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TABELL'S MARKET LETTER

September 25, 1964

To followers of the Dow-Jones Industrial Average the statement that the market exceeded its July high for the first time this week must seem rather silly, as those who watch the Dow are well aware it exceeded its July intra-day peak on September 8th, and has been making repeated new highs ever since, reaching a high of 879.26 on Friday.

Followers of Standard & Poor's indices, however, have been seeing an entirely different picture of what "the market" is doing. The S&P 500-Stock index reached a new intra-day high for the first time on September 22nd, and reached a closing high for the first time on Friday. The 425-Stock Industrial index reached a new intra-day peak for the first time on Friday.

Other indices can be cited to show a still more gloomy picture. According to the widely used New York Herald-Tribune 100-Stock index, the market has not yet made a new high. The July high for this average was 304.36, and as of Thursday its high was 301.82. The Herald-Tribune index has, as a matter of fact, consistently acted "worse" than other market barometers. For example, most indices, after declining in early August, rallied in the middle of the month and then moved to a low toward the month end. They then commenced the current move to new highs. In most indices, the late August low was considerably above the figure for the early part of the month, but the Herald-Tribune index posted a new bottom at that time. Comparative figures on five widely used indices are presented below.

	July High	Early Aug. Low	Mid- Aug. High	Late Aug. Low	September High
Dow-Jones Ind. Aver.	855.19	820.78	847.19	826.59	879.26
Stand. & Poor's 500-Stk.	84.33	80.80	82.87	80.99	84.62
Stand. & Poor's 425 Ind.	89.39	85.41	87.85	85.57	89.60
N. Y. Times 50-Stk. Aver.	507.49	482.98	499.02	486.80	522.30 *
N. Y. Herald-Trib. 100-Stk.	304.36	292.99	299.33	292.59	301.82 *

* To September 24th.

The above comparison is not intended to prove that there is anything wrong or right with a particular average. There is, unfortunately, no such thing as a perfect stock market index. Any index and any method of computation has both its advantages and disadvantages. Averages will act differently depending on the stocks included and the weights assigned to each. A good part of the strength of the Dow over the summer can be attributed to the fact that it includes a number of stocks which have been relatively strong. A good part of the weakness in the Herald-Tribune index is due to a relatively heavy weight assigned to International Business Machines which, recently, has been notably weak. Thus, if, as of July, Chrysler and DuPont had been removed from the Dow index, and IBM and Ford had been substituted, the average would even today be below its July peak rather than in new high territory by more than twenty points.

The real lesson of this discussion is that the market has, over the summer, and indeed for most of 1964, really been trendless. The great majority of stocks in all probability are today, plus or minus a few points, selling just about where they sold at the beginning of the summer. A notable few have scored worthwhile gains and others have shown relatively severe losses. Breadth indices show that there has been a slightly larger number of advances; but the preponderance of advances is relatively small. Equal divergence appears to be present in values available. Based on the past twelve months earnings, most averages appear to be selling at rather generous multiples, but there is, at the same time, no shortage of companies that are selling at price-earnings ratios much lower than that of the average and which appear to be in a position to post significant earnings gains over the years ahead. It is companies of this type which we have attempted to include in our recommended list, and it is in these issues that the investor should concentrate his holdings in order to achieve capital gains in an essentially sidewise market.

Dow-Jones Ind. 874.71
Dow-Jones Rails 218.03

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