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TABELL'S MARKET LETTER August 23, 1957

After reaching intra-day lows on Tuesday of 44.74 on the Standard & Poor 500-Stock Index and 474.52 on the Dow-Jones Industrials, the averages rallied back to 45.83 and 488.23. However, all of this advance was lost by Friday with intra-day lows of 44.43 and 474.81. About the only encouraging feature was the fact that volume on rise of 2,700,000 shares on Tuesday exceeded the down day's volume of 1,500,000 shares and 1,960,000 shares on Thursday and Friday. This decline so far, and almost every declining phase for the past two years, has been brought about by an absence of buying power rather than an increase in selling pressure. The market has been in oversold territory for nine trading days, on a short term basis, but has not yet aroused any great buying interest. It may be necessary to again test the 43-42 and 465-455 level where strong buying interest has appeared on four different occasions since the start of the 16-month consolidating area in April, 1956.

Stock prices are the result of four factors. Three of these factors are fundamental and tangible. They are earnings, dividends and money rates. These fundamental factors change rather slowly. The fourth factor, investor confidence, is extremely intangible, difficult to measure and subject to wide swings in both directions. Investor confidence, or the lack of it, is what causes the same security to sell at possibly 12 times earnings when investor confidence is high and at 8 times earnings when confidence in the future is at an ebb. These psychological moods can temporarily have more effect on stock prices than the more fundamental factors.

Looking at the general over-all pattern rather than individual companies, earnings have not showed much change since 1955. Earnings on the Dow-Jones Industrials have centered around $35. For 1957, earnings are presently estimated at around $37., presuming a pick-up in the fourth quarter. Part of this increase will be accounted for by sharp earnings jumps by two stocks in the average, Chrysler and Westinghouse Electric. Dividends on the industrials were $21.58 in 1955 and $22.99 in 1956. They probably will be a bit higher in 1957. There have been no important changes in the two factors since 1955.

There has, of course, been a sharp increase in money rates and a sharp drop in bond prices brought about by the tremendous demand for capital expansion money to finance new plant and new equipment expenditures in order to offset increasing costs and a labor shortage. The tight money policy of the FRB is designed to slow down these inflationary pressures. It would appear from my work that money rates and bond prices will probably stabilize at around present levels, but tight money could have some belated effect on stock prices.

Speculative confidence, as differentiated from investor confidence, has had wide alternating swings of optimism and pessimism for the past two years and will continue to be subject to the same type of action for a longer period of time.

Investor confidence has been at a high level since 1955. It has been based on the underlying basis forces of

(1) An increasing population with increased needs and the income to purchase these needs.

(2) A labor shortage.

(3) A high rate of capital expenditure necessitated by a need to increase productivity.

All of these factors will result in higher earnings and higher price levels for the common stocks of soundly managed companies. There will be temporary interruptions and resting spells like the present 16-month trading area which will probably continue for a year or more longer.

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