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TABELL'S MARKET LETTER

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For the common stock buyer whose chief interest is in long term capital gains rather than current income, I believe that the stocks of airline companies present an outstanding opportunity at present price levels. Of all of my twelve-hundred or more graphs of individual stocks, the airlines have the clearest technical pattern for substantial long term appreciation. Obviously, these issues, most of which pay no dividends, are speculative. Also, from another angle, they may not be suitable vehicles for short term trading. But I believe they offer the possibility of very large percentage gains for the patient holder, because:

(1) The airlines are definitely "growth" issues. From 1940 to 1949, passenger revenue and revenue passenger miles flown have increased each year. Passenger revenue was \$53.3 million in 1940 and \$389.3 million in 1949. Revenue passenger miles flown were 1,052 million in 1940 and 6,816 million in 1949. Another example of growth is the fact that the ratio of air passenger miles to Pullman travel was 3.90% in 1935. In 1940 it had increased to 12.81%. In 1949 it was 70.30%. In addition, the number of aircraft in service has increased sharply. There were 369 in 1940 and 865 in 1949.

(2) Despite this tremendous growth, the average price of airline stocks today is not much higher than in 1940.

(3) In addition, at present price levels, the average airline stock is selling considerably below the 1945-1946 highs. Barron's airline average is now around 40 as compared with 84.06 on January 1st, 1946.

(4) The airlines in World War II benefited greatly from the stimulus of wartime traffic. In our present defense or semi-war economy, a similar stimulus to airline traffic should occur. In the event of a lessening of the war tension and a return to a peace economy, airline traffic would also tend to increase. Traffic for June is expected to show a large gain over a year ago.

(5) Costs should not rise in proportion to additional business and most of the gain would be carried down to net earnings.

(6) The airlines, in the war period from September 1939 to Pearl Harbor, advanced 60% as compared with a 10% decline in the market. In the entire war period from 1939 to 1945, the airlines showed the greatest percentage appreciation of any group and advanced over 400%.

(7) In the event of an excess profits tax, the airlines could be a special case. In World War II, they had a favored status. Their tax exemption was related to mail contracts rather than average earnings or invested capital. While it is only a conjecture, it appears probable that, due to the importance of airline transportation in a war emergency, similar favorable treatment would occur.

(8) The safety record of airlines is showing constant improvement. According to some sources, traveling by scheduled airliner is safer than riding in an automobile. As improved instrument landing and radar equipment are installed in more cities, delays and cancellations will be lowered and the passenger potential will be greatly increased.

(9) Express and freight shipments, which are now only a small and relatively unprofitable part of airline revenue could increase sharply.

(10) Large institutional investors, such as mutual funds, trusts, pension funds, insurance companies and the like have a very small percentage of their assets invested in bonds, preferred stocks and common stocks of the airlines due to their speculative character and uncertain income. A change for the better could release a tremendous potential demand for airline securities due to their growth possibilities.

(11) The technical patterns of the airline issues are very favorable. Very strong accumulation bases have been formed with possibilities of wide percentage appreciation from present levels.

(12) The potentially unfavorable factors such as dependence on our mail subsidies and the commandeering of fleets in the event of a war emergency may be overstressed. A discussion of these possibilities and a list of the most favorable stocks in the group, from a technical viewpoint, will be discussed in my next letter.

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