TABELL'S MARKET LETTER

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Janney Montgomery Scott Inc.

MEMBER NEW YORK STOCK EXCHANGE, INC
MEMBER AMERICAN STOCK EXCHANGE

February 11, 1977

THE VESTAL VIRGINS REVISITED
Or the Final One-Decision

Over thirty years of publication, this letter, we will be the first to admit, has issued its share of comments and forecasts that were less than helpful to its readers. We were lucky enough, however, some four years ago, to take rather violent exception with the then-fashionable "one-decision" school of investment management --- the theory which held that above-average investment results could be achieved simply by buying and holding that minority of issues with unbroken growth records, regardless of the price being paid. The collapse of the growth favorites in 1973-74 is now history and the painful experience of watching these issues becoming the downside leaders of that bear market is now undeniably etched in the minds of investors. That bear market, however, came to an end over two years ago, and the bull market of 1974-197? has ensued. It is, perhaps, time for another look at the record.

To this end, we have constructed an index based on equal investment made at the 1973 high in thirteen growth favorites. (*) (To eliminate bias, we used a list that was actually chosen in mid-1973). Using the 1973 high for each issue as a base equaling 100, the index declined at the low of 1974 to 34.72, a drop of over 65%. This compares to a 45% drop in the Dow-Jones Industrials and a 48% drop in the S & P 500. The initial bounce-back was fairly sharp, and the index doubled in early 1975, recovering to 72.98, although this performance was not a great deal better than either that of the Dow or the S & P. Since the recovery high, however, while the general market has been holding reasonably steady, most of the stocks in the index have been selling off rather sharply from their recovery peaks. The index now stands at approximately 48.34 indicating that almost two-thirds of the advance since the 1974 lows has now been given up. The Dow at this moment stands 10% below its all-time high and some 64% above its 1974 nadir. Comparable figures show the S & P are 15% down from its peak and 62% up from its low. The growth stocks index, by contrast, is still more than 50% below its all-time high and now up less than 40% from its bottom. Nor is any sign of relief in sight. The relative strength of the growth favorites has been almost uniformly subpar in recent months, and many of them have recently broken out on the downside of fairly substantial distributional top formations. Indeed, two of the thirteen stocks in our list are now below their 1974 lows, and a number of others are close. The dogged proponent of the one-decision theory, assuming one still exists, has not only been decimated in the late bear market, he has missed the entire subsequent bull market as well.

How long can this all go on? Unfortunately, excesses in one direction tend to correct themselves via excesses in the opposite direction. That growth stocks were ridiculously overvalued in 1973 is now obvious. As the one-decision theory ultimately begins to writhe in its final deaththroes, they may become equally undervalued.

At its 1973 high, our growth stock index sold at an astronomical 53.4 times trailing 12-months earnings --- 3.4 times the multiple which then existed on the Dow and 2.85 times the multiple on the S & P. At the tail end of the 1973-74 bear market, this disparity had narrowed, but only partially. The growth stock multiple of 15.5 times earnings at that low was 2.65 times the Dow and 2.2 times the S & P. Two years later, growth stocks earnings have continued to improve. (Indeed, every one of the thirteen issues will show earnings in 1976 well above 1972-74 levels). However, the multiple is only 16.3 times, 1.7 times the Dow and 1.6 times the S & P 500.

In our original 1973 critique of growth stock investment, we said, "It should be made clear that what is being said here implies no criticism whatever of the fundamental merits of recognized growth issues, suggests that they should not sell at some premium over other issues or affirms that they cannot under any circumstances be attractive purchase candidates". The question, at the moment, is whether that premium is yet sufficiently eroded. Technical work at the moment would suggest that such is not the case. Were, however, the growth index to come close to its 1974 low (and remember some issues are already there) and general stock market levels to remain unchanged, the growth stock premium over the rest of the market would have about disappeared. This would be a state of affairs comparably ludicrous to the fifty-plus times earnings of four years ago. The point at which the last growth stock advocates gave up the ghost would coincide with the point at which the issues finally became again attractive for purchase.

* The 13 stocks are -

Avon Products	Eastman Kodak	Polaroid Corp
Burroughs Corp	IBM	Proctor & Gamble
Coca Cola	Intl. Flavor & Frag	Sears Roebuck
Disney Prod	Johnson & Johnson	Xerox
	McDonalds Corp	

Dow-Jones Industrials (12:00 p.m.)	931.52
S & P Composite (12:00 p.m.)	100.64
Cumulative Index (2/10/77)	659.55

AWT/jb

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