FILE

Walston & Co. Inc

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OFFICES COAST TO COAST AND OVERSEAS

TABELL'S MARKET LETTER October 9, 1964

The extreme selectivity that has characterized the stock market for the past nine months still continues. Since the beginning of the year, the Industrial Average has advanced about 120 points from around 760 to 880. Percentagewise, the advance of 16% has been relatively modest. Many individual issues have shown much greater advances, but also many stocks have shown below average action. The 16% advance has been a meaningless figure as far as most stocks are concerned. The technical pattern on the averages gives no indication of an important move in either direction at the moment, but individual stocks show evidence of relatively wide moves in both directions. The averages have been in an uptrend for over two years and the advance is probably at a mature stage of development. This is evidenced by the increasing selectivity and the slowing down of volume on a longer term basis. The twenty-five week moving total of volume of trading on the New York Stock Exchange reached a high of 622 million shares on the week ended May 22nd, and has gradually fallen off to a total of 576 million shares on the week ended October 2nd. These volume drop-offs usually give a warning signal long before the market reaches its peak. For example, in 1961, the twenty-five week moving total of volume reached a high in April and gradually started to fall off. The high in the average was not reached until November.

In our recommended list, this letter has tried to counter the extreme selectivity in the general market by recommending issues where the technical pattern is strong and where the downside risk is compensated by a sizable long term potential. Most of the issues have shown above average action in recent markets.

J. RAY McDERMOTT (35 7/8) has advanced sharply in the past few weeks. While some consolidation may be needed, the long term potentials in this issue continue to make it an attractive long term holding. The same applies to COPPERWELD STEEL (61 1/2) which has advanced 50% in price since the first of the year.

MOHASCO (15 1/8) entered our recommended list in May at around the 13 1/2 level and has shown a moderate advance since that time. I visited the Oak River Mill and Dixiana Mill of this company last week and was very much impressed with what I saw. I will go into more detail in a future letter. Earnings for the year should be around $1.15 to $1.30, with the odds favoring the upper part of the range. At present levels the stock appears favorably priced in view of the excellent long term prospects.

J. C. Penney (60 1/2) entered our recommended list on September 15, 1961. Currently, although it has a longer term upside potential of 72 from a technical point of view, it has reached its shorter term upside potential. The stock is, accordingly, being removed from our list, although investors interested in quality and longer term growth may well wish to continue to hold it. However, more aggressive investors may well want to consider switching into MONTGOMERY WARD (43), which seems to us to be a highly attractive capital gains vehicle.

Almost everyone is familiar with the immediate post-war history of Montgomery Ward, the company's hoarding of cash and its refusal to expand as did its major competitor. An equally well known story is the effort of new management since 1957 to recover the ground lost. Unfortunately, in a company the size of Montgomery Ward, such recovery is a slow process, but there is evidence that tangible results have already been achieved and that the harvest of the company's belated expansion may be reaped more markedly over the next few years.

Since 1958, ninety-two new stores have been opened and these units now account for some 44% of sales. The number of larger stores has been increased while small, less profitable stores have been sharply reduced. Sales since 1957 have been increased by almost 50%, and 1964 will probably mark the fifth consecutive year in which an earnings increase has been shown. However, the company's need to put expansion above all else in the past seven years has placed a heavy penalty on profitability and recent earnings gains have been less than gains in sales. With the modernization program largely complete, it is felt that the company can increase its profit margin as well as show sales increases, and the effect on earnings could thus be dramatic. For the year to end January 31, 1965, earnings could well reach $1.75 per share versus $1.56 in 1963-64. Further growth for 1965 appears to be in prospect. From a technical point of view the stock has an upside objective of 53-66, and it is being added to our recommended list.

Dow-Jones Ind. 878.08
Dow-Jones Rails 222.12

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