

# Walston & Co. Inc.

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## TABELL'S MARKET LETTER

February 23, 1968

It is always well to suspect the obvious, especially so, perhaps, in the stock market. By the time the Dow-Jones Industrials reached an intra-day low of 826.46 last week, signs of an intermediate-term downtrend were clearly apparent. The Dow Theory sell signal had been given, most longer-term smoothed curves, such as 200-day Moving Averages, had turned down, the heralded November low had been penetrated and the speculative favorites of last year had been thoroughly purged. Yet, on a short-term basis, the market was obviously so thoroughly sold out that at least a respite was necessary, and, low and behold, this week brought the first half-way decent advance seen in what has so far been a dismal 1968, with an intra-day high of 857.78 being reached on Friday. The obvious expectation is, of course, that the rally will run its course, peter out and that the intermediate downtrend will again prevail until more conclusive signs of its demise are offered.

This is, as we said above, the obvious conclusion. We suspect it. If the market is in need of further liquidation, we are inclined to think it will be completed sooner than later. Alternatively, if the present rally can be maintained for any length of time, we suspect it will continue farther than a great many pessimists would now seem to believe. Under these conditions, the standard solution is continued investment in attractive stocks such as the one reviewed below.

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### CHICAGO MUSICAL INSTRUMENT COMPANY

Current Price	32 5/8
Current Dividend	\$1.00
Current Yield	3.0%
Long-Term Debt	\$13,750,000
Common Stock	1,722,900 shs.
Sales 1968-E	\$67,000,000
Sales 1967	\$62,680,000

Sweet music has been filling the air for the last ten years at Chicago Musical Instrument Company as sales evidenced a steadily rising trend. Largest manufacturer of musical instruments in the country, CMI is expected to continue to be a prime beneficiary of the accelerating trend on the part of American youth toward use of musical instruments, especially guitars.

Earn. Per Sh. 1968-E	\$2.00
Earn. Per Sh. 1967	\$1.68
Mkt. Range 1968-67	25 1/4-38 7/8

Originally a distributor of instruments, CMI has developed a leading position in the retail dealers area, brought about by an aggressive acquisition program together with above-average internal growth. Sales over the last decade have averaged almost a 20% year-to-

year improvement, while earnings through the fiscal year ended June 30, 1966, averaged a 23% annual gain. While sales managed to move slightly ahead in fiscal 1967, net declined due to labor disputes early in the year at the guitar division, the company's most profitable subsidiary, a trucking strike and poor weather conditions that managed to severely delay shipments.

CMI's line includes keyboard instruments with organs and pianos being sold under the Lowrey and Storey & Clark brandnames. Organ sales, which declined over the last year due to a shortage of electronic components caused by the greater demands of the color television industry are expected to undergo a resurgence in coming months. Fretted instruments are sold under the Gibson, Epiphone and Kalamazoo names. Because of the accelerating demand for guitars, CMI continues to have a substantial backlog of orders in this product area. Band instruments produced include a full line of brasses, and woodwinds manufactured by others are distributed through CMI outlets.

The overseas market continues to expand. Instruments are exported to dealers located in more than 100 countries with Canada being the most important. It is estimated that foreign volume will approximate 10% of fiscal 1968 total sales. As living standards abroad rise, demand is expected to parallel the uptrend and constitute an increasingly important contribution to overall earnings.

Selling at less than 20 times the estimated \$2.00 a share for fiscal year ending June 30, 1968, these shares appear to offer the long-term investor an attractive vehicle for capital gains and growth in dividend income. From the technical view, there has been a base built over the last year evidencing considerable downside support between 34 and 28 and indicating a price objective at 65. Recently added to the Recommended List, these shares again appear attractive for purchase.

Dow-Jones Ind. 849.80  
Dow-Jones Rails 225.84

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