

# Walston & Co.

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## TABELL'S MARKET LETTER

October 1, 1959

After rallying back to the first overhead supply area around 640, the Dow-Jones Industrials declined to 625.40 on Thursday. The important points to watch are the rally high of 643.60 and last week's low of 613.30. Ability to better this week's high would indicate a reversal of the intermediate downtrend in effect since early August. A decline below 613.30 would indicate a continuation of the downtrend to the 610-585 level.

Of all the growth products of our time, few have enjoyed a steadier increase in use than has aluminum. Consumption has increased sharply over the past two decades, and major producers expect U.S. demand for the metal to approach 4 million tons in the mid-1960s, versus just over 1 1/2 million tons in 1958.

Despite this rosy picture, however, the price road for aluminum stocks has not always been smooth. After topping in 1956, most aluminum equities dropped sharply from their highs, and at 1957 bear market lows, major companies had lost over half their market value.

The reason for the decline was two-fold. High P/E ratios discounted growth too many years in advance and the 1957-58 recession hit aluminum demand sharply. Meanwhile, substantial capacity increases came on stream just as demand was lessening. A two-cent price cut, the first since 1941, was put into effect and the situation was aggravated by Russian dumping on world markets. Earnings plummeted and stock prices dipped even more sharply.

With the worst corporate news in years flooding the financial press, aluminum stock prices held around their 1957 lows and, from a technical point of view, built up substantial bases. Stocks of three of the four major companies broke out of these bases on the upside in 1958, indicating substantially higher levels, levels which have not, as yet, been reached even though prices have advanced sharply. It is believed that these higher levels can be supported by fundamental improvements taking place within the industry, among which are the following:

- (1) The possibility of a price rise returning the metal to pre-1958 prices. (Mr. Khrushchev's emphasis of trade in his recent discussions lends credence to the opinion that Russian dumping may no longer be a factor.)
- (2) U.S. capacity sufficient to handle further increases in demand without capital expenditures. Since aluminum is a high fixed-cost industry, profits increase sharply as capacity is reached.
- (3) Aluminum costs, being largely capital costs are relatively immune to further inflation.
- (4) The sharply increased demand picture referring to above.

Two of the three major U.S. aluminum producers are on our recommended list. KAISER ALUMINUM (58 3/8) earned 72¢ in the first half, vs. 66¢, and net could approach \$1.75 for 1959. As capacity is attained, further increases appear in prospect for 1960 and 1961. Participation in REYNOLDS METALS can be achieved through U.S. FOIL B (67), a holding company which has behind each share 88/100ths of a share of Reynolds Metals. For many years, this stock has sold at a rather deep discount from Reynolds, but as the price improves, this discount could well narrow, thus further expanding the appreciation potential. Technically, objectives are 75-125 for Kaiser and 105 for U.S. Foil B.

A third aluminum equity which may have special attraction over the very long term is ALUMINIUM, LIMITED (34 1/4), the huge Canadian ingot producer. This company has numerous problems, including vulnerability to foreign competition and low current sales as a percent of capacity. As a result, recent earnings have shown little improvement. However, this company will increase capacity in the next few years more than any of the American companies. If demand increases at the rate projected into the 1960s, the earnings growth could be truly substantial. In keeping with the fundamental picture, Aluminium, Ltd. has not yet broken out of the base formed in 1957-59 between 27 and 39. Ability to reach new highs, however, could mean an eventual upside potential of 65-80.

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WALSTON & CO. INC.

AWT:amb

Dow-Jones Industrials: 633.60

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