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TABELL'S MARKET LETTER

July 6, 1965

The Dow-Jones Industrial Average entered our suggested 850-820 buying area and rebounded sharply on heavy volume to close 20.80 points higher on the week at 875.16. An intra-day low of 832.74 was reached on Tuesday and was followed by an intra-day high of 878.40 on Friday. Considering the sharply oversold condition of the market after an 11.8% decline in eight weeks, it is difficult to figure just how far the rebound in the Averages might carry. Steep declines, caused largely by emotional changes rather than by specific economic developments, can reverse quite sharply. A comparable 11.8% decline in eight weeks in April of 1956 was followed by a complete retracement of the decline in two months. Our opinion on the market pattern for the foreseeable future is that the uptrend channel from the October, 1962 low has ended and will be replaced by a broad trading area with wide price swings both up and down. During this period the action of individual stocks will be far more important than swings in the market averages. We would watch closely stocks that are showing above average relative strength and would concentrate our attention on issues that at last week's low held above the low they had reached in December when the Industrial Average was at the 850.19 level.

One such a stock was Radio Corp. of America (34 1/8) which, at this week's low, failed to penetrate its December bottom of 31. The technical action of RCA has been interesting. Early in 1964 it reached a high of 35, then reacted and, throughout most of 1964 and early 1965, held in the 27-34 range. Early this year it posted an upside breakout from this range. In our June 14th letter we recommended its purchase on any reaction to the support level of 32, and the dip to this level subsequently occurred. The stock continues to have an upside objective of over \$60 per share.

Such an objective appears attainable over the next few years for this growth company. Obviously, the most interesting aspect of RCA at this time is that of color television. The company did most of the initial research and development in this area and is now by far the largest individual producer of tubes. Sales of color television sets have been growing at an astronomical rate, and they are expected to post a 45% to 50% increase this year. The trend will no doubt accelerate as more programs are telecast in color, and yet the market is far from saturated. At the present time, only one out of every seventeen television sets in use is a color instrument.

Yet television is by no means the only string to RCA's bow. Its data processing operation has recently moved into the black; backlog is up; and its new Spectra 70 computer line is expected to achieve a relatively favorable reception. Defense business is sizable and NBC profits continue good. Present prices mark the stock at just over twenty times estimated 1965 profits of \$1.60 per share. The stock is added to our recommended list for quality and long term growth.

While certainly not of the quality of RCA, Automatic Canteen (20 3/8) also, on recent break, held above its December low. It also appears to have a highly interesting growth potential. The company is both an operator and manufacturer of vending machines, but the greatest portion of revenues comes from vending operations and food services rather than manufacturing. Total revenues have shown an increase in every year since 1955, but net earnings have been erratic, due to various non-recurring items and other factors causing pressure on margins. Nevertheless, 1964-1965 earnings (the fiscal year ends September) are expected to reach a new peak at \$1.10 per share, and further growth appears in prospect as the demand for vending machinery and industrial-institutional food service continues to grow. It now appears that any change in coin silver content will not seriously affect the company or the industry, and, therefore, one potential cloud on the horizon appears to have been removed. On the assumption that per-share net can more closely approximate sales growth in the future, the stock appears to have merit as a growth speculation.

The technical pattern, meanwhile, is highly attractive. The stock from 1962 to mid-1964 held in a base formation in the 10-17 area. The upside penetration of this base indicated a possible 40, and good support exists not too far below current levels.

Other stocks mentioned in our June 14th letter, and added to our recommended list as buying levels were reached, include: American Hospital Supply (27 1/8) bought at 25, and the previously mentioned American Potash (40 1/4) bought at 39, International Paper (31 3/8) bought at 31, Interstate Motor Freight (27 1/2) bought at 28 and Perkin-Elmer (51 1/4) bought at 48.

Dow-Jones Ind. 875.16
Dow-Jones Rails 197.70

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