

# Walston & Co.

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## TABELL'S MARKET LETTER

July 31, 1959

During the past week, the Dow-Jones Industrials reached a fractional new intra-day high at 678.67 as compared with an early July high of 668.26. I say a fractional new high because a rise of ten points in the Industrial average now only amounts to 5/8 of 1%. The Rails, held back by the temporary decline in carloadings because of the steel strike, were unable to even approach the early July high of 174.41, much less the 1956 high of 182.54. This last figure compares with a 1956 high of 524.37 on the Industrial average which closed on Friday 29% above the 1956 high. Many rails appear very modestly priced when compared with the industrials. Probably the feature of the week was a sudden burst of strength in the oil shares. This strength showed signs of petering out as the week closed, but if it can be revived, it would be a most encouraging development. The oils, as far as relative strength is concerned, have been among the poorest acting groups. As for the near term general market action, I expect continued strength in selected issues, but a continued consolidating phase in the averages followed by an upward penetration in the not too far distant future.

Earnings reports for the first half of 1959 were more favorable than most people anticipated. Quite a few of the companies on my recommended list have issued six months results. MONSANTO CHEMICAL (55 1/4) reported \$1.51 earned for a 100% increase over the 1958 period. I continue to advise retention of this issue which originally entered my list at 35. The nearer term technical objective is 65 followed by a longer term 88. DAYTON RUBBER (34 1/8) also showed a 100% increase with 91¢ against 44¢. I think this issue, recently recommended at 32, has a considerable amount of attraction. From what I gather, Goodyear's reduction of 5% to 15% in the price of replacement tires will have little effect on most rubber companies' profits (Dayton has expanded into new fields and has a urethane division producing flexible and solid polyester and polyether types under the trade name of Stafoam. Technically, the stock has an initial objective of 55. CHICAGO, MILWAUKEE, ST. PAUL & PACIFIC (29 1/4) cut its usual first-half deficit after preferred dividends very sharply. This road, like most all-grain-belt carriers, reports most its earnings in the second half. For the twelve months ended June 30th, 1959, the road shows earnings of \$4.28. This road is competently managed and has some very interesting merger prospects. This stock, originally recommended at 26, has a technical projection of 40-45 for the intermediate term. Such an objective could be reached just by increasing efficiency and earning power. Merger developments could result in a price level much higher than that over the longer term. NATIONAL DISTILLERS (32 1/4) increased earnings to \$1.05 from a 1958 six-month figure of 88¢. The dividend was increased from 25¢ quarterly to 30¢ quarterly. Recommended at 27, the stock still qualifies for purchase on the basis of improved earnings for its rapidly growing chemical division as well as the distilling division and the stock's excellent long term technical pattern. NEWPORT NEWS SHIPBUILDING (42 1/8) also showed an excellent six-month report with \$2.93 earned as against \$1.33 in 1958. Billings carried over from last year may have resulted in somewhat higher earnings than anticipated. This issue is selling below my original recommendation at 47, but the longer term favorable outlook indicates purchase for the patient long term holder. PENNSALT CHEMICAL (33) has not yet issued its official report, but the president indicated earnings will be 50% above the 1958 level. Originally suggested at 23 7/8 (on a 3-for-1 split basis) I believe this stock merits a buy-hold rating. It has probably the best long term technical pattern in the chemical group. RAYONIER (27 1/2) showed a sharp increase in first-half results when it reported \$1.20 against 21¢ in 1958. Recommended at 19, this issue reached its first objective of 30 at the recent high. Would still hold as the stock has a higher long term potential. AMERICAN CAN (45 1/4) and PHILIP MORRIS (59 1/4) both showed modest increases in earnings. These two issues recommended at 42 and 48, respectively, have done little marketwise for quite some time. They are both good yielding investment issues and can be held on that basis. However, for better six-month or longer capital appreciation, the two issues recommended last week, AMERICAN VISCOSE (53 5/8) and CONSOLIDATION COAL (39 1/8) appear more attractive technically and would suggest a switch. MAGNAVOX (66 3/4) indicates they will recommend a 2-for-1 split shortly. This stock, recommended at 40, still merits a hold. Technical potential is 85 followed by 110.

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EDMUND W. TABELL

Dow Jones Industrials 674.00  
 Dow Jones Rails 174.41  
 Dow Jones Pains 130.00

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