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TABELL'S MARKET LETTER

August 16, 1965

Breadth of the market action has improved considerably in recent weeks. In each of the past thirteen trading sessions the number of advancing stocks has exceeded the number declining. In most instances the favorable margin has been quite substantial. Our breadth index has moved sharply above the previous rally high reached on July 15th. This improving breadth action has not as yet been reflected in the Dow-Jones Industrial Average which has failed to better the July 15th intra-day peak of 889.98. The reason is obvious. There have been sizable advances to new high territory in a large number of stocks not in the 30-Stock index. The only stock in the Industrial Average to reach a new high for the year in the past two weeks is Eastman Kodak. During this same time period, two stocks in the Average, Johns-Manville and Union Carbide, have declined to new lows for the year. Institutional investors, in the main, remain quite cautious and buying has been reflected mainly in special situation stocks. The technical pattern indicates to us that the market is acting better than the Averages, and the improving breadth action will result in a confirming upward move in the investment issues before the present advance is completed.

Our general market opinion remains the same. We believe the Averages will remain in a broad trading area for a considerable period of time with diverse price action in individual securities. We would use periods of strength to eliminate stocks with unfavorable technical and fundamental patterns. We would use periods of weakness to buy stocks with good long term fundamental and technical patterns. We do not envision either a broad sweeping advance nor a cataclysmic decline. The technical pattern, in our opinion, is quite different from the 1961 top. The overspeculation that existed then does not exist today. We expect relatively wide price swings in a comparatively narrow trading area of 150 points in the Dow-Jones Industrial Average. To put it another way, this would mean a fifteen-point swing in a stock selling around 88. After this broad consolidating phase is completed, we would expect an upside penetration of the range and higher prices in the later half of the present decade.

This letter advised selling on strength in the early part of the year, and building up a cash reserve. In June we believed the downside potential was the 850-820 range and considered that area as a buy spot. The June 28th intra-day low was 832.74. At that point the market was deeply oversold. We believe the present advance will carry to higher levels. From a technical viewpoint, there is a sufficient base to indicate at least an advance to the 910-920 area.

The stocks in our recommended list, like the general market, have shown diverse action, but a fairly sizable number have reached new high territory. Quite a few are at advantageous purchase levels for long term holding. Aluminum Co. of Amer. (70 1/4), National Cash Register (79 3/4) and Reynolds Tobacco (41 1/4), in our Quality and Long Term Growth section, fall into this category. In the Price Appreciation section, Copperweld Steel (31) with earnings of \$3.03 for the past twelve months, appears to be at a reasonable price level. Earnings for 1965 will probably remain at around the present level, but we anticipate higher earnings in 1966 and 1967. Selling at about ten times current earnings, the stock appears undervalued considering the long term potential. Mohasco (20 1/2), also appears undervalued at present levels, in our opinion. The stock has moved sharply since our original recommendation at 13, but the rise has been justified by the advance in earnings. The stock earned \$1.29 in 1964 and estimated earnings for 1965 are around the \$1.70 level. Sundstrand (27 1/8) has done little marketwise until recently. It has broken out of the 24-19 area in which it has held for over two years and shows an improving technical pattern. Signode Corp. (31 1/8), one of the two leading manufacturers of steel strapping, is selling at thirteen times earnings of \$2.29 for the past twelve months. Here again both the fundamental outlook and the technical pattern are favorable. Storer Broadcasting (65 3/4) has moved up from the June low of 45 to a high of 66 1/2, due to acquisition of majority control of Northeast Airlines. The stock originally entered our list at 42. The technical objective was 66-74. Due to its close proximity to this area, we are dropping it from our recommended list. In our Low-Priced Speculative list, improved technical action is being shown by Microwave Assoc. (14) on the American Stock Exchange. This stock sold at 60 3/8 in 1961 during the glamour stock craze. It dropped to 8 in 1962. Since late 1962 it has held in a range bordered by 8 1/2 and 15. Earnings have been improving with 43¢ shown for the nine months ended June 30th. The stock is extremely speculative but looks interesting technically. Universal Match (15 7/8) has long term appeal as a speculation. UMT reached a high of 80 3/4 in 1960 and a low of 10 5/8 in 1962. Like Microwave, it has built up a substantial potential base in the 11-20 range. Patience may be required.

(Written Noon Friday, Aug. 13th.)

Dow-Jones Ind. 888.82

Dow-Jones Rails 215.32

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