

FILE

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TABELL'S MARKET LETTER

April 5, 1965

A modest advance on Friday topped off a week in which the Dow-Jones Industrials essentially moved sideways. The most noticeable feature of the week's trading was the extremely low volume, with turnover being lower than in any 5-day week since last August. Currently, the two important points to watch are the February low of 877.48 and the all-time high of 911.80. A breakout into new high ground would indicate a move to approximately 925, while a move below the February bottom would indicate a possible 860 and perhaps a testing of the December low of 850.19.

Thus, no dramatic move in either direction is implied. However, on the one hand, a move to new highs would destroy the potential top formation, maintain the year-long up-trend, and indicate a continuation of the relatively favorable investment climate from a time point of view. On the other hand, a downside breakout could indicate the continued building of a distributional pattern.

In any event, either sort of market will be characterized by diverse action and good moves in individual stocks where the technical and fundamental picture warrants it. Examples are two stocks added to our recommended list last week.

If one accepts the premise that the present market will continue to be characterized by a flow of investment funds from higher quality, amply-priced blue chips into smaller but still cheap secondary companies, WARNER BROS. COMPANY (33 1/2) becomes an extremely attractive candidate for purchase. The price (eleven times 1964 earnings of \$3.02, 9 1/2 times estimated 1965 results of \$3.50) is conservative. The growth record (earnings have increased in every year since the company went public in 1960) is impressive and shows no signs of abatement. And management has shown ability to prosper, both through acquisitions and internal growth, in a highly competitive field.

Warner manufactures quality foundation garments, Hathaway shirts, lingerie, swimsuits and, a year ago, acquired Puritan Sportswear, a manufacturer of men's sweaters and men's knit shirts. Its Slimwear Division has been highly successful in the foundation garment field and "Stretchbra", introduced in 1963, has been the most successful product in its history. Typical of its aggressive advertising is the eye-patch trademark which has made Hathaway shirts known the world over, and it is believed that aggressive management will be able to continue the company's enviable growth record.

The stock has a long term upside potential of 50, followed by possible higher levels, and is added to our recommended list for capital gains accounts.

AMERICAN BOSCH ARMA (20 3/8), on the face of it, has little to recommend it. Sales have declined from \$133 million in 1961 to \$70 million in 1964 and should drop off further in 1965. Net per share has receded from a 1957 peak of \$2.67 to 91¢ last year. What this record obscures, however, is a dramatic change in the structure of the company. Through the years, American Bosch has been heavily dependent on defense contracts. This business has been gradually reduced, and it is the decline in this area that accounts for a large portion of the dropoff in net. Meanwhile, the company's capital structure has been drastically improved, a substantial amount of debt has been retired, nearly a quarter of a million shares of a total capitalization of 1.7 million have been purchased for the Treasury, and more may be so purchased.

More than this, however, the company's most important division is now the American Bosch Division which is the leader in the manufacture of diesel fuel injection equipment. At a considerable research outlay, the division has developed the "PSJ" system which may dramatically alter diesel engine technology and make the diesel engine economic in a number of new uses, notably medium duty intra-city trucking. General Motors, Mack Truck, and a number of other major producers are now using the system and it is believed important enough to cause dramatic earnings growth for Bosch. Meanwhile, the company's other areas of operation, including the defense business on its present reduced scale, are profitable. The stock has a technical upside objective of 40, with support at the 17-15 level. It appears to have merit as a speculation on continued good results from the new fuel injection technique.

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Dow-Jones Ind. 893.38
Dow-Jones Rails 211.08