

# Walston & Co.

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## TABELL'S MARKET LETTER

July 3, 1958

The averages have again rallied back into the heavy overhead supply area at 480-520 in the Dow-Jones Industrials and 45-49 in the Standard & Poor's 500-Stock Index. The highs for the week were 482.26 and 45.53 as compared with the June 17th highs of 482.11 and 45.57. I am of the opinion that the general market averages will not push through this heavy supply of stock on the first attempt and some backing away is needed in order to enlarge the base and build up sufficient momentum to absorb the overhead offerings. This may take considerable time and result in a continued broad trading area in the averages. 482.11

If the market is to continue in a broad trading area for the foreseeable future, the wise course is to ignore the averages as much as possible and concentrate on individual issues with a combination of an attractive fundamental background and a potentially constructive technical pattern. The issues below seem to meet these qualifications and probably will be added to the recommended list at what I consider the proper timing from a technical viewpoint.

AMERICAN DISTILLING (34) is one of the largest of the independent distillers. Distilling stocks, in general, have shown improved relative strength of late as investors have recognized the fact that population figures favor growth in liquor consumption over the next decade. American Distilling has one of the best technical patterns in the group with an upside objective of 45-47 and support at 29-26, just under the current market. The company's emphasis on popular priced brands has enabled it to increase sales during the current recession, and earnings for the six months ended March 31st were \$1.85 a share vs. \$1.63 in the comparable 1956-57 period. Earnings for the fiscal year to end this September should be in the \$3.75 - \$4.00 range, and the current \$1.60 dividend could be increased some time in the future. The stock is selling well below the indicated book value of \$42.00 a share.

FEDERAL PAPER BOARD (39) is one of the largest producers of folding boxboard, converting around one-half of its output into cartons. Acquisitions in recent years have benefited the company through increased integration and broadening of the product line. The latest of these acquisitions is Federal Glass Company, a producer of low-priced household glassware. Although earnings will probably be off slightly from the pro forma \$4.64 in 1957, the \$2.00 dividend is well covered and affords an excellent yield. Statistically, the stock is selling at around nine times average earnings for the past five years and future growth of convenience packaging should provide for increase in earnings over the longer term. The stock has an upside objective of 50, with strong support just under current levels.

GIMBEL (29) has been engaged in an aggressive program of suburban store expansion and modernization with additions to property in 1957 totaling over \$7 million. Suburban stores were opened in Bayshore, Long Island; Upper Darby, Pennsylvania; North Hills Shopping Center, Pittsburgh; Springfield, New Jersey and Stamford, Connecticut. A shopping center outlet in Milwaukee is scheduled to be opened shortly. The expansion of facilities has caused pressure on profit margins and earnings for the second quarter were down to 26¢ per share. A moderate decline in full-year earnings, perhaps to \$3.25 from \$3.69, may be in prospect, but the enlarged sales base should produce better earnings to come. The \$1.60 dividend, which provides a 5.5% yield, does not appear in jeopardy and the stock has an excellent technical pattern with a possible upside objective of 43-45.

PARAMOUNT PICTURES (41) has appeal as a special situation based on the eventual liquidation of its surplus assets, for the most part old movies together with some real estate. The company has already sold its pre-1948 film library for \$50 million payable through 1973. The first payment on this sale amounted to \$3.69 per share after tax. Paramount will ultimately receive close to \$20 per share from this source, and it can be assumed that post-1948 films are worth equally as much, if not more. Meanwhile, the \$2.00 dividend is covered by operating earnings which should be up in 1958 from the \$2.47 shown in 1957. The stock has a possible upside objective of 60, with good support at the 36-35 level.

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