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TABELL'S MARKET LETTER

February 18, 1966

The Dow-Jones Industrial Average last week broke out on the downside of the long trading range in which it had held since early January. As noted in last week's letter, the downside indication at the moment appears to be 962-960. Action at that point will afford an important clue as to the intermediate term direction of the market.

Many analysts have drawn attention of late to the depressed state of the bond market and to the high yields available therein, and have drawn rather negative conclusions concerning the future of stock prices. It is, of course, silly to assume that the extremely high yields available in senior securities are not drawing some funds away from the equity market, especially from stocks which have been traditionally regarded as income producers. When we attempt, however, to find a long term relationship between stock and bond prices which has some predictive value, we find ourselves on far more difficult ground.

To anyone who takes the time to study the long term history of bond prices, the most significant fact is that apparently these prices move in long cycles - cycles generally much longer than stock cycles. For example, the entire period from 1905 to 1920 represented a long and almost continuous decline in bond prices. From 1920, the bond market embarked on an upswing only briefly interrupted by the depression which brought yields to a low of 2.44% in March of 1946. Since that time, for twenty years, bond prices have been falling and bond yields rising, although there have been a few fairly substantial rallies. The following table shows the prices and yields of the Standard & Poor's High Grade Corporate Bond Index at selected points since 1946, and the series of lower prices and higher yields at each succeeding intermediate high and intermediate low becomes apparent.

H i g h			L o w		
Date	Price	Yield	Date	Price	Yield
March, 1946	124.6	2.44%	November, 1948	117.6	2.84%
January, 1949	122.7	2.71%	June, 1953	108.8	3.39%
April, 1954	118.1	2.81%	September, 1957	98.04	4.15%
January, 1958	105.9	3.59%	January, 1960	91.97	4.62%
February, 1963	97.80	4.16%	January, 1966	90.50	4.74% (to date)

Thus, the relationship of stock and bond prices since 1946, a period in which bonds have been generally declining, is quite different from that which prevailed for the previous 25 years - a period in which bonds were generally rising. Furthermore, an inspection of the past 25 years history shows that it is difficult to establish any important relationship between moves in bonds and moves in stocks. Actually, bond prices have tended to reach their peaks (see above) just about the time when the stock market was starting on a major upward move. A study of the dates on which bond price lows were recorded shows even less relationship to the fluctuations of the stock market. There is, as a matter of fact, only one relationship that can be drawn between bond and stock prices which seems to have some predictive value. Generally, a move of bond prices to a new low, after a rally, has foreshadowed stock market peaks of some importance. Thus, the bond market rallied from November 1948 to January 1949 at which point it turned down. A new low was finally reached in May of 1951, and this took place four months before the September 1951 stock peak. The subsequent instances in which this has occurred are shown in the table below. The most recent instance, of course, is the new low made in December of 1965, after the 1960-1963 bond price swing. To date, it has only been three months since this occurred, whereas in previous instances the time between the bond price low and stock market peaks has been somewhat longer.

Thus, bond prices, despite their current depressed levels, must be regarded as one of the stock market indicators that are at present somewhat inconclusive.

Previous Bond Low	New Bond Low	Dow-Jones Peak	Lead
November, 1948	May, 1951	September, 1951	4 months
June, 1953	August, 1956	July, 1957	11 months
September, 1957	February, 1959	August, 1959	6 months
January, 1960	December, 1965	Feb. 1966 (to date)	3 mos. (to date)

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Dow-Jones Ind. - 975.22
 Dow-Jones Rails - 267.73

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