



TABELL'S MARKET LETTER

35 WALL STREET, NEW YORK 5, N. Y.
Digby 4-4141

Quite often you read something in the news which coincides exactly with your own ideas. A recent article of Jules I. Bogen in his "Financial Situation" column in the Journal of Commerce of January 11th fits this classification. I am reprinting it below:

"Dividend yields on common stocks have been pushed up close to the highest level on record, as a result of recent dividend rate increases and sagging markets late last year. Average yield of all common stocks listed on the New York Stock Exchange exceeds $6\frac{1}{2}$ per cent at the present time, making allowance for the latest wave of dividend increases. Only once in the last 30 years - in 1932 - did listed common stocks return more than $6\frac{1}{2}$ per cent for an entire year.

"Moody's index of yields of 200 stocks climbed to 6.72 per cent for November, and was doubtless considerably higher for December. A year before, this index was 5.54 per cent, showing a rise in the average yield of well over 1 per cent for the year. Industrial stocks showed a much sharper gain in dividend return than the inclusive group of stocks.

"Further increases in dividends by many corporations are likely this year, even if a moderate downturn in earnings occurs. For one thing, many corporations will be completing their major capital expansion programs, and so will have less need for withholding earnings from shareholders. Secondly, a more stable commodity price trend will lessen the need for additional working capital to finance expansion of inventories and receivables. Particularly because new capital needs may be smaller, corporations will be under pressure to pay out more liberal dividends because of Section 102 of the Revenue Act. This law imposes a punitive surtax for 'unreasonable' accumulations of surplus. Business expansion needs are often decisive evidence that surplus increases are 'reasonable,' so that less expansion makes concerns more vulnerable.

"That investors appreciate a stable dividend return is indicated by fact that utility common stock yields are now considerably below the average for industrials. In November, Moody's index showed that 25 utilities yielded an average of 6.08 per cent, whereas 125 industrials yielded 6.98 per cent. A year before, the utility yield averaged considerably higher than the industrial yield. Since industrials are generally paying out a much smaller percentage of earnings than utilities, it is the more striking that utility yields average lower. This fact indicates a strong tendency among investors to emphasize a stable dividend return more than the earnings-price ratio under prevailing conditions.

"The sharp rise in investment yields returned by common stocks has been an important factor in the strength displayed by the market in the trading during the first week of the year.

"With the apparent passing of the threat of an excess profits tax or a very drastic rise in the corporate income levy, there is less fear of a major decline in corporate net incomes. Hence, stocks generally are likely to give as great a return this year as last, if not more.

"Investor accumulations of common stocks for yield has been in considerable evidence since the turn of the year.

"The tapering off of inflation should be distinctly favorable to the stock market under existing conditions: It serves to dissipate fears of a return of an excess profits tax or other major tax changes. It lessens prospective corporate new capital requirements, and so makes it possible to pay out more earnings as dividends. It reduces new corporate borrowing that is needed to finance business at a higher price level, which weakens the stockholders' equity in enterprise.

"The prospect for liberal, reasonably stable dividend returns constitutes an important stabilizing factor in the stock market."

There are available, on request, write-ups on Electric Power & Light and International Minerals & Chemical. Both issues are on our recommended list.

EDMUND W. TABELL

January 12, 1949

WALSTON, HOFFMAN & GOODWIN