

TABELL'S MARKET LETTER

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There are a number of reasons for looking forward to May each year, among them the flowering of the dogwoods in Princeton, New Jersey. To us numbers freaks, however, May's arrival takes on an additional significance. For it brings the issue of Fortune magazine containing its statistical tabulation on the 500 largest U. S. industrial corporations. There is almost no limit to the permutations and combinations of figures one can derive from a perusal of this data. One of our own favorite manipulations, with the phenomenon of earnings growth having attained an almost religious significance in the financial community, is to cull out the ten companies with the largest 10-year growth in earnings per share. The list almost invariably is composed mostly of "surprises" rather than the familiar billion-dollar growth companies, and this year is no exception. Herewith, then, the ten companies with the largest 1963-73 per share earnings growth as computed by Fortune.

	Return to Investors 1973	Rank in 500	Return to Investors 1963-73	Rank in 500
ITE Imperial	-48.42%	403	14.86%	61
Fleetwood Enterprises	-83.65%	483	-	-
White Consolidated	-51.00%	415	19.14%	33
Loews Corp.	-53.60%	423	24.90%	14
Champion Home Builders	-76.64%	480	-	-
New York Times	-26.44%	248	-	-
Wheelabrator-Frye	-39.18%	335	5.38%	223
Clark Oil	-27.01%	314	27.20%	9
Tesoro Petroleum	+24.36%	49	22.22%	20
Skyline Homes	-65.28%	461	-20.52%	26

As we suggested above, however, the names are not exactly those that the average investor might guess were he to attempt to pick the companies with the greatest earnings growth for the past decade. It must be noted, also, in all fairness, that Fortune's method of computing earnings growth may be over-simplistic, in that a straight 1963-73 comparison can be distorted if the 1963 base year happened to be a particularly poor one for the company involved, which is, in fact, true in some cases above.

The most fascinating statistic, however, is the way the market treated these ten companies in 1973. The second column of the table above shows the return to investors for 1973 as computed by Fortune, including capital gain or loss, plus dividend income, together with its rank in the 500 on this basis. Nine of the ten common stocks show a loss, and in each case that loss is substantial. A \$100,000 portfolio equally invested in the ten companies at the end of 1972 would, at the end of 1973, have shrunk to \$55,314.

Over the longer term, however, the figures would tend to suggest that the market does recognize true growth. For the seven companies where data was available, six, in fact, showed above average percentage returns over the 10-year period. The average annual percentage return and its rank in the 500 for this period is shown in the right hand two columns. \$10,000 invested in each of the companies at the end of 1963 would have grown by 1973 to \$457,000.

We think the table demonstrates rather vividly what, to us, are some of the least appealing tendencies in Wall Street's valuation of stocks, the tendency to pay a great deal of attention to short-term, even quarter-to-quarter, earnings changes and the tendency to place premium multiples on at least some companies with above-average past earnings growth. Thus, the presence of three mobile-home companies on the list and the fact that these three represent the three worst performers is not surprising. The mobile home industry in general has shown one of the more astounding growth rates in the U. S. economy over the past decade. The market duly noted its appreciation of this fact in 1972 when it valued Skyline at 47 times earnings, Fleetwood at 41 times and Champion at 55 times. In 1973, earnings growth for all three companies flattened out, and it was vividly demonstrated that what the market gives it can take away, the taking away being documented in the stocks' performance. A more rational approach to valuation might have prevented the stocks from attaining the euphoric levels they reached in the first place, and lessened the shock when the problems within the industry, (which, for all we know, may be temporary) became apparent.

Dow-Jones Industrials (12:00 p.m.) 862.33

S & P Comp. (12:00 p.m.) 92.73

Cumulative Index (5/9/74) 557.65

AWT/jb

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Note: Comments on individual stocks are based solely on technical factors, and further information on all issues is available on request.

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