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TABELL'S MARKET LETTER

January 24, 1964

With wide moves in both directions, the major market averages continued to inch into new high territory last week. The Dow-Jones Industrials reached an all-time intraday high of 787 65 on Friday, and pushed further into the 775-795 area suggested for some time by this letter as a possible upside target. Most breadth indices also rose on the week, albeit quite moderately. These indices, however, remain well below their previous 1963-64 highs.

The obvious fact that the averages somewhat distort the market picture has been pointed out by many analysts. All investors are aware that, despite the fact that the averages are in new all-time high territory, the great majority of individual issues are still below their all-time highs, which may have been made in 1956, 1957, 1959 or 1961, depending on the stock. Only a relatively small minority of all stocks have moved into new all-time high territory this year.

We have recently had occasion to examine and analyze the technical pattern of each of the 1,800 stocks listed on the two major exchanges. The pattern which seems to appear with the greatest frequency is one where a stock, at current levels, is just under the overhead supply from the original top which may have been made in any one of the years mentioned above. The constant repetition of this pattern in stock after stock leads to the belief that the heavy supply in these issues will dampen any protracted rise from present levels at this time.

Of course, the averages would not be in all-time high territory today if there were not quite a few issues that had outperformed the general market and were now selling at new peaks. In the majority of cases, there has been a real fundamental and technical reason for these advances, and in some cases there is fundamental and technical justification for believing that they could move still higher over a period of time. Two examples may be drawn from our recommended list. Beaunit Corp. was first recommended in February 1962 and has been mentioned by this letter on numerous occasions since. Its high of 32 3/8 on Friday represented a move above its 1955 peak. Midland-Ross, which had been in new high territory for some time, also posted a new peak at 70 1/2 on Friday.

Despite Beaunit's move from its 1962 low of 17 7/8, the price does not seem to have discounted the important change that has taken place in the company. Synthetic fibers now account for about 55% of sales, insulating the company from the fluctuations in the volatile fabric field. Fabric position, however, is aided by heavy representation in the growing knit and stretch markets. The company is increasing its capacity. Polyester capacity will be upped from 12 million pounds to 30 million by mid-1964, and new modified rayon staple facilities are also being constructed. Earnings for the fiscal year to end March, 1964 are expected to increase to approximately \$2.50 from \$2.02 last year, and further increases appear probable for 1964-1965. There is support just under current levels in the 28-25 area.

Formerly a manufacturer of auto frames (these represented 85% of total business in 1956), Midland-Ross has become a widely diversified industrial enterprise with representation in the machinery, automotive, heating-air conditioning, aircraft, missile, tire cord, textile and building supply fields. Probably the company's most important step forward was acquisition of Industrial Rayon in April 1961, which broadened the equity base considerably and brought in cash items of some \$22 million and net working capital of over \$40 million. This cash has been utilized in an aggressive acquisition program and, in 1962, the company purchased some of its own stock for use in future acquisitions.

Earnings development has been impressive. Per share results have increased from \$2.32 in 1961 to an estimated \$5.25 - \$5.50 in 1963. The company announced Friday that it will consider calling its 5 1/2% preferred shares. It stated that had there been no preferred dividend requirements, nine months earnings would have been \$4.22 vs. the \$3.75 actually shown, so that future results should be benefited by the absence of these requirements. Capitalization of current earnings, considering the prospect for future growth, is conservative, and the \$3.00 dividend provides a 4.3% yield. There is good support in the 65-60 area.

Dow-Jones Ind. 783.04
Dow-Jones Rails 182.53

ANTHONY W. TABELL
WALSTON & CO., INC.