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## TABELL'S MARKET LETTER

December 19, 1958

The Dow-Jones Industrial average moved ahead throughout most of last week, and on Friday touched a new high of 577.90. Thus, the trading range in which the market had held for nearly a month, was penetrated on the upside, affording a technical potential of 600. Whether this level will be reached before the end of the year is problematical, as undoubtedly many stocks which advanced sharply in 1958 will be candidates for selling after December 24th, when profits can be reported on 1959 tax returns. Conversely, however, many stocks which have done little or nothing during the latter half of 1958 may be relieved of tax loss pressure after the first of the year. One such group is the oils, laggard-throughout-1958. While Standard & Poor's 425 Industrial Stock Index was some 33% above its April low this week, their Index of oil shares was only 18% above the April low. In general, the oils have been poor holdings during most of 1958.

From a technical point of view, however, a long period of sideways action often indicates accumulation and a sizeable upside potential. Such, we believe, is the case with most oil stocks, and with the international oils in particular.

There is nothing basically wrong with the oil industry. It is, indeed, one of the great growth industries of our time. Oil as a commodity has a long history of stable yet improving prices, and for the inflation-conscious investor, oil in the ground is probably the best inflation hedge available. That this opinion is held by most professional investment managers is evidenced by the fact that oil shares constitute the largest single industry group holding of most major investment companies. Why then the lackluster performances turned in to date?

The answer dates back to the Suez crisis of 1956. During this period, in order to fill the Middle East gap, Western Hemisphere production was expanded sharply. With the reopening of Suez in the following spring, however, producers were reluctant to cut back output and inventories piled up, the situation being aggravated by the recession which commenced in the latter half of 1957. This poor inventory picture caused sharp declines in profits of most major companies in late 1957 and early 1958, with the result that 1958 earnings will show unfavorable year to year comparisons. With the general pickup in business, however, the situation is improving rapidly. Crude stocks are currently low, gasoline stocks have been held to a minimum, and in general the inventory picture is as good as it has been in years. Under this stimulus, second half earnings for most oil companies should be considerably better than those of 1957, and 1959 should show record levels.

Which oil stocks are the most attractive? It is the feeling of this letter that with a few notable exceptions the large international oil companies represent the best value in the industry. Volumes of statistics can be cited to show the advantages of large oil reserves outside the United States. Oil in the Middle East and in Venezuela is infinitely cheaper to find than is the case in the U.S. where no major oil field has been discovered since 1953. Foreign oil serves a market - Western Europe - which is expected to increase twice as fast as the U.S. market due to strides yet to be made in industrialization. In the face of these excellent growth prospects many of the stocks are still available at well under fifteen times this year's depressed earnings and close to ten times three-year average earnings, as compared with a nineteen P/E ratio on the Dow-Jones Industrial average. This statistical cheapness appears to make the international oils candidates to be among the outstanding market performers of 1959. In terms of specific issues, four international companies are on our recommended list. Gulf Oil (127), Royal Dutch (48), Shell Transport (21), and Getty Oil (27). Others which appear attractive are Standard Oil of California (59), Socony Mobil (48), Atlantic Refining (44), Monterey Oil (37), Pacific Petroleum (18), Barber Oil (57), and the Getty group, (Mission Corp. (41) and Mission Development (21) and Tidewater (23).

It is believed that the performances of the oil group in general and the above mentioned equities, in particular, can be outstanding in 1959 with possible short term improvement as tax loss pressure is removed. Purchase is recommended in investment accounts.

A VERY MERRY CHRISTMAS TO ALL

EDMUND W. TABELL  
WALSTON & CO. INC.

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