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TABELL'S MARKET LETTER December 23, 1966

As we set out to follow the dictates of tradition and issue a forecast for the stock market in 1967, we are impressed with the extent to which the stock market picture today is, in effect, a mirror image of the situation existing when we bent ourselves to the same task a year ago. At that time the stock market had just spent the last six months in a sharp and dramatic rise during which the Dow had risen over 130 points,and many stocks had scored advances well in excess of 100%. We said at that time, "Our brethren in the economic forecasting field have already consulted their oracles and their view of the outlook for 1966 corporate profits is almost uniformally roseate. This view is, no doubt, comforting to those who persist in the illusion that it is earnings rather than the expectation of earnings that determines the short-term course of stock prices. We are inclined to believe that the corporate profits outlook for 1966 is quite adequately reflected in the prices that are being paid for stocks today. We are, therefore, less impressed by the generally good profits outlook than we are by the number of potential psychological factors which could disturb market equilibrium at some time during the year, i.e., tight money, balance of payments problems, Vietnam, etc.".

At present, the situation is just about reversed. The popular averages have spent most of 1966 in a precipitous decline from which they have, just lately, staged a mild recovery. Meanwhile, the economists have looked at the business picture for 1967 and concluded that all is far from serene. The possibility of a --- let us come right out and use the nasty word --- recession in 1967, is a real one. And yet, just as a year ago, we cannot help but feel that the uncertainties in the economic outlook are more than adequately reflected in the prices currently being paid for highgrade common stocks, prices which are --- as we have pointed out for the past four months --- by historical standards uncommon bargains.

We noted in our letter of last week that we view the 1966 decline essentially as part of an ongoing process of erosion in investor confidence, which has been going on since 1961. Unless we are confronted with economic difficulties of major proportions, and by major we mean something wholly foreign to the entire post-war experience, we feel that this erosion, if it is not ended already, will come to an end in the year ahead. In other words, we feel, in technical parlance, that we have entered a period during which a base will be formed for the next major upswing in common stock prices.

The crucial question is, of course, what shape is this base most likely to take, and how long will it extend over time. Here, historical experience is not of much help. In 1957 and 1962, for example, the base required only a short time to form and within 4-5 months after the lows were made the market was embarked on a move which ultimately led to new high territory. Following the 1946 break, however, the base formation required a long 33 months before the averages, in June 1949, began their push into new high ground.

It seems to us that the ultimate form the 1967 base will take will depend in great degree on factors not now known --- largely concerning the uncertain business picture for next year. If, on the one hand, the extent of the 1967 contraction becomes clear early in the year, the base could be completed in early 1967 and the market could begin an upward move of major proportions. If, on the other hand economic uncertainties continue to beset the market throughout the coming year, the process of a base formation could well extend through 1967 and beyond --- possibly involving a test of the October lows.

The above does not necessarily constitute equivocation so long as we keep our eye firmly on the ball. What we are looking at, regardless of the near-term uncertainties, is a process which will ultimately lead to stock price levels considerably higher than those prevailing today. The investor's prime concern during 1967 should be to get himself long of those stocks which have the fundamental and technical potentials to be the leaders of the next bull market.

A VERY HAPPY AND PROSPEROUS NEW YEAR TO ALL.

ANTHONY W. TABELL
WALSTON & CO. INC.

Noon Dow-Jones Ind. - 800.89
Noon Dow-Jones Rails - 208.87

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