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TABELL'S MARKET LETTER

August 7, 1964

The wide price swings of the past week were motivated mainly by emotional reactions to the news development rather than by any fundamental change in the economic background. Probably we can expect a continuation of such nervous price action until Election Day with the market moving up and down in response to the swings in foreign and political news. We would expect the price range, however, to be relatively narrow just as it has been for the past six months. The Dow-Jones Industrial average first reached the 800 level about six months ago in February. Since that time the average has roughly held in a sixty-point trading area with a high of 855.19, and a low of 796.90, or a range of 8%. At the moment, the Industrial average is right in the middle of this six-month trading area. The low for the past week was 820.78 and, at that level, most of our shorter term technical indicators had reached or approached oversold territory on a short term basis. Absence of any disturbing news over the weekend might result in a rally toward the upper part of the trading area. However, we would not expect such a rally to carry into new high territory at this stage of the market pattern. From a technical point of view, the Industrial average reached its upside objective at 850 and time will be needed to form a new pattern that would indicate higher price levels. On the downside, there is strong support at the 820-800 level. If unfavorable news developments resulted in a decline below the June low of 796.90, the next support level would be around the 775-765 level. The market high prior to the Kennedy assassination low was 767.24. Probably the Industrial average will continue to hold in the six-month trading range of roughly 850 to 800 for the foreseeable future. In the meantime, there are individual situations, such as the following, that appear interesting.

Seaboard World Airlines, in the low-priced section of our recommended list, rose 1 3/8 points on heavy volume, closing at 7 3/8. The reason for this strength was a Civil Aeronautics Board decision giving all-cargo carriers, such as Seaboard, the exclusive right to sell large volume cargo space on their planes to other carriers, air freight forwarders and bulk shippers. This decision could bring about an important change in the air freight traffic picture and could be of great benefit to the company. However, there are many factors in addition to the CAB ruling which give the stock a speculative attraction at this time.

In 1955, Seaboard earned \$7.33 a share and sold at a high of 67 1/2. It achieved these earnings with property having a gross value of some \$2 1/2 million, and the company had no debt. In the ensuing years gross property has increased to over \$40 million, but debt, at the end of December 1963, was over \$33 million. Deficits were incurred in every year between 1957 and 1961, and the book value per common share has decreased from over \$28 to a minus figure. The stock sold as low as 2 1/2 in 1961.

Clearly, Seaboard's equipment purchases during the past decade have been somewhat less than profitable. There is, however, some evidence that the heavy investment of borrowed funds during the past ten years is beginning to bear some fruit. Seaboard, as a cargo airline, engaged primarily in carrying freight across the north Atlantic, is a beneficiary of a stable rate structure, longer average flights, and high rates which are providing the company with excellent yields per revenue ton mile. New routes will permit the company to serve Europe on an area basis at substantial savings in cost and improvements in utilization. The CAB decision, if it stands, will also stimulate growth in volume. The effect of all this on earnings could be dramatic.

The leverage provided by Seaboard's huge debt is, after all, a two-edged sword. Just as leverage led to a dramatic collapse of earning power in the late 50's, it can lead to an equally dramatic improvement as equipment utilization improves. Indeed, some improvement has already been noted. Earnings have expanded from a deficit of \$1.08 in 1961 to 29¢ in 1962, 47¢ in 1963, and a projected 80¢ in 1964. Future expansion could be at an even greater rate.

Obviously speculative, the shares, nonetheless, appear attractive for those individuals who are willing to assume substantial risk in return for the prospect of substantial gain. From a technical point of view, the stock has held in a narrow trading range since 1961. An ultimate upside breakout from this area would indicate considerably higher prices.

Dow-Jones Ind. 829.16
Dow-Jones Rails 213.02

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