

TABELL'S MARKET LETTER

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"One day as I sat musing, sad and lonely and without a friend, a voice came to me from out of the gloom, saying, 'Cheer up, things could be worse.' So I did cheer up. And sure enough, things got worse". Anon.

It is our custom each year to divide our year-end forecast into two parts, the first part being a review of the year just ended --- setting the scene, as it were, for our forecast for the upcoming year. When we devoted ourselves to this task about a year ago, we noted at the time that it was somewhat of an exercise in masochism. We pointed out that the Dow-Jones Industrial Average, at its low of early December, 1973, had declined some 25% from its January, 1973, high of 1051.70. We suggested, moreover, that that statistic did not tell the entire story of the decline. We noted that our Cumulative Index, an unweighted average of all issues traded on the NYSE, had dropped from a January high of 979.26 to a low of 555.02, suggesting that the average NYSE issue during 1973 had posted a 43% loss.

We were forced to note, in addition, that the 1973 decline, as measured by the Cumulative Index, was part of an on-going process, since the high in that Index had been made back in 1968 at a staggering level of 1455. This average, in other words, had, a year ago, lost almost two-thirds of its value over a three-year period. All this, we noted, had brought the market to a period of almost unprecedented skepticism with regard to earning power, and we noted that, at its low of December, the Dow had been selling for approximately 9.6 times estimated 1973 earnings, pointing out this was the lowest level which had existed since 1951.

Then things got worse.

The Dow, already down 25% in 1973, had by October 4, 1974, taken another 31.3 percent loss, and the S & P 500 had declined 36.1 percent. Our Cumulative Index performed, for a change, about the same as the S & P, reaching a low of 355.80 in October for an additional 37.9 percent decline. This month these market averages have tested their October lows. The December 6 decline to 577.60 in the Dow Industrials to below the 12-year low of 584.56 recorded on October 4, and the recent new low of our Cumulative Index at 354.92 posted on December 16, has not been, to date, confirmed by the broader based market indices such as the S & P Industrials and Composite Index or the NYSE Composite.

The market's total disinterest in record levels of corporate earning power became even more pronounced. Dow earnings, \$86.15 for the year 1973, had increased to just under the \$100 annual rate by September, 1974. We pointed out a year ago that the 9.6 multiple being accorded 1973 earnings had not been exceeded on the downside all the way back to 1951. The multiple under six times earnings now being applied to the Dow has never been exceeded, since earnings figures for the average have been available. This includes periods such as 1932, 1938 and 1949, an era previously regarded by market historians as the absolute nadir of investor confidence.

1974, moreover, was the phase of the bear market when the mania for investment in growth stocks at any price finally collapsed under its own weight. Through the middle of 1973, most of the major institutional growth favorites had been able to resist the market's decline. In 1974, the inevitable finally took place, as the following table which gives the December 31, 1973, close and the current price of eight representative growth favorites shows.

	12/31/73	12/19/74	% Change
Avon Products	63 3/4	27 5/8	- 56.7
Coca-Cola	126 1/2	50 1/2	- 60.1
Eastman Kodak	116	60 3/4	- 47.6
IBM	246 3/4	169	- 31.5
McDonalds	57	30 1/4	- 46.9
Polaroid	69 7/8	19 1/8	- 72.6
Sears, Roebuck	80 1/4	48 5/8	- 39.4
Xerox	122 3/4	52 1/2	- 57.2

It has, in short, not been a pleasant year for those of us charged with managing equity investments. We concluded our letter of a year ago by saying, "We start 1974, in other words, with equity markets in general in a more profound state of demoralization than has existed in the adult lifetime of most investors. As we said above, we think it is this fact that is central to any market forecast for 1974". As we suggested, that state of demoralization is now even more profound. Just as the existence of that state was central to our forecast of last year, it is even more central to our forecast for 1975. We will discuss this point in next week's letter.

A VERY MERRY CHRISTMAS TO ALL

Dow-Jones Industrials (12:00 p.m.) 600.75
S & P Comp. (12:00 p.m.) 67.20
Cumulative Index (12/19/74) 355.70

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