

TABELL'S MARKET LETTER

Delafield, Harvey, Tabell

909 STATE ROAD, PRINCETON, NEW JERSEY 08540

DIVISION OF

Janney Montgomery Scott Inc.

MEMBER NEW YORK STOCK EXCHANGE, INC
MEMBER AMERICAN STOCK EXCHANGE

April 27, 1979

It is an occasional rite of spring in these pages to comment on the FORTUNE magazine compilation of the 500 largest industrial corporations. We are not sure why the listing, which appears each May, fascinates us so. Perhaps, it is because, as we have often confessed, we are numbers freaks, and the "500" collection provides us with no fewer than 20 pages of nice, juicy numbers to work on. On the other hand, possibly, the reason is that, this being a technical market letter, we have very little opportunity to deal with fundamentals, and it is fun to come at them with the sort of naivete, which our colleagues, who are more accustomed to this exercise, find difficult to achieve. Not being fundamentalists by profession ourselves, we can view FORTUNE's numbers as sort of a "man-from-Mars", seeing them for the first time.

As in the past, we found it interesting, this year, to look at the top ten companies in a number of categories which the compilation lists, especially those categories relating directly to common stock performance, rather than size. Let us, for example, consider the leading ten companies in terms of earnings-per-share growth for the ten-year period ended in 1978. They are, for the record, Wheelabrator-Frye, Fairchild Camera, A-T-O Corporation, NVF, National Semiconductor, Teledyne, Peavey, Peabody International, Natomas, and Digital Equipment. It is an interesting list, to be sure. As has universally been the case, when we have made such an examination, the names do not turn out to be the ones that would be likely to appear on the typical list of favored growth stocks, the last one, DEC, being the only possible exception. The reality of growth, it appears, often exists without its image.

On the other hand, for the first time since we have looked at these figures, they support a strong case for the rationality of the stock market. Very often, in the past, when we have looked at FORTUNE's ten fastest-growing companies, their recent price performance has been fairly dismal. In 1974, for example, we isolated the ten fastest-growing companies for the ten-year period ended 1973. (Wheelabrator-Frye, incidentally, is the only one that made the list both then and now.) An investment in those ten issues in 1973 would have declined by some 45% over the year, not precisely the sort of response to growth that one expects. As we pointed out then, however, the reason lay in the fact that, in the early 1970's, companies with high growth rates were selling at astronomical multiples, in many cases over 50, and 1973 turned out to be a year in which multiple reevaluation took place.

By contrast, 1978 found most stocks reasonably valued, and the price performance of the ten companies listed above was distinctly above average. FORTUNE computes the total return, capital appreciation plus dividends, on each of the 500 companies, and the median was 7.16%. For comparison, not including dividends, the Dow was down 3.1% on the year and the S&P Composite up 1.1%. Nine of the ten companies listed above bettered the "500" median, and the return on an equal investment in each of the ten companies involved would have been 22.8%. Ten-year figures on total return were available for nine of the ten companies, and seven of these showed returns well in excess of the median figure.

What needs to be stressed, we think, is that in our years of looking at the 500, which cover the decade of the 1970's, 1978 was the first case in which the sort of results referred to above were obtained. The point we derived from previous analyses was that not only growth rates, but comparative valuation had to be taken into account if price performance were to be successfully predicted. In a market such as the current one, where more reasonable historic valuations prevail, price performance may turn out to be more responsive to improving fundamentals. Since these valuations have not changed all that much over the past year, we would suspect that such may be the case in 1979 also, and we will look forward to FORTUNE's issue of May, 1980, to see if this is, in fact, the case.

Dow-Jones Industrials (12:00 p.m.)	856.90
S&P Composite (12:00 p.m.)	101.66
Cumulative Index (4/26/79)	749.93

ANTHONY W. TABELL
DELAFIELD, HARVEY, TABELL

AWT:ld

No statement or expression of opinion or any other matter herein contained is, or is to be deemed to be directly or indirectly, an offer or the solicitation of an offer to buy or sell any security referred to or mentioned. The matter is presented merely for the convenience of the subscriber. While we believe the sources of our information to be reliable, we in no way represent or guarantee the accuracy thereof nor of the statements made herein. Any action to be taken by the subscriber should be based on his own investigation and information. Janney Montgomery Scott, Inc., as a corporation, and its officers or employees, may now have, or may later take, positions or trades in respect to any securities mentioned in this or any future issue, and such position may be different from any views now or hereafter expressed in this or any other issue. Janney Montgomery Scott, Inc., which is registered with the SEC as an investment advisor, may give advice to its investment advisory and other customers independently of any statements made in this or in any other issue. Further information on any security mentioned herein is available on request.