed about the same pattern since the advance from the drastic undervaluation of 1949. The main differences are in the timing and the extent of the moves. Every stock in the Dow-Jones Industrial average advanced from a 1946-1949 low to a 1957-1961 high. The average advance was 429%. If the 30 stocks in the Industrial average reached their 1957-1961 highs on the same day, the average would have reached 911 instead of the 741 high reached in November, 1961. From the individual highs reached in the 1957-1961 period, each one of the thirty stocks in the Dow-Jones Industrials suffered a drastic decline to reach a low sometime between 1960 and 1962. The average decline was 45%. If all the 30 stocks in the Industrial average reached their 1960-1962 lows on the same day, the DJI would have reached a low of 504 which is not much different from the low of 525 in June, 1962. Therefore, it is our thesis that the market reached a major top in 1957-1961, followed by a complete technical correction that reached a major bottom in 1960-1962 and that the market is now in a major consolidating or reaccumulation area similar to 1946-1949.

While this pattern is not clear in the technical pattern of the various averages, it is clear in the pattern of a great number of individual issues. It is also much clearer if we realign the various tops and bottoms of the 30 stocks in the DJI. On that basis the range from 1957 to 1963 was roughly 900 high and 500 low and the present price of 760 is not at a new high, but only halfway between the range of the past seven years. This applies not only to the 30 stocks in the DJI, but the vast majority of individual stocks.

The thought has been expressed in some quarters that the market still has to suffer a drastic decline in order to correct the 600-point advance from the 160 low of 1949. This contention is, in our opinion, without merit. The advance from the 1949 lows has already been corrected in each individual stock. What is now required in most cases is a further period of reaccumulation in order to broaden existing bases. The ultimate result, of course, will be an upside breakout and a much higher level of prices in the late 1960's.

However, it is doubtful that a broad advance is in the cards in the immediate future. The market may work slightly higher in the early part of 1964, but breadth action and other technical indicators suggest an uncertain market in the first half of the year. Rather than being particularly concerned about such near term irregularity we would consider periods of weakness as buying opportunities. Weakness in 1964 will probably present the last opportunity to make advantageous purchases before the broad uptrend we expect in the late 1960's.

A VERY HAPPY AND PROSPEROUS NEW YEAR TO ALL

EDMUND W. TABELL
WALSTON & CO. INC.

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