TABELL'S MARKET LETTER

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We have, we suspect, over the past year, bored many of our readers to death with our constant reiteration of the thesis that the basic investment background has, apparently, changed radically from that of the 1950's and early 1960's. We would forbear devoting still more space to the subject were it not for the appearance of a generally excellent article in the October issue of Fortune which reiterates, in greatly expanded form, exactly the same thesis. While it is possible to disagree with portions thereof, the questions raised by the article should place it high on any investor's reading list.

Fortune points out that the return, including both dividends and capital appreciation, on the NYSE Index has, since December 31, 1965, been just about 5%. This is in marked contrast to the 1945-1965 period for which University-of-Chicago figures show an average annual return of 12.6% on all common stocks. All of this, of course, is just another way of indicating that the secular uptrend channel which characterized most market indices from 1942 to the middle 1960's has, by now, been decisively violated.

Now it should be made perfectly clear at this point that what both we and the Fortune article are talking about are not bull and bear markets as the financial community generally understands these terms. We are particularly sensitive to this point because our own repetition of the thesis has evidently earned us an ursine reputation with which we would prefer not to be saddled. What we are talking about here is the basic background against which normal bull and bear markets are played out. We think all the evidence indicates that this background consists of a much flatter and perhaps somewhat wider channel than the 1942-1966 channel, and it is obviously perfectly possible to maintain this thesis while being optimistic, pessimistic or neutral concerning the intermediate-term course of stock prices.

The major implications of the thesis, we think, are largely unrelated to a market forecast at any given point in time. They have a great deal to do, however, with the general approach the investor and money manager should take toward the market, and, if we are correct, it is evident that a great deal of what has come to be regarded as proper investment strategy will have to be changed and changed radically. We have, based on the long experience of the 1950's and 1960's, come dangerously close to a conventional wisdom about how money should conservatively be invested. The basic approach of this conventional wisdom is that "good" stocks should be bought and more or less permanently held as capital gains vehicles. There is also a conventional wisdom as to the names of said "good" stocks, the list inevitably including such standards as I.B.M., Xerox, Avon, etc., etc. Now the result of investing according to conventional wisdom is almost never disaster. It is more usually a substandard return vs. what history later tells us would have been available. Thus the conventional wisdom of the 1940's told us that a substantial portion of most conservative portfolios should be in long-term bonds. When pursued into the 1950's, this did not necessarily show great losses, but it certainly produced a much lesser return than that which could have been achieved using equities. We think the current conventional policy is just as likely to produce substandard returns in the 1970's.

We think the inevitable result of the new investment background will be to force the money manager, if he is to achieve an above-average return, to be a great deal more aggressive and active in the management of equity portfolios. Ironically enough, the discredited conventional wisdom of the 1940's may be more accurate today. At that time, it was generally agreed that the conservative way of running money involved first making a decision as to the relative attractiveness of the equity market in general and then deciding the percentage of equities that should be owned. Such an approach, of course, is totally applicable to the sort of market we (and Fortune) are envisioning -- always assuming one's assumptions about the general level of equity prices are essentially correct.

The money manager, it seems to us, must also become more active in his approach to security selection. This is not to say that every investor should immediately transmogrify himself into an in-and-out trader. Common stocks, obviously, can still be bought with the ultimate objective of holding them for an indefinite period. However, the art of security analysis has never been perfect, and, in any attempt to find the I.B.M.'s of the future, mistakes will be made. In the past, the money manager has had a secular uptrend to bail him out of these mistakes. The new era will be considerably less foregiving.

We are not at all pessimistic about the apparent change in the investment background. The job of the money manager, after all, is not to change reality but to recognize it. In every era diligence and skill have produced above-average returns. The coming one will be no different.

Dow-Jones Industrial (12 Noon) 891.21
S&P (12 Noon) 98.80
AWT:mn

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