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TABELL'S MARKET LETTER September 9, 1966

Q. "Mr. President, could you give us your observations on what you think it is that specifically is troubling the stock market?"

A. "No."

From President Johnson's press conference of September 8, 1966, as reported by the New York Times.

The President, quite obviously, has prerogatives which are denied to market analysts, who are expected at all times to have the answers to all questions. The difficulty at the moment is that a great many questions are, simply, unanswerable.

The stock market has, ever since August 29th, been, by any measurement one cares to utilize, in an oversold condition. As we pointed out last week, however, this factor by itself is of absolutely no help in determining the short-term course of the market. It will be necessary, first of all, for a rebound from this oversold position to take place and, secondly, for a new pattern to form. This process, quite naturally, takes time and we, therefore, continue to be unwilling to make any guess as to the immediate future of stock prices. We continue to suspect, however, that a great many economic factors, the fear of which has driven stock prices down so sharply over the past six months, may simply not materialize; or, if they do materialize, may already be discounted by present sharply depressed quotations. If this is the case, a great many stocks represent excellent value at the present time.

The next obvious question is "What stocks?" Here again the question is at least partially unanswerable. We have mentioned the fact that a great many major stocks have reached long-term downside objectives. Let us take two examples. General Motors and Allied Chemical have both reached long-term downside targets at their lows of August 29th. Both are statistically cheap, selling at around eleven times earnings and yielding over 5% and 6%, respectively. Yet, before either stock moves ahead substantially, a base must be formed, and there is absolutely no way of predicting how long this process will take, or of guessing which stock, GM or Allied, will complete its base and start a new upswing first. We are reduced, very simply, to making the statement about both issues that we have repeatedly made during the last few weeks, that they represent good value to the long-range investor.

Or, to raise another unanswerable question, what of the "glamour" stocks? Many investors are inclined to lump these issues into one category, forgetting that there has, in fact, been tremendous diversity of action between them. Just to cite two stocks in the same industry, Motorola was recently down almost 100 points from its high for the year, whereas Magnavox, at Friday's close, was trading at about the same price it sold for in February when the Averages made their highs. Other leaders of the 1965-66 upswing have held up equally well. Again, it is too early at this point to tell whether they will eventually resume their upward move or will follow their cohorts into the abyss.

There are, however, fortunately, a number of stocks where one can speak at the moment with some confidence. These are stocks which broke out of large base formations just before the market slide began in February, formed only shorter-term tops earlier this year, and have now moved to the downside objectives of those tops and to the support provided by the original bases. One example would be AIR REDUCTION (53 7/8) which, in late 1965, broke out of a trading range between 46 and 60 in which it had held since the 1962 low. The upside objective of this base was 110. The stock reached a high of only 78 before a short-term top was formed indicating 52. This was the low reached last week. The stock continues to be fundamentally attractive, selling at nine times estimated 1966 earnings of $5.75 with every prospect for bettering this figure in 1967. The $2.50 dividend, which could be raised, provides a yield of just under 5%.

Another example would be REYNOLDS METALS (41 7/8), which recently reached a low of 40 1/2, is in a major support zone and where the 1962-65 base indicates a long-term potential of 94-104. The worst possible downside objective which can be read is 38-36, and the stock certainly appears to be an attractive purchase on any dips. Estimated earnings for 1966 are $3.75, and an improvement for 1967 is highly likely since the company will be able to supply more demand from its own production rather than resorting to profitless sales from government stock pile.

Dow-Jones Ind. 775.55
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