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TABELL'S MARKET LETTER May 17, 1968

The Commerce Department report for the first quarter reveals that 1968 could be a strongly consumer-oriented year. The rate of consumer spending has been stepped up as suggested by the lower rate of disposable income going into savings accounts. In our opinion, one of the industries most likely to benefit from this "spending spree" is textiles. This group as a whole seems to be in a long-term uptrend with many issues still selling well below their historic highs. One of the more attractive is BURLINGTON INDUSTRIES (43 3/4). The largest and most broadly based company in the industry, Burlington has had an unusually good record over the last ten years, rising from an adjusted price below $5.00 a share in 1957 to more than $50 a share in 1966. Despite this outstanding performance, Burlington's prospects seem equally attractive for the long pull.

Much of this success can be attributed to the fact that Burlington is the industry leader in the production of man-made fiber goods. This area accounts for better than 65% of total sales, and continues to expand. Additionally, apparel fabrics account for 70% of sales, and our fashion-oriented economy is expected to devour record amounts of fabrics well into the foreseeable future. This would seem to indicate that Burlington's sales in this area also will continue to expand, further favoring our hopes for earnings growth.

The company appears to have shaken off the effects of fiscal 1967's inventory retrenchment. Results for the first-half, ended March 31st, support this view. For the fiscal year ending September 30th, we are expecting earnings to rise to between $2.90 and $3.00 a share -- ex the probable tax increase, versus 1967 results of $2.30 a share. Despite the likelihood of a tax increase lowering this estimate, Directors are expected to consider favorably an increase in the current $1.20 annual dividend rate some time during the present calendar year.

From the technical view, Burlington has built a base of considerable support in the 43-37 area, limiting downside risk. Price action for the last two years enables us to project a price goal at 76. Currently selling only slightly above the support level, Burlington shares again are considered attractive for purchase.

Despite the possibility of a steel strike in August and the likelihood of increasing competition from the rising flood of steel imports, the outlook for the steel industry this year is favorable. While it is true that profit margins will continue under pressure, recent price increases will help to offset this problem. First-quarter results were good and the strong showings reported for several companies may have been due to a general buildup in consumer inventories as a hedge against the possible strike. One of our favorites in this group, SHARON STEEL (38 1/4), did exceptionally well in the first three months of 1968, with earnings rising to $1.31 a share from 36¢ in the year earlier period.

Sharon completed a ten-year modernization program late in 1966. In a good steel year the benefits of this would have been immediately apparent. However, 1967 was not a good steel year. Not only did demand slacken, but labor problems in the form of a truckers's strike delayed shipments. Poor weather conditions also worked to the disadvantage of the industry by delaying construction activities. These are considered non-recurring factors and served only to postpone business rather than to cancel it out altogether. This postponed business is now starting to be realized by the company, as indicated by first-quarter results. Management is optimistic over the current earnings trend continuing, and we are estimating results close to $5.00 a share for the current year, sharply above the $1.87 a share reported for 1967, and the best results since 1956. If past history is any indication, Sharon's dividend rate, now at $1.00 a share annually, should rise sharply over the next twelve months.

Technically, Sharon's recent market performance gives the impression that it wants to move up. A favorable pattern in the form of an ascending triangle has been created with a breakout around the 40-41 level. Our initial price objective is 52 followed by a higher goal at 70. There is considerable downside support in the 37-34 area. Currently selling for less than eight times possible 1968 earnings, these shares are considered attractive for purchase.

Dow-Jones Ind. 898.98
Dow-Jones Rails 246.42

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