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TABELL'S MARKET LETTER

September 13, 1957

The averages tested the August 27th lows on Wednesday and then staged a sharp recovery. Wednesday's intra-day lows of 43.60 on Standard & Poor's 500-Stock Index and 467.10 on the Dow-Jones Industrials compare with August lows of 469.03 and 43.93. Friday's close was 44.80 and 481.02. Selling pressure has apparently lifted enough to permit a further recovery to the 46 1/2-47 level on the S & P Index and 490-500 on the Dow-Jones Industrials.

Recent letters have stressed the probable changing leadership in the market during the remainder of the consolidating period which I expect will continue well into 1958 or early 1959. Groups showing the best relative strength action during recent weeks include food chains, finance, tobacco, food products, can, baking, fertilizer, electronics, automobile, retail chain, farm machinery, drugs and soft drinks. Most of these groups, it will be noted, are in the consumer or consumer durable field. Some of the relative firmness can be ascribed to the defensive nature of the industries involved but, on the other hand, many individual issues in these groups have built up fairly sizable base patterns over the past year or two. From a technical viewpoint, they could stage a good percentage advance. The food chain group, for example, contains quite a few stocks with interesting potentials. I consider AMERICAN STORES (56) an attractive issue. Earnings for the 12 months ended March 31st totalled \$5.92 and \$6.25 is expected for the same period ending March 31st, 1958. The \$2 annual dividend has been supplemented by a 5% stock dividend each year since 1953. Also attractive in this group are GRAND UNION CO. (35 1/8) and WINN-DIXIE STORES (25 7/8). Another group showing excellent technical action is the electronics issues. This group has done little marketwise for almost three years, but the technical patterns forming suggest that some of the electronics-TV issues could again assume a more important rôle during advancing phases. My outstanding favorite is ZENITH RADIO (121). The recent out-of-court settlement of the company's suit against Radio Corp. of America will add to cash and an early expected decision by the FCC on subscription television systems could be of great interest to Zenith. It's system is known under the trade name of Phonevision. Competition has been intense in the radio and television field, but in a comparatively bad year, Zenith may increase earnings to \$14 a share in 1957 as against \$12.55 reported for 1956. Other attractive issues in this group include MAGNAVOX (37 5/8) MOTOROLA (48 1/2) and RAYTHEON (22 1/8). I also believe the retail store group has interesting profit potentialities. The group has been dormant for a long time but several individual issues are showing good technical action. One of the more interesting issues is GIMBEL BROS. (27 1/4). The stock has held in the 24-31 range for two years. An eventual upside penetration of this range would indicate a sizable percentage. In the meantime the yield is 5.9% and Gimbel is selling at only 7.3 times earnings based on the \$3.75 earned for the 12 months ended July 31st. FEDERATED DEPT. STORES (30 3/4) also appears attractive. I have mentioned AMERICAN CAN (44 1/2) in recent letters and also like LILY TULIP (64) for longer term holding. In the food group, my first choice would be GENERAL FOODS (47 1/2) which has been in a consolidating range for two years. In the automobile field, my choice continues to be CHRYSLER (76 1/4). In the farm equipment field, J.I. CASE (17 1/2) is speculative but has a most interesting upside potential.

All outstanding situations are not in the favored groups. For example, the rails have been showing extremely poor action, but I consider WESTERN PACIFIC (62 5/8) an outstanding buy (see August 30th letter). I would recommend switching any other rails into Western Pacific. AMERICAN BRAKE SHOE (47 1/2) also appears most attractive. The conversion privilege on the preferred stock expires on September 30th and the resulting pressure of conversion will end. GENERAL RAILWAY SIGNAL (28 3/4) also has built up a sizable potential base as has YALE & TOWNE (30 1/8) and BELL & HOWELL (45 1/2).

Would use periods of strength to switch out of issues whose relative strength patterns have been unfavorable over recent weeks and await periods of minor weakness to purchase the issues mentioned above.

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