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## TABELL'S MARKET LETTER

June 24, 1955

On September 2nd, 1948, with the Dow-Jones industrial average at the 184 level, I expressed the opinion that the market was greatly undervalued because of the extremely high yields and fantastically low price to earnings ratios then prevailing on better quality common stocks. I further stated, that based on my technical work, I could envision first an advance to above the 1929 high of 386 and finally to an objective of 450 by the mid-1950s. This opinion was received with considerable skepticism at the time, but the 450 objective was finally reached just about on schedule at the week's high of 451.49.

Strangely enough, the upside objective of the recent 420-385 base area is also approximately 450 so it may be that around this level at least a temporary top may develop while the market consolidates the sharp advance that has occurred from not only the November 1954 low of 352, but also from the September 1953 low of 255. On the unfavorable side, the market appears adequately valued if not actually overvalued on the basis of projected 1955 earnings and dividends. Also, recent breadth of the market action based on volume, advances and declines and new highs and lows has been at least negative if not actually unfavorable despite the attainment of new highs by the market averages. Also, the recent sharp advance has brought my technical indicator into overbought territory and a temporary correction seems in order. On the favorable side, at least temporarily, there are only a few issues that appear to have built vulnerable distributional tops. If such tops are to form, more time will be needed. Furthermore, there are still many issues that continue to indicate higher levels over the nearer term.

It would appear advisable to continue the policy recently advocated by this letter. The industrial average may hold around the 450 level for quite some time, but I would lighten holdings of individual issues if individual upside objectives are reached. I would build up some cash reserve and make new commitments only in groups that appear to be in a definite long term uptrend and appear to be not too vulnerable on the downside.

In my opinion, the airlines are such a group. The industrial average has advanced 76% from the 1953 lows, but the airline group has advanced 178% and I expect this favorable relative strength action to continue over both the near term and longer term. The action of individual airline issues has been quite diverse. Over the past twenty months, Capital Airlines has shown the best price action with an advance of over 320% while United Airlines has advanced 119% for the smallest rise in the group. My favorite airline issue from a technical point of view, is PAN-AMERICAN WORLD AIRWAYS which has shown slightly below average action with an advance of 150%. In my opinion, it should show increasingly better price action from here on. My technical projection is 25-29 for the intermediate term and 45 for the longer term. Present price level is around 20. The technical picture is very strong and the 19-18 level is a good support zone.

The strong technical market pattern has apparently been formed because of developments that appear to be favorable for both the near and longer term:

(1) Traffic is in a sharply rising trend. The first quarter results showed a 26% increase over the 1954 period in passenger miles flown and commercial revenues reached a new high of \$44.7 million for a 21% gain. The expanding tourist service and augmented flight capacity through delivery of new planes indicate a continued improvement.

(2) The recent reductions in air mail service payments and subsidies appears to be an unfavorable development but, in my opinion, this is not entirely true. A gradual elimination of subsidies and less dependence on air mail revenue would be constructive. The trend appears to be working in that direction. In 1954, mail receipts were only 18% of gross operating revenue as compared with 57% in 1940. Subsidy payments are de-

clining each year and it is possible that they can be entirely eliminated in the not too distant future. This would appeal to investors who have avoided the stock because of the subsidy stigma. It would mean that this company, although competing with highly subsidized foreign carriers, is able to stand on its own feet.

(3) Pan-American and W. R. Grace Steamship each own 50% of a South American airline known as Panagra. The Justice Department has brought an anti-trust suit in order to force both companies to sell their Panagra holdings. It is possible that this suit might be settled by a consent decree and never brought to court. At the same time, the whole controversy on air service between New York and Latin America might be finally settled which would be most likely beneficial to all concerned.

(4) The direct service from Chicago and Detroit to Europe via the Great Circle Route through Newfoundland was inaugurated in April, 1954 and has extended Pan-American service from the United States interior to foreign points. Other important applications to the C.A.B. are pending such as (a) non-stop service New York to Mexico, (b) Los Angeles to Europe via Mexico and Cuba, (c) Pacific Coast cities to Europe via the Polar route.

(5) Revenues have shown steady growth since the end of World War II. In 1954, passenger revenues were almost twenty times greater than just before the war. This growth should continue. Last year for the first time, the airlines replaced the steamship as the principal medium for overseas travel. Pan-American in 1954 carried 28% of all overseas passengers who travelled by air or by sea to and from the United States.

Earnings should show a gradual increase. Cash flow earnings before depreciation in 1954 were about \$4.76 as compared with reported net of \$1.69 which included 48% non-recurring profit from sale of planes. Present cash flow earnings are probably over \$5.00. Company reports annually only, but first quarter earnings are estimated at 55% with profit from sale of planes included, but excluding subsidy. 1955 earnings could possibly total \$2.25. These probabilities, together with an attractive technical pattern, suggest purchase of the stock as the outstanding airline equity.

American Gilsonite, which is jointly owned by BARBER OIL and Standard Oil of California, expects to begin construction sometime this Fall of a new \$10 million plant which will produce high-test gasoline and metallurgical coke from Gilsonite deposits. Gilsonite is a form of asphalt found in a natural state in eastern Utah. Barber Oil, which is one of the issues in my recommended list, appears to be in a position to benefit from the interesting potential in Gilsonite.

Estimated earnings for 1955 on two of the issues in my recommended list are being revised upward. Expect \$7 - \$7.50 a share earnings on Allegheny Ludlum Steel as against our previous estimate of \$5.00. On Joy Manufacturing, the projection of close to \$5.00 earnings for the year ending September 30th might be changed to closer to \$5.50.

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