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TABELL'S MARKET LETTER

May 29, 1959

At Friday's intra-day high of 643.79, the Dow-Jones Industrial average had reached the upper part of the 635-650 near-term rally objective outlined in my April 17th letter. Normal technical action would call for a consolidating period before the market resumes its rise on a broad scale. There are no tops of importance and the worst I can visualize at the moment is a trading range between 650 and 610. Percentagewise, this is only a 6% fluctuation from present levels. I still feel that the ultimate objective of the Industrial average is around 800 before a decline of much importance occurs. I would ignore the fluctuations in the general market and concentrate on the action of individual issues.

The Rail average, after reaching a new high last Friday, drifted slightly lower during the week. Individual rails, however, are building up strong technical patterns. I particularly like Chicago, Milwaukee, St. Paul & Pacific (27 3/4) which is on my recommended list. The road has had a sharp earnings recovery and estimated earnings for the twelve months ended April 30th are \$3.87 per share as compared to \$2.73 for the year of 1958. At about ten times 1958 earnings, and only about eight times earnings for the past twelve months, the stock seems reasonably priced. If the present trend continues, earnings for full 1959 could be above \$3.87 as a deficit was incurred in the 1958 second quarter and the third and fourth are the high earnings periods for this road. At the present dividend rate of 37 1/2 cents quarterly, the stock yields 5.3%. There is the possibility of a merger proposal that also lends speculative attraction to ST. The stock has held between 30 and 25 since mid-January and an upside breakout of this area would be very constructive technically.

KAISER ALUMINUM (51) was added to my recommended list on May 1st when it was at 41-42. The sharp price advance since that time draws attention to KAISER INDUSTRIES (15 1/4), which is listed on the American Stock Exchange. Kaiser Industries is a holding company which owns 45% of Kaiser Aluminum, 80% of Kaiser Steel (unlisted and selling around 53), and 39% of Permanente Cement (unlisted and selling around 25). All three of these companies seem to be doing nicely at the moment. In addition, Kaiser Industries wholly owns Henry J. Kaiser Co., one of the largest construction companies, and also Willys Motors, manufacturer of the Jeep. There are also other holdings. The issue is speculative because of the large amount of long-term debt and because there will be an equity dilution of about 10% if all the convertible bonds and preferred stock are converted into common and the outstanding warrants are exercised. However, the outlook for aluminum, steel and cement are favorable and this highly leveraged issue could move higher if the trend continues. The range from 1955 to date has been 23 1/2 high and 7 1/8 low. This low-priced speculation is added to my recommended list for those able to assume the risks involved. It is recommended for longer-term capital appreciation rather than short-term action.

As time goes on, and stocks on our recommended list advance, it becomes necessary to make deletions in order to make room for new candidates. Two stocks on my recommended list are near upside potentials. FLINTKOTE (43 3/8) was originally recommended at around 30. It is quite close to its technical upside potential of 45-50, and HOOKER CHEMICAL (45 1/8) is also near its technical upside potential of 46-50. These stocks may be held for further moderate appreciation, but appear to be too near upside objectives for new purchases, so are dropped from the recommended list. Possible replacements are Northwest Airlines (38), which may earn \$5 in 1959, and Newport News Shipbuilding (39 1/2). This issue is now in a strong technical support level. It has been depressed by failure of Congress to appropriate funds for ship subsidies and for new aircraft carriers. However, the very favorable long-term outlook for foreign trade and possible new orders for atomic submarines place this company in a favorable position. Earnings for 1959 should be around \$5.00 and the \$2.00 dividend yields 5%.

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