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TABELL'S MARKET LETTER January 22, 1965

The year-end rally which had moved the Dow-Jones Industrials ahead from their December 15th low of 850.19, came to at least a temporary halt on Tuesday as the index reached an all-time intra-day peak of 902.10. Over a week ago a number of our short term indicators had become overbought, and some of the less sensitive of these indicators also moved into overbought territory early this week. Since the prior base pattern had suggested an upside potential in the 884-910 area, the loss of momentum in the latter part of last week was less than surprising. It is, of course, possible that another attempt may be made to move deeper into the area mentioned above. The subsequent formation of a new pattern will afford a clue as to the course of the market from this point.

It is, in our belief, generally unwise for the average investor to attempt to interpret for himself technical indicators. Technical analysis is a complex and demanding art and is best left to the professional. On the other hand, there is no reason why the individual investor should not be able to formulate for himself some approximation of the technical behavior of the stocks he owns and in which he is interested. The investor is, in most cases, constantly following the price behavior of the stocks in his portfolio. It is not too difficult a task for him also to watch the behavior of these stocks relative to the general market. This is the concept of relative strength and, as used by this department, involves detailed computer analysis of the mathematical behavior of stock prices. The same principle, however, applies to the determination of approximate relative strength by simple observation.

For example, the Dow-Jones Industrial Average reached a high of 897.00 on November 18, 1964 and exceeded this high by a moderate amount on Tuesday of this week. Yet, as could be expected, the behavior of Individual stocks in the average was quite different, some being higher in November, some in January. General Electric, for example, sold at 97 1/2 on the day the average made its January high vs. 89 5/8 on the day of the November high. By contrast, International Harvester, which had sold at 86 1/4 on November 18th, closed at 80 7/8 on January 19th. Since the averages were approximately the same on the two days, it follows that General Electric was acting considerably better than the average and International Harvester considerably worse. It is not at all difficult for the individual investor to take two time periods such as October-November and January, when the average sold at the same approximate level, and compare the prices of his holdings on the two dates. Such a comparison might give holders of automobile stocks, for example, some pause. General Motors, Chrysler and Ford sold at around 102, 67 and 62, respectively, in the October-November period, and the best they have been able to do in recent markets is 98 1/2, 62 and 55, respectively. Similar action has been shown by most rail stocks. Atchison, Topeka & Santa Fe, for example, was 37 in November and 34 1/2 recently and Southern Pacific was at 44 vs. 41 and Union Pacific at 47 vs. 44. Sometimes there will be variations within industry groups. Standard Oil of California has sold above its November high, Standard of New Jersey has not.

By the same method, it is possible to pinpoint stocks that are acting better than the market. One indication of the excellent technical action of the airlines is the fact that Eastern recently sold at 48 vs. a November high of 41, and National at 70 vs. a November high of 60. Drugs and electronic stocks have recently given favorable indications by exceeding, on the recent rally, their November highs.

Of course, a comparison of this nature should only be a first step, not a rigid method of making investment decisions. For example, as mentioned above, both automobiles and rail stocks have failed to exceed their November highs. In reality, the technical patterns of the two groups are quite dissimilar. Automobiles are showing declining relative strength at a time when all upside objectives have been reached. Rails, on the other hand, although acting poorly on a short term basis, have declined back to strong support levels and have upside objectives, for the most part, considerably above their present prices. This makes many stocks in the group attractive candidates for purchase on weakness.

Provided their importance is not over-exaggerated, it is probably worth the investor's while periodically to make relative strength comparisons such as these. They can then be used as warning signals to check further into the technical and fundamental progress of the stocks in his portfolio.

ANTHONY W. TABELL
WALSTON & CO. INC.

Dow-Jones Ind. 893.59
Dow-Jones Rails 212.09