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TABELL'S MARKET LETTER

June 9, 1967

The gyrations of the stock market during the past week were almost entirely in response to changes in the highly volatile Middle Eastern situation. A sharp decline, which began at the opening bell on Monday in response to the outbreak of the Israeli-Arab war, brought the Dow to the intra-day low of 836.92. When, by Tuesday morning, it became evident that the tide of the war was sharply in favor of the Israelis, the entire decline was retraced and further gains were chalked up on Wednesday and again on Thursday with most of the gain coming in the last few minutes of trading on the news that the UAR had accepted a cease-fire. An incipient rally on Friday morning was stalled by renewed Syrian belligerence.

Two weeks ago we pointed out that the May decline was the fifth interruption of the advance that began last October. We noted that the four previous declines ranged from 5.0% to 6.2% in amplitude, and from 10 to 12 days in time. We expressed the thought at that point that the decline then under way would be relatively similar.

The Middle Eastern situation has, of course, made this prediction incorrect. At Monday's intra-day low, the decline had extended 8.6% in the Dow and had lasted for 20 trading days, making it the most serious break since prices began their upward course in October. Nonetheless, we see no reason at this stage to characterize the decline as anything more than minor in scope.

We suggested in mid-May that the important thing to watch would be the extent and character of the rally that ensued from whatever bottom took place. Although the advance is now only four days old, it is possible to draw a few highly tentative conclusions.

Both market breadth and volume have acted tolerably well on the rise. Advances outnumbered declines on all four days of the latter part of the week, and over a thousand stocks advanced at the climactic reversal on Tuesday. Volume tended to expand in the advancing phases and to dry up on the setbacks. The most encouraging thing during the rally, however, has been the action of the Rail Index which has been moving counter to the Industrials ever since the former index made its high on May 9th. At that point, the Dow reached an intra-day peak of 915.87 versus a close of 874.89 on Friday. During the same period, the Rails have advanced from a close of 235.69 to one of 254.55. A great many market students have pointed out the accuracy of the Rail index as a barometer of professional investment sentiment. The Rails are, of course, intimately tied to the outlook for the economy, and the persistent willingness of investors to pay higher prices for rail issues in the face of uncertain near-term prospects and a sharply declining stock market, certainly deserves comment.

As noted, the above conclusions are tentative. The war-induced market decline ended at precisely the same level that had previously halted the declines in February and April. The 834-915 area now constitutes a potential intermediate-term top which, if penetrated on the downside, could lead to a decline of far greater proportions than anything we have thus far witnessed. Obviously, this potential would be cancelled out by the ability of the various major indexes to base out around current levels and move ultimately into new high ground. We feel that such an upside penetration is ultimately likely, but nonetheless suggest watching closely to see how quickly the market repairs the technical damage which has been done by the decline.

At present, the market appears to be groping to find new leadership. A great many of the issues which have led the advance to date are now quite adequately priced and can hardly be expected to continue to support a further upswing. A great many investment-grade issues, by contrast, are historically cheap on an earnings basis, and have potential upside objectives well above current levels. With a few exceptions, however, most such issues give no indication of any imminent upside move. Present leadership is highly fragmented and provided largely by special situations of various types. Such issues we endeavor to include in our Recommended List.

Dow-Jones Ind. 874.89
Dow-Jones Rails 254.55

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