

TABELL'S MARKET LETTER

Delafield, Harvey, Tabell

809 STATE ROAD, PRINCETON, NEW JERSEY 08540

DIVISION OF

Janney Montgomery Scott Inc.

MEMBER NEW YORK STOCK EXCHANGE, INC.
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Long-time readers of this letter will be aware that it has, in the past, been somewhat critical of the large, institutionally-favored growth stocks as investment vehicles and even more critical of the so-called "one-decision" theory that, in the early 1970's, led to what we believed to be excessive reliance on them by many investment managers. In March-April, 1973, we devoted a series of five letters to examining the implications of this concept and trying, as best we could, to refute it. Since that time a great deal of water has passed under the bridge, and it is perhaps worthwhile to reexamine the growth favorites of a few years ago and make some assessment of their current prospects. The table below shows the price performance of eight representative growth favorites compared to the DJIA from their 1973 high to their low of 1974 and from that 1974 low through this week.

	1973 High	1974 Low	% Change	2/19/75	% Change
DJIA	1067	573	- 46.3	736	+ 28.5
Avon Products	140	19	- 86.7	35	+ 89.9
Coca Cola	150	45	- 70.2	75	+ 67.5
Eastman Kodak	152	60	- 60.1	85	+ 39.9
IBM	365	150	- 58.8	218	+ 44.7
McDonald's	77	21	- 72.4	41	+ 94.7
Merck	101	47	- 54.0	73	+ 56.6
Sears, Roebuck	123	41	- 66.3	63	+ 50.9
Xerox	170	49	- 71.2	77	+ 57.6

As far as these issues' performance during the bear market was concerned, our earlier fears were borne out. All eight issues declined by a greater percentage than did the Dow, and, in some cases, that decline was 1 1/2 to almost 2 times as great. However, that relatively inferior performance picture has changed dramatically since last fall's bottom, and the eight issues involved have been leaders on the upside, all of them having moved ahead by more than the Dow and some having come close to doubling during a period when the Dow was up only 28%. This price improvement has coincided with upside breakouts from fairly impressive base formations which, although they do not suggest anything like a return to the 1973 highs, do suggest somewhat higher prices over the intermediate term.

It is when we go beyond price that the comparison becomes interesting. The table below shows the price/earnings ratio and its ratio to the Dow-Jones p/e for the three dates in question.

	P/E 1973 Hi	Ratio to DJIA P/E	P/E 1974 Low	Ratio to DJIA P/E	P/E 2/19/75	Ratio to DJIA P/E
DJIA	15.9	-	5.8	-	7.4	-
Avon Products	64.8	4.1	9.7	1.7	18.3	2.5
Coca-Cola	47.0	3.0	12.9	2.2	21.7	2.9
Eastman Kodak	44.8	2.8	16.8	2.9	23.5	3.2
IBM	41.4	2.6	12.1	2.1	17.5	2.4
McDonald's	81.8	5.1	12.9	2.2	25.1	3.4
Merck	51.0	3.2	16.7	2.9	26.2	3.5
Sears, Roebuck	34.6	2.2	9.6	1.7	14.5	1.9
Xerox	53.8	3.4	11.7	2.0	18.5	2.5

As can be seen, at its 1973 high, the Dow was selling for 15.9 times earnings and the growth stocks were selling at premiums from anywhere from two to five times the Dow's P/E. These premiums, as the table shows, completely disappeared in the bear market, and, with a single exception, the ratio of the growth stocks' p/e to that of the Dow was lower at the 1974 lows than it had been at the 1973 high, despite the fact that the Dow multiple had declined to 5.8. This erosion of premiums explains a good part of the huge price declines for the growth issues.

What is interesting, however, is that, at recent prices, the premiums of early 1973 had just about returned. The only exceptions are Avon Products and Xerox, which are still considerably lower in relation to the Dow than they were in 1973. All of the other stocks now have premiums over the Dow just about as great as they enjoyed at their 1973 highs.

None of this is intended to suggest lower prices for the growth issues and, indeed, as noted above, technical work suggests somewhat higher levels. It does, however, suggest that future appreciation for these issues is going to have to come largely from improvement in the earnings multiples the market is willing to accord the average rather than an increased premium for growth stocks in relation to the average.

NOTE: The above comments are based on technical factors. Further information on all issues is available on request.

Dow-Jones Industrials (12:00 p.m.)
S & P Comp. (12:00 p.m.)
Cumulative Index (2/20/75) 457.97
AWT/jb

ANTHONY W. TABELL
DELAFIELD, HARVEY TABELL

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