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TABELL'S MARKET LETTER December 13, 1968

Christmas decorations serve once again as a reminder that the forecasting season is upon us and that all good market-letter-writers will shortly be called upon to deliver themselves of weighty thoughts as to the equity outlook for 1969. We intend to honor tradition and will devote this space next week to doing so. But as prologue to looking forward, it is perhaps worthwhile to look backward at 1968 and see if it holds any clues as to the prospects for the year ahead.

It is worth reviewing last year in the context of our forecast issued a year ago on December 22, 1967. We devoted the first part of that letter to pointing out two facts. The first was that there was, at the beginning of 1968, very little in the way of an economic forecast built into the then current level of stock prices, (Dow-Jones 885). We opined, therefore, that stock prices would tend to follow the course of business once that course became clear. The second point that we made a year ago was that a great deal of technical damage had been done by the market decline of October 1967. We said at the time - ". . . . This damage must be repaired by early 1968 if a continued advance is to be predicted. The long range outlook quite clearly calls for higher stock prices. What happens between January 1968, and the ultimate realization of that forecast, is the issue which is still somewhat in doubt".

The issue remained in doubt at least for the first three months of 1968 during which time, it will be recalled, the averages continued to move irregularly lower - the Dow reaching in March a 15-month low of 817.61 -- producing one of the waves of pessimism that periodically seem to sweep the financial community. Then, of course, came the most dramatic single market event of the year - April Fool's Day -- when, in response to President Johnson's televised address, the market rally which characterized the latter nine months of the year began. As the rally progressed, fuel was added to the fire by the realization that 1968, economically, was turning out to be a much better year than most forecasters had anticipated. The imposition of the surtax had, to date, totally failed to cool the economy, and rising national income, accompanied by inflationary pressures, continued. Monetary expansion had, apparently, overpowered fiscal policy which, in turn, led to some healthy re-examination of monetary thinking on the part of a number of economists.

In any case, as the flowers of Spring began to bloom, it became evident that a possibility which we had outlined in our December forecast was materializing. We said - "We cannot help feeling that, if there are any surprises in the 1968 market, they will come on the upside rather than the downside -- in the realization of the long range forecast sooner rather than later. The reasons for this are two-fold. They are (1) that 1968 could be a better business year than many now anticipate and, (2) that there is still a good deal of room for improvement in the confidence factor in a great many, if not all, stocks."

We concluded by expanding on the second point above, emphasizing that while many of the then-growth favorites were fully valued, a great many cyclical issues, despite relatively spotty earnings records, appeared historically cheap. The two issues we chose to compare were IBM, then selling at 50 times earnings, and Republic Steel at around 8 times. It is interesting to note that from the 1967 close to date, RS has actually slightly out-performed IBM - probably the first year that has occurred in a good while. Our concluding sentence mentioned the possibility of a re-evaluation of blue chip issues, and we said - "We would prefer to enter 1968 by having a portfolio so constituted as to take advantage of any such re-evaluation."

This final conclusion was perhaps the most useful, since 1968 can be described as the year of the "renaissance of the blue chip". For the first time in a great many years it was possible to achieve moderately spectacular investment results in such prosaic issues as Union Camp or Royal Dutch Petroleum. Not that opportunities for aggressive investment were not lacking. The records of some of the building, savings and loans, and financial issues certainly prove that. By and large, however, the market leaders of 1968 were an entirely new breed, while the favorites of the prior three years were lackluster performers.

In summary, then, two salient factors appear to characterize 1968. First, in the economy, a money-fueled expansion, and second, in the market itself, a healthy upswing characterized by the re-emergence of high-grade issues. A forecast for 1969 will hinge, largely, on a decision as to whether these two phenomena were simply aberrations or the beginning of an ongoing trend. We will discuss this at greater length next week.

Dow-Jones Ind. 981.29
Dow-Jones Rails 278.64

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