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TABELL'S MARKET LETTER

Railroad stocks have few, if any, friends left. The various services have recently issued some rather pessimistic reports on the outlook for rail traffic and increased costs in 1949. There have been various compilations predicting possible 1949 earnings based on various contingencies such as a 10%, 20% or 25% reduction in traffic. The final conclusion in most cases appears to be that only the soundest rail equities should be held under present conditions.

I do not profess to know just what railroad earnings will be in 1949. However, at present prices and yields, it would appear that most railroad stocks have already discounted a substantial decline in earnings. The technical patterns of the rail average and of individual issues suggests that the 52-49 range in the Dow-Jones rail average is a strong support area. This same type of formation is present in the graphs of individual rail issues. Here again I would think that the rail average will reach its low in the first three months of 1949 -- if it has not already done so.

The improvement in the financial condition of the railroads since 1937 has been tremendous. Earnings and dividends were considerably higher in 1948 than in 1937 and yet in many cases, at the 1937 highs, railroad stocks were selling higher in 1937 than they are now. For example, in 1937 Southern Railway sold at a high of 43 3/8, in comparison with its present level of around 40. Yet in 1937 the common stock showed a deficit of $1.69 and paid no dividend. 1948 earnings are estimated at $12.45 and the stock is paying at the indicated rate of $4.00 annually to yield 10%. It might be also interesting to note the improvement in the financial condition of the road. For the year ending December 31, 1937, Southern Railway had cash items amounting to $9.4 millions as against $57.7 millions at the end of 1947.

This same comparison applies to many other roads. For example, Atchison, Topeka & Santa Fe sold at a high of 94 3/4 in 1937, as against the present price of around 100. In 1937, the stock earned 60 cents and paid a $2.00 dividend. In 1948, the company earned an estimated $23.00 and paid $8.00 in dividends to yield approximately 8%. Financial position also showed a wide improvement with cash items at the end of 1947 at $145.4 millions against $21.6 millions in 1937. The total fixed charges and preferred dividends were cut from $19.4 millions to $14.9 millions.

Illinois Central is another example. The 1937 high was 38, as against the present price of 28. In 1937 the common stock earned 70 cents as against an estimated $14.00 for 1948. No dividends were paid in either year. Cash items at the end of 1937 were $10.9 millions as against $73.0 millions at the end of 1947. Fixed charges and preferred dividends have been cut from $17.8 millions in 1937 to $11.9 millions at the end of 1947.

Still another example is Northern Pacific. At the 1947 high Northern Pacific sold at 36 5/8 as compared to its estimated price of around 16. 1937 earnings were 5 cents a share and the stock paid no dividend. 1948 earnings are estimated at $4.50 and the stock paid a year-end dividend of $1.50 to yield approximately 9%. Cash items improved from $16.4 millions in 1947 to $44.4 millions at the end of 1947. Fixed charges dropped from $14.4 millions to $10.5 millions

In comparison with the heights reached in 1937 on much lower earnings and dividends, rail stocks seem modestly priced at the moment even when a possible decline in earnings is taken into consideration. Probably one of the more important reasons for the present low price level of railroad stocks is the generally pessimistic attitude toward the equities in this group. Given a change in public psychology, rail stocks could sell considerably higher even in the face of reduced earnings.

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