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TABELL'S MARKET LETTER

June 20, 1958

In January, 1955 this letter made a compilation which aroused a good deal of interest. The introduction to this compilation read as follows:

"Few people realize how diverse the action of the market has been over recent years. Regardless of the fact that the Dow-Jones Industrial Average has advanced for over five years with just a few minor interruptions, the action of various types of securities has been quite different. Many holders show losses on individual securities despite the fact that the general market has been in a broad advance since 1949. As always, it has been dangerous to buy the wrong securities at the wrong time. In the main, it has definitely paid to own quality issues over recent years. The following compilation may be of interest. It presupposes an investment of $100,000 in four different groups of stocks at the 1946 highs. The first group is composed of twenty growth issues and presupposes an investment of $5000 each in such growth companies as Dow Chemical, Corning Glass, IBM, etc. The second group is composed of twenty stocks of investment quality. It was selected from the twenty favored issues of 130 Common Trust Funds of leading trust companies. It includes such issues as General Motors, Standard Oil of New Jersey, General Electric, National Dairy, Sears Roebuck, etc. The third group consists of good quality dividend-paying issues a bit below the investment quality of the second group. It consists of issues like Allied Stores, Allis Chalmers, Babcock & Wilcox, National Gypsum, Sylvania, etc. The fourth group consists of lower-priced, more speculative issues. It comprises the twenty most actively traded issues in 1953 selling at around 20 or lower. It includes the issues in which the general public usually trades. It consists of issues like Armour, Avco, International Telephone, New York Central, Pennsylvania Railroad, Pepsi-Cola, etc."

The conclusions drawn from this study in 1955 and a year later in 1956 when it was repeated, were pretty well cut and dried. The study showed that the growth group outperformed all the other groups by a substantial margin. The next best performing group was the investment-grade, followed by the medium-grade and then by the low-priced issues. So desultory was the performance of the last group that the buyer at 1946 highs showed a loss during most of the period and, indeed, could have recouped his original investment price by selling each stock at very close to its 1956-1957 high.

The same ranking obtained during the 1946-1949 bear market. During this period the growth group depreciated to only about $88,000, the investment group to $80,000, the medium-grade group to $56,000 and the low-priced group to $36,000. Thus, the study showed that in both an up and a down market the buyer of growth stocks had a clear advantage over the purchaser of other types of securities and that the low-priced trading issues would have turned in an amazingly poor market performance.

As shown below, the study has now been brought up to date. The value of each portfolio has been refigured taking (1) the price of each stock at its 1956-1957 high, (2) the price of each stock at its 1957 low, and (3) its current price. The conclusions to be drawn today are not so clear cut.

	1946	1956-57 High	1957 Low	% Decline	Current	% Loss Regained	Net Loss
Growth	$100,000	$580,012	$357,508	38	$442,931	38	24
Investment	100,000	314,654	211,821	33	260,841	48	17
Medium	100,000	210,326	114,173	46	134,800	21	35
Low	100,000	103,792	56,537	46	85,046	60	18

As is shown, the usual pattern of relative performance continued, as far as the 1956-1957 high, with a $100,000 investment in growth stocks appreciating to over

$580,000, while the low-priced stocks barely recovered to their 1946 prices. Since that time the record has been somewhat different. The two most startling performers have been the investment-grade issues and the low-priced issues. The former had the smallest loss during the 1956-1957 period, depreciating only 33%. 48% of this loss has been recovered at current levels for a net loss of only 17%. The low-priced issues issues, while having the largest loss (46%), have also shown the largest recovery since their lows, and current prices are only 18% below the 1957 high. The growth issues, formerly the leaders, had a 38% decline and recovered only 38% of their loss, so that they are still 24% below their highs. Meanwhile, the medium-grades acted the worst with the largest loss and the smallest recovery for a net loss of 35%. Some clues as to the reasons for this change in pattern may be gathered from comparative earnings. The following table shows price earnings ratios for each group in 1946, together with the same ratio at the 1956-1957 highs, and at current prices:

	P ? E Ratio		
	1946	1956-7 High	Current
Growth Issues	16.5	30.8	23.5
Investment Issues	15.4	17.9	14.9
Medium-Grade Issues	12.9	16.2	10.4
Low-Priced Issues	18.0	10.8	8.8

It will be seen that a large part of the good performance of the growth stocks stemmed from the fact that the P/E ratio increased from 16.5 in 1946 to 30.8 at the 1956-1957 high. Meanwhile the P/E ratio of the investment-grade group increased relatively little so that most of the rise was due to actual improving earnings rather than a change in investor sentiment. The poor performance of the low-priced group is also explained by the fact that the P/E ratio in 1946 was a ridiculous 18.0 and at the 1956-1957 high was only 10.8. Thus, despite the fact that earnings improved, declining investor sentiment caused very poor price action.

A look at current P/E ratios also provides a rather interesting comparison. It will be seen that except for the growth group, earnings are now being valued considerably lower than they were at the 1946 tops. However, in the growth group, the P/E ratio still stands at 23.5, considerably above the 16.5 figure of 1946. Thus it is possible that the same type of action may continue.

The conclusions of this latest study are not quite so easy to state. There is no doubt but what the buyer of growth stocks had a definite advantage during the 1946-1956 cycle. Preliminary work shows that this advantage has not continued during the current bear market. While it is not conclusively demonstrated that the former advantage possessed by the growth equities is entirely absent, the possibility that an entirely different type of stock may be the leader of the next upswing cannot be overlooked.

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Note: The names of the individual issues in the four groups mentioned above will be furnished upon request.

The following are the stocks mentioned in the Tabell Market Letter of June 20, 1958, together with the number of shares which would be owned as of this date, adjusting for all stock dividends, split-ups and capital changes since 1946:

GROWTH ISSUES:

750 Aluminium, Ltd.
226 Amerada
147 Carrier
350 Corning Glass
389 Dow Chemical
91 DuPont
500 El Paso Natl Gas
172 Goodrich
135 Intern'l Bus. Mach.
294 Minn. Honeywell
712 Minn. Mining Mfg.
312 Monsanto
367 National Lead
192 Pfizer
266 Owens Corning Fiber.
263 Radio Corp. of Amer.
87 Rohm & Haas
333 Scott Paper
267 Shell Oil
132 Union Carbide

INVESTMENT ISSUES

208 American Can
334 Amer. Cyanamid
91 DuPont
312 General Electric
196 General Foods
417 General Motors
151 Gulf Oil
196 Johns Manville
86 Kennecott
232 National Dairy
91 Penney, J. C.
286 Phillips Petrol.
315 Sears Roebuck
260 Socomy Mobil
186 Stand. Oil of Calif.
208 Stand. Oil of Ind.
396 Stand. Oil of N. J.
318 Texas Company
132 Union Carbide
143 Westinghouse Elec.

MEDIUM-GRADE ISSUES

84 Allied Stores
172 Allis Chalmers
584 Babcock & Wilcox
204 Blaw Knox
217 Bucyrus Erie
250 Burroughs
125 Chain Belt
294 Clevite
108 Crane Co
178 Distillers Corp
98 Carrier *
312 Joy
228 Mead
173 National Gypsum
156 New York Air Brake
561 Penn Dixie Cement
143 Rheem
156 Sylvania
215 Yale & Towne
328 Lowenstein

LOW-PRICED ISSUES

277 Amer. Airlines
323 Armour
385 Avco
178 Balt. & Ohio
294 Canada Dry
385 Columbia Gas
505 Emerson Radio
104 Gimbel
200 Intern'l Tel & Tel
125 Loew's
209 Mack Truck
147 N. Y. Central
454 Studebaker Pack.
250 Pan Amer. Air.
119 Penn. Railroad
143 Pepsi-Cola
238 Raytheon
294 Rexall
239 Servel
143 Spiegel

* Exchanged for original investment in Elliott Co.

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