

# Walston & Co.

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## TABELL'S MARKET LETTER

March 2, 1962

After reaching a low of 702.91 on Monday, the Dow-Jones Industrials recovered later in the week and reached a high of 715.89 on Thursday. It appears probable that we are witnessing the initial stages of a base formation from which another penetration of the heavy overhead supply between 720 and 740 may be attempted. For the moment, at least, as pointed out last week, the downside risk appears to be minimal with the small top formation of a few weeks ago suggesting nothing more than a decline to the 700-690 area. Important points to watch are the recent high of 721.39 and the January low of 686.89.

The main reason for the recent rather spotty action appears to be a lack of overall buying interest rather than any particular increase in selling pressure. Under such conditions the process of base formation could take a good deal of time and extreme selectivity, will, no doubt, continue.

In line with this probability we are making further changes in our recommended list. We are removing from the list seven securities which have either reached upside objectives or have had sharp drops in relative strength, and we are adding five new recommendations.

The seven securities being deleted are: American Metal Climax (36), American Optical (65), Carpenter Steel (45), Granite City Steel (41), Mississippi River Fuel (39), Pitney Bowes (60) and Sterling Drug (86). These seven, plus Boeing, removed a month ago, make eight deletions since the first of the year. Six of these eight stocks have performed better than the Dow-Jones Industrial Average from the time of their recommendation to the time of removal with three of them having advanced more than three times as much as the Dow. One stock advanced slightly less than the Dow, and one (Carpenter Steel) shows a small loss.

The five stocks being added are: Bendix Corp. (71), Burroughs Corp. (45), Crown Zellerbach (56), Murphy Corp. (28) and Union Bag-Camp Paper Corporation (43).

For some weeks now, a number of cyclical groups, many of which have done little marketwise since 1956, have tended to show improving action. One such group is the oil group which, although the industry still has many problems to solve, shows some signs of having reached a long-term bottom. The larger international oils are already represented in our list by Gulf Oil (44) and Royal Dutch (39). Murphy Corporation is an entirely different operation. A domestic oil and gas producer with one of the better growth records in the industry, the company has been able to increase both net income and cash flow in every year since 1958, and this year's results should extend the improvement. 1961 earnings were estimated at \$1.43 per share with cash flow of some \$3.40 per share.

Another major cyclical area which appears attractive for new buying is the paper industry and we are suggesting Crown Zellerbach and Union Bag-Camp Paper as participations in this group's bright future. Paper and paperboard production should continue to reach new highs and slower expansion of capacity after a number of years of substantial additions to plant should improve the supply-demand relationship. This has already been reflected in scattered price increases, and as sales continue to grow it would appear logical to expect improvement in operating margins rather than the pressure on profits which has characterized the industry of late.

Bendix appears to represent a diversified investment in a number of attractive fields including the automotive, aviation and aerospace areas. Earnings for the year to end September 30, 1962 should show substantial improvement over the depressed \$4.45 for 1960-1961. The well-covered \$2.40 dividend offers a 3.4% yield.

Burroughs Corp. appears to be one of the more attractive participations in the growing office equipment field. The nadir of the company's fortunes was reached in 1958 when heavy research and development expenditures reduced earnings to 97¢, and the stock declined from a 1957 high of 52 3/8 to a low of 27 5/8. Since that time profits have shown steady improvement and there is considerable evidence that the company has gained a strong foothold in the electronic data processing market which could well turn out to be highly profitable. Earnings improved to \$1.58 in 1961 and the improvement for 1962 could well be the most substantial so far. Estimated fourth quarter 1961 results of 75¢ were the highest for any quarter in the past five years.

Dow-Jones Ind. 711.00  
Dow-Jones Rails 146.25

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