TABELL'S MARKET LETTER

Delafield, Harvey, Tabell Inc.

5 VAUGHN DRIVE, CN 5209, PRINCETON, NEW JERSEY 08543-5209

MEMBER NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC
(609) 987-2300

March 6, 1992

In last week's letter, we recalled a piece we had written twenty years ago, at which time we selected six favored growth issues of the day. It turned out that, after twenty years, five of the six were down in price. We then discovered that our twenty-year-old letter made equal sense today. What follows below is a reprint of that letter with the text virtually unchanged. Obviously, we have picked six new stocks, using, however, exactly the same criteria we used in 1972, a record of steady growth and universal institutional approbation. The three tables are identical, substituting the data for the new stocks and, of course, new (but comparable) dates for prices and earnings. The result is as follows.

Suppose an investor, at the end of September, 1990, had decided to construct himself a portfolio consisting of six widely-recognized growth stocks, **Coca-Cola, Home Depot, Merck, Microsoft, Philip Morris,** and **Wal-Mart Stores.** He would have every reason to be pleased with his investment results to date. His portfolio value would be up 129%, the first three columns of the table below showing the details.

	Price 9/28/90	Current Price	% Advance	Erngs 9/28/90	Erngs YE 1991	% Change
KO	39	80	105	1.94	2 43	25
HD	20	63	215	0 84	1 20	43
MRK	76	151	99	4.35	5.49	26
MSFT	42	123	193	1.74	3.03	74
MO	45	75	67	4 43	4 64	5
WMT	27	53	96	1.10	1.40	27

The crucial question is "Why?", and, unfortunately, most investors with similar portfolios would tend to utter pious declamations about the merits of growth stocks. As the table indicates, however, market gains ranging from 53% to 215% were achieved on earnings gains ranging from 5% to (in one case) 74%. The bulk of the portfolio gain was achieved, not through earnings growth, but through the normal bull-market process of marking up the price paid for a dollar of earnings.

	Current Price	Earnings 1991	P/E	Peak P/E 1987
KO	80	2.43	33	21
HD	63	1 20	53	36
MRK	151	5.49	28	40
MSFT	123	3.03	41	61
MO	75	4.64	16	17
WMT	53	1.40	38	34

That this process has advanced to a fairly mature stage is suggested by the table at left which compares the current p/e ratio of each stock to its peak p/e ratio for 1987. As can be seen, three of the six stocks are above that peak. The implication, of course, is that further gains based on the market's willingness to pay a higher price for earnings may be limited.

The table below takes 1992 estimated earnings for each of the six stocks, applies the highest multiple from the left-hand table and indicates the price at which each stock would sell based on that multiple. As can be seen, the percentage advances from current levels on this basis are, in four of six cases at least, rather limited.

	Price	Engs 1992-E	Peak P/E	Pot. Px	%Chg
KO	80	2 87	33	95	18
HD	63	1 52	53	81	28
MRK	151	6.47	40	259	71
MSFT	123	4 02	61	245	99
MO	75	5.57	17	95	26
WMT	53	1 72	38	65	23

Now it should be made clear what the above study is intended to do. Most importantly, it is not intended to make any judgment, pro or con, as to the current investment merits of the six companies. It is also not meant to suggest that the target prices mentioned in the last table posses any practical value as the market makes new highs in a bull move, i.e., that the purpose of bull markets is to discount rosy futures. It is also meant to suggest that, in the case of such easily-selectable issues as the ones above, the process of discounting may be reasonably well advanced. The investor's dilemma at this point is that further substantial multiple plays can probably be found only by recourse to less conventional stocks. Such recourse, quite obviously, entails the acceptance of a higher degree of risk

ANTHONY W. TABELL, CMT
DELAFIELD, HARVEY, TABELL

Dow Jones Industrials (12.00) 3237.48
Standard & Poors 500 (12:00) 405.91
Cumulative Index (3/5/92) 7363.19