TABELL'S MARKET LETTER

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This week's action produced yet another burst of market strength, taking most major averages to new bull-market highs and producing, in the process, an all-time closing high for the S & P 500. The burden of this letter's argument over the past month has been that, from a technical point of view, there is nothing historically unusual about the current market rally. Both in terms of percentage advance and of lapsed time, the marks for the present upswing have typically been exceeded in prior cycle bull markets, suggesting that there remains, currently, further room on the upside.

The same suggestion is supported by basic fundamental valuation statistics. This point has, of course, been made elsewhere, but we think it is worthwhile to cite a few numbers and offer some notes on methodology. We will be using the S & P 500 as an example.

Earnings and dividends for the twelve months ended June 30 on the 500 are not yet available, but reasonable estimates, based on three quarters of actual figures are $25.90 of earnings and $10.38 of dividends. At last night's close of 341.99, the 500, therefore, was selling at 13.2 times earnings to yield 3.04%. Note that this statement is based on trailing figures and, except for a single quarter, no estimates are involved.

Date of High	S&P 500	Subseq. Low	Percent Decline	P/E at High	S&P Equiv	Percent Diff.	Yield at High	S&P Equiv	Percent Diff.
Jan 5 53	26.66	22.71	-14.8	11.3	314	-7.6	5.29	212	-37.8
Aug 2 56	49.74	38.98	-21.6	13.9	386	13.6	3.44	325	-4.3
Dec 12 61	72.64	52.32	-28.0	23.8	661	94.5	2.70	414	21.9
Feb 9 66	94.06	73.20	-22.2	19.7	547	61.0	2.83	395	16.3
Nov 28 68	108.37	69.29	-36.1	19.1	531	56.1	2.80	400	17.5
Jan 11 73	120.24	62.28	-48.2	19.4	539	58.6	2.59	432	27.1
Sep 21 76	107.83	86.90	-19.4	13.0	361	6.3	3.49	321	-5.7
Nov 28 80	140.52	102.42	-27.1	9.6	267	-21.5	4.32	259	-23.8
Aug 25 87	336.77	223.92	-33.5	23.4	650	91.3	2.53	442	30.1

In the table above, we present several figures for the last nine major bull-market highs in the S & P 500. The first four columns show the date of the high, the average at that high, the subsequent low and the percentage decline. The key figures are the price/earnings ratio and the yield which existed at each of these market highs. Both of these statistics, to make them comparable with those cited above, are computed using trailing earnings and dividends---those for the quarter ended prior to the high.

To the right of the columns for P/E and yield, we show the S & P equivalent. This figure represents a possible value for the first quarter of 1990, using S & P's estimates of $27.79 for 500-stock earnings in 1989 and the index's indicated annual dividend of $11.19. The equivalents show where the S & P would sell were these historical P/E ratios and yields to be duplicated. To the right of the equivalent is shown the percentage change to that price from the current one.

The clear implication is that, based on earnings at least, the S & P composite is conservatively valued vis-a-vis past bull-market highs. Only two bull markets, 1953 and 1980, have ended with the 500 at a lower P/E. Were the average, before this advance is over, to trade at 19-23 times earnings, a level which characterized 1961-1973 market highs and was again reached in 1987, it could sell some 60-90% above today's price.

When one looks at yield, the historical comparisons are still positive, albeit a little less optimistic. The so-called "yield ceiling" has been an effective cap for most bull markets, generally cutting off rises when dividend return for the S & P 500 has dropped significantly under 3%. As the final column of the table shows, there is room for a modest further advance in price based on current dividend rates, but astronomically higher prices appear unlikely.

Dividends could, of course, rise well beyond 1989's indicated annual rate. Indeed, given the sharp rise in earnings since 1982, the current payout ratio, around 40%, is at historically low levels, indeed the lowest it has been in sixty years with the exception of a brief period in 1979. There thus appears room for continued improvement in dividends despite a possible slowdown in earnings growth. In any case, just as technical comparisons do not suggest that the advance to date has been excessive, valuation analysis indicates that, at present levels, the S & P 500 remains relatively inexpensive.

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Dow Jones Industrials (12:00)	2644.34
S & P 500 (12:00)	341.85
Cumulative Index (7/27/89)	4773.78

AWT:ebh