TABELL'S MARKET LETTER

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The ritual dance, almost as stately as an eighteenth-century minuet, continues. The S & P 500, with little fanfare, reached a new all-time high closing on Tuesday at 390.62, .17 above its previous high closing back in April. Although closing lower in both cases, it posted new intra-day peaks on Wednesday and Thursday, the latter at 391.80.

The Dow, meanwhile, continues its flirtation. Unlike the S & P, it reached new closing and intra-day highs in June, and has yet to exceed those figures. It was, at 11 a.m. yesterday, at a new half-hourly peak, before a weaker bond market drove prices lower.

A rationale for the market's reluctance to move ahead vigorously may, as we have previously noted, be found in its relatively high present valuation of earnings and dividends. It is, perhaps, worthwhile to quantify this a bit. The last actual earnings figure we have for the S & P 500 is $20.97 for the year ending March, 1991. Assuming a continuing mild decline in earnings for the second quarter, to be reported next week, the figure for the twelve months ended June should be about $19.90. Given only a mild recovery, this should be the low for the foreseeable future.

Thus, at the aforementioned high, the S & P was selling at 19.63 times earnings. There have been, since 1949, 171 quarters, and in only thirteen of those has the S & P 500 sold at a higher price/earnings ratio. Those thirteen quarters have been clustered into four separate periods. The first was in 1961-62, the second in 1964, the third in 1971 and the last one in early 1987. In two of these cases, 1961-62 and 1987, an immediate bear market followed. 1971 saw immediate somewhat higher prices, followed by, of course, the 1972-1974 bear market.

In terms of yield, also, the S & P Composite appears immoderately high. Based on dividends of $12.14, its yield is 3.11%. A lower yield has been posted in only 39 of the past 171 quarters and again, in most cases, such a figure has been followed eventually by lower prices.

It is, of course, easy to find a rejoinder for the above argument. The earnings figure for the second quarter of 1991 should be the low. Analyst's estimates for the full 1991 year center around $22.12, and $25.55 is projected for 1992. Using the latter figure, were the current valuation to continue to obtain, the S & P could well sell for over 500 in early 1993.

Let us look at these numbers another way. A realistic estimate of S & P earnings for a year out, the twelve months ended September 1992, might be $25.20. At current levels, we find ourselves at only 15.5 times these anticipated earnings. This is a much more reasonable-sounding figure. It appears even more reasonable when one notes the fact that a higher multiple of year-ahead earnings was continually posted in every quarter from the fourth quarter of 1958 through the second quarter of 1972. During this time the average more than doubled. Assuming, therefore, that analysts have the ability to forecast a year ahead with reasonable accuracy, surely a not unreasonable assumption given the amount spent on fundamental research, there appears little to worry about in the current valuation of stock prices.

Of course in the accuracy of those estimates lurks the rub. It seems to us conclusive that gradually increasing earnings, beginning now and running through 1992, constitute an assumption built into the present level of stock prices. We have no quarrel with that assumption. However, any indication that such increases might not, actually, materialize would be, to say the least, worrisome.

Of course, the ultimate determinant of stock prices is not in valuation figures, which have fluctuated all over the lot throughout equity market history. That determinant is, rather, the supply-demand situation we attempt to assess through technical analysis. There exists, moreover, every evidence that the present demand for stocks is robust. One need only note the recent receptions accorded a plethora of new issues, which arrived on the market fully priced and proceded immediately to healthy premiums.

Certainly, under some circumstances.it is possible for historical valuation to become irrelevant. One thinks, for example, of the long bull market in Tokyo, where any criteria for normal price simply ceased to exist. Could something akin to that happen here?

For the time being, in other words, continued relatively high exposure to common stocks probably constitutes appropriate investment policy. It would, however, be a delusion to suggest that those stocks are, at the moment, bargains.

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Dow Jones Industrials (12:00)	3007.83
S & P 500 (12:00)	388.13
Cumulative Index (8/8/91)	6260.18

AWT:jb