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TABELL'S MARKET LETTER

May 17, 1965

At the week's intra-day high of 944.82, the Dow-Jones Industrial Average reached new high territory for the fifth successive week. In so doing, the market continued the technical pattern that has been in force for the two and a half years since the Cuban crisis low of 549.65. Eliminating the sharp initial rise, the Industrial Average since that time has moved ahead in a series of relatively modest advances and corrected itself internally by a series of even more modest corrections. The greatest decline in the last two and a half years was the decline from the September 1963 high of 767.24 to the Kennedy assassination low of November, 1963. A large part of this decline took place in one day and amounted to 7.4%. It was followed by the Johnson Confidence Boom that carried from 710.38 to 836.06 in May, 1964. This advance of 17.6% was the sharpest rise of the series. The average rise of the two and a half year period has been slightly over 10%, and the average correction less than 5%. The present rise from the February low of 877.48 to the present high is slightly over 7% and, so far, is one of the smaller advances of the series.

From a technical point of view, it is difficult to anticipate a further steep advance at the moment as far as the averages are concerned. The advance has carried above our 930 objective for the move and some consolidation would appear indicated at this level. If the technical pattern of the past two and a half years continues, the indication would be for a correction to the next support level (around 910-905) followed by a consolidation period of a couple of months followed by an advance to new high territory.

Obviously, this pattern is not going to continue indefinitely. The technical background must be watched carefully for signs of possible deterioration. No definite signs of this nature have appeared as yet, but the technical action of the market on the present advance is beginning to give some preliminary warning signals that could become more serious if they continue. Our concern is centered mainly in the action of our breadth index. The breadth index represents the entire market while an average like the Dow-Jones Industrials represents 30 investment blue chip companies. The basic theory behind market breadth action is that as long as the investment issues, as typified by the Dow-Jones Industrial Average, move in the same direction as the general market, as exemplified by the breadth index, the trend in force will continue. It is only when there is a divergence between these two indices that a warning of a possible change in trend is given. Fortunately, these warning signals are usually given before the market tops out. Both our Industrial Average graph and the breadth index have been in uptrend channels since the Kennedy assassination lows. They are still in uptrend channels. However, for the last three weeks, the breadth index has failed to confirm the new highs reached by the Average. This pattern could change, but this is the longest period of non-confirmation since the advance started. Technical action on the next market decline and subsequent rally must be watched closely.

In the meantime, individual issues continue their diverse action with the majority still in various stages of an uptrend. Of the issues in our recommended list, Litton Industries (95 5/8), reached its first technical objective at 96. This stock has a much higher long term potential and retention is advised along with buying on minor price declines. Mohasco (21 7/8) has had a sizable price advance since its original recommendation about a year ago at 13 1/2. Despite its rise, we continue to believe the stock has a higher potential from both the fundamental and technical viewpoint. The intermediate term technical potential is 29. We would continue to hold and buy on minor price declines.

Since our last issue of the monthly recommended list on May 3rd, three issues have broken out on the upside of long term potential base patterns. Fruehauf Corp. (36 1/2) has been holding in the 27-34 area for almost two years and has finally moved out of the range to reach a high of 36 7/8 during the week. Earnings, which have also been in a three-year plateau, are expected to move higher. The long term price potential, from a technical viewpoint, is 44-49. Revlon (50), which was added to our recommended list two weeks ago at 45 1/8, has broken out of a three-year trading area between 49 and 31 and reached 50 on Friday to confirm a long term uptrend. Hewlett-Packard (30 1/4), recommended at 20 5/8 in September, 1963, earlier in the month broke out of the 16-27 range in which it held since late-1962. The long term technical upside objective now becomes 41 for the intermediate term and 59 for the longer term. The 1961 high was 53.

Dow-Jones Ind. 939.62

Dow-Jones Rails 209.50

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