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TABELL'S MARKET LETTER August 5, 1960

The stock market underwent another week of wide price movements. After last Friday's sharp advance to an intra-day high of 618.35, the market continued to advance moderately on Monday to reach a high of 622.37. From then until the last hour on Thursday, the average drifted downward to 600.28, with very small volume. In the final hour of trading, the market sharply reversed its trend and regained the day's losses. The advance continued on Friday when the intra-day high was 617.88. Ability to better Monday's high of 622.37 would, from a technical viewpoint, indicate an uptrend of at least intermediate term importance.

In the early days of security analysis, the art was somewhat simpler than it is today. All that was necessary was to discover what a company had earned in the past and apply an appropriate multiplier to those earnings. One could then, with a minimum of time and effort, discover whether a stock was "cheap" or "dear".

Just precisely what this multiplier, or price earnings ratio, should be was somewhat of a subjective matter, and depended on a number of outside factors, However, most authorities felt that a range between a P/E ratio of 8 and one of 18 constituted the permissible limits for common stock investment.

The analyst who follows the classical theory can only scratch his head in bewilderment at today's market. P/E ratios of 50-75 have become not uncommon and ratios in the 20's and 30's have become almost the rule for companies which have displayed any growth whatsoever. In order to ascertain value for growth stocks, numerous formulas have been developed to replace the old P/E ratio, some of them rivaling the theory of relativity in complexity. Despite all these new theories, however, enough respect for the classical relationship of price to earnings still obtains for many analysts to harbor the suspicion that the current market is "too high".

Only time will tell whether the classicists or the new growth stock theorists are more correct in their appraisal of security values. It is interesting to note, however, that even in this day of advanced multipliers and security prices there is a large number of stocks which are just plain cheap by old fashioned classical standards.

A few examples come to mind. Atchison, Topeka & Santa Fe (23) currently yields 6.3% on the indicated dividend rate of $1.45. Indicated earnings of $2.50 for 1960 give a price/earnings ratio of nine. It is one of the largest and most efficient operating railroad properties in the country and, with three exceptions, has paid dividends continuously since 1900. Non-railway income is greater than fixed charges and preferred dividends, which exempts the common from cyclical fluctuations inherent in more leveraged railroad stocks.

Standard Oil of New Jersey (41) currently affords the investor a yield of 5 1/2% on the indicated $2.25 dividend, and it is rather interesting to note that it has not been available on such a generous yield basis since 1954. Much has been heard about the problems of the oil industry, and they are real indeed. Nonetheless, Jersey's cash earnings have recovered sharply from the $4.89 of 1958 to $5.35 in 1959, and are expected to show a further moderate recovery this year. Earnings after non-cash charges should reach $3.10.

No one claims dividend stability for Kennecott Copper Corporation (75), but the current $5.00 rate is the lowest the company has offered since 1949 when copper was selling at 19¢ per pound, contrasted with the 32¢ rate enjoyed today. 1960 earnings could reach $7.00 a share before depletion. It is interesting to note that the stock has sold above its present price in every year since 1950.

This letter is not suggesting that the three stocks mentioned above are going to have substantial upside moves at any time in the near future. Technical factors, as a matter of fact, indicate just the opposite. However, they all three are just above their technical downside potentials: Atchison at 22, Standard Oil of New Jersey at 39 and Kennecott at 70. This, plus the fundamental factors mentioned above, would seem to indicate that there is little downside risk involved in owning them at current prices. In other words, amid all the talk of greatly overpriced equities, it is comforting to know that a large body of solid value still exists in today's market.

Dow-Jones Ind. 614.29 EDMUND W. TABELL

Dow-Jones Rails 134.64 WALSTON & CO., INC.

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