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MEMBERS NEW YORK STOCK EXCHANGE AND OTHER LEADING STOCK AND COMMODITY EXCHANGES

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TABELL'S MARKET LETTER February 4, 1955

The Dow-Jones industrials failed in their first attempt to penetrate the January high and break out on the upside of the 412.47 - 385.65 area in which the average has held since the first of the year. Tuesday's high was 411.63. The rails also failed to better the January high and still remain in the month-old trading shelf bounded by 147.73 high and 137.00 low. Based on the action of individual issues,it would appear that the odds favor an ultimate upside breakout of the trading ranges in both averages.

Looking at the market from the longer term point of view of intrinsic values, it must be realized that a great many issues, at present price levels, are no longer on the bargain counter. For the past seven or eight years, stocks were grossly undervalued in terms of earnings and dividends. The rise of the past sixteen months has gone a long way toward correcting this undervaluation. As measured by many better-grade stocks, the market is about normally valued at present prices, earnings, dividends and money rates. Any sharp price rise from these levels without a comparable rise in earnings and dividends would result in ultimate overvaluation. That is why a resting period at this stage would be a favorable development.

Of course,all stocks have not discounted the favorable potentials and there are a great many issues that appear attractively pricedat present levels.This letter has attempted to draw some of these issues to your attention.This has resulted in a recommended list that is reviewed periodically.

As this letter is read by individuals with varying investment or speculative objectives, the investment quality of the list also varies considerably. The main reason for my recommendations has been long term capital appreciation with a few issues mentioned for their generous yield and fair appreciation prospects. Each individual must decide whether each issue meets his individual investment or speculative requirements.

I have decided that the list is too lengthy and have eliminated twenty-seven issues. These are listed at the end of the letter. The reasons for the elimination are varied,but mainly because the issues eliminated have about reached their upside objectives on my technical work,or else have failed to perform as creditably as expected. Most of the issues eliminated show a profit. A rough approximation shows 390 points profits as against 15 points loss. The issues eliminated can be replaced by issues marked buy in the list below:

STOCK	Price Recom.	Present Price	% Yield	Advice
Abbott Lab.	40-45	45	4.1	Buy for slow 60-70.
Alleghany Corp.	3 3/4	8	-	Hold for 10-11, then 17-18.
Allegheny Ludlum	33-30	43	4.6	Hold for 60-75.
Allied Stores	38	55	5.4	Hold for 72-77.
Allis Chalmers	45-48	77	5.2	Hold for 90.
American Chain	30-33	38	6.5	Hold for 55-60.Buy 35-34.
Amer.Encaustic	7	12	5.8	Hold for 17-19.
Amer. Potash & C	40	72	2.8	Hold for 100-120.
Amer.Radiator	14-16	24	5.3	Hold for 27, then 43.
Amer. Tel & Tel	150	175	5.1	Hold for income and 200.
Assoc.Dry Goods	26	28	5.7	Hold for 33-35.
Balt.& Ohio	23-25	39	2.6	Hold for 50-55
Black & Decker	39	57	3.5	Hold for 70-80.Buy 52-50.
Blaw-Knox	22-18	28	4.3	Hold for 45-50.Buy 26-25.
Bucyrus Erie	22-23	38	5.3	Hold for 42-44.
Burroughs	15-17	25	4.0	Hold for 35-37.
Celanese	31-37	24	2.1	Hold for 31-34.
Celotex	20	29	5.2	Hold for 31, then 44.
Certain-teed	15	26	4.8	Hold for 29, then 41.
Chain Belt	30-35	48	5.2	Hold for 65, then 80.
Chic.& East.Ill.	18	24	4.2	Hold for 32.
Cities Ser. w.i.	38	51	3.9	Hold for 76.
City Products	37	36	6.9	Buy for income.
Colgate-Palm.	60	60	4.2	Hold for 75-100.
Columbia Broad.	30-33	88	2.2	Hold for long term growth.
Combustion Eng.	45	61	6.2	Hold for 83-87
Cutler Hammer	57	62	4.8	Hold for long term over 100.
Consol.Nat.Gas	25-27	34	4.4	Hold for 40-45.

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Thus, cash flow earnings (net plus amortization and depreciation) were about $8.05 per share as compared with reported earnings of $2.30. The comparable figures for the past five years are tabulated below:

	Reported Net Earnings	Cash Flow Earnings
1950	$7.07	$9.14
1951	5.40	7.54
1952	3.37	7.03
1953	4.40	9.49
1954	2.30	8.05

The ability to maintain cash flow earnings at such a high rate is encouraging considering the low rate of operations in 1954 and the heavy burden of relocating and starting up new facilities. Thus it would appear that the normal earnings of the company in the future will be considerably above both the reported net of $2.30 per share for 1954 and the reported net of $4.39 per share for the average of the past ten years.

Starting in 1955, the improved efficiency of the new units and the reduction of relocation and starting up expenses should, together with improved business conditions, result in much better earnings figures. While the accelerated amortization will reach a peak in 1955 and hold down reported earnings for a few years longer, this will be largely offset by above average growth in stainless and other alloy and specialty steels. Stainless steel use in the past has doubled about every ten years since it was introduced in 1920. Military and atomic applicatinns are increasing rapidly. Use of stainless steel as an exterior building material, replacing conventional materials such as masonry, is growing as witness the three all-stainless steel skyscrapers in Pittsburgh. Future growth is also expected from wider usage by such industries as automotive,electrical equipment, aircraft, chemical and consumer durable goods.

Allegheny's interest in new metals led it to form, jointly with National Lead, the Titanium Metals Corporation of America which produces titanium metal sponge and ingots at Henderson, Nevada. Production is about ten tons a day, but is growing. This could be an important future source of revenue, but the company is not looking to this aspect of its operations for substantial earnings for some time to come. Allegheny Ludlum produces melted and rolled zirconium and also has done work on rare earth combinations with steel. The company also has a 35% interest in Continuous Metalcast, which owns rights to the Rossi continuous casting process.

The stock should be of interest to the investor who is interested in long term growth. While it is selling at almost twenty times reported earnings for 1954, it is also selling at roughly only ten times average earnings for the past ten years and only five times cash flow earnings. It has paid $2.00 in dividends since 1943, plus occasional extras and stock dividends. It sold as high as 61 1/8 in 1946 and at 52 1/8 in 1951. It has sold higher than present levels in five of the past ten years. It is one of the largest factors in the stainless steel industry and because of an aggressive research program, it has two processes, continuous casting and hot extrusion, which are still in the early stages of development, but could have important commercial possibilities. For the longer term, it has an interesting potential in titanium and rare metals.

The technical pattern on the stock is quite constructive. The ability to move out of the long 26-39 trading area suggests an intermediate term 75. Over the nearer term, the pattern is also constructive. The stock broke out of the trading area late last year to reach a high of 45 3/8 in December. It has been resting and consolidating since that time in the 39-45 range. Ability to reach 46 would indicate a near term 50-55. There is good downside support at 39-37. Therefore, it appears that the stock has an upside potential of thirty points or 70% over the foreseeable future as against a risk potential of eight points or 17%. Purchase of this equity is advised for those interested in long term growth.

EDMUND W. TABELL
WALSTON & CO.