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TABELL'S MARKET LETTER

September 16, 1955

The market extended its gains during the week and the Dow-Jones industrial average reached a new all-time high at 485.73. This average is approaching its short term objective of 490 and may need some consolidation. The 470 level should furnish near term support. The rail average pushed through a lot of overhead supply to reach a fractional new high at 164.89 compared with the June high of 164.59. Perhaps a more decisive penetration is needed and this may occur either shortly or after a consolidation. An upside penetration would indicate a possible 172-179. The rails, if they penetrate, may offer a safer trading opportunity than the industrials which have already advanced sharply.

The market of the past week clearly illustrates the futility of paying too much attention to the various averages at this stage of the market pattern. Individual issues moved ahead sharply and the industrial average advanced ten points and yet, from Monday to Thursday, the total number of daily declining stocks of 1860 almost equalled the daily number of advancing stocks of 1896. This, together with other breadth-of-the-market indications of waning upside momentum dictates the advisability of a rather cautionary attitude despite the seeming strength in the averages and spectacular run-ups in individual issues. It warrants a continuation of the policy of lightening commitments on strength in both overvalued and below average issues and confining purchases to seemingly undervalued situations that are selling at realistic price to earnings ratios and are showing reasonable yields and have strong technical patterns with a minimum downside risk. Issues of this type are continually reviewed in this letter and remain suitable for longer term and intermediate term holding in capital appreciation accounts. In investment accounts, there is no need to disturb sound holdings. The long term trend of prices is still toward higher levels. In trading accounts, the situation is different. This stage of the market is a trader's paradise if you are agile enough and have the ability or good fortune to pick the handful of stocks that are really moving.

GENERAL RAILWAY SIGNAL

Statistics

Current Market	59
Current Dividend	$2.50
Current Yield	4.2%
Funded Debt & Pfd.	None *
Common Stock	337,587 shs.
Net Per Share, 1955	$3.50 (E)
Net Per Share, 1954	$3.25
Sales, 1955	$17,000,000 (E)
Sales, 1954	$15,990,000
Market Range, 1955-52	60¼ - 25

* Preferred issue to be redeemed December 31, 1955.

Perhaps more than any other industry, the railroads of America are faced with a problem of cost control. Competition from other carriers, federal regulation and other factors have necessitated comprehensive programs on the part of rail carriers to trim operating expenses and protect thinning profit margins.

Heretofore, the major effort in this direction has been dieselization, the replacement of antiquated steam locomotives by up-to-date diesel equipment. On most of the country's major carriers, these programs are either complete or well on their way. Now the rail men are beginning to slash at another item -- track maintenance.

One of the best ways of cutting down maintenance of way is to eliminate surplus track -- by making one track do the work of two, or two do the work of three or four. New electronic developments, similar to those which have revolutionized the business machine industry, are making this possible.

Most important of these new developments is CTC, Centralized Traffic Control. Under this system, one man can keep watch over miles of track, with the movement of each train plotted on an electronic board in front of him. By pressing a button he can accuate switches and signals many miles away and arrange for two high-speed trains approaching each other on a single track to pass on a high-speed siding without either train having to stop. By means of this system it often is possible to make one track

and a few sidings handle the same amount of traffic that two tracks handled before.

The savings provided by CTC are often astronomical. If it is installed when track is due to be replaced, replacement costs of $30,000 per mile of track can be eliminated. In an average case, maintenance of one track instead of two may save a railroad $2000 to $3000 annually per mile. From this it should be obvious that CTC can pay for itself in many cases within a very short while.

In addition to CTC, new electronic signalling and switching equipment can help railroads to effect great savings in yard costs, enabling one or two men to handle all switching and classifying on the freightyard. It is also possible that CTC can be applied to industrial plant traffic controls and airport and highway controls.

All electronic switching devices made in this country are manufactured by two companies: Union Switch & Signal and General Railway Signal, which cross-license all patents between each other. Union is a wholly-owned subsidiary of Westinghouse Airbrake and accounts for a fourth of Westinghouse's business. General Railway Signal almost entirely is in the switching business and the 337,000 shares of common will be direct beneficiaries of any growth in demand for electronic signalling devices. On this basis the shares of General Railway Signal seem to have attraction for long-term holding.

General Railway Signal was established in 1889 and has long been a major producer of railway signalling equipment. Reported earnings over the past five years have averaged $3.73 with last year, as could be expected due to railroad results, a poor one at $3.25. However, there is a strong indication that the downward earnings trend has reversed itself. For the second quarter of 1955 the company showed 93 cents a share, an annual rate of $3.72. Backlog has increased to a point 65% above the end of 1954 and this should begin to manifest itself in earnings shortly. With railway signal demand still in its infancy, the future looks extremely promising.

A major new order was one recently placed by New York Central Railroad amounting to $1½ million. New York Central will remove two of the four main tracks in 185 miles between Buffalo and Cleveland and install CTC. This may set the stage for similar elimination by major roads.

Another plus factor is that reported earnings during the years 1951-1953 do not tend to show the true earning power of the company. During those years the company operated at a huge profit margin and was subject to heavy excess profits tax. Reported earnings for the three years were $11.21 or an average of $3.73 per share. Had the present 52% tax rate then been in effect, per share earnings would have averaged close to $6.00. It can thus be inferred that, given an increase in demand, such as that foreseen, earning power can be increased considerably due to widening profit margins.

Furthermore, the company will, in all probability, be able to increase production without a dollar spent on additional plant. It is now operating on a full one-shift capacity. Were demand to justify it, it would be very easy to add another shift.

With demand increasing and no capital expenditures called for, all benefits accruing from increased sales will pass on directly to the common stockholder since there is no debt or preferred. This, together with the small common capitalization, is of great benefit to the common holder.

The lack of any capital requirements, together with an excellent working capital position, insures the continuance of the high 60% payout ratio. With the outlook pointing to generous future earnings and dividends, plus stable and continuing demand, General Railway Signal appears to have exceptionally attractive long-term prospects.

The technical pattern is very constructive with a long-term 140-150 indicated. Over the near-term, the objective appears to be 64-69. There is support around 50-48, thus offering a small downside risk with a huge upside potential. This recommendation, as are all the recommendations of this letter, is for long-term holding and not necessarily for trading purchases.

EDMUND W. TABELL
WALSTON & CO.