FILE

Walston & Co.
Inc.

Members New York Stock Exchange
and Other Principal Stock and Commodity Exchanges
OVER 100 OFFICES COAST TO COAST AND OVERSEAS

TABELL'S MARKET LETTER August 16, 1968

Over the past few months, the course of interest rates has been a cause of much discussion in the investment community. As most readers of the financial news are aware, the price of money was, in the early part of 1968, at its highest level since the early 1920's. New issue bonds of the highest credit rating were being offered to yield in excess of 7%; governments were at the highest levels in years, and a tax-free return of better than 5% in reasonably good municipal bonds was available. Building activity was being choked by astronomically high mortgage rates, and the prime lending rate of major banks was at a record 6 1/2%. This stringency in credit markets, the conventional wisdom informed us, was being imposed by the monetary authorities to restrain the economy in the absence of a tax increase. In recent months, this rather dismal picture has changed dramatically. Bond prices have sustained one of their best recoveries in recent years, with the Dow-Jones 40-Bond Average increasing over 2 points to its best level of the year. The tax increase, we are told, is going to lift from the shoulders of the Federal Reserve Board the burden of restraining inflation and those august gentlemen will, forthwith, be in a position to make credit more readily available at more reasonable prices. This activity has seen its reflection, to some degree, in the equity markets where, for the most part, recent leaders have been stocks such as building, finance, savings and loans and utility issues - all of which can be expected to benefit in one way or another from a lower cost of money. While there exist widely divergent opinions as to the future course of stock prices, there appears to be a universal agreement that the bedraggled bond market may, at last, be headed for better times.

Let us, for a moment, assume that this may be so. It becomes worthwhile, then, to wonder just what effect better prices for senior securities might have on common stocks. The question may be answered in a number of ways. Actually, as we have pointed out in the past in this letter, there appears to be no discernible long-term relationship between bond and stock prices. Indeed, the two markets over the past century seem to have moved in entirely independent cycles which are only rarely tangential. As we have suggested before, the bond market, as best we can see from available records, seems to move in long, persistent cycles with a periodicity of some 20-25 years from low to high. Thus, the last time we saw interest rates at current high levels was in 1920, and from that point on bonds enjoyed a fairly consistent bull market which ran to approximately 1946. Since that time the price of bonds has run almost steadily downward to the lows of this year. It is worth noting, parenthetically, that the bond decline has been going on for some 22 years now, and it is fascinating to speculate as to whether the recent turn may not be the beginning of another quarter century of declining interest rates. This discussion, however, we shall leave for another place.

On a shorter-term basis there does, indeed, appear to be a discernible relationship between stock and bond prices, and if it is true that the bond market has, in fact, reached an intermediate-term bottom, the conclusion, historically, is unequivocally bullish for stocks. In the past 20 years, within the context of the longer-term downtrend, there have been six major upswings in bond prices, everyone of which has unfailingly been accompanied by a better stock market. Also, without exception, the upward trend in stocks has persisted well beyond the bond market peak, continuing for periods ranging from 7 months up to 2 years. The following table details the bond bull markets of the post-war era, and the course of the stock market at the same time.

Date of Bond Market Low	Date of Bond Mkt. High	% Advance in Stocks Over Period	Date of Subsequent High in Stk.	Mos. From Bond Peak to Stk. Peak	% Advance in Stocks to Peak
Dec. 1947	Jan. 1951	36.2	Jan. 1953	24	62.0
June, 1953	April, 1954	19.0	April, 1956	24	95.0
Sept. 1957	June, 1958	4.8	Jan. 1960	19	50.8
Jan. 1960	Mar. 1961	8.7	Nov. 1961	8	19.1
Oct. 1961	Feb. 1965	28.5	Feb. 1966	12	42.4
Sept. 1966	Feb. 1967	8.4	Sept. 1967	7	22.8

Whether the recent low in bond prices was, in fact, an important bottom, is a question yet to be resolved. If, however, this was the case, the implications are distinctly encouraging for equities.

ANTHONY W. TABELL
WALSTON & CO. INC.

Dow-Jones Ind. 885.89
Dow-Jones Rails 250.45

AWT:amb

WN-801