TABELL'S MARKET LETTER

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Equity market action since the crash of October, 1987 has had, from a technical point of view, some strange aspects, and they have been noted in this space. It is arguable that, based on fundamentals also, the market pattern has been somewhat unusual. This is apparent whether one takes a longer-term or shorter-term view.

Date	S & P 500	Earnings	P/E	Dividend	Yield
May 29, 1946	19.25	.90	21.4	.68	3.53
Oct 9, 1946	14.12	.89	15.9	.69	4.89
Jun 15, 1948	17.06	1.71	10.0	.85	4.98
Jun 13, 1949	13.55	2.38	5.7	.98	7.23
Jan 5, 1953	26.66	2.40	11.1	1.41	5.29
Sept 14, 1953	22.71	2.51	9.0	1.42	6.25
Aug 2, 1956	49.74	3.60	13.8	1.80	3.62
Oct 22, 1957	38.98	3.47	11.2	1.76	4.52
Dec 12, 1961	72.64	3.05	23.8	1.96	2.70
Jun 26, 1962	52.32	3.37	15.5	2.04	3.90
Feb 9, 1966	94.06	5.19	18.1	2.72	2.89
Oct 7, 1966	73.20	5.51	13.3	2.89	3.95
Nov 29, 1968	108.37	5.66	19.1	3.03	2.80
May 26, 1970	69.29	5.63	12.3	3.17	4.58
Jan 11, 1973	120.24	6.42	18.8	3.15	2.62
Oct 3, 1974	62.28	9.11	6.8	3.59	5.76
Sept 21, 1976	107.83	9.25	11.7	3.76	3.49
Mar 6, 1978	86.90	10.89	8.0	4.66	5.36
Nov 28, 1980	140.52	14.64	9.6	6.07	4.32
Aug 12, 1982	102.42	14.17	7.2	6.81	6.65
Aug 25, 1987	336.77	14.42	23.4	8.52	2.53
Dec 4, 1987	223.92	15.86	14.1	8.66	3.87
Feb 7, 1988	299.63	24.25	12.4	9.46	3.16

Some of the longer term aspects are highlighted in the above table, covering 40-plus years of market action. Using the S & P 500, it shows each major bull market high and low together with earnings and dividends for the latest reported trailing 12 months. These figures are used to derive price/earnings ratios and yields.

A rather obvious progression is apparent. Starting on June, 1949, with a p/e ratio of under 6 and a yield of over 7%, each successive bull market peak---and likewise each subsequent bear-market low---tended to produce a higher p/e for the 500 and a lower yield. By the 1961 high, the result of this process was a p/e of well over 20 and a yield of under 3%.

The next decade-and-a-half was a reversal of that process. Each bear market showed a lower p/e and a higher yield, and, finally, the market bottoms of 1974, 1978, and 1982 produced figures not all that different from those of 1949.

After 1982, the process that had taken 12 years to complete in 1949-61 was repeated in five years between 1982 and 1987 with an almost astronomical jump in common stock evaluations. At pre-crash highs, the p/e ratio found itself again at 1961 levels, and the S & P 500 yield was the lowest in its modern history.

The crash, as has been widely pointed out, removed much of the overvaluation. At the post-crash low, the S & P was selling for a relatively modest 14.1 times earnings and yielded 3.87 percent. Action since that time has been particularly interesting since, while stock prices have risen, they have not increased as much as earnings, and the multiple at Tuesday's high, 12.4 times estimated 1988 results, is lower than the figure at the crash low despite an intervening 34% advance.

This sort of action is fairly unusual since earnings multiples during bull markets tend to expand, accelerating the effect of rising earnings. Once more, the 1946-1949 period provides the only recent instance of similar action. At that time, earnings generally improved (up 167% from the end of 1946 through mid-1949), but the price trend remained flat. Today a 68% earnings jump has produced a price rise of only half that much.

It is difficult to tell what all of this portends for the future. If one wishes to make a super-bullish case, it is certainly arguable that multiples could expand further. An eighteen multiple coupled with a 10% earnings increase could produce an S & P of 480 (equivalent to Dow 3760). On the other hand, the yield ceiling, at around the 2.8 percent level, is an oft-noted phenomenon and one that has consistently turned back bull markets since the early 1960's. Based on current dividends, the S & P would start bumping up against this ceiling at only a bit more than 10% above its present level.

Since this is a technical letter, no attempt has been made to forecast what earnings or dividends might be for 1989 and beyond, and indeed, barring a major recession, such a forecast may even be relatively unimportant. As the table suggests, the difficult question of where the market will be willing to value earnings and dividends may be the crucial one for 1989.

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Dow Jones Industrials (12:00) 2307.50
S & P 500 (12:00) 295.31
Cumulative Index (2/9/89) 4230.31