

Walston & Co. Inc

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OFFICES COAST TO COAST AND OVERSEAS

TABELL'S MARKET LETTER

January 10, 1964

At the week's intra-day high of 780.59, the Dow-Jones Industrial average reached the lower range of the 775-795 upside potential. The breadth index moved ahead also, but still remains below the June and September highs despite new highs in the averages. Continue to advise taking profits on strength in order to build up cash reserves for later purchases. Vulnerable stocks should be switched into better quality defensive issues such as the issues mentioned below.

Despite the strength in the averages, there are many groups that are selling much nearer their lows of the past several years than their highs. One such group is the tobaccos. This letter is written before the issuance of the report of the United States Public Health Service Advisory Committee on Saturday. This report, it is presumed, will not present anything particularly new. It will be the Committee's evaluation of the many medical reports on smoking that have been published in past years. It is presumed that the report will be decidedly unfavorable as far as cigarette smoking is concerned and it is understood that a second report will follow at a later date giving what precautions should be taken to protect the public health. These might possibly include restrictions on advertising and stricter labeling requirements. There is also the threat of liability suits from cancer victims.

Health scares are not new in the cigarette industry. The first such scare was in 1954. Per capita consumption of cigarettes dropped sharply as a result, but the recovery was rapid, largely due to the growth in popularity of the filter-type cigarette and the great increase in women smokers. In the period between 1955 and 1962, the five leading companies increased volume by 47%. Whether a possible drop in consumption at this time will be followed by as steep a recovery is, of course, problematical.

The price swings in the group have been extremely wide since 1954, as noted below. Prices are adjusted for stock splits during the period.

	1954 Low	1961 High	1962 Low	Close 1/10/64
American Tobacco	19 3/4	35 3/4	25 1/8	28 1/2
Liggett & Myers	56	104 3/4	63 1/2	74 1/4
Lorillard	10 5/8	72 3/8	39 3/8	45 1/4
Philip Morris	39 1/4	125	61 1/8	75
Reynolds Tobacco	8 3/8	89 1/4	34 1/2	42 1/2

As can be seen from the table above, the price decline from the 1961 high has been quite drastic. However, despite the decline in price, earnings have been steady and yields are above average.

	S & P Rating	Close 1/10/64	1961 Earn	Last 12 mos. Earnings	P/E Ratio	Dividend	% Yield
American Tobacco	B+	28 1/2	\$2.40	\$ 2.39	12	\$1.50	5.3
Liggett & Myers	B+	74 1/4	6.47	6.07	12	5.00	6.7
Lorillard	A-	45 1/4	4.22	4.20	11	2.50	5.6
Philip Morris	A	75	5.61	6.00	13	3.60	4.8
Reynolds Tobacco	A+	42 1/2	2.91	3.10	14	1.80	4.2

At present price levels, the tobacco issues have, in our opinion, probably discounted most of the adverse publicity of the U. S. Health report. If they should sell off sharply, they would present an interesting long term speculation. The quality issue in the group is Reynolds Tobacco. Smokers are expected to turn increasingly from regular brands to filter and mentholated brands, and Reynolds has the top ranking filter (Winston), the top ranking mentholated filter (Salem), in addition to Camel, the top ranking regular cigarette. 1963 should be a record year in sales and earnings. Further diversification into other lines of consumer goods is probable. In 1963, Hawaiian Products, a producer of fruit drinks, was acquired.

The technical pattern of the stock appears favorable. The downside objective of the 1961 top of 36 has been reached and the stock has built up a sizable potential base in the 35-47 area. Reynolds is being added to our recommended list if available in the 43-40 area. American Tobacco also appears to offer above-average attraction.

Dow-Jones Ind. 774.33
Dow-Jones Rails 180.15

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