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## TADELL'S MARKET LETTER

November 21, 1969

Stock market action has deteriorated quite sharply over the past two weeks. From a high of 871.77 in mid-November, the Dow has reacted to an intra-day low of 820.35 as of Friday. Although volume has not been heavy, breadth has been poor and most short-term indicators are now in deeply oversold territory.

The depth of the decline at this stage is somewhat disquieting, but inspection of individual chart stock patterns shows absolutely no reason to abandon our contention that most stocks are somewhere in the process of forming a base. We would accordingly utilize the weakness to add to holdings of issues in good technical patterns such as Reynolds Tobacco Co.

### REYNOLDS TOBACCO COMPANY

Current Price	46 3/4
Current Dividend	\$2.40
Current Yield	5.1%
Long-Term Debt	\$297 million
\$2.25 Conv. Pfd. Stk.	8,103,837 shs.
Common Stock	40,235,552 shs.
Sales-1969-Est.	\$2.25 billion
Sales-1968	\$1.96 billion
Earn. Per. Sh. 1969-E.	\$4.15
Earn. Per Sh. 1968	\$3.71
Mkt. Range 1969-68	50 5/8 - 35 1/4

The renewed earnings upsurge previously anticipated for Reynolds Tobacco seems to be on schedule. Despite rising industry costs, continued harassment by anti-smoking groups and an anti-trust action settlement, earnings for 1969 are expected to rise better than 10% above 1968 levels. Even more appealing to longer-term investors, the outlook for this rate of improvement being augmented is highly optimistic thanks to several developments having taken place since RJR was the subject of this letter back in April of this year when the stock was selling at 38 3/8 a share.

The most recent development was the announcement over a week ago of a new method of "puffing" cigarette tobacco, doubling its bulk and thus making it possible to produce a cigarette with a great deal less tobacco. This breakthrough will have two major effects. First of all, if the amount of tobacco in a cigarette is reduced, so will the amount of tar and nicotine the smoker inhales. Second, since tobacco costs represent 60% of manufacturing costs, substantial production savings are obviously possible.

Meanwhile, substantial savings from the coming halt of TV and radio advertising are imminent. Sales volume is expected to be damaged little by the cessation, and cost reductions of close to \$75 million are possible.

In addition, several important acquisitions have been completed over the past year, or are now in various stages of discussion. The most important addition was McLean Industries one of the largest ocean freight transporters. Now called Sea-Land Service, this subsidiary has 38 vessels, 33 of which are container ships. Eight additional ships are under conversion to container carriers and eight more ships are being built abroad. Sea-Land also is negotiating the charter of sixteen containerships with the U.S. Lines subsidiary of Walter Kidde & Co. This unusually rapid growth is a reflection of the highly promising outlook for ocean trade and containerization in general.

The merger with Professional Golf Company, a leading producer of golf balls and equipment, has been temporarily suspended until agreement on the ratio of exchange of common shares has been reached. The eventual addition of this company to Reynolds' expanding interests, should it definitely come about, would provide still another step away from the earlier almost complete dependence on tobacco products.

This diversification into non-tobacco lines has resulted in a substantial position in the food industry. Although a recent agreement with the Dept. of Justice will result in the divestiture of its Penick & Ford Ltd. subsidiary, the company will be able to retain its profitable consumer food business. This operation includes such well known brand names as My-T-Fine, Vermont Maid, College Inn, Chun King Chinese foods, Patio Foods, Filler Products and Pacific Hawaiian. The company also is active in the production of aluminum, packaging and vinyl films.

Technically, RJR continues to suggest favorable market action. There is good support in the mid to low 40's and a long-term price objective in the mid-70's. Already on the Quality section of our Recommended List, Reynolds Tobacco again is recommended for purchase.

Dow-Jones Ind. 823.13  
Dow-Jones Rails 192.91

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