

Walston & Co. Inc.

MUNICIPAL BONDS • UNDERWRITERS • MUTUAL FUNDS
Members New York Stock Exchange
and Other Principal Stock and Commodity Exchanges
OFFICES COAST TO COAST AND OVERSEAS

TABELL'S MARKET LETTER

December 9, 1966

The stock market reversed itself sharply this week, and the Dow-Jones Industrial Average reached an intra-week peak of 818.81, scoring good advances the first four days of the week, followed by some irregularity on Friday. This week's intra-day top of 818 represented the third attempt on the part of the Dow to move decisively through the 820 level comparing with intra-day peaks of 822.93 on September 16th and 827.33 on November 16th.

Basically, our inclination at the moment is to feel that this level will be breached on the upside following the year-end, with perhaps some irregularity between now and the end of December. Meanwhile, we think a number of individual issues will tend to outperform the market.- One such issue is reviewed below.

*** *** *** *** *** *** *** ***

KELSEY-HAYES COMPANY

Current Price	27
Current Dividend	\$1.30
Current Yield	4.8%
Long Term Debt	\$17,000,000
Common Stock	3,002,422 shs.
Sales-1967-E	\$290,000,000
Sales-1966	\$282,129,000
Earn. Per Sh. 1967-E	\$4.00+
Earn. Per Sh. 1966	\$3.45
Mkt. Range 1966-65	30 7/8 - 16

Despite the cloudy outlook currently surrounding 1967 prospects for the automotive industry, the shares of Kelsey-Hayes Company continue to warrant consideration by investment accounts seeking price appreciation and better-than-average dividend income. Having recently been added to our Recommended List, we are projecting a price objective in the low 40's for these shares.

Kelsey-Hayes has enjoyed almost dramatic earnings growth in recent years. Compared with a low point of \$1.62 a share in 1964, net income for the fiscal year ended August 31, 1966, rose to \$3.45 a share, an increase of better than 100% in only two years. For the current fiscal year,

ending next August 31st, earnings are being estimated to improve still further to around the \$4.00 a share level.

Kelsey is a major producer of parts and equipment for the automotive industry with wheels, hubs, brakes, power boosters for brakes, rims and drums dominating the broad product mix. In addition to servicing the automotive industry, where Ford and General Motors are its leading customers, but where Chrysler, American Motors and Kaiser Jeep also are serviced, Kelsey sells to manufacturers of trucks, buses and tractors. Aircraft parts constitute the leading non-automotive lines and include such items as compressor and turbine blades for jet engines, gear box assemblies and electronic scanning devices. Because of the increased Vietnam war requirements, sales of helicopter transmission housings are up sharply.

If there is anything "glamorous" in KW's product mix, it could be the sales potential that seemingly lies in disc brakes. With increasing emphasis being placed on car safety, disc brakes are expected to become standard equipment on almost all cars in a few years. These brakes offer such safety advantages as consistent straightline braking, lack of brake fade and the doing away with the danger of water in the brake. At present, KW disc brakes are standard equipment on several 1967 Ford models, General Motor's Toronado and Eldorado and Chrysler's Barracuda, Dart and Charger. It is anticipated that disc brakes will become standard on still more auto lines in 1968 with some industry analysts suggesting that 1968 model market penetration could exceed 50%. In anticipation of this possibility, KW has budgeted \$14 million for expansion of brake facilities in the current fiscal year.

Selling at approximately seven times the \$4.00 a share estimated for fiscal 1967 and providing a return of 4.8% on the current \$1.30 annual dividend, which must be considered a candidate for liberalization, these shares are recommended for purchase. From a technical standpoint, there is considerable downside support around the 25 level, the issue's relative strength index remains excellent, and our price objective is in the low 40's.

Dow-Jones Ind. 813.02
Dow-Jones Rails 206.68

HARRY W. LAUBSCHER for ANTHONY W. TABELL
WALSTON & CO. INC.

AWT:amb

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.