TABELL'S MARKET LETTER

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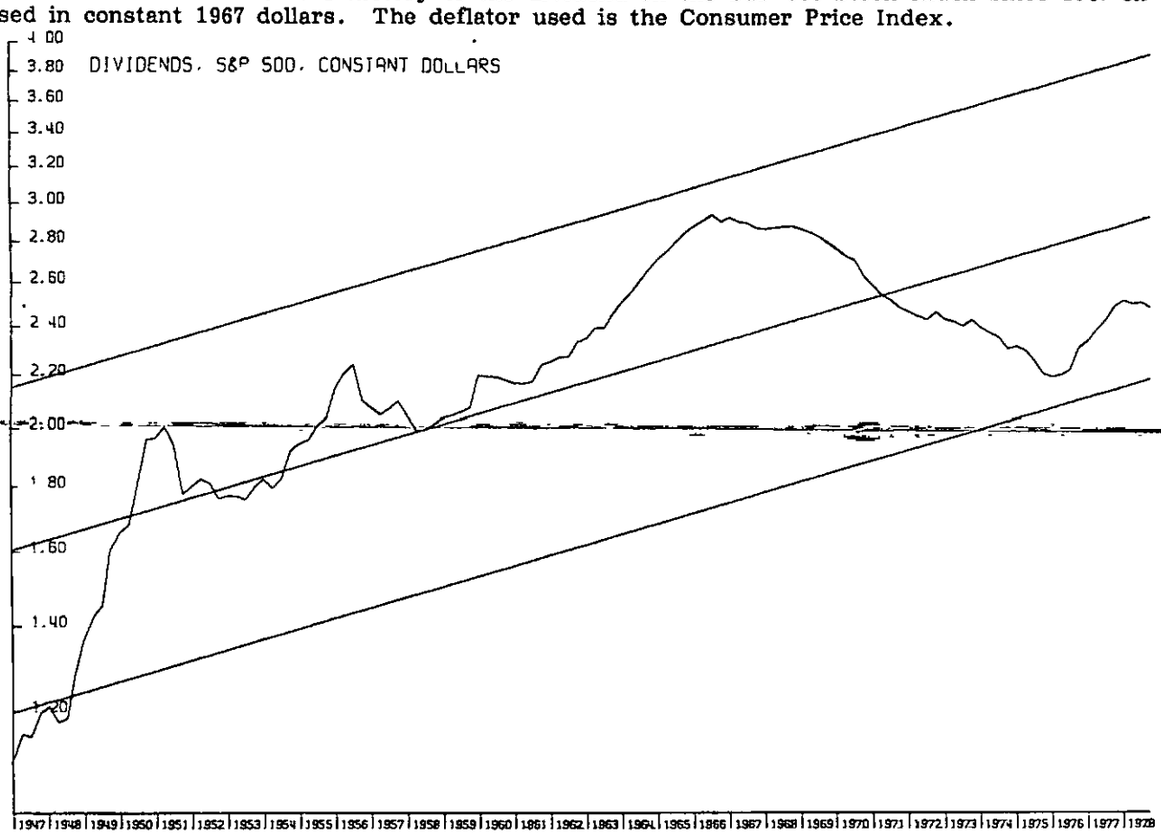
The last page of Tuesday's WALL STREET JOURNAL contained a rather penetrating bit of economic analysis documenting the rise, in the past few years, of corporate dividend payments. It pointed out that those payments, recently at least, had kept pace with the concomitant record-high rate of inflation. The dividend-inflation relationship is not, in our view, quite as optimistic as the JOURNAL ariticle might have suggested. (The article referred to total dividend payments while the study below uses dividends on the S&P 500.) Nonetheless, a hard look at the dividend history of the last thirty years does, indeed, suggest a rationale for common stocks as an investment at a time when historically high interest rates generally exceed the yields available on equities.

The chart below traces the history of the dividend on the S&P 500-Stock Index since 1947 expressed in constant 1967 dollars. The deflator used is the Consumer Price Index.



To get the bad news out of the way first, the chart quite clearly shows that dividends failed, generally, to keep up with inflation during, roughly, the period of the mid-1960's to the mid-1970's. Inflation-adjusted dividends for the S&P 500 reached a high of $2.95 in the third quarter of 1966 and have not since exceeded that figure, having remained recently around the $2.50 level. However, as the JOURNAL article points out, performance of late has been more impressive. In the first quarter of 1976, real dividends were at $2.20 in 1967 dollars and have moved ahead some 13% to date.

The most important fact shown by the chart above, however, is the fact that over the past 32 years dividends, even after inflation-adjustment, have generally been rising. The calculated trend channel shown on the chart has been increasing at the rate of 1.92% annually and, as the chart shows, real dividend growth adhered very closely to its trendline figure from the early 1950's to the mid-1970's. The rise of the past couple of years, especially in view of current historically low payout ratios, suggests that dividends might return to their rate of trendline growth.

Now, dividend growth after inflation adjustment of close to 2% is, to us, a fairly impressive figure. If one calculates the value of the discounted cash flow of dividends rising at this rate versus the present price of the S&P 500 it suggests a return -- in real purchasing power, remember -- of 4.44%. This is a return which is certainly not matched by 10% short-term money in an era of double-digit inflation and, indeed, difficult to equal in most readily-marketable investments. It is an ironic fact, at a time when common stock prices have been depressed by inflation fears, that common stock income may well be one of the better available protections against that inflation.

Dow-Jones Industrials (12:00 p.m.)	877.25	ANTHONY W. TABELL
S&P Composite (12:00 p.m.)	103.27	DELAFIELD, HARVEY, TABELL
Cumulative Index (4/6/79)	754.22	

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