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TABELL'S MARKET LETTER

September 20, 1957

Shorter term price declines usually consist of five phases, three declining periods interspersed with two advancing phases. The market, as measured by the averages, now appears to be in a third declining phase and fifth phase of the down move.

	Low Aug. 27th	High Sept. 3rd	Low Sept. 11th	High Sept. 13	Low Sept. 20
D.J. Industrials	469.03	487.59	467.10	483.68	466.75
S & P 500-Stock	43.93	45.58	43.60	45.08	43.47

Whether the lows were reached on Friday is problematical but the lows will probably be in the 463-453 or 43-42 range which has been the support point on five occasions since September, 1955 with the exception of the Eisenhower heart attack lows of 433.19 and 40.80 in October, 1955.

For the past three weeks, this letter has tried to point up what appears to be an intermediate term change in the character of the stock market. We have tried to demonstrate that market leadership may be shifting from the capital expansion stocks, which have been market leaders since 1953, to consumer goods equities, which have, for the most part, done comparatively little either in the bull market of 1953-56 or in the consolidating market from 1956 to date. During this three-year period many consumer goods have built up rather substantial potential bases, which, if penetrated on the upside, could point to considerably higher levels. Based on the fundamental outlook, these higher prices might well be justified.

Basically, the American economy depends mainly on the consumer. The machinery of the economy is geared, either directly or indirectly, to satisfy his wants. In order to satisfy the terrific expansion in demand which will occur over the next decade, industry has, over the past five years, embarked on the greatest expansion in its history. Billions of dollars have been put into the capital goods needed to create increased productive capacity. This has, of course, sharply improved the earnings of the capital goods producers, the makers of machinery and other capital items. Meanwhile, temporary excess capacity in many consumer industries has caused pressure on profit margins and retarded any increase in earnings. This has, of course, been reflected in share prices. From September 1953 to August 1956, Standard & Poor's Index of capital goods stocks advanced 141% while the consumer goods index advanced only 76%.

As the business boom grew apace, government authorities have taken steps, via tight money, to curb it. Some of the effects of these steps are beginning to be felt. Backlog of capital goods companies are, in many cases, down. Earnings are increasing at a lesser rate or holding, or decreasing mildly. Prospects for some capital producers stocks are, therefore, somewhat dimmed. They probably will not go much lower, but chances for sizable price appreciation appear not too favorable over the nearer term.

What effect will all this have on companies producing or selling direct to the consumer? The answer is - very little. Total personal income continues to reach to new highs each month. So do wage and salary receipts. Retail sales have continued to reach new highs. There appears to be little indication that the demand for consumer goods will not at least continue at current high levels and perhaps rise moderately.

Meanwhile, as demand rises, excess capacity can be utilized. Heavy costs connected with large capital expenditures will, to a great extent, be ended. A perfect example is found in the retail trade industry where store chains have expanded sharply over the past few years. Heavy start-up expenses are already beginning to moderate in many companies. Thus, as sales continue to improve, profits will also improve moderately.

It is worthwhile to note that, as consumer incomes rise, a larger and larger portion is spent on so-called "luxury" items. Thus a very slight uptrend in consumer disposable income can be multiplied heavily in retail, appliance, auto and other consumer sales. Thus, improved profits seem likely in many cases, not only for 1957 but in 1958 and beyond. There is, in addition, ample evidence that the bright future has not already been discounted. Many consumer goods companies, due to their lack of growth over the past few years, are priced most reasonably in relation to earnings and are, in many cases, affording generous yields from well-covered dividends. Thus, in a mixed market, a large detree of downside protection is present.

A number of consumer stocks suitable for purchase were mentioned in last week's letter. These and others will be reviewed more fully in future letters. It would appear wise for the investor to re-examine his portfolio with the object of increasing his percentage commitment to consumer goods issues.

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