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TABELL'S MARKET LETTER

October 11, 1957

The largest stock market decline in over ten years continued this week until a rally narrowed losses on Friday. At Friday's intra-day low of 434.15, the Dow-Jones Industrial Average had fallen 20%below the July high of 522.20. This is the most severe decline since the 1946 drop of 23%.

How much lower can the market go?

In our 1957 forecast, published last January, this letter stated that the year would see a wide trading range in the averages bounded roughly by 520 on the upside, and something like 440-420 on the downside. This prediction has not yet been invalidated. The thing that has worried most investors has been the sharpness and severity of the decline.

It is now important to examine our original forecast to see whether it should be revised. To see, in other words, whether the market is going to continue to drop sharply below the current lows. In examining the possibilities, both technical and fundamental factors must be assessed.

From a technical point of view, a chart of the averages alone would indicate the possibility of considerably lower levels. However, when one examines the technical pattern of individual issues, it becomes apparent that many stocks have reached what appear to be their long term downside objectives - some having declined 50% and 60% in the process. A few look still lower it is true, but they are greatly outnumbered by stocks which are close to downside objectives and by strong stocks which have maintained bullish patterns throughout the entire market decline.

From a fundamental point of view, any further substantial declines would move the price-earnings ratio of the Dow - and that of many individual stocks - down to levels which have not prevailed in many years. There will undoubtedly be a decline in business in 1958, probably a healthy thing in an economy which had become obsessed with permanent inflation and permanent prosperity. Is the decline going to be so severe as to warrant new depths of pessimism? This is hardly probable.

The anticipated business weakness has, after all, been brought about by a credit policy designed to moderate long range forces which had caused an unprecedented boom. As has been repeatedly pointed out in this letter, these forces still exist. The current policy of restraint will certainly be moderated as soon as any important downturn in business occurs. The long range forces should then be free to provide for expansion in 1960 and beyond. Such an outlook does not warrant the despair that would be engendered by a further serious decline.

There is no way of pointing out exactly where the lows will be, especially in a market which has declined as sharply as this one has. There is, however, strong reason to believe that we are nearer these lows than many appear to think. While it may not be time for aggressive buying, panicky selling certainly does not appear to be warranted. The attention of the investor should be devoted to discovering good technical and fundamental values which can be purchased at depressed levels for long term holding.

EDMUND W. TABELL
WALSTON & CO. INC.

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