

# Walston & Co. Inc

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## TABELL'S MARKET LETTER

August 25, 1967

Equity markets were generally reactionary throughout most of the past week. The Dow-Jones Industrial Average posted declines on all five days of the week, although volume dried up noticeably on the downswing. It is interesting to note that the return to full sessions brought generally lower volume than had occurred in the prior two weeks when the 2 P. M. closing was in effect.

At Friday's low of 888.81, the Dow had declined 4.8% from its August 10th high and had retraced a bit more than half the advance from the July low to the August peak. The decline was the fifth identifiable downswing that has taken place so far in 1967 and, to date, has failed to develop any characteristics which differentiate it from the previous four. The following table, which gives some data on the five short-term rallies and declines which have characterized 1967 so far, may be of some interest.

| RALLIES |           |          |                 |             | DECLINES |          |         |               |             |
|---------|-----------|----------|-----------------|-------------|----------|----------|---------|---------------|-------------|
| Date    | DJIA High | % Change |                 | No. Of Days | Date     | DJIA Low | Decline | % Retracement | No. Of Days |
|         |           | From Low | From Prev. High |             |          |          |         |               |             |
| Feb. 9  | 871.71    | 12.3     | 5.4             | 26          | Jan. 4   | 776.16   | -       | -             | -           |
| Mar. 27 | 883.41    | 6.7      | 1.3             | 18          | Feb. 28  | 827.95   | 5.0     | 45            | 11          |
| May. 9  | 915.87    | 9.2      | 3.7             | 22          | Apr. 11  | 838.98   | 5.0     | 80            | 10          |
| Jun. 16 | 892.80    | 6.7      | -2.5            | 9           | Jun. 5   | 836.92   | 8.6     | 103           | 18          |
| Aug. 10 | 933.14    | 10.9     | 4.5             | 26          | Jul. 3   | 853.21   | 4.4     | 54            | 11          |
|         |           |          |                 |             | *Aug. 25 | 888.81   | 4.8     | 56            | 11          |

\* to date.

Before discussing the present downswing it is worth while to examine the rally which preceded it. As the table shows, the advance which began in early July and ended on the 10th of August was the second most dynamic advance of the year, falling only slightly short of the January-February upswing in percentage improvement, and equalling it in number of trading days. As we pointed out three weeks ago, this rally was significant in a number of ways. First of all, it brought the Dow sharply out of the trading range which had contained it since February. Secondly, it breached the overhead supply which existed between 860 and 910 dating back to the May-July 1966 trading range. Furthermore, this advance was accompanied by confirmation in weekly breadth figures and took place on gratifyingly heavy volume. Its significance was important at that time and we do not believe that significance has altered today.

Naturally enough, an advance of this nature produced an overbought condition on a short-term basis, and some correction or consolidation was inevitable. What has ensued so far is hardly out of line with the shorter term corrections which have characterized the year so far. The percentage decline so far has been about the same as the February, April and June declines and has been somewhat less than the 8.6% drop chalked up at the time of the Middle East crisis. The eleven trading days duration is about the same as in all the declines but May-June, and the percentage retracement is, so far, in line with two of the previous downswings.

At the moment, our short-term oscillator has reached oversold territory, although no recovery indication has taken place as yet. One downside objective has been reached, although there is a possible 880-870 in the pattern. This would constitute a 70% to 80% retracement of the overall advance -- again not out of line with 1967 experience.

Meanwhile, while all this has been going on in terms of the averages, a distinct change in the character of the market has been taking place. This can be best illustrated by comparing the action of two stocks -- Xerox, a growth stock par excellence, which sells at an astronomical p/e. ratio and yields next to nothing, and Anaconda, highly cyclical, which sells at a low price/earnings ratio and yields over 5%. Xerox scored new highs along with the Dow at the February, March, May and June peaks, but noticeably failed to participate in the August rally and recently posted a new low below any previous bottom made since April. Anaconda, by contrast, which failed to better its February peak in either March or May, scored new highs in both the June and August rallies and is still selling well above its early July bottom. Looked at another way, the investor who bought Xerox at its low of last April, currently has a loss, while the buyer of Anaconda has a 20% profit. It is highly likely that this kind of shift will continue regardless of what kind of overall market pattern develops.

Dow-Jones Ind. - 894.07  
Dow-Jones Rails - 256.96

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