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TABELL'S MARKET LETTER

March 15, 1957

Further patience will be required, but the stock market is slowly grinding out the pattern that I suggested over a year ago in my article published in the Commercial & Financial Chronicle dated December 29, 1955.

To quote in part -

"Certainly, it seems highly improbable to expect in 1956, the same rate of increase in business activity that was witnessed in 1955 or to expect the same rate of advance in the stock market that was experienced in 1954 and 1955. The rate of business increase in 1955 was two or three times the long-term rate while the stock market has advanced almost 100% in 27 months. A continuation of the present rate of advance in the stock market would mean a price level of about 1500 in the Dow-Jones Industrials by 1960 which seems a bit fantastic even to a confirmed bull like myself.*****Breadth-of-the-market action indicates that the market shows signs of waning upside momentum despite the fact that the averages are advancing to new highs. This divergence usually indicates either a decline or a long consolidating period. The action of the various averages also tends toward a somewhat cautionary attitude after the turn of the year. Actually, the market as a whole has made little headway since July 1955 (high 490). A few stocks have had sharp advances while the bulk of the market has moved sideways.*****All of the varied technical approaches confirm the fundamental findings that the bull market has reached a mature stage. If this turns out to be the case, the market will follow one of two possible correctionary patterns before the long-term advance is resumed. One possible pattern could be a sharp 1946-type decline of 25% or so followed by a re-accumulation area. This could carry the industrial average back to the 400-360 area. The other possible pattern could be a 1951-1953 type of consolidation with the average holding in a broad trading area while individual issues and groups adjust piecemeal with some groups declining while at the same time other issues and groups are advancing but eventually the whole market correcting any temporary overvaluations.

"A study of the graphs of over 1,200 individual issues suggests that the 1951-1953 pattern is the more probable one. At the present moment, many individual issues indicate the possibility that they are forming distributional tops that may need some more time to complete. In most instances, these issues are ones which have advanced very sharply in the last year or two and are selling at very high price-to-earnings ratios and extremely low yields that are based on possible future earnings and dividends rather than on the present. They could be quite vulnerable in the event of a change in the high investor confidence prevailing today.

"On the other hand, there are also quite a few issues today that have been more or less neglected marketwise and are still selling at fairly reasonable price-to-earnings ratios. Issues of this type would suffer little marketwise in the event of a general decline and might even move against the trend if fundamentals favored their group.

"The broad economic pattern and the more intelligent approach to investing that has prevailed in recent years, favors a possible piecemeal readjustment over a period of a year or so rather than a sharp decline.***** I believe the 1956 range will be 520 high and 430-420 low as against a present price level of 485. 1956 should be a year of extreme selectivity."

In the light of present conditions, it is hardly necessary to change the above fourteen-months-old forecast except in timing. The range in the Dow-Jones Industrial Average since July 1955 has been 524.37 high, reached in April 1956. The low was the Eisenhower heart attack low of 433.19 in October, 1955. The most recent low was 453.07 reached last month. Friday's close was 474.28. This is a relatively narrow twenty-month trading range of 17%. It compares with similar consolidating periods like the 18% trading area of thirty-six months duration in 1946-1949 and the 18% trading range of twenty-eight months duration in 1951-1953. If the time element of the two previous consolidating periods is applied to the present market, the averages could continue to hold in roughly the 524-433 range until October 1957 or July 1958. This, from a technical viewpoint, would be a very constructive development. It would set up a long resting and re-accumulation area with the possibility of an upside breakout to a new and higher price plateau.

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WN 301

It is entirely possible that, during this period, the market might work moderately lower to further correct the segments of the market that advanced too rapidly over the past twenty months. However, most of the vulnerable situations have been pretty thoroughly corrected as witness the 20%-30% decline in various blue chip growth issues. Any further weakness, when, as and if it occurs, should not be disturbing to the long term investor. It should be welcomed as presenting an excellent buying opportunity because the fundamental economic pattern is extremely favorable over the longer term.

As I have continually stated, individual issues will continue to outpace the general market. Reprinted below is my complete recommended list. These issues have been discussed in previous letters. They are recommended for substantial long term capital appreciation and not necessarily for near-term price movement.

| | <u>Present Price</u> | <u>Price Recom.</u> | <u>% Yield</u> | <u>Comment</u> |
|---------------------|----------------------|---------------------|----------------|--------------------------------------------|
| Allegheny Ludlum | 62 | 16 | 3.2 | Buy-Hold for substantial appreciation. |
| Amerada Petrol. | 112 | 103 | 1.7 | Buy-Hold. Long term potential 180. |
| Amer. Cyanamid | 76 | 67 | 3.9 | Most attractive issue in chem. group. |
| Bell & Howell | 38 | 42 | 2.6 | Buy-Hold for substantial appreciation. |
| Bristol-Myers | 47 | 37-35 | 3.4 | Recently made new high. Continue hold. |
| Calgary & Edmonton | 27 | 16 | 0.4 | Hold for objective of 35-38. |
| Carborundum Corp | 43 | 42-40 | 3.7 | Continued retention is advised. |
| Carrier Corp. | 58 | 60-58 | 4.1 | Excellent vehicle for long term growth. |
| Champlin Oil | 26 | 24 | 3.8 | Buy-Hold. Intermediate objective 37. |
| Columbian Carbon | 45 | 50 | 5.3 | Price action slow. Hold for income. |
| Copperweld Steel | 32 | 31 | 6.2 | Excellent for both yield & cap. gain. |
| Crucible Steel | 30 | 30-29 | 5.3 | Buy-Hold for substantial appreciation. |
| Eagle Picher | 45 | 22 | 4.9 | Buy-Hold. Selling at only 8 times earnings |
| Eastern Airlines | 40 | 47 | 2.5 | Price action slow. Patience required. |
| Fansteel Metal. | 48 | 45-44 | 2.1 | Continued retention is advised. |
| Food Machinery | 58 | 51 | 3.4 | Excellent 1/t growth. Buy on weakness. |
| General Dynamics | 60 | 50-48 | 3.3 | Hold for intermediate object. of 70 |
| General Electric | 56 | 56 | 3.6 | Hold for long term growth. |
| General Rwy Signal | 30 | 19 | 4.5 | Buy-Hold. Excellent 1/t pattern. |
| Gulf Oil | 120 | 107 | 2.1 | Continue to hold for long term gain. |
| Hewitt-Robins | 40 | 25 | 5.0 | Buy-Hold for substantial appreciation. |
| Intern'l Nickel | 105 | 90 | 3.5 | Continue to hold for long term gain. |
| Intern'l Petrol. | 49 | 34 | 2.9 | Hold for intermediate objective of 60. |
| Johns Manville | 48 | 50 | 4.7 | Hold for income and 1/t appreciation. |
| Joy Mfg. | 64 | 23 | 4.4 | Hold for intermediate object. of 75-80. |
| Kansas City South. | 68 | 85-83 | 5.9 | Price action may be slow. Hold for income. |
| Kennecott Copper | 109 | 130 | 6.4 | Reacted sharply. Near support. Good yield. |
| Magma Copper | 76 | 75 | - | Buy-Hold for substantial 1/t appreciation |
| Martin, Glenn L. | 41 | 38 | 4.0 | Near support. 1/t pattern very strong. |
| Masonite | 30 | 40 | 5.7 | Underpriced at present levels. |
| Minerals & Chem. | 27 | 32-30 | 0.7 | 1/t pattern good. Patience required. |
| Nat'l Distillers | 28 | 24 | 3.6 | Hold for long-term growth. |
| North. Natural Gas | 55 | 48-47 | 4.7 | Buy-Hold. Very strong 1/t pattern. |
| Northern Pacific | 42 | 40-39 | 4.5 | One of the better rail patterns. |
| Pacific Petroleum | 20 | 11 | - | Hold for intermediate object. of 25. |
| Pan-American World | 16 | 12 | 5.0 | Price action slow. Patience required. |
| Panhandle East Pipe | 51 | 46 | 3.5 | Buy-Hold for very strong 1/t pattern. |
| Penn Dixie Cement | 36 | 39-37 | 3.3 | Continue to hold for long term gain. |
| Pittston Company | 64 | 45 | 1.9 | Long term objective over 100. |
| Rayonier | 29 | 40-38 | 4.8 | Price action slow. Patience required. |
| Richfield Oil | 66 | 75-74 | 5.3 | Hold for income. |
| Royal McBee | 33 | 31 | 4.2 | Buy-Hold. Excellent long term pattern. |
| Sperry Rand | 21 | 25-24 | 3.8 | Price action slow. Patience required. |
| Sunray Mid-Cont. | 24 | 25 | 5.0 | Hold for long term gain. |
| Sylvania Elec. | 41 | 49 | 4.9 | Buy-Hold. Near strong support level. |
| Tennessee Corp. | 52 | 50 | 4.7 | Excellent long term growth pattern. |
| Timken Roller Bear. | 92 | 90 | 5.4 | Buy-Hold. Excellent long term pattern. |
| United Airlines | 31 | 40-38 | 1.6 | Price action slow. Patience required. |
| U.S. Steel | 59 | 65 | 5.1 | Continue to hold for long term gain. |
| Western Pacific | 56 | 73 | 5.3 | Has reacted sharply. Near support level. |
| Yale & Towne | 29 | 18 | 5.2 | Near support level. Continue to hold. |

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