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TABELL'S MARKET LETTER

August 9, 1965

Although the Averages, "essentially, moved sideways," last week's internal market strength was fairly impressive. Although Friday's close of 882.51 in the Dow-Jones Industrials was little changed from the week earlier close of 881.74, advances outnumbered declines on all five days of the week and the short term outlook continues very much as outlined in last week's letter.

On June 14th this letter suggested a number of stocks for purchase if and when support levels were reached. The weakness in late June brought most of these stocks down to those levels and they were added to our recommended list. They include: Perkin-Elmer (58 1/4) suggested at 48, Interstate Motor Freight (30 1/2) suggested at 28, and Wallace & Tiernan (33 1/2) suggested at 29.

Perkin-Elmer has advanced the most since the original recommendation and, at 23 times latest 12 months earnings of \$2.47, is not cheap on a statistical basis, but the far-above-average growth rate in the special scientific fields it serves makes it appear attractive for accounts interested in capital appreciation. The company is one of the leading producers of optically-related scientific instruments. Perkin is believed to hold nearly a third of the market for instruments of this type and it is a market that is projected by most analysts to be growing at an annual rate of around 15%. The company's management ability in this field is a matter of record and we continue to feel that the stock is among the more favorably situated growth type equities.

Truck transportation is also a growing field, but the record of a number of companies in the area is one of conspicuous failure to take advantage of the inherent potential. Two prerequisites for a successful trucking operation would appear to be good route structure and excellent operating management. Interstate Motor Freight possesses both of these qualities. The route structure, which extends from the East Coast to the Rockies, is heavily concentrated in the industrialized areas of Michigan, Indiana and Ohio, which account for more than half of total mileage. Freight volume is broadly diversified both as to commodities and customers.

An example of management aggressiveness is the installation this year of a computer-based information system - the first of its kind in the trucking industry. This will be a real-time system which will link all of Interstate's terminals with a battery of computers in the company's general office through the use of high-speed data communication lines. Information on all shipments being handled will be noted, updated and instantly available, and complete management control reports will be generated. Scheduled for introduction once the system has been in operation will be advanced Operations Research programs to improve earnings performance:

That performance, to date, has been, of itself, impressive. Earnings for last year reached an all-time high of \$2.50 per share, culminating four years of solid growth, and 1965 results could move as high as \$3.25. Thus, the stock is selling at 9 times estimated 1965 results at a time when prospects for further earnings improvement are bright.

It is difficult to understand why a company of the caliber of Wallace & Tiernan sells as cheaply as it does. It is partially a drug company, partially a chemical company, and partially a food processing machinery company. Yet its growth rate over the past ten years has been superior to that of many leading companies in all three fields. It is admittedly not immune to cyclical fluctuations (earnings declined in both 1960 and 1961); but, with this exception, net income has shown satisfactory and steady growth in every year from 1954, when 82¢ per share was earned, to 1964 when \$1.78 was shown, and, for 1965, results could expand further to \$2.10. About one-third of the company's sales are accounted for by the equipment division which manufactures chlorinators and food handling machinery including the Do-Maker machine, an automated procedure for the making of bread dough. Sales of this product have, due to industry conditions, failed to live up to expectations, but it is believed, nonetheless, to have long range potentials.

The chemical division of the company produces organic peroxides used in plastics manufacture, and other specialty items. Drugs are divided into ethical and proprietary lines. In the latter area W&T has added to its highly profitable Desenex, the leading athlete's foot remedy, the Pharmacraft Laboratory Division of Seagram, which produces a number of familiar products, including Coldene, Fresh deodorant and Allerest allergy tablets. The stock, which sold for 33 times earnings in 1961, is now available for 16 times estimated 1965 results and has a favorable technical pattern with a long term objective of 43-63.

Dow-Jones Ind. 882.51

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