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TABELL'S MARKET LETTER

October 18, 1968

Continuing optimism over "indications" that a potential bombing halt may be in the offing in the Vietnam conflict was reflected in the market's moving to a new 1968 closing high. Whether the market can close the gap that now remains between the present level and the all-time closing high of 995.15 without being subjected to a selling phase, remains to be seen. Any selling phase that does enter, should it do so, would be contained, in our opinion, within reasonable limits and not do harm to the presently bullish stance of the market itself.

This letter has referred repeatedly, over the course of the Summer, to the obvious shifts in leadership taking place in equity markets. The changes, of course, have been dramatic---dramatic enough to require restructuring of most portfolios if full advantage was to be taken of the market upswing which began last April.

Meanwhile, as the upswing progresses, cross-currents begin to be more pronounced. A great many industry groups and stocks, which have above-average attraction on a long-term basis, have passed through, are passing through, or may shortly pass through, short-term downswings which will provide attractive opportunities to establish or increase positions. We are, therefore, commencing this week a review of individual industry groups which will be continued in subsequent issues until all groups have been covered.

Aerospace issues have, by and large, been in downward or, at best, neutral trends since the September 1967 highs, and, while risk appears low at present depressed levels, there is no indication of any immediate reversal. By and large, issues in the group should be switched. Exceptions to this rule might be Northrop, Martin-Marietta -- which benefits from its identification with the building industry -- and the private plane companies.

Airline stocks constitute a dilemma for the technician at the present time. From the Spring of 1967 to the Summer of 1968 these were generally among the poorest-acting stocks on the entire Board, with markdowns of 50% being the rule rather than the exception. A sharp rally from the ensuing deeply oversold position has characterized the past few weeks, and indications are that this rally could continue somewhat further before running its course. While we think that the odds are good and that airline stocks saw their lows last Summer, we are less convinced that the present rally is the start of a meaningful uptrend. We confess to no great confidence in the opinion, but we would prefer continued avoidance of the group and would utilize further strength to close out trading positions or leftover long-term holdings.

Aluminum stocks constitute a perfect example of a fairly common class in today's market -- stocks where the upside potential is large, but where relative strength is horrendous and where no evidence of any immediate move is indicated. Relative improvement can take place very quickly, of course, as a number of groups have already shown us this year, but there is, as yet, no sign of it here. Patient long-term holders should retain positions, but more aggressive investors will undoubtedly find immediate upside action elsewhere.

Most Apparel issues have done well in recent markets, and would have to be rated as strong holds. Bobbie Brooks (25) appears most attractive for purchase at the present time.

Auto issues do not present clearcut patterns at the moment, but the odds seem to favor the upside, with important moves not at all beyond the realm of possibility. Preliminary indications that the 1969 model year may exceed earlier expectations add fundamental attractiveness to the group and we would not be adverse to seeing major auto stocks in portfolios at this time. American Motors (14), on our Recommended List, continues to provide an attractive speculation on the company's ability to gain an increased market share and, with its highly leveraged position, show dramatic earnings gains.

Auto Equipments generally reflect the picture in the auto industry on which they depend and thus, in most cases, indicate higher levels. Arvin Industries (46), on our Recommended List, has an upside target of 48 and Champion Spark Plug (34) and Eaton Yale & Towne (40) appear attractive for purchase at this time.

Baking. American Bakeries (33) continues as an attractive special situation with a long-term target of over 60.

Business Machine issues are now at a pronounced downtrend relative to the market and considering the high levels of most of these stocks in relation to current earning power, they are probably better off switched into cheaper and more attractive issues.

Dow-Jones Ind. 967.49
Dow-Jones Rails 272.46

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