

Walston & Co.

Inc

INVESTMENT BANKERS • MUTUAL FUNDS • MUNICIPAL BONDS

Members New York Stock Exchange

and Other Principal Stock and Commodity Exchanges

OFFICES COAST TO COAST AND OVERSEAS

TABELL'S MARKET LETTER

September 7, 1965

Last week's market action was impressive. In the early part of the week, despite weakness in the Averages, advances outnumbered declines indicating underlying market strength, and, on Thursday and Friday, this strength was reflected in decisive strength in the Averages on impressive volume. Despite the fact that at Friday's high of 910.28 the Dow-Jones Industrials were close to our shorter term upside objective of 910-915, further strength in the market leaders is possible before the decline tops out.

In our opinion AMERICAN TELEPHONE & TELEGRAPH COMPANY (67) represents an interesting purchase at present price levels. At first glance, this would appear to be a rather dull selection. There is no doubt in most people's minds that American Telephone is a prime investment issue, but the general thought is that it is an awfully slow-moving stock with a minimum opportunity for capital appreciation. Certainly, American Telephone is not to be regarded as a trading vehicle, but as an investment holding for long term capital appreciation, it has outperformed both the market and the economy. It is being added to our recommended list.

Since 1947-1949, revenues of American Telephone & Telegraph have increased 299%, while gross national product has increased 148%. Revenues have grown in every year since 1932. Population growth, technological progress and a rising standard of living are favorable factors in the long term outlook.

As far as market performance is concerned, Telephone reached a high of 31 in 1955 after adjusting for stock splits in 1959 and 1964. At present price levels around 67, the stock has shown a price appreciation of 116% over the past ten years. The Dow-Jones Industrial Average reached a high of 490 in 1955, and at the present level of 895, has advanced 83% in the past ten years.

In the past ten years, American Telephone & Telegraph revenues have more than doubled from \$4.7 billion in 1954 to \$10.3 billion in 1964. Earnings per share for the same period did not show a comparable rise. 1954 earnings, after adjusting for the two stock splits, were \$1.99 as compared to \$3.24 for the fiscal year of 1964, or a rise of only 62%. This has been largely due to the dilution brought about by stock offerings during the past decade. Rights to stockholders to buy additional common stock or convertible bonds were issued in 1955, 1956, 1958, 1961 and 1964. If these rights were exercised and the stock purchased, the capital appreciation would have been even greater over the ten-year period than that mentioned above. Indications are that the company may not have to resort to as much equity financing in the future as in the past because of the heavy flow of internally generated funds. This would reduce the amount of dilution and indicate a more rapid rate of earnings increase.

The increase in long distance calls has more than offset the rate reductions that went into effect on February 1st. Estimated earnings for the fiscal year ending November 30th are \$3.35 a share. At present levels of 67, the stock is selling at twenty times estimated earnings for 1965. Since 1964, the P/E ratio has ranged between 20 and 24 times earnings, so the stock is now selling in the lower part of the range.

The present P/E ratio is considerably higher than that which existed before the late 1950's when the new dividend policy was initiated after 30 years of stability. Dividends have been increased by small amounts several times since 1959 when the first increase occurred from the \$1.50 dividend paid for a thirty-year period. At the present \$2.00 annual dividend, the yield is roughly 3% at 67. There is no indication of an increase in the dividend in the immediate future, but the anticipated long term growth in earnings should result in an eventual higher payout.

From a technical viewpoint, the stock appears to be forming an accumulation base. After reaching a high of 75 in July, 1964 on the news of the stock split, Telephone has held in a narrow trading area since September a year ago. The high of this eleven-month range has been 70 1/2 and the low has been 65 3/8. The stock, at present levels of 67, is below the 1961 high of 68 1/4. Ability to break out of the recent trading area on the upside would indicate a move to a higher price plateau.

Most of the issues in our recommended list are showing above-average action. In addition to the 19 issues listed last week, four more issues in the list reached new high territory for the year. They are: American Bosch, Automatic Canteen, First Charter Financial and Great Western Financial. A new complete recommended list will be available this week from your Account Executive.

Dow-Jones Ind. 907.97
Dow-Jones Rails 217.75

EDMUND W. TABELL
WALSTON & CO. INC.

This market letter is published for your convenience and information and is not an offer to sell or a solicitation to buy any securities discussed. The information was obtained from sources we believe to be reliable but we do not guarantee its accuracy. Walston & Co. Inc. and its officers, directors or employees may have an interest in or purchase and sell the securities referred to herein.

WN-301