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## TABELL'S MARKET LETTER

April 10, 1964

With moderate upswings and retracements alternating, last week's market movement was essentially sideways. Throughout the week the Dow-Jones Industrial average ranged within the confines of the uptrend channel discussed at some length in last week's letter. At the moment the outer limits of this channel are approximately 815 on the downside and 837 on the upside.

A slow uptrend, similar to that in the Dow-Jones Industrial average, has also been in effect since December 23, 1963 on our daily (short-term) breadth index. A penetration of this uptrend would probably be as significant as a penetration of the uptrend in the average and might, indeed, foreshadow such a penetration: To date, however, both uptrend lines remain inviolate.

Meanwhile, the investor should be on the alert for a sharp change in either direction. A sharply higher market accompanied by heavy volume could be the start of a possible blow-off top. A penetration of the Dow uptrend channel on the downside, i. e., a drop below the 815-818 level in the next week, would also be a negative sign. It will be more difficult for the non-chartist to detect a penetration on the breadth index, but a period in which declines consistently outnumber advances would probably produce such a condition.

Meanwhile, a number of stocks, along with the Dow, continue to move up impressively. On January 10, 1964, before the issuance of the report of the United States Public Health Service Advisory Commission, this letter discussed the five major cigarette companies, pointing out that they possessed favorable technical patterns, that health scares were not new in the cigarette industry, and that previous scares had seen sharp recoveries after initial declines in per-capita cigarette consumption. It is now becoming evident that history is repeating itself. March cigarette tax collections in most States were down only moderately or, in some cases, ahead of a year ago as opposed to sharply unfavorable comparisons in January and February. Two tobacco companies told their annual meetings that March sales topped the 1963 levels, and, on Wednesday, R. J. Reynolds Tobacco, which is on our recommended list, noted it was possible that the company's first quarter earnings would be equal to the 67¢ earned in the first quarter of 1963.

All of this has not gone unnoticed in the market. Reynolds on Friday reached a high of 47 3/4 vs. a 1964 low of 38 1/8, and other tobacco stocks have enjoyed similar price improvement. Reynolds, however, is still selling for less than fifteen times its 1963 earnings and bids fair to show another earnings increase in 1964 as it has in every year for the past decade. It is probably still an attractive buy on minor dips.

Savings and Loan shares have also been firm of late, and in the case of these issues, like the tobaccos, the market seems to have begun to realize that near-term problems do not change the promising long-term outlook and fundamental cheapness of the stocks. It now becomes apparent that the new Federal Home Loan Bank Board regulations are somewhat less onerous than had been previously suspected, especially in the case of the larger, well-established companies. Two such companies, First Charter Financial and Great Western Financial, are on our recommended list. They continue to have higher objectives over the long term.

Another stock on our recommended list, Sundstrand, has, by contrast, as yet failed to recover from the effects of temporary setbacks, and at Friday's close of 22 3/8 was selling not far above its 1964 low. The company's earnings in 1963 were off sharply to \$1.21 a share vs. \$2.20 in 1962 under the impetus of a fourth quarter strike-caused deficit. The outlook for the company's aircraft and missile components and special purpose machine tools appears to be favorable and new orders are coming in at an excellent rate. The company is actively engaged in broadening its technical capabilities in the space field and, meanwhile, the \$1.00 dividend provides a yield of around 4.5% at current prices. The stock is again suggested for purchase in capital gains accounts.

Dow-Jones Ind. 821.75  
Dow-Jones Rails 195.28

ANTHONY W. TABELL  
WALSTON & CO. INC.

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