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 23, 1968

At the moment, little has taken place from a technical point of view to clarify the somewhat muddied intermediate-term picture which the market has presented since mid-Summer. This problem can perhaps be clarified by recapitulating recent market history.

The dominant feature of 1968, so far, has been the rally which began on April Fool's Day and carried most market indicators sharply upward. Both the Dow and Standard & Poor's Averages moved to 1968 highs in early May -- the Dow advancing from 817.61 to 935.68, and the Standard & Poor's going from 86.64 to 100.19. Subsequent to this the Dow failed to better its May peak and, through mid-July, held in a trading range bounded by that high and, roughly, 896 on the downside. In mid-July it broke out of this range, reaching a low of 863.33 in early August, and since then has rallied into the supply area created by the original top.

The action of the broader Standard & Poor's 500-Stock Index has, in line with the divergence of recent years, been quite different. It posted successive new peaks in June and in July at 103.67. Also, its recent bottom failed to violate the May low, whereas the Dow moved sharply below that figure. Moreover, the July high on the broader index constituted an all-time peak while the Dow, at its 1968 top, was well below previous highs made in September 1967 and February 1966.

The central and unresolved question at the moment is, of course, whether the averages will continue the downswing which began in July, or will mount an assault on their 1968 peaks. For various reasons we do not think such an assault is imminent at the moment. The base formed in the past two weeks is insufficient to project any upside target much above current levels. There is also, in the averages and individual stocks, a good deal of overhead supply to be reckoned with. It would appear, therefore, that any attempt to move to new highs must needs be deferred until such time as a broader base has had a chance to form. This process will require both time and price movement.

A base of this nature could form in one of two ways. It could take the shape of a consolidation at or just below current levels, with the August lows of 863.33 on the Dow and 95.79 on the Standard & Poor's, holding. It could, alternatively, involve a return to 850-840 on the Dow, and a concomitant new low on the Standard & Poor's Index in order to complete the formation. This downside target, mentioned as a possibility over the past month in this letter, is hardly low enough to cause serious concern. We have repeatedly stated that we see little evidence of any reversal of the long-term uptrend from the 1966 lows, and we continue to maintain a constructive position toward the general market.

All of the previous discussion of the future course of the averages, unfortunately, tends to obscure what is probably the single most important fact to be gleaned from technical analysis of the stock market at this time. That is the clearcut emergence of new leadership. The suspicion that such a development might take place was voiced in this letter at the beginning of the year, but it could, at that early stage, be regarded as nothing more than a suspicion. Since that time it has unfolded into a clearcut pattern. The upside leaders for 1968 have been such groups as Savings & Loans, Finance Companies, Builders, Insurance, Cements, Vending Machines, Oils, Rubbers, and Papers. The emergence of these issues has been accompanied by a fading of such former favorites as Electronics, Metallurgy, Publishing, Aerospace, and some of the more marginal Office Equipment companies.

The pattern, we suspect, has major implications and is unlikely to be reversed over the foreseeable future. Stocks which have reached their long-term upside objectives once they begin a consolidation phase, do not, generally, emerge from that phase without the passage of a substantial period of time. A great many market leaders of the 1965-67 period fall into this category. Meanwhile, we suspect that we will see continued above-average relative action on the part of the groups mentioned above, along with possible emergence of new, hitherto dormant, groups whose identity can only now be guessed at. Last year's portfolio, in other words, is likely to prove as unsatisfactory in the final months of 1968 as it has been so far this year.

ANTHONY W. TABELL
WALSTON & CO. INC.

Dow-Jones Ind. 892.34
Dow-Jones Rails 251.11

AWT·amb