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TABELL'S MARKET LETTER August 2, 1968

The price erosion which has been the dominant feature of the market since early July continued unabated last week with the Dow-Jones Industrial Average reaching an intra-day low of 865.19 on Friday. As mentioned in last week's letter, there are two sets of possible downside targets for the Dow. The most conservative projections center around the 870-860 level, while the more pessimistic are in the area of 850-840. At the week's low, the Dow was approaching the upper part of the range suggested above.

Paradoxically, a decline to the lower part of the range, i.e., to 850-840, would be more constructive for the longer term than a rallying tendency from around current levels. A continued decline would bring most stocks down to the downside objectives of their July tops and eliminate the possibility of these tops being broadened so as to indicate still lower downside targets. A short-term upswing at the present time, however, would give no definite clue as to the intermediate-term trend until the heavy supply which now exists at 890-920 was finally breached.

On the plus side, it must be noted that all of our short-term indicators are, currently, in abnormally deep oversold territory, and any further substantial declines would put these indicators in a position to give the sort of signal seen at only major turning points. The obvious conclusion is that regardless of what develops, there will be available abundant attractive buying opportunities on any move slightly below current levels. These opportunities will be found in stocks that have reached short-term downside objectives, and likewise in groups that have been resistant to the decline, such as the SAVINGS & LOAN issues.

These stocks have been among the better market performers in recent weeks, reflecting not only the apparent peaking out in interest rates, a result of the new tax increase and the expenditure control law, but also optimism over the future of the home building industry. In addition, savings, which have been added to S&L savings accounts at rates well below that of 1967, are expected to accelerate later this year. Continuing to favor the industry's prospects are the improved trend of delinquencies and repossessions and reduced interest expenses, as well as new avenues of growth being opened through merger and diversification activity. Two of the more attractive, currently on our Recommended List, and suitable for long-pull investment purposes are:

FIRST CHARTER FINANCIAL (32 5/8) - Largest of the publicly-owned savings and loan holding companies, FCF is expected to approach the $2 billion savings deposit level by late 1968 or early 1969. The company fully controls associations with branches primarily in the San Francisco and Los Angeles, California, areas. In addition, it is active in the insurance and real estate brokerage fields. With residential construction expected to pick up before the end of 1969 and undergo a sharp revival during the next three to five years, First Charter, with branches located in areas that would experience a good share of the new homes demand, should benefit.

Earnings this year are being estimated to rise to around the $1.65 level, from $1.42 last year, adjusted for the tax increase. Although the company has seen fit to utilize all earnings in the growth of the enterprise, stock dividends have been paid annually for the last 10 years.

Technically, First Charter has built an area of considerable support at 32-28, indicating limited downside risk. The price objective remains at 46-48 and stock appears to be a buy for investment-oriented accounts.

GIBRALTAR FINANCIAL (33) - A medium-sized S&L holding company, Gibraltar has managed to better maintain its earnings in recent years than has the industry in general. This trend should also be continued in the current year reflecting the sharp jump in loans made earlier this year, which in turn was a result of the fairly liquid position in which GFC entered 1968. With interest rates now easing, or at least having stopped rising, savings deposits are likely to move upward at a more favorable rate, permitting increased funds for lending and higher earnings. Compared with $1.70 a share last year, earnings for 1968 are estimated at between $1.90 and $2.00, adjusted for the tax surcharge. As in the case of FCF, Gibraltar also pays stock dividends in lieu of cash disbursements.

Technically, GFC's chart reveals a distinctly bullish pattern extending back almost two years. A base of support has been built in the 30-27 area providing support and indicating an initial price objective of 44. There is a higher price goal at 56-58.

Dow-Jones Ind. 871.27
Dow-Jones Rails 246.42

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

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