

Why our economy is heading down

Last week I argued that our economy is extremely sluggish and may be headed toward a recession. Today I will expand on that theme. There is an old saying that fluctuations in the stock market parallel the economic trends. There is, of course, no such thing as "the stock market." However, we can make judgments about what is going on in the stock market by analyzing certain key factors.

Price-earnings ratio

This common ratio for evaluating whether an individual stock is cheap or expensive is also applied to the broader market. The current level of the market index, typically the Standard and Poor's 500-stock index, is divided by the past 12 months' pre-share earnings of the companies on the index.

A high market P-E means the stocks are highly priced relative to corporate earnings and, thus, are possibly fundamentally weak.

At the end of September, P-E for the S&P 500 was about 16. While that's still well below the P-E ratios of 20 or more that have often preceded major declines, it is above the long-term average of 13. And it is far higher than the P-Es of 7 or 8 that have often accompanied market troughs.

When the ratio exceeds 15, the stock market is starting to get fully priced. That's particularly true when corporate-earnings prospects are less than robust, as they are now.

Dividend yield

Another way analysts gauge the reasonableness of stock prices is by comparing prices to the dividend income stockholders receive. The key figure is the "dividend yield" of the S&P 500, the annualized dividend income provided by the underlying stocks as a percentage of the index level.

The current S&P yield is 3.4 percent. Like the market P-E, that's much closer to a sell signal than it is to a buy signal. Whenever it has gone below 3 percent, as was the case in October 1987, the market has invariably sold off.

The indicator has averaged

finances and you Sid Mittra

about 4.5 percent over the past several decades. A dividend yield of 5 percent or 6 percent is generally considered a buying opportunity.

Market breadth

It is appropriate to call this factor as "Dow Jones Industrial Average vs. the rest of the 'stock-market' world." Various ways to measure "breadth" show that a climb in the 30-stock Dow Jones Industrial Average over the past year wasn't accompanied by a comparable advance in the broader stock market.

That lack of breadth is a classic warning sign, because the broad market generally pulls those selected winners down. One of the easiest ways for investors to monitor breadth is to compare the percentage changes over time of various market indexes. While the Dow Jones Industrial Average has climbed 10 percent over the past 12 months, the S&P 500 has advanced just 3.6 percent, and the NASDAQ composite index of over-the-counter stocks has declined 3.3 percent.

Trading volume

Volume tells you the conviction behind a move. As the Dow climbed toward 3,000, volume was not convincing.

Analysts say that they would be more bullish about the Dow if the daily trading volume on the big board had remained consistently above 200 million shares as the average made its recent move from 2,900 toward 3,000. We had a couple of good volume days, but it was eventually not sustained.

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If it's weird, it must be a car ad

By Dan McCosh
special writer



auto talk Dan McCosh

Car advertising has been getting a little weird lately. The straight-forward pitch, whereby you get a catchy jingle and a direct order to buy the car from the star of a major TV show, seems to have disappeared altogether. The counter-culture approach, where you got a short, cute understatement about the virtues of a trendy import that left you feeling morally superior. If you bought the car, likewise has faded.

Both these types of ads sold cars, but then somebody notices the jeans ads.

JEANS ADS are the advertising equivalent of the Wizard of Oz, since they start out with a pair of pants worth maybe about 12 bucks and star them in a surrealist TV commercial filled with images that are supposed to make you feel that if

you pay about 40 bucks for these pants, you will get to hang out on street corners and a person of the opposite sex will hang all over you. It seemed inevitable that ads that sell a \$12 pair of pants for \$40 would drift over into the car business.

Image advertising got a jump start with the heartbeats of America line at Chevrolet, a series of images (and a catchy jingle) that left you feeling as if you had been the state fair, with cotton candy still stuck in your hair.

THIS SEEMED like a good idea, although you could wander down to your local Chevy dealer a little

of a cliff somewhere and look out over the ocean.

PART OF the trick to image advertising is to match the ad-verting with the potential customer's life-style.

The new Saturn ads are heavy on dogs, children and old guys on front porches in rural Tennessee. Not really so surprising when you consider that the agency that did them, Hal Riney, sold a lot of cheap wine with a couple of old guys sitting on the front steps of a grocery store, but a little strange when you consider that Saturn is supposed to appeal mainly to LA-type women in their early thirties, who up to now have been known to identify more with Navaho art, BMWs and West Coast shorelines than with rural Tennessee.

Things really got fuzzy when Volkswagen started singing an incomprehensible song about four Fig Newtons, which baffled even those in their third year of German lessons. Infiniti seemed to be making the statement that if you could afford this car, you really didn't need to drive, but you could sit on the edge

Dan McCosh is automotive editor of Popular Science Magazine.

There's still a tear on Sara's cheek

Sara's teenage brother is drinking and smoking pot.

Ever since she could walk he has taken her trick-or-treating. This year she tagged along with a friend because her brother broke his promise on this special night. "Doesn't he like me anymore," she wonders.

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