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TABELL'S MARKET LETTER

May 12th, 1961

Individual issues have had wide price movements during the past month but the general market has held in a trading range outlined roughly by 670 and 700 on the Dow Jones industrial average. This appears to be a normal consolidating period after a sharp 23% rise in six months. There are no signs of a long term deterioration in the technical pattern. Breadth-of-the-Market action, both in advances and declines and on upside and downside volume, continues to indicate a further advance in prices. It would appear that business reached its low in March. As usual, the stock market moved ahead before the low in business and bottomed out in October. As is also usual, stock-prices make their major move after a business low has been reached. This suggests that the stock market uptrend has still further to go. However, the sharp and rapid rise of the first six months might cut down the size of the ultimate potential. Our technical work indicates a broad objective of something between 725 (which seems low) and 825 (which seems high).

Probably the hesitancy in the market at the moment is the result of the completion of the first phase of the market advance with leadership switching from the defensive issues and the overvalued high P/E ratio glamour issues to the more basic group. In the last two letters, we outlined this trend and mentioned ten groups that were still selling considerably below their highs of recent years. We noted that most of these groups were currently showing below average relative strength but appeared, from a technical viewpoint, to be slowly forming accumulation patterns. In last weeks letter we mentioned the two groups that were showing the best immediate action, airlines and coppers, and discussed the issues in these two groups that are represented in our recommended list.

Of the remaining eight groups, there is no immediate indication of an upside breakout. Probably the textiles show the most interesting technical pattern for the near term. American Viscose (49) is part of our recommended list. It moved ahead sharply from an October low of 35 to a February high of 51 and has done little since. Recent action has been improving. Cluett-Peabody (63) has long term attraction for not only the apparel division but for its half interest in Clupak, the extensible paper. Reeves Bros. (27) is a recent recommendation that has reached new high territory but still looks attractive. In the low price list, our recommendations are Burlington Industries (18) and Manhattan Shirt (21).

The chemical group may need a bit more work but individual issues have been already moving ahead. Our recommended list consists mainly of specialty chemicals. They are American Potash (58), Hercules Powder (97), Heyden Newport (26), International Minerals and Chemicals (46), Tennessee Corp (64) and U.S. Borax (46). All of these issues have moved ahead sharply since their original recommendation but they still appear attractive. Commercial Solvents (32) Foot Mineral (26) and Sun Chemical (18) are part of our low priced list. Our favorite for long term holding is International Minerals & Chemicals.

The steels may also be near an upside breakout on relative strength. Our recommended list contains only one steel, Granite City Steel (49). It has moved ahead faster than the group and has recently reached a new all time high. We prefer the specialty steels like Granite City. We are adding another specialty steel, Carpenter Steel (47) to our recommended list.

In the paper group, our only representation is in Great Northern Paper (64), the largest American newsprint company. The 1956 high was 108 1/2. Allied Paper (13) is on our low priced list.

Of the remaining groups, Reynolds Metals (48) is recommended in the aluminum group and Ford Motors (85) is the outstanding issued in the automobile group. We have no immediate recommendation in the rubbers and the rails will be covered in a forthcoming letter.

The recent F.P.C. decision on the rate case of Panhandle Eastern Pipe Line (43) was quite unfavorable. The company lost its fight to sell its own low cost gas at the "fair field" price. The decision will be appealed to the Courts but it will take time. The stock has declined below our originally recommended level to reach a low of 40 3/4 during the past week. Price action will undoubtedly be slow

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Dow Jones Rails 144.77

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