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TABELL'S MARKET LETTER June 24, 1966

Insofar as the Dow-Jones Industrial Average is concerned, the market remains on dead center. One possible interpretation of the action since early May is that a base is presently being built in the 866-904 range to sustain a market advance later on in the Summer. Currently, the most optimistic upside implications of this base are 924-948. Obviously, the longer the market continues to back and fill around present levels, the greater this potential becomes. Alternatively, failure to generate enough buying interest to move decisively through the 905 level could lead to a test of the former lows. Such a test, if it did occur, would probably be a relatively low risk buying opportunity.

Meanwhile, as repeatedly emphasized by this letter, the investor's best protection lies not in trying to guess the course of an uncertain market, but in making sure that the stocks he owns combine good upside opportunities with relatively limited downside risk. A few stocks in our Recommended List, which fall into this category, are discussed below.

ALUMINUM CO. OF AMERICA (86), the industry leader in aluminum, continues to appear attractive at current levels. While the consumption of aluminum has grown dramatically over the past years, the company's earnings have remained relatively stable as margins have trended sharply downward due to excess capacity and increasing costs. It now appears this downward trend has been arrested. In 1965, margins continued to improve as company's earnings of $3.41 were up from $2.72 in 1964, showing a much better percentage increase than sales. This should continue throughout 1966 and earnings this year should approach $4.50 - $4.75 on estimated sales of $1.3 billion. The tight supply situation might be eased a bit in 1967 due to new production facilities coming on stream. However, continued long term demand for aluminum is indicated for the coming years. This, coupled with further selective price increases in fabricated products, should widen profit margins and enable Alcoa to maintain its relative industry position.

GILLETTE (37), the leader in the safety razor and blade field, appears to have successfully recovered from the revolutionary introduction of the stainless steel blade by competitors in 1962. This subsequently depressed Gillette's earnings until the company recently offered similar improved products. A major share of this stainless steel razor blade market has now been captured and the company has begun distribution on a national level with the Super Stainless blade. This, coupled with the introduction of the new Techmatic razor, employing a continuous band of stainless steel coiled in a replacement snap-in cartridge, gives Gillette representation in both the single and double-edge blade markets. Other divisions contributing to Gillette's growth include the Toni division, the Paper Mate companies, and a men's and women's toiletry division. A marked turn-around in earnings is now apparent. Earnings for 1966 should approach $1.70 vs. $1.49 in 1965. Sales for 1966 are projected at $380 million or more, up from $339 million in 1965 - the ninth successive sales increase in a row. Although the stock historically sells at a high price/earnings ratio, we continue to feel the current price does not begin to fully discount expected improvements in the company.

UNITED FRUIT (31), the largest producer, transporter and seller of bananas, has successfully begun to restore operations to the former level of profitability. This has been accomplished with the development of the new strain of Valery bananas which is more resistant to windstorms and disease. Although banana selling prices averaged well below those of a year earlier, profit margins widened substantially, reflecting the success of this new banana. Although further banana prices are likely to continue to decline, United Fruit's costs appear to be declining at a greater rate. With the outlook substantially improved for the Valery banana, the company has embarked on a program of diversification through acquisition in the institutional food service field. In April, United Fruit acquired J. Hungerford Smith & Company which makes and markets beverage bases, fruits and flavors. United Fruit must submit to the U. S. District Court by the end of this month a plan to divest itself of properties capable of importing into the United States about 9 million banana stems a year. There does remain, however, uncertainties related to this consent decree compliance. Sales and service revenues in the current year are expected to exceed the peak $381.5 million of 1965. Earnings for the year could approach the $2.75 level per share compared with $2.17 for 1965.

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