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**TABELL'S MARKET LETTER** January 14, 1966

At a stage of the market such as the present, when a large number of hitherto inactive low-priced stocks are beginning to dominate the headlines and the most-active lists, there often develops among Wall Street savants what could be called the "tch-tch" complex.

As each new low-priced stock chalks up fantastic percentage gains on huge turnover, the natural reaction of the professional security analyst seems to be to deplore the poor idiots who, not sharing the analyst's professional capability, are blithely falling all over themselves to push speculative issues into new high territory. Enough of this sort of thing usually leads the analyst to proclaim, in dire tones, that "the public is back in the market" and that, therefore, Armageddon must indeed be at hand.

A case in point can be found in the recent gyrations in Anken Chemical & Film Corporation which, as recently as November, was selling for 8 7/8. Through this year, the company has had a four-year record of decreasing earnings, capped by at least four successive quarters in which it showed a deficit, but, on January 7th, it announced that it would attempt to market a new device for developing black-and-white film at home. Despite the fact that there was absolutely no rational way of projecting what the market success of this product might be and that, due to competition in the photographic field, there were, at least, grounds for doubt whether it could be successfully marketed at all, the stock, selling for 16 on the day before the announcement, proceeded to move to a high of 38 3/8 over 5 days, trading 1,127,700 shares or 106% of the capitalization in the process. It is, of course, only one example of the sort of thing that has been hitting the headlines with increasing frequency of late.

It is, of course, very easy to make a case that anyone who indulges himself in the current speculative orgies is a stock market illiterate. It is quite another thing, however, to draw, therefrom, portentious conclusions about the state of the market as a whole. There is, indeed, a distinct relationship between the action of low-priced stocks and major stock market peaks, but that relationship is a good deal more complex than many analysts seem wont to believe. Low-priced stocks, are, indeed, a leading indicator, but it is worthwhile asking just what this means. Briefly, it means that peaks in low-priced issues and in speculative activity generally occur well in advance of stock market declines. This is a relationship which can be demonstrated by simple reference to any chart. That there are peaks in any index is easy enough to recognize by hindsight. There is, however, absolutely no way of predicting a peak before it occurs. In other words, the time to worry about a leading indicator is not while it is still rising, but after it turns down. This, of course, has not yet occurred in most low-priced stock and speculative activity indices.

This is not to say that there are no grounds for concern about the current action of the stock market. There are, and most of them center on the length of the most recent upswing without any noticeable interruption. The Dow-Jones Industrials have advanced from a sharply oversold condition at 832.74 in June to this week's high of 994.09, with the most drastic correction in the entire process being one of less than 5% in November-December. In this sense, at least, the situation is highly reminiscent of last May when a long protracted rise in the market was suddenly broken by a sharp decline which took a great many analysts by surprise.

Yet, even in the May-June decline, a great many stocks had relatively mild reactions. The reason was, in most cases, simply that they represented, at the time, relatively good value. Having mentioned one specific instance above, let us cite another. Reynolds Metals (54 1/2) which happens to be in our recommended list, has, generally, risen over the past three years from a 1962 low of 20 1/2 and a low of 36 as recently as June. The point is, however, that the rise in the price of the stock has been roughly coincident with the rise in the company's earnings so that at its current price Reynolds is now selling at less than nineteen times 1965 earnings, a ratio not too far different from the sixteen times latest twelve-months earnings it was selling at at its 1962 low. Clearly, the stock represents value at the present time, and, with further earnings gains in prospect, we have no hesitation about retaining it in our recommended list for purchase.

The point of all this, of course, is that, despite the flurries in low-priced issues, good values continue to exist. The sensible investors' reaction to the activity in low-priced issues will be, simply, to ignore it, and to concentrate his efforts on a search for those many stocks which still appear technically and fundamentally attractive.

Dow-Jones Ind. - 987.30
Dow-Jones Rails - 257.48

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