TABELL'S MARKET LETTER

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" 'But he has got nothing on,' said a little child."

Hans Christian Andersen, The Emperor's New Clothes

The classic cop-out of the technician, when he has nothing more to say about falling markets, is to talk about fundamentals and to proclaim that stocks are cheap. We plead guilty to this in the present instance, although it is, in fact, true that stocks are cheap, and we think due note ought to be taken of the fact.

The following table is an update of a study we last published a year ago. As we all know, the absolute historical nadir for price-earnings ratios was 1949, during which year the Dow-Jones Industrial Average itself sold at 7.2 times earnings (a ratio which, if duplicated for the entire average today, would place the Dow around 643). The table shows a recent price for each of the 30 components of the Dow, a consensus estimate of 1974 earnings and the price-earnings ratio based on those earnings. Next is shown the 1949 price-earnings ratio, the price at which the stock would sell were 1974 earnings to be capitalized at this ratio, and the percentage difference of that price from the current one.

Stock	Recent Price	Earnings 1974-E	1974 P/E	1949 P/E	1974 Earnings x 1949 P/E	Pct. Difference
Allied Chemical	37	4/10	9.0	11.2	46	+24
Alcoa	41	5.50	7.5	10.7	59	+44
American Brands	35	5.25	6.7	8.7	46	+31
American Can	27	3.80	7.1	9.6	36	+33
American Tel. & Tel.	46	5.35	8.6	14.8	79	+71
Anaconda	21	4.50	4.2	9.6	43	+104
Bethlehem Steel	30	4.75	6.3	2.9	14	-53
Chrysler	16	2.25	7.1	3.7	8	-50
duPont	162	12.00	13.5	11.7	140	-14
Eastman Kodak	103	4.20	24.5	12.0	50	-51
Esmark	26	5.00	5.2	7.3	36	+38
Exxon	70	12.00	5.8	7.4	89	+27
General Electric	49	3.35	14.6	8.8	29	-40
General Foods	24	2.60	9.2	9.2	24	-
General Motors	50	4.00	12.5	4.1	16	-68
Goodyear Tire	16	2.60	6.2	4.8	12	-23
International Harvester	23	4.25	5.4	6.0	26	+13
International Nickel	27	3.50	7.7	13.5	47	+74
International Paper	48	4.40	10.9	4.1	18	-62
Johns Manville	17	2.80	6.0	8.2	23	+35
Owens Illinois	39	5.75	6.8	11.1	64	+64
Procter & Gamble	100	3.80	26.3	16.2	62	-38
Sears	83	4.50	18.4	8.5	38	-54
Standard Oil of California	27	5.50	4.9	6.0	33	+22
Texaco	25	5.75	4.3	5.8	33	+32
Union Carbide	41	5.50	7.5	12.2	67	+63
United Aircraft	26	5.00	5.2	7.2	36	+38
U.S. Steel	45	6.25	7.2	4.4	28	-37
Westinghouse	12	1.90	6.3	5.7	11	-8
Woolworth	15	2.70	5.5	12.3	33	+120
AVERAGE	803	89.39			780	

Amazingly enough, 18 of the 30 Dow components, more than half, are now selling at price-earnings ratios lower than those of 1949. Were all of the 30 components to be capitalized at 1949 P/E ratios at the end of this year, assuming the earnings estimates hold up, the Dow would sell for 780, only 20 some odd points below current levels, and an equal dollar amount invested in each component at today's prices would produce an 8% gain by the end of 1974, were 1949 P/E ratios to be uniformly applied at that time.

Now, Wall Street is full of perfectly rational explanations as to just why this should be the case. The bond-stock yield relationship, it can be argued, is today precisely the reverse of what it was in 1949, and the host of economic problems now facing us have all been studiously documented. Nonetheless, there comes a time when it is necessary to emulate the little boy in Andersen's fairy tale who is the only one unsophisticated enough to point out a simple and obvious fact. That simple and obvious fact, insofar as most stock prices are concerned, is that they are today, by any historical standard, amazing bargains.

Dow-Jones Industrials (12:00 p.m.) 802.80
S & P Comp. (12:00 p.m.) 85.99
Cumulative Index (6/27/74) 491.99

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