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TABELL'S MARKET LETTER

August 2, 1957

It looks like more of the same. More of the same kind of stock market, that is, that we have been having for the past fifteen months. More of the same successive little waves of optimism followed by waves of pessimism with the market, as measured by the averages not getting very far in either direction. The averages today are just about where they were a year or even almost two years ago.

| Date | Stand. & Poor 500-Stock Index | Dow-Jones Industrials |
|------------------|-------------------------------|-----------------------|
| Aug. 2nd, 1957 | 47.68 | 505.10 |
| July 15th, 1957 | 49.13 | 523.11 |
| Aug. 2nd, 1956 | 49.74 | 523.33 |
| April 16th, 1956 | 48.85 | 524.37 |
| Sept. 23rd, 1955 | 45.63 | 489.84 |

The recent advance from the February lows after testing, but not passing, the 1956 highs appears to have lost momentum for the time being. From a technical point of view, there have been no signs of important distribution at the recent tops and probably the present declining phase will halt, at least temporarily, around the 47 level in the Standard & Poor 500-Stock Index and 500 on the Dow-Jones Industrials and will be followed by a consolidation and another attempt to penetrate the 1956 highs. Whether or not new highs in the averages are reached is problematical and probably not too important at this stage of market.

From a longer range point of view, I still adhere to the opinion I have held for almost two years. I believe the market is in a broad consolidating area similar to 1946-1949 and 1951-1953. The duration of this consolidating phase is uncertain. The 1946-1949 area held for approximately 40 months while the 1951-1953 phase lasted for roughly 28 months. If we use April, 1956 as the start of the present consolidating area, a 40-month projection would carry to August, 1959 and a 28-month projection would carry to August, 1958. It is, of course, not certain whether the present phase will be of shorter or longer duration than the two previous consolidating phases. However, regardless of the time element, it is my opinion that the present consolidating area will eventually be followed by an upside penetration of the area and an advance of equal or greater proportions than the 1949-1951 advance or the 1953-1956 advance. The present consolidating phase has held in roughly the 50-43 range in the S. & P. Index and the 525-450 range in the D-J Industrials since April, 1956. While I expect the averages to remain in these broad trading areas for some further time, this does not preclude the possibility that the averages might reach modest new highs while still remaining in the broad confines of the trading area. This happened in both the 1946-1949 and 1951-1953 area. In 1948 the averages reached a new high, but again returned to the trading area to broaden it. The same thing occurred in 1952.

While the averages have remained in a rather restricted trading area, we all know that many individual stocks have had private bull and bear markets of their own. This will continue regardless of the action of the averages. In my work over the past two years, I have tried to concentrate on individual issues and have been using the averages as only background. There are many reasonably priced issues available. For instance, AMERICAN BRAKE SHOE, which I mentioned in last week's letter, appears to be a good value regardless of the yields and P/E ratios of the various market averages. Earnings for 6 months on ABK were released earlier in the week and showed \$3.64 a share for first 6 months of 1957 compared with \$3.09 in the 1956 period. Allowing for full conversion of preferred by Sept. 30th would bring earnings down to \$3.37 for the 1957 6-month period as compared with \$2.99 in 1956 period. At 52, with at least an anticipated 1957 payment of \$2.90, the stock yields 5.5% and sells at only about 8 times anticipated 1957-earnings of \$6.55 a share. Incidentally, we made an error in our report last week in stating that ABK operated at a profit in every year since 1902 with the exception of 1932. Actually, company has operated at a profit every year. The 1932 deficit was after dividend payments. Actually, a profit of \$260,000 was shown in 1932 before dividends.

GENERAL RAILWAY SIGNAL (31) also released six months earnings during the week. 1957 results of \$1.45 compared with \$1.21 in 1956. Usually, over 60% of annual earnings of GRS are shown in the second half, so full 1957 earnings should be at least \$3.80 and probably around \$4.00. The stock looks attractive at present levels.

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