

# The COMMERCIAL and FINANCIAL CHRONICLE

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In Two Sections—Section One

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## Bond Market Faces Crucial Turning Point

By **SIDNEY HOMER\***

Partner, Salomon Brothers & Hutzler  
New York City

My assignment is twofold: First, to describe the structural changes which have been taking place in the American capital markets during the last few years (that's easy); second, to try to isolate the truly basic causes of these changes and, thus, to lay the groundwork for judgments as to whether these structural changes are apt to be transitory or whether they are apt to be permanent (that's hard).

A convenient starting date for analysis of the changing structure of the American capital markets is January of 1965. For many years before that date, there was little or no inflationary bias in our economy. Wholesale commodity prices indeed had remained slightly below the level of 1959 for six years. Also for five years interest rates had been stable and moderate and our capital markets had been receptive to all demands put upon them. Indeed, there was concern lest investment outlets should fall below the vast new funds pouring freely into institutions. As might be expected under such an environment, which I described at the time as the "best of all possible worlds," our market for investment grade equities had risen steeply during four out of these five years, and our bond markets were free from demand pressures and were functioning smoothly.

All this began to change in January of 1965 for reasons which I will discuss later. From that date,



SIDNEY HOMER

Prominent bond authority believes we are at a policy watershed comparable to that of 1965. The writer, a senior partner of one of our largest investment banking firms, describes the serious structural capital market changes which have occurred since 1965. He expects them to remain if our authorities compromise their battle with price inflation. Should that occur, he predicts the authorities would seek to forestall the return of escalating interest rates as a credit rationer with selective credit controls. A recession, not a serious depression, would, he believes, lower yields on new corporate bonds only from 9%+ to, say, 6½%, and eliminate newly arisen structural changes besetting the markets. The nub of our problem, he points out, is: the new-found belief in the permanency of inflation, the expectation of painless recessions, and the success, so far, of business to obtain a record volume of credit in the face of tight money. Mr. Homer shows how plans for gigantic future outlays for social purposes have paradoxically proved self-defeating. He also notes that the greatly enlarged demand for credit has not been offset by a corresponding improvement in our credit brakes.

we soared into our greatest inflationary boom. In July of 1965, inflationary pressures were augmented by the Vietnam War and our failure to raise the necessary taxes.

In 1965, American wholesale commodity prices rose by 2 per cent, the first rise in seven years. In 1966, they rose by 3.3 per cent, by 0.2 per cent in 1967, by 2.5 per cent in 1968, and 4.0 per cent in 1969. This inflation may not seem remarkable to European investors, but such inflations have been rare in American economic history. We suffered severe inflations during our Civil War and World War I and again during and after World War II and a brief one during the Korean War, but otherwise we have almost always had stable commodity prices. Our earlier inflations were looked upon at the time as transitory calamities which would be corrected and they were.

### A Brand New Market Factor

This is why the American economy and capital markets have never heretofore readjusted to the expectations of permanent pervasive inflation. They are, however, readjusting today. For reasons which I shall discuss later, majority American

opinion has during the past two years or so concluded that inflation will be a permanent way of life in wartime or in peacetime. This is a brand new point of view. The American economy has for two years been readjusting to this novel expectation. Our capital markets in particular have been readjusting to the idea of sustained inflation, and they have not yet completed the process. Our Government's repeated efforts to bring down the inflation by both fiscal and monetary measures have not necessarily failed, but they have seemed to fail and, therefore, have come to be regarded by many Americans with skepticism. This is so largely because we have been assured that the process of restraint would be painless. Everyone of us knows in his bones that effective restraint must be painful. Platonic theoreticians, who doubt the ability of democracies to govern themselves prudently, proclaim that no democracy can avoid self-destruction from inflation. They ignore a century or two of economic history, but the threat is indeed there.

Continued on Page 20

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President

Ouarles, Cohen & Williams, Inc.  
Birmingham, Alabama

**Danmont Corporation**  
(Formerly Astro-Space Corporation)

No stocks can be all things to all people but Danmont Corporation has what we consider a unique blend of sound management, conservative accounting, increasing earnings, and excellent prospects for future growth. Danmont has a book value of almost \$4.00 per share and earned 17 cents per share from operations last year (plus 20 cents per share in special income, principally from sale of a bank stock investment). At this point, management believes it has an excellent chance to earn substantially more from operations in this fiscal year, which ends December 31, 1970. Danmont is a holding company with executive offices in Huntsville, Alabama, and New York City. The New York office is staffed by two people and coordinates certain administrative and acquisition activities. The company is involved in electronics, distribution of mining and construction equipment, aerospace components, medical instrumentation, life insurance, and hovercraft. These activities are carried on through Astro-Space Laboratories, Inc., 80.1 per cent owned; Trustee Life Insurance Company, 41 per cent owned; MSN Industries, Ltd., 68.7 per cent owned; and Royal Medical Corporation, 80.1 per cent owned.

**Astro-Space Laboratories** is an engineering and manufacturing company which makes electronic and aerospace components, and is headquartered in Huntsville, Alabama. The backlog is the highest in the company's 10-year history and sales this year are expected to reach \$4.0 million versus \$3.2 million last year, and earnings should increase very substantially.

Astro-Space Laboratories has a modern precision machining facility and the capabilities to completely design, fabricate, assemble, and deliver aerodynamic hardware and instrumentation. Some of the sophisticated products they have produced are custom power supplies, wind-tunnel models, high-speed digital circuitry, a broad range of heat sensors involving microsecond measurement of temperature and heat flux, stabilized platform electronic systems, static inverters, and logic-driven reed relays.

**MSN Industries, Ltd.** distributes and services heavy equipment in Ontario and Quebec. Distribution contracts are held from several well-known machinery manufacturers including Allis-Chalmers, Barber-Greene, Bucyrus-Erie, Rex Chainbelt, General Motors, Ingersoll-Rand, and Dresser Industries. MSN's activities include sales, leasing, servicing, and parts distribution to highway building, marine and

other construction contractors, hydroelectric companies, mines, industrial plants and paper companies. This is a solid, stable company with conservative accounting, and a long uninterrupted history of earnings. MSN is successor to a 66-year business. Through a 55 per cent interest in Hovermarine, (Canada) Ltd., and 45 per cent interest in Hovermarine, Inc., MSN is engaged in the development of a recreational sports boat that travels above the surface on an air cushion. A test prototype of a two-to-three-passenger craft has been constructed and has undergone more than one hundred hours of encouraging tests over land, water, ice, and snow. In the most significant development to date, the Canadian Government, which has an interest in the hovercraft as an industry, has after several months of study of vehicles in development, selected the MSN craft for government participation, and an agency of the Canadian Government has agreed to reimburse MSN for one half of the development cost associated with the hovercraft project. It is estimated that one half of the \$280,000 to be expended by the end of this year will be accordingly reimbursed. **Trustee Life Insurance Company** is headquartered in Gadsden, Alabama, and has in excess of 50 million dollars of insurance in force. This is a relatively small investment, representing approximately 5 per cent of the stockholders' equity of Danmont.

**Royal Medical Corporation** is itself a by-product of the space effort with most of its devices being spin-offs of technology developed in the space program. This is primarily a development company whose most interesting devices are:

**Ballistocardiograph** — a non-intrusive diagnostic and prognostic device used by cardiologists to detect heart abnormalities. **Oxymeter** — an instrument designed to give a direct digital readout of blood oxygen content in rapid time. **Stair-Step Ergometer** — a machine intended primarily for exercise testing of patients suspected of having coronary heart disease. **Atrial Septum Avulser** — a device for catheter procedures in certain congenital diseases. **Infant Calorimeter** — a system designed to measure the oxygen consumption of an infant. **Electronic Thermometer** — this device designed to be carried by a nurse, is approximately the size of a king-size cigarette box. The sensor is covered by a disposable plastic cover which the company believes it can retail for approximately 2 cents each. It takes approximately 5 seconds for the temperature to register on a digital readout device similar to an electronic quotation machine. The potential time and cost saving is apparent in that an average patient's temperature is taken 4 times daily in most hospitals. In a 500-bed hospital, the electronic thermometer could save over 50 hours daily. A prototype has been

### This Week's

#### Forum Participants

**Danmont Corporation;** A. Michael Ouarles, President, Ouarles, Cohen & Williams, Inc., Birmingham, Alabama.  
**Union Financial Corporation;** Victor A. Ptak, Assistant Manager, Glore, Forgan, Wm. R. Staats, Cleveland, Ohio.

completed but it is expected that competition for this market will be intense.

Danmont expensed most of the development costs of Royal and carries this 80.1 per cent stock investment at \$1 total. Royal has long-term debt of slightly over \$100,000 (secured by its assets) due to its affiliate, Astro-Space Laboratories, which is presently funding Royal's nominal operating budget. The sales and profit potential of any of these medical developments cannot be estimated at the present time.

#### Summary and Conclusion

In viewing the stock at its current level and present position, we believe it has the potential to sell at substantially higher prices over the long term. Danmont has a book value of almost \$4 per share and should increase earnings from operations this year. It is our belief that Danmont, with sales of \$22 million, \$6.4 million in working capital, stockholders' equity of \$6.2 million, improving earnings, and common stock selling at less than book value and at a low multiple of estimated earnings, is an undervalued situation. It is also believed that one of the most important attributes of this company is the quality of its management and their philosophy of doing business, and that through their efforts the company will be successful in further developing a solid earnings base with strong underlying assets and growth opportunities. It is important to add that the three larger companies controlled by Danmont have been in business for ten years or longer and have established excellent reputations in their respective fields. Danmont has, in addition to its established business, several aspects of new growth and glamour:

1. Royal Medical Corporation, which offers considerable leverage possibilities.

2. The hovercraft, which has the potential to become a new industry with applications that could prove to be exciting and profitable.

3. Management's stated goal - to acquire a company that would give Danmont a listing on a major exchange.

None of the above, of course, is assured, but does impart speculative growth potential to this situation.

It is our belief that the common stock of Danmont at a recent price of \$3.00, with its many plus factors, is an undervalued situation with above-average prospects for growth. We believe speculative commitments at this level will prove very rewarding over the intermediate term.

**VICTOR A. PTAK**  
Assistant Manager

Glore, Forgan, Wm. R. Staats,  
Cleveland, Ohio

**Union Financial Corporation**

Union Financial Corporation is a diversified holding company with two major operations in the financial area. The company also

Continued on Page 4

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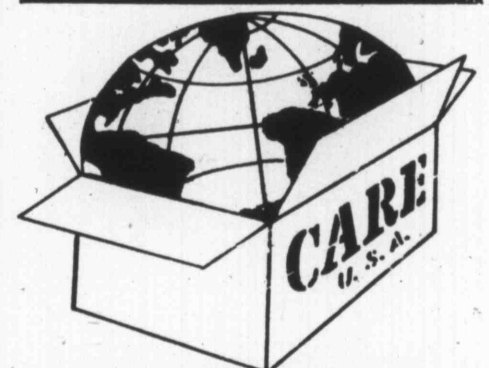
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## A POINT OF VIEW

By MELCHIOR PALYI

### Relearning The Lessons Of 1929

Forty years ago witnessed the default of \$30 billion private debt. Today's financial squeeze still may not be nearly as severe as in 1929 but, Dr. Palyi advises, there should be no delay in removing the "bilge" from our polluted financial waters circulating throughout corporate system.

On the eve of the 1929 crisis, there was virtual agreement among American experts that an industrial liquidity crisis was unthinkable. (Presently, the government is not supposed to "permit" anything of the sort to happen.) The corporations were in perfect shape — until the stock market broke, laying bare the thin crust of underlying "real" values, and drying up the stream of new credit to bolster the old.

It then turned out that as a group the corporations were indebted — railroads in particular — beyond reason. Corporate debts rose (in terms of dollars of the old parity) from a blown-up \$57 billion volume in 1921 to over \$89 billion in 1929. Corporate liquid assets quickly vanished with the downturn of the cycle, but the liabilities did not vanish (except in reorganizations). And corporate illiquidity was not even the weakest link in the credit structure in those days: the total of all private debts had been rising rapidly ahead of the GNP. Trading on the equity on an unprecedented scale was the undoing of the twenties. The default of \$30-odd billion of private debt was the financial gist of the Great American Depression.

#### Since WW II

Now then, what has happened since World War II? From \$85.3 billion (in new dollars) at the end of 1945, the net corporate debt "skyrocketed" to \$283.3 billion in 1959. But that was just the beginning. A decade later, the corporations were in the red to the tune of \$692 billion, an eightfold rise in 24 years. Most of this debt inflation occurred in the last five years. Paradoxically, the all-time record expansion of corporate credit (net) of a single year, by \$81.3 billion, occurred in the year of "severe restraints," 1969. Well over one-half of the total corporate debt was of less than one year maturity.

The fantastic expansion of industrial debts in the last decade must be understood in its setting. Under the Kennedy-Johnson administrations, wage rate and fringe benefit boosts rapidly gained momentum. The rising costs were supposed to be met by the proliferation of ever-greater plant and equipment capacity, to be financed not only by incurring debt beyond rhyme or reason, but also by a record volume of new issues of shares. This expansion misfired. The investments made to "beat" labor costs and the inventory accumulation to forestall the inflation were a prime factor in overheating the labor market. Instead of increasing per man-hour productivity, excess capacity, overgrown inventories and unprofitable overhead piled up. "Shortage of financial capital and excess capacity" resulted, as Sidney Brown pointed out in the March 24, 1969, edition of the *Commercial and Financial Chronicle*.

#### Counter Productive Inflation

The philosophy of perpetual inflation boomeranged.

Constant and increasing pressure on the labor market has lately brought about an actual decline of labor efficiency. What is even worse, the expectation of growing sales volumes has been disappointed along many lines. That is what inflation control aims at: reducing the dollar volume of sales. Unprecedented high interest rates were instrumental in keeping down the effective demand for industrial goods. Profits, in turn, were caught in the squeeze between growing labor costs and capital costs (overhead).

Presently, we are relearning the lessons taught by the boom of the twenties and its aftermath. The financial squeeze may not be anywhere near as severe this time as it has been in similar situations in the past. But it will surely take some more "cleaning" before the bilge of the polluted financial waters will be wrung out of the corporate system.

In any case, not too much relief should be expected from the overworked "monetary aggregates," however defined. True, we are no longer inhibited by any of the rules of the gold standard "game." In other words, the money supply can be increased indefinitely — in the world of Keynesian and Friedmanite ideologies. However, our "capacity to inflate" has been greatly reduced; any such policy is now up against the accumulated material and psychological residuals of Twenty-five Years of Inflation.

Should a major corporate liquidity crisis develop (which is a definite possibility), it will be handled in all likelihood by "freezing" the overdue debts — presumably the Federal Reserve Banks stepping in as guarantors.

### Cleve. Traders to Hold Outing

CLEVELAND, OHIO — The Cleveland Security Traders Association will hold its annual summer party July 16th and 17th. There will be a dinner party July 16th at the Tudor Pub Restaurant for out of town guests and members, and a full day outing on July 17th at the Acacia Country Club, Lyndhurst, Ohio.

Reservations, accompanied by check, must be received by July 10th.

Edward A. Spehar, Hartzmark & Co., Inc. is chairman of the event. Hotel reservations may be through William Alberth, Greene & Ladd; Thomas Berlin, Disbro & Co. Inc. is in charge of golf; and Richard Schulenberg, Saunders, Stiver & Co. of a special event.

### M.W. Harowitz Opens

RICHMOND, VA. — Martin W. Harowitz, Jr. is conducting a securities business from offices at 1904 Byrd Avenue under the firm name of Martin W. Harowitz & Co.

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## Great Western United

By IRA U. COBLEIGH, Economist

Reciting some of the developments in sugar, marketing and land development that could make a "turnaround situation" out of the price-eroded common stock of this quarter billion dollar company.

It has long been regarded as a preferred portfolio procedure to single out seasoned stocks selling at low P/E multiples and to invest in them if they displayed highly visible and early prospects for worthwhile gains in earnings. Such rising earnings, in due course, are supposed to propel a stock both to higher market quotations, and higher P/E multiples. Assuming the validity of this technique for stock selection, even in the zestless markets of today, we have a candidate — Great Western United common. GWU sold at 79 in 1969, was battered down by a bad year in the beet sugar industry, and now sells at around 15½, less than 4 times per share net estimated at approximately \$4 for the fiscal year just ended (May 31, 1970). This could be an interesting turnaround situation.

### Background

Great Western United Corporation was formed in January 1968 around the Colorado Milling & Elevator Company, an old-time flour milling enterprise, founded in 1889. Later in 1968, Great Western Sugar was merged, and an organization of stature was created, grossing \$275 million and reporting \$16,183,000 (\$5.51 a share) in net earnings in fiscal 1969. In November 1969 the Colorado Milling property was sold for \$11 million in cash and GWU has been expanding aggressively its "concept" restaurant operations, and land development program.

### Great Western Sugar

Since beet sugar represents the largest revenue producing division grossing around \$150 million a year, we'll discuss that first. Great Western Sugar Company is the largest beet sugar producer in the United States, accounting for 24 per cent of the total market. For beet sugar, 1969 was the worst year in more than half a century. Frost and snow storms affected the traditional and requisite increase in the sugar content of beets in the ground during the final ripening phase; and greatly reduced the sugar recovery from the entire crop. In addition, over 500,000 tons of spoiled beets had to be removed and disposed, further reducing earnings by a substantial non-recovering. Thus, instead of contributing \$2.15 a share to corporate net, as in fiscal 1969, beet sugar operations will probably generate less than \$1 a share in 1970.

### "Concept" Restaurants

The Great Western Restaurant Company division has grown rapidly through Shakey's — a unique pizza chain of close to 400 restaurants. The formula here is to provide quality pizzas at popular prices, and combine them with family fun via singalong, with a piano-banjo "combo", ten kinds of beer, and soft drinks. The kids also have

fun watching the pizza twirlers. These pizza parlors are located in most western states. Many are franchised but the accent now is more on company owned outlets yielding higher profits. Eighty new ones are scheduled in 1970. If a unit is franchised, Shakey's will finance the equipment but not the land and building.

The Great Western Restaurant division is also opening up a new chain of steak houses for the affluent market patronage. Called "The Prime Time", each unit features choice steaks, baked potatoes and salads, accompanied by wine and booze.

Restaurants should account for perhaps 25 cents a share in fiscal 1970 earnings.

### Great Western Cities

This division comprises altogether four substantial land development projects. The largest is California City Development Co., building California City, a burgeoning community 100 miles north of Los Angeles, fanning out on 100,000 acres of land. There are over 2000 residents there now, with four new families arriving each week. California City is strategically situated in relation to large corporate expansions, military bases, airports, railway and highway lines. The Company not only sells the building land to householders but creates such facilities as schools, swimming pools, a community center, etc. GWU profits both from the sale of upgraded land, and the enhancement in realty values almost certain to occur as modern communities grow and expand their peripheries.

Second in importance is Colorado City on 7500 acres near Pueblo, and 120 miles south of Denver. This city too will include recreational facilities including golf, riding trails, swimming and boating.

The two other development sites are in New Mexico, on an Indian reservation leased from the Department of Interior, and the 11,000 acre 3-R Ranch, located 12 miles from Colorado City with 3000 head of cattle already in residence.

GWU sells its land at an average lot price of \$3000, with average down payment of 11 per cent and an 8-year contract for balance at 7 per cent interest.

In common with other land companies, GWU is awaiting new guidelines from the Accounting Principles Board. Earnings depend on the percentage of the total profit realization (from cash and notes) included in each year's operation. Earlier practice, to include the entire amount as basis for profit calculation, tends to overstate current earnings. Changes in accounting practice might reduce by anywhere from 25 cents to 75 cents a share, the reported net profits for GWU in a given year, leaving, however, a carryover of profit to later years.

### Great Western Foods

This division was formed last year to combine all marketing of

## First Boston Elects Arrol



D.P. Arrol

Douglas P. Arrol has been elected a vice president of The First Boston Corporation, 20 Exchange Place, New York City, it has been announced. He was previously an assistant vice president in the firm's national sales department in the New York office.

Upon graduation from the University of Edinburgh, Scotland, Mr. Arrol joined A.E. Ames & Co., Limited, where he was active in the Canadian and U.S. investment banking fields. He joined the Chicago office of First Boston in 1967 and was transferred to the New York office in 1969.

## Mitchum Opens New Dept. in NYC

Mitchum, Jones & Templeton, incorporated, members of the New York Stock Exchange and other leading exchanges, have announced the establishment of an Institutional sales department in their New York office, 20 Exchange Place, under the management of John C. Mickle, first vice president of the firm. Also associated with the new department are John D. Lelong, James F. Lybch and James E. Pascoe, vice presidents, and Renato C. Guidice, assistant vice president.

supermarket products under a single management. These products include those of Great Western Sugar and of Emerald Christmas Tree (a new division which sold 500,000 choice trees in fiscal 1969).

### The Total View

The panorama of GWU unfolds a breadth of corporate activity, a young imaginative management, a satisfactory beet sugar year, and prospects for substantial resurgence in earnings in fiscal 1971. Even assuming a per share net of \$3.75 to \$4.00 for the year just ended, GWU common appears reasonably priced at 15½, particularly with a 90 cent dividend. If earnings reach \$5 in fiscal 1971, we would expect a market response. AP/E multiple of at least 8 does not seem out of line for a stock with this mix of assets and earning power. That would be \$40 a share on earnings of \$5. Only 2,100,000 common shares are outstanding, leveraged by \$131 million in obligations and preferred shares, ahead. At 79, GWU was too high. Isn't it too low at 15½?

## The Security I Like Best

Continued from Page 2

has interests in the industrial field and has considerable real estate holdings in the Cleveland area.

Currently selling at around \$7.00 a share, only slightly less than half of its book value, Union Financial stock would appear to be an excellent buy at this time. The company has a proven record of earnings growth. Both industrial operations have good growth potential. At the least, both financial operations — a savings-and-loan association and a national bank — should have strong growth, and place UFC in an excellent position to take advantage of the boom in residential housing which must surely come.

The four major operating subsidiaries, from which UFC derives nearly all of its revenues and income, are Union Savings Association, Port Clinton National Bank, Copifyer Lithograph Corporation and Cowles Tool Company.

### Union Savings

Union Savings Association, with assets of more than \$174 million, is one of the largest savings-and-loan associations in Cleveland and ranks 149th in size among the more than 6,000 S&L's in the United States.

The fastest growing S&L in the area, Union Savings is the only association completely encircling the city of Cleveland. It has ten offices, six of which have been opened in the last seven years, and its share of the available mortgage market has risen 35 per cent in three years.

In 1969, Union Savings achieved new records in operating earnings, savings and assets. Mortgages were up by nearly \$11 million, and portfolio yield was up to 6.35 per cent from 6.11 per cent.

### Port Clinton National Bank

Since its acquisition by UFC in 1964, Port Clinton National Bank has had an impressive growth rate, with assets rising from \$11 million to more than \$17 million at the end of 1969. Earnings (an impressive 14 per cent on net worth) and savings also reached record highs last year for this general commercial banking operation.

This performance can be attributed, in part, to the bank's location in the center of an area pulsing with new vigor. Port Clinton, Ohio — midway between Cleveland and Detroit — is near the geographical center of America's industrial concentration, and is a booming leisure and recreation area.

### Industrial Operations

To the best of my knowledge, Union Financial's consistency in earnings growth is unsurpassed by any other savings-and-loan holding company. UFC's two industrial operations, Cowles Tool Company and Copifyer Lithograph Corporation, are important factors in that performance record.

Cowles Tool is the nation's leading producer of precision rotary cutting knives for the metals, plastics and paper industries, with an estimated one-third of the total market. In 1969, Cowles recorded a 10 per cent increase in sales and paved the way for future growth through a move to larger, more efficient

facilities on Cleveland's West Side.

Copifyer Lithograph specializes in multi-color printing of textbooks, children's books, greeting cards and gift wraps. The company has won many awards in printing competitions and is the largest printer of the famous Dr. Seuss books.

Last year was one of transition for Copifyer Lithograph, even though sales increased by 25 per cent. The company moved from sheet fed to high production in web lithography. The web press makes economical the four-color printing of extremely high quantities of copies, and should be a source of profitable growth for the future.

### Sales, Earnings Summary

In 1969, despite a continuing race with accelerating inflation, Union Financial posted records in gross revenues and earnings from operations. Revenues were \$17,447,999 compared with \$15,646,027, while earnings from operations were \$1,210,884, equal to \$1.36 a share, compared to \$1,210,495, or \$1.38 per share on approximately 52,000 fewer shares outstanding.

Separate from operating earnings, however, late in 1969 Union Financial incurred an extraordinary charge of \$391,767, mainly the result of the sale of its long-term government bond portfolio. This non-recurring charge reduced net earnings to \$819,117 or \$.92 per share.

While the sale of these securities did affect the company's immediate results, the transaction will be of future benefit to the company. The proceeds were immediately reinvested in similar securities which yield nearly 9 per cent, compared to 3.5 per cent previously, and which will ultimately more than recover the initial loss.

The continuing challenge imposed by the unparalleled increase in the cost of money affected Union Financial's first quarter results. Total revenues climbed to a record first quarter level at \$4,219,651, compared to \$3,823,060. Principally because of increased money costs at Union Savings (some \$1,200,000 annually), however, net earnings were \$86,504, compared to \$181,402 a year earlier.

In his report to shareholders at the company's annual meeting a few weeks ago, UFC chairman and president Warner B. Bishop, pointed out that his company's first quarter results traditionally have not been indicative of the performance for the year as a whole. "We believe this will again be the case in 1970, and we look for successive improvement in each of the remaining three quarters."

### About the Stock

Traded on the American Stock Exchange, Union Financial stock is currently selling for approximately \$7.50 per share although its book value per share (as of March 31) was \$14.48. I have noted many institutions that are willing to pay a substantial premium over book value to obtain an operating savings-and-loan company. In fact, premiums of 20 per cent to

30 per cent are not uncommon in the industry.

A bit of history. During the strong market of 1968, UFC stock reached a high of \$26.125 on the American Exchange. Today the company sells at barely one-quarter of that figure. Yet the basic operations which it had then are substantially stronger today. Moreover, Union Financial's earnings growth has been both solid and consistent. Since 1963, operating earnings have increased each year and earnings per share have nearly doubled. Contrast this with the performance of many of the highly recommended California savings-and-loan holding companies which in 1969 barely managed to surpass — if indeed they did — their earnings records of the early sixties.

Regardless, the company appears to be greatly undervalued at the present time. The company has built four exceptionally strong operations, each with a good growth potential. Certainly, there are few fields of business which offer more potential for growth than that of housing. If earnings improve only as anticipated, UFC stock is a good buy at current levels as a situation that should sell closer to its inherent book value. Any breakthrough in the housing area would create a substantial earnings increase for Union Financial and could be accompanied by substantial stock appreciation.

## Pacific Power And Light Co. Offers Rights

Pacific Power & Light Co. announces the offering to holders of its common stock of rights to subscribe for 1,546,066 additional common shares at the subscription price of \$15.75 per share, on the basis of one new share for each ten held of record June 25, 1970. Rights will expire on July 16.

Blyth & Co., Inc.; Merrill Lynch, Pierce, Fenner & Smith Inc.; and Salomon Brothers & Hutzler, New York, are joint managers of an underwriting group which bid \$921,987.69 (59 cents a share) at standby compensation for the purchase from the company of the unsubscribed portion of the shares being offered.

Net proceeds from the sale of the additional common shares, and from the proposed sale of \$25 million of first mortgage bonds, will be used by the company to finance part of its 1970 construction program and to retire short term promissory notes, including commercial paper, issued to finance construction and estimated to aggregate \$40 million on July 20, 1970. It is estimated that 1970 construction expenditures will approximate \$121,345,000.

Pacific Power & Light is engaged principally in supplying electricity in more than 240 communities in Oregon, Wyoming, Washington, California, Montana and Idaho. The company also is engaged in steam heating, telephone and water supply operations.

### In Securities Business

FLUSHING, N.Y. — Claudio Dal Plaz is conducting a securities business from offices at 146-28 Fifty-ninth Avenue.

# Tests Facing Britain's New Tory Government

By PAUL EINZIG

**Dr. Einzig catches his second breath over the unexpected Conservative Party June 18 victory, and pinpoints the major confrontations facing the new Tory government. He hopes that the dockers' strike of July 14 will give rise to a firm stand against excessive wage demands notwithstanding the risks to the economy and the balance of trade. He looks forward to favorable tax reforms and to some credit relaxation, and a major effort in reducing government expenditures. The Queen's Speech today, July 2, will spell out the newly proposed economic policies.**

LONDON, ENG. — During the three weeks preceding the election on June 18, I lost half a stone in weight through sheer worry about the economic consequences of a Socialist victory. Judging by the relative steadiness of sterling and of the Stock Exchange during that period, it seems that very few people could have realized what was at stake. Even though all public opinion polls pointed towards the confirmation of the Socialist Government in office for another five years, sterling fluctuated narrowly without any strong basic weak trend, while equities derived comfort from the recovery in Wall Street. Yet, had the public opinion polls been proved correct, a Socialist victory would have been followed by a flight from the pound, and by a slump on the Stock Exchange regardless of the ups and downs of Wall Street.

That the financial markets were blissfully oblivious of their narrow escape from a major crisis is indicated by the moderate degree of their recoveries that followed the unexpected Conservative victory. There was, it is true, a sharp immediate rise in equities and in the gilt-edged market, and sterling staged a noteworthy recovery. But the extent and duration of the improvement was most disappointing.

It is true, there is still ample cause for worry about the situation and the prospects in the financial, economic and political spheres. But all those causes would have been in full operation also after a Labor victory. And surely it makes a difference that under a Tory Government Britain stands a better chance to face the difficulties.

### Dockers Strike

The first test which the new Government will face will be the threat of a dockers' strike on July 14. Unless it is settled before that date Britain's imports and exports will come to a standstill. If it is settled on the terms of the dockers or anything like them it would encourage all trade unions to press ahead with their fantastic wage demands just as they did during the last year of the Labor Government.

Sooner or later there is bound to be a confrontation with the trade unions. Nothing short of a complete failure of some major strike would deflate the swollen heads of organized labor. They now imagine themselves lords of the universe, with all rights and no duties. "Ask and ye shall be given" has been in full operation to such extent that its continued application has come to be taken for granted. Sooner or later employers will have to make a firm stand since now they can

depend on being supported by the Government.

### Pro and Con of a Strike

There is much to be said for taking the opportunity of the impending dockers' strike for getting over the inevitable confrontation. As a result of the strike there would be a sharp increase in unemployment all over the country. If such unemployment were brought about by deflationary measures the Government and the Bank of England would be blamed for it. If it were brought about by a strike of dock laborers, it is they who would be held directly responsible for the resulting misery.

Even so, the risk attached to such a confrontation, and the resulting loss to the national economy, would be tremendous. Possibly the Government might prefer to give way on this occasion and defer the confrontation which could then take place in the sphere of some industry strike which would not damage the national economy to anything like the same extent. But this would mean that the dockers' claim would have to be met to a very considerable extent, and the new Government would suffer its first reverse in the economic field. The trade unions would derive much encouragement from this precedent which would show that, whether the Government is Socialist or Conservative, the unions are the real masters.

Until this matter is settled in one way or other neither sterling nor equities stand a chance of benefiting adequately, if at all, by the change of Government. What must be borne in mind is

that the threat of a dockers' strike existed already before the change of Government. Had the Socialists won the election the national economy would be exposed to it none-the-less, in addition to being exposed to prolonged Socialist misrule.

### New Government's Policy

Everybody is awaiting with interest what changes of policies the new Government will make in the fiscal, monetary and economic sphere. Major taxation reforms are forecast, and it seems reasonable to assume that they will favor business interests and investors. Possibly the rigid credit squeeze might be relaxed. A Conservative Government could afford to do so because it is trusted abroad, so that a relaxation of the credit squeeze would not produce the same effect on sterling as it would have been under a labor Government. In any case the relaxation of Regulation Q in the United States foreshadows a relaxation of the credit squeeze, in which case sterling would not suffer as a result of a similar policy on this side.

A major effort will be made to cut public spending. Personally I would consider it a great achievement if the Government were able to prevent a rise in expenditure in spite of the inflationary rise in wages and prices. It would be little short of a miracle if the Government were able to overcome the resistance of various economic and political interests to really substantial cuts in expenditure.

As for other economic policy measures, they will be announced today, July 2, in the Queen's Speech. It remains to be seen how much of the Conservative program will be implemented during the first year of the newly elected Parliament.

## Thompson with Hill Samuel

John T. Thompson has become associated with Hill Samuel Securities Corporation, 375 Park Avenue, New York City, as manager of the over-the-counter trading department. Mr. Thomson was formerly with the unlisted department of Wertheim & Co.

## Union Tank Car Offers Equip. Trust Cfts.

Public offering of an issue of \$25,000,000 of Union Tank Car Com. 9% per cent equipment trust certificates due July 1, 1990, at 99.75 per cent plus accrued interest, to yield approximately 9.903 per cent, is announced by Salomon Brothers & Hutzler, New York, manager of the underwriting group.

Net proceeds from the sale of the certificates will be used, together with funds from the company's treasury, to retire outstanding indebtedness.

The 1990 certificates are not callable prior to maturity except for annual sinking fund retirements commencing in 1973, which are calculated to retire about 95 per cent of the issue one year prior to maturity. For the sinking fund, the certificates will be redeemable at 100 per cent of the principal amount, plus accrued interest.

Equipment securing the certificates will consist of approximately 1,820 railroad tank cars or other railroad equipment of the type used in the company's leasing business. None of the cars comprising the security of the certificates will have been in use before Jan. 1, 1969.

The principal business of Union Tank Car a subsidiary of Trans Union Corp. consists of leasing railroad tank cars to shippers in the United States and Canada for their use in transporting petroleum, compressed gases, chemicals, food fertilizers and other products. Executive offices of the company are located in Chicago.

### A.G. Edwards Nashville office

NASHVILLE, TENN. — St. Louis based A.G. Edwards & Sons has announced plans to establish an office in Nashville, Tennessee. Edwards will acquire the present Nashville operation of Stein Bros. & Boyce, Life & Casualty Tower. Richard J. Eskin, former Stein Bros. manager, will become the resident manager for Edwards.

A.G. Edwards, now in its eighty-third year of operation, maintains sixty branch offices throughout the country.

We are pleased to announce that

Gilbert F. Bach

has been admitted as General Partner

Loeb, Rhoades & Co.

## TAX-EXEMPT BOND MARKET

By WILLIAM J. RILEY\*

The Tax-Exempt Bond Market continued confident with minor variations as the long 3-day weekend approached. The sharp gains of the week before were extended in many names. Here and there some hesitation appeared. New issue volume was very light. The State of Maryland's \$46,750,000 triple-A rated general obligation bonds yesterday was the week's major item. The bond market generally began the week stronger. The current outlook for bond prices is optimistic. Recent strength in Tax-Exempts is tempered somewhat by the onset of larger new issue volume in July after two light weeks.

### Improved Tone

There are several reasons why bonds have had a better look. One is an easier money stance by the Federal Reserve Board to cushion liquidity pressures of the kind experienced by Penn Central. Another is acceptance as a fact of a downturn in business. Another is the lure of bond yields themselves. No one is looking yet for a continuous major upswing in bond prices. Large borrowing by corporations, municipalities and the Federal Government is still to be expected, but a better balance of demand and supply is anticipated, and hence, a lower yield level than seen in early June.

As to the overall economic scene, on which all markets of course ultimately rest, opinion varies widely. It is certainly a tangled set of circumstances with nothing quite parallel in the past. One factor weighs against another and directions change from day to day. Never has there been more discussion, either in formal channels or over the tea cups in social gatherings.

### Maryland's Yields

Yesterday's Maryland's went at a net interest cost of 6.0277 per cent to a syndicate headed as follows: **Harris Trust, First Boston Corporation, and Bank of America** in association with a group headed by **Bankers Trust Co. and Chase Manhattan Bank**. The bonds due Aug. 1, 1973 to 1985 were reoffered from 5.00 per cent to 6.25 per cent. No official tally of sales was available at presstime. The guessing was about half sold.

A group managed jointly by **Bankers Trust Co. and First National Bank of Memphis** in association with a group headed by **First Boston Corporation** was the high bidder Tuesday for \$20

million State of Mississippi, full faith and credit Highway Bonds, at a net interest cost of 6.39795 per cent. Reoffering scale ranged from 5.40 per cent for 7 per cent bonds due 1975 to 6.90 per cent for 5 1/4 per cent bonds due 1990 and 1991. The syndicate balance at last report was \$16 million.

The sales experience of the week's new loans varied rather widely. An issue of \$6,020,000 Town of North Kingstown, Rhode Island, bought by a **Merrill Lynch - Industrial National Bank of Rhode Island** group on Tuesday, was a sell-out that day.

### Active Secondary Market

The secondary market was active. Some dealers were seeking out suitable merchandise, expecting a renewed institutional demand next week. The market showed some mixed action and divergent views among traders. Turnover lessened as the weekend neared. Dollar quoted issues added some fractions to the previous weeks gains, with some few exceptions.

### Yield Indexes Decline

Both the **Daily Bond Buyer** and the **Wall Street Journal Municipal Bond Indexes** showed strengthenings for last week of 15 basis points. Our own average, based largely on distributed issues and calculated on Wednesday, showed only a 5 basis point improvement to 7.10 on June 24. This Wednesday the **Chronicle Index** gained 6 basis points over this weekly period to 7.04 per cent yesterday. Again, as in last week, new issue scaling showed a greater gain than our index.

The 30-day visible supply, as compiled and revised daily by the **Daily Bond Buyer**, has risen from \$494.2 million a week ago to \$633.5 million as of yesterday. The addition of \$170 million New York City bonds, to be sold on July 15, gave the figure a big boost. The range for this figure, so far in 1970, was high — 1,240 million to low — \$306 million, to that there is nothing extraordinary about the new figure. The span of maturities of the New York City loan is 1972-2001 but, as usual the heaviest amounts are in the earlier years.

### More Revenue Seen for NYC

In April the New York State Legislature passed a measure, signed by the Governor, whereby 21 per cent of the receipts of the New York State Income Tax will be distributed to localities

### STATE AND MUNICIPAL BONDS (Approximate)

	%	Year	Yield% (Asked)
Baltimore	6 1/4	1988	7.10
California	4.60	1988	7.10
Connecticut	6.10	1987	6.70
Detroit, Michigan	5.80	1989	7.60
Los Angeles, Calif.			
Dept. of Water and Power	6.90	1989	6.90
Massachusetts	5 1/2	1988	6.80
New York State	6.70	1986	6.70
New York City	6.00	1988	7.30
Public Housing Authority	6.00	1989	6.70
Philadelphia	7.70	1988	7.50

Average: June 24 - 7.10%; July 1 - 7.04%.

\* Mr. Riley is associated with E.F. Hutton & Co., Inc., N.Y.C.

## Stillman Appointed



Ralph S. Stillman

Ralph S. Stillman has been elected to the board of directors of Marine Midland Banks, Inc. he has also become vice chairman of the board of Marine Midland International and Overseas Corporations.

Mr. Stillman, who was president of Grace National Bank when it was acquired by Marine Midland in 1965, has served since then as chairman of the executive committee of the Marine Midland Grace Trust Company of New York and will continue as a director and a member of its executive committee.

He has spent more than 30 years in the commercial and investment banking fields. He joined the Grace National Bank in 1951 as vice president, became executive vice president in 1954, and was elected president and a director in the same year.

Earlier in his career, Mr. Stillman gained broad experience in overseas banking in the Tokyo and Yokohama branches of the National City Bank of New York, and with the investment banking firm of Swan, Culbertson & Fritz in Manila, Hong Kong, Buenos Aires, and Montevideo.

## Join Staff of Louis Meadows

Louis B. Meadows & Co., Inc., have announced that Boyd J. Kassel has become associated with them as manager of the OTC Trading Department in the New York office, 52 Wall Street. Also associated with them are Jack Parker, Douglas W. Klami and Norman A. Mohr. All were formerly with the OTC Trading department of Orvis Brothers & Co.

throughout the State. New York City Mayor John Lindsay, in **Fiscal Newsletter**, June, 1970, reports that the city will receive an estimated increase of \$158 million in general purpose State aid in 1970-71. Other State measures were designed to add to the City's income.

Floating Supply, as recorded by the **Blue List** total, continues to vary around a modest \$400 million mark, reading \$395.9 million yesterday, including Housing Bonds.

### Week Ahead

In the week ahead, the largest item scheduled is \$43,640,000 Nassau County, N.Y. bonds for which bids are to be opened on July 8. Other major sales listed for July include: \$70,000,000 State of New Jersey on July 14; \$48,455,000 City of Philadelphia, Pa. on July 21 and \$65 million State of Ohio bonds on July 23.

## LARGER ISSUES SCHEDULED FOR SALE

July 6 (Monday)			
Danville, Ill.	1,175,000	1986-1999	1:00 p.m.
Forest Lake Independent School Dist. No. 831, Minn.	4,290,000	1973-1988	10:00 a.m.
Mesa Elementary School Dist. No. 4, Ariz.	1,300,000	1971-1979	11:00 a.m.
Mesa High School Dist. No. 207, Ariz.	3,750,000	1971-1980	11:00 a.m.
Plainview Independent School Dist. No. 810, Minn.	1,375,000	1973-1991	10:00 a.m.
July 7 (Tuesday)			
Forest Lake, Minn.	1,273,000	1973	8:00 p.m.
Neenah, Wis.	6,900,000	1971-1988	1:30 p.m.
New Canaan, Conn.	2,550,000	1970-1987	8:00 p.m.
Omaha, Neb.	10,150,000	1971-1990	11:00 a.m.
Vadnais Heights, Minn.	1,650,000	1973	8:00 p.m.
July 8 (Wednesday)			
Brooklyn Park, Minn.	4,330,000	1973	8:00 p.m.
Coastal Industrial Water Authority, Tex.	16,000,000	2007	10:00 a.m.
Florence County, S.C.	5,000,000	1972-1990	Noon
Los Angeles County Sanitation Dist. No. 19, Cal.	1,000,000	1971-1990	2:00 p.m.
Nassau County, N.Y.	43,640,000	1971-1999	Noon
July 9 (Thursday)			
Abington Township, Pa.	1,000,000	1972-1981	7:45 p.m.
Div., Hector, Etc. Central School Dist. No. 1, N.Y.	3,795,000	1971-1997	2:00 p.m.
Huntsville, Ala.	3,500,000	1973-2000	11:00 a.m.
La Crosse, Wis.	6,725,000	1971-1982	11:00 a.m.
Linn-Benton Community College Area Education Dist., Ore.	2,000,000	1971-1990	10:00 a.m.
Marietta, Ohio	1,100,000	1971-1990	Noon
Southwest Texas State University	6,300,000		11:00 a.m.
Spring Branch Independent School Dist., Tex.	5,000,000	1971-1993	11:00 a.m.
Texas A & M University System	5,000,000	1971-1990	10:00 a.m.
University of Texas	7,500,000	1971-1990	10:00 a.m.
Warren Township, N.J.	1,654,000	1971-1991	8:00 p.m.
July 10 (Friday)			
Kansas State Teachers College	1,200,000	1971-2000	10:00 a.m.
July 13 (Monday)			
Concord, Cal.	2,250,000	1971-1985	2:00 p.m.
Hillsborough Township School Dist., N.J.	3,675,000	1971-1990	8:00 p.m.
Irving Independent School District, Tex.	3,500,000	1971-1995	7:30 p.m.
Lamar, Colo.	4,200,000	1979-1997	1:30 p.m.
Olean School Dist., N.Y.	2,900,000	1971-1980	2:00 p.m.
Scurry County Junior College Dist., Tex.	3,250,000	1971-1986	7:30 p.m.
Upper Merion Township, Pa.	1,200,000	1971-1985	8:00 p.m.
Willoughby, Ohio	1,775,000	1971-2000	1:00 p.m.
July 14 (Tuesday)			
Eden Prairie Independent School Dist. No. 272, Minn.	1,965,000	1973-2000	10:00 a.m.
Hazlet Township School Dist., N.J.	2,907,000	1972-1991	8:00 p.m.
Kansas City United School Dist. No. 500, Kan.	8,000,000	1971-1985	10:00 a.m.
Kenton County, Ky.	1,125,000		9:30 a.m.
Mobile, Ala.	4,700,000	1972-1991	10:00 a.m.
North Miami, Fla.	12,000,000		
Oakland and Macomb Countys, Mich.	1,425,000	1971-1999	11:00 a.m.
Rosebud-Lott Consolidated Independent School Dist., Tex.	1,300,000		
St. Helens, Ore.	2,200,000	1972-1990	11:00 a.m.
Toledo, Ohio	1,512,000	1971-1989	11:00 a.m.
Waltham, Mass.	1,040,000	1971-1980	11:00 a.m.
Washington County Unified Sewerage Agency, Ore.	3,000,000	1972-1987	10:00 a.m.
July 15 (Wednesday)			
Austin Independent School Dist. No. 492, Minn.	3,570,000	1972-1987	11:30 a.m.
Center Grove Elementary School Building Corp., Ind.	1,300,000	1973-1992	1:00 p.m.
Dunn County, Wis.	3,800,000	1972-1990	
Fort Wayne Public Library, Ind.	2,400,000	1971-1983	3:30 p.m.
Maryland-National Capital Park and Planning Commission	7,965,000	1971-1995	11:00 a.m.
Montgomery County, Ohio	2,326,000	1971-1990	Noon
New York, N.Y.	170,180,000	1972-2001	11:00 a.m.
July 16 (Thursday)			
Chelan County Public Hospital Dist. No. 2, Wash.	1,000,000	1972-2000	2:00 p.m.
New Bedford, Mass.	1,200,000	1971-1990	11:00 a.m.
Roseville Independent School Dist. No. 623, Minn.	2,295,000	1972-1995	8:00 p.m.
Taylor's Fire and Sewer District, S.C.	2,500,000	1972-1993	Noon
Union County School Building Corp., Ind.	1,550,000	1973-1987	Noon

## THE MARKET AND YOU

By WALLACE STREETE

As noted in this space two weeks ago, the Administration has apparently decided to adopt a stance of cautious contentment for the remainder of 1970 as far as the nation's economy is concerned.

Caution in easing of fiscal and monetary policies to the extent that situations demand while content to harvest any late-blooming fruits of past sowings of economic stringencies.

The latest evidence of this "don't-make-waves-until-after-the-elections" regime came last Friday when Paul W. McCracken, chairman of the President's Council of Economic Advisers, reassured a group of insurance executives that previous policies had "incubated a good deal of disinflation" that would have its impact on the price level throughout this year. After that, who knows?

Certainly not Wall Street. Under the present set of circumstances, stock prices appear destined for a drawn-out period of backing and filling. There may be another testing of the 631 low in the Dow and some of the more bearish analysts even talk of a breach of the 600 mark.

However, given the Administration's somewhat belated sensitivity to happenings in the securities markets as evidenced by the hastily called dinner pow-wow at the White House, it appears highly unlikely that the President would stand by idly if another precipitous downside developed.

### Litany of Blue Notes

Nonetheless the Street has every right to be wary of either government action or inaction. The most voracious and prolonged bear assault since the depression has devoured some \$300 billion in paper value from equities in the 19 months since the Dow industrials peaked at 985.21 on Dec. 3, 1968.

Profits are down and sliding; inflation continues despite a recession and a rising jobless total (5 per cent unemployment in May could be as high as 5.6 per cent by year end, according to Labor Secretary designate

### Detroit Edison Bonds Offered

Morgan Stanley & Co.; Blyth & Co.; Inc.; and Lehman Brothers, New York, as managers of the underwriting group, announce the public offering of \$75,000,000 of Detroit Edison Co. 9.15 per cent general and refunding mortgage bonds, Series U, due July 1, 2000, priced at par.

The bonds will be nonrefundable for five years at an interest cost to the company of less than 9.15 per cent a year. Otherwise, they will be redeemable at the option of the company at a fixed price of 109.15 per cent prior to July 1, 1978 and thereafter at prices ranging from 107.93 per cent down to par beginning on July 1, 1995.

Net proceeds from the sale of the bonds, together with net proceeds of a rights offering to shareholders currently in progress, will be used to reduce short-term borrowings incurred in connection with interim financing of the company's construction program.

James D. Hodgson); money remains tight despite some accommodation by the Federal Reserve, and the war continues with U.S. troops out of Cambodia but back where they were two months ago — in South Vietnam.

### Political Warning

Add to this pile of pessimism last week's spate of bankruptcies and the spectre of more business failures and it's decidedly difficult to view the immediate future bullishly.

Oregon's liberal GOP Senator Mark Hatfield took dead aim on the political ramifications of the decline when he pointed out that unless the war is halted and the economy spurred, his party faces massive setbacks at the polls this November.

Hatfield went so far as to venture a GOP repudiation of a Nixon-Agnew ticket in '72 if the economic scene hasn't brightened by that late date. Of course, this political question will be academic if the downturn persists that long.

### Spending Money Increased

The likelihood of continuance of an unreasonable rate of inflation received an added boost this week with the final phaseout of the surtax. It's estimated the reduced tax bite

means another \$2 billion to consumers.

The usual halt in social security deductions from middle-income workers' paychecks has already begun adding purchasing potential that will increase steadily for the remainder of the year. Every worker under social security is taxed 4.8 per cent of the first \$7,800 earned annually. Beyond that amount, there's no deduction. Next month, for example, those in the \$15,000 bracket will find that there's about \$14 more in keeping money each week while August is the month when the \$12,000 group finds it has \$11 extra to spend each week.

And there's still another tax factor to consider when calculating buying potential. The personal exemption increase voted in the 1969 tax reform act went into effect Wednesday, increasing by \$50 to \$650 the allowance for each family member. The largesse will fatten take home pay only slightly but the overall gain in disposable income should be substantial. This individual deduction is scheduled to rise to \$700 in 1972 and \$750 a year later.

### Inflation Fuel

Add to these the recent 15 per cent increase in social security payouts and the 6 per cent pay hike for federal employees, plus the top dollar wage pacts negotiated by labor leaders

anxious to make up for past inflation and keep ahead of future price hikes, and you have the trappings for a resurgence of demand-pull inflation.

But evidently the Administration is pragmatic enough to realize that some inflation is a lot more acceptable than longer lines at the nation's unemployment benefit windows. As one marketing executive put it: "A lot of people think businessmen are heartless individuals who welcome unemployment. That's not so. We don't want to see blood. We want to sell products."

### Nixon's Philosophy

In his state of the economy message on June 17, the President noted that the nation is in the midst of a switch to a peacetime economy. Such changeovers are always painful for certain members of the business family. Some parts of the country feel the pinch much more sharply than others. The West Coast's defense and aerospace industries are a case in point.

But it's clear that Nixon's classic Republican attitude of laissez faire notwithstanding is not afraid of unbalanced budgets when the need to spend is urgent. He's faced with them now. Monies presently earmarked for the defense sector can, if need be, easily be put to work in space exploration, pollution control, education and

medicine to mention just a few.

For the time being, however, it's patently ridiculous to expect major slashes in defense spending. As long as there's a shooting war involving American troops and the nation continues to assume a posture of world policeman, defense will get the biggest piece of the tax pie. All of which indicates more deficit spending, continued trips by the Treasury to the money markets and high interest rates.

(The views expressed in this article do not necessarily at any time coincide with those of the 'Chronicle.' They are presented as those of the author only.)

### Eastdil Realty

David W. Steinman has joined Eastdil Realty, Inc. as a Vice President. He will be in charge of fund investments for certain of the company's new fund operations. Eastdil Realty, Inc., is a wholly owned subsidiary of Eastman Dillon, Union Securities & Co., 1 Chase Manhattan Plaza, New York.

Prior to joining Eastdil, Mr. Steinman was associated with Lincoln National Life Insurance Company and LNC Development Corp. He was on the Board of Directors of Equipment Investors Inc., a subsidiary of Lincoln National Corp. He is a candidate for professional designation in the American Institute of Real Estate Appraisers.

This announcement is not an offer of securities for sale or a solicitation of an offer to buy securities. The offering is made only by the Prospectus.

NEW ISSUE

July 2, 1970

\$25,000,000

## Union Tank Car Company

9 7/8% Equipment Trust Certificates due July 1, 1990

(Series 6)

Price 99.75%

Plus accrued interest from July 1, 1970

Copies of the Prospectus may be obtained from such of the undersigned as may legally offer these securities in this State.

### SALOMON BROTHERS & HUTZLER

DILLON, READ & CO. INC.	THE FIRST BOSTON CORPORATION	KUHN, LOEB & CO.	SMITH, BARNEY & CO. Incorporated
BLYTH & CO., INC.	DREXEL HARRIMAN RIPLEY Incorporated	EASTMAN DILLON, UNION SECURITIES & CO.	HALSEY, STUART & CO. INC.
GLORE FORGAN STAATS Incorporated	GOLDMAN, SACHS & CO.	LAZARD FRERES & CO.	LEHMAN BROTHERS
HORNBLOWER & WEEKS-HEMPHILL, NOYES	KIDDER, PEABODY & CO. Incorporated	MERRILL LYNCH, PIERCE, FENNER & SMITH Incorporated	PAINE, WEBBER, JACKSON & CURTIS
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WHITE, WELD & CO.	DEAN WITTER & CO. Incorporated	BLUNT ELLIS & SIMMONS	

## DEALER-BROKER INVESTMENT LITERATURE AND RECOMMENDATIONS

It is understood that the firms mentioned will be pleased to send interested parties the following literature.

**Air Conditioning Industry** — report with individual comments on Carrier Corp., Fedders Corp., Trane Company and L.E. Myers Co. — Robert W. Baird & Co., 731 North Water Street, Milwaukee, Wisc. 53201.

**Cement Industry** — survey with individual reports on Lehigh Portland Cement Company and Lone Star Cement Corporation — Loeb, Rhoades & Co., 42 Wall Street, New York, N.Y. 10005.

**Electric Power** — 47th semi-annual survey — Edison Electric Institute, 750 Third Avenue, New York, N.Y. 10017.

**Metal Statistics** — Yearbook of the American Bureau of Metal Statistics (49th annual issue) — American Bureau of Metal Statistics, 50 Broadway, New York, N.Y. 10004. \$6.00 per copy in hard cover; \$5.50 per copy in paper (for mailing outside the U.S. 25 cents should be added for postage and handling).

**Mid Year Preview** — analysis of outlook for the market Harris, Upham & Co., Incorporated, 120 Broadway, New York, N.Y. 10005. Also available is a report on **Burlington Industries**.

**Over-The-Counter** — Index folder showing an up to date comparison between the listed industrial stocks used in the Dow Jones Averages, both as to yield and market performances, National Quotation Bureau, 116 Nassau Street, New York, N.Y. 10038.

**Paper** — discussion of industry outlook — Paine, Webber, Jackson & Curtis, 140 Broadway, New York, N.Y. 10005. Also available is a review of the **Public Utilities** industry outlook.

**Put And Call Options** — a four booklet kit explaining Put and Call Options — Filer, Schmidt & Co., Inc., Dept. 36 Broadway, New York, N.Y. 10004.

**Role of the Financial Community in the Formation, Growth, and Effectiveness of Technical Companies: The Attitude of Commercial Loan Officers** — Albert Shapero, Cary Hoffman, Kirk P. Draheim and Richard P. Howell — Multi-Disciplinary Research, Inc., 1209 Rio Grande, Austin, Tex. 78701 — \$7.50 per copy.

**St. Louis Area Securities** — review of companies located in the area — Newhard, Cook & Co., Fourth and Olive, St. Louis, Mo. 63102.

**Borman's Inc.** — analysis — L.F. Rothschild & Co., 99 William Street, New York, N.Y. 10038.

**Brenner Industries, Inc.** — analysis — Wheat & Co., Inc., 801 East Main Street, Richmond, Va. 23211.

**Castle & Cooke Inc.** — analysis — Newburger & Company Division, Advest Co., 1401 Walnut Street, Philadelphia, Pa. 19102. Also available is a report on **Halliburton Company**.

**Central Illinois Light** — report — Eastman Dillon, Union Securities & Co., 1 Chase Manhattan Plaza, New York, N.Y. 10005. Also available are

reports on **United Utilities, Nevada Power and Houston Lighting & Power**.

**Chrysler Corporation** — report — Shearson, Hammill & Co., Incorporated, 14 Wall Street, New York, N.Y. 10005. Also available are reports on **Guardian Mortgage Investors, Penn Central Company, and Pfizer**.

**Citizens Utilities Company** — report — Bateman Eichler, Hill Richards, Incorporated, 460 South Spring Street, Los Angeles, Calif. 90013. Also available are reports on **Wayne Manufacturing Co., Vetco Offshore Industries, Knudsen Corporation and Telephone Utilities, Inc.**

**Dart Industries** — comments — C.B. Richard, Ellis & Co., 5 Hanover Square, New York, N.Y. 10004. Also available are comments on **Georgia Pacific Corp.**

**Fingerhut Corporation** — analysis — Piper, Jaffray & Hopwood, Incorporated, 115 South Seventh Street, Minneapolis, Minn. 55402. Also available is an analysis of **E.F. Johnson Company**.

**Graphic Sciences, Inc.** — analysis — S.D. Fuller & Co. Incorporated, 26 Broadway, New York, N.Y. 10004.

**I T T** — analysis — Dirks Brothers Ltd., 7 Dey Street, New York, N.Y. 10007.

**Johns-Manville** — comments — Gude, Winmill & Co., 1 Battery Park Plaza, New York, N.Y. 10004. Also available are comments on **Du Pont**.

**Joy Manufacturing Company** — analysis — Argus Research Corporation, New York (sample copies available from firms using Argus Research services). Also available are reports on **Marathon Oil Company and Zayre Corp.**

**Lampert Agency Inc.** — study — Brown, Erenberg & Co., Inc., 55 Liberty Street, New York, N.Y. 10005. Also available are studies of **MB Associates, Inc., and Programmed Proprietary Systems, Inc.**

**Mesa Petroleum Company** — analysis — Walston & Co., Inc., 74 Wall Street, New York, N.Y. 10005.

**Pet Incorporated** — analysis — Rowland & Co., 720 Olive Street, St. Louis, Mo. 63101.

**Public Service of Colorado** — analysis — Goodbody & Co., 55 Broad Street, New York, N.Y. 10004.

**Tokyo Marine & Fire Insurance Co. Ltd.** — special 33-page study covering Japan's oldest insurance company and providing a thorough-going review of Japan's casualty insurance firms (Tokyo Marine is the only Japanese insurance company for which reporting is made on the U.S. basis) — Institutional Research Office, Nikko Securities Co., 1 Chase Manhattan Plaza, New York, N.Y. 10005.

## BANK AND INSURANCE STOCKS THIS WEEK: — BANK STOCKS

### Favorable Developments For The Banking Industry

Several new developments have occurred over the past few weeks which imply that banks over both the long run and short run should continue to experience favorable earnings developments. These factors include the following:

(1). **A Continuation of the Favorable Earnings Trends:** Although bank earnings are to be reported shortly for the six months and are not available at this writing, it is expected that the favorable earnings trend will continue. Last week's forecast by the Harris Trust and Savings Bank of Chicago indicates that they expect earnings to rise for the year with a slight tapering in the last quarter. These

estimates, however, were made before the Federal Reserve Board acted regarding Regulation Q.

(2). **The Suspension of Regulation Q:** The Federal Reserve Board announced that there would be no rate ceilings on large-denomination time deposits in the 30 to 90 day maturity range. Immediately CD rates moved to 7 3/4 per cent for 30 to 60 days and 8 per cent for 60 to 90 days. Although the prime rate is 8 per cent, the bulk of loans are made at well above this rate. Also, the 8 per cent maximum rate is well below the Euro-dollar rate of approximately 9 per cent. This should restore some liquidity to the banking system,

allowing banks to make money on these additional funds, both through lending and investing. At the present time the tax-exempt market is very favorable for bank investment. Therefore, this is a distinct plus to earnings, particularly those of the wholesale banks.

(3). **A Ruling by the Supreme Court Affecting Mergers:** The Supreme Court upheld a Federal District Court in preventing two small banks from merging. This applies the same rules to small banks as to large banks and, although it may appear unfavorable for the banking industry, it should prevent less competition from growing smaller banks. Large banks will therefore not suffer as much competition from smaller institutions, and merger possibilities may reappear as large banks examine the generally new guidelines.

(4). **A Rising Money Supply:** Although money supply dropped in the first few months of the year and has remained somewhat constant since that time, it has showed a steady increase from the first of June. At that point, it was approximately \$200 billion and is currently \$203 billion.

In spite of a poor stock market during the week of June 22, bank stock prices remained relatively unchanged. Occasionally, dividend increases are evident and, on a price earnings-ratio basis, many bank stocks are still at very low levels, i.e., 6.8 times earnings for the National Bank of Detroit. Other bank stocks, i.e., New York City banks, have shown some price increases and are selling at relatively high multiples.

As to yield, some bank stocks are approaching the high-yield level of some utility stocks. For example, the Bank of California is yielding 6.8 per cent.

Although the outlook for banks appears favorable, one has the opportunity of buying banks selling at 15 times earnings and yielding 2 per cent, or buying banks selling at 7 times earnings and yielding 6.5 per cent. It would appear that the undervalued bank shares over the longer term might represent the better values, as the recent developments affect the entire industry with the exception of some wholesale banks. Also, a broad restoration of liquidity is beneficial for the banking system as a whole.

### Common Offered By T.H. Lehman

The initial public offering of 100,000 shares of T.H. Lehman & Co., Inc. common stock with warrants to purchase 100,000 additional shares is announced by Globus, Inc., New York. The offering is being made in units of one share and one warrant, and at \$3 per unit.

Proceeds from the offering will be used for working capital. T.H. Lehman, of New York, is a securities broker-dealer.

## OUR REPORTER ON GOVERNMENTS

By JOHN T. CHIPPENDALE

The bankruptcy of the Penn Central Transportation Company has shocked the financial community into the realization that we are really in a liquidity profit squeeze. It has had an adverse influence on the equity market, but not even modest repercussions have been felt in the market for solvent fixed income obligations so far. The new offering of bonds and notes by non-Federal corporations is showing no signs yet of slowing down and the Treasury will also be offering new money raising obligations in the very near future. All of this is not conducive to lower interest rates but an improved tone is evident in prices of fixed income issues. It is, however, still very favorable for the buyers of notes and bonds since the best bull market in yields and income for more than a century goes on.

### Heavy Borrowing Continues

There are no signs yet of a let-up in the raising of new money debt issues by industrial and public utility corporations, as well as the Federal Government, all of which forecasts continued very high interest rates. Nonetheless, there is a growing feeling in the financial district that the cost of borrowing will not go very much higher, if at all, and it would not be too surprising if there were a reversal of interest rates in the not distant future.

As matters stand now, the feelings that a decrease in the cost of borrowing will be coming along soon appears to be based upon hope more than any thing else. Registration of new securities to be sold in the fixed income market continues at a record pace, with industrial concerns almost matching the public utilities in putting out notes and bonds.

Industrial companies have been able to obtain more favorable borrowing rates than have public utility concerns because of the ten-year no-call feature. This is for long-term obligations. As far as the note maturity non-Federal fixed income securities are concerned, there is no great difference in the cost of borrowing between

industrial and public utility obligations.

### Treasury Will Enter Market Shortly

The not too long fixed income new issue financing by industrial and public utility companies is supplying a need that is being looked upon favorably by the borrower and the buyer. In the short-term areas of the fixed income market, there will be competition soon from the Federal Government because sizeable amounts of money must be raised to finance the new fiscal period (1970/1971) that started yesterday, July 1. The Treasury will have to stay in the near-term area of the fixed income market, with a seven year note the longest maturity that can be sold for new money raising purposes having a high enough coupon rate on it to make it competitive with non-Federal obligations. The Government could sell a long bond with a 4 1/4% rate at a very severe discount to raise new funds but this is not likely to happen.

Therefore, it appears safe to assume that the new money raising and refunding operations of the Treasury in the last half of 1970 will consist mainly of short-term issues, with a seven-year note the longest to be expected.

### Easing in Industrial Financing Likely

The sizeable amounts of new money being raised by industrial corporations in this very high interest rate market probably means that they are very much in need of funds and that they do not believe the inflation and the boom are being contained. Also, it could mean that they will not again be the new money raising market for a long time to come, other than to refund or pay off maturing notes, like the 1975 maturities.

It appears as though the borrowings by industrial companies through the use of fixed income issues should be tapering off in the not too distant future. This would take considerable pressure off the capital market because these companies do not have to borrow as continuously as do public utility concerns.

## SECURITY SALESMAN'S CORNER

By JOHN DUTTON

### This Is The Way

During the past four weeks, we have explained the manner in which a sales campaign has been initiated to introduce tax-exempt bonds to the sales organization of an office that heretofore had not offered these securities to their customers. Progress is being made and, in certain cases, the results have been very encouraging. Those salesmen who have a positive approach to this business will move ahead — like the man I am going to introduce to you now.

About a year ago, this registered representative moved from New York City to Dade County, Florida. He is in my office. He had formerly been an executive of one of the very largest corporations in this country before he decided to become a broker. He had an excellent record in the New York office of my firm. He started from scratch, without a single local client. All the time during this most severe declining stock market he has been working, contacting, telephoning, record keeping, and mailing applicable material to top flight prospects.

At first it was very slow. Then business began to improve. The market continued on its downward course. He kept a steady bead on the target — contact, telephone, follow-up, mail. Always pleasant, always polite, and he kept records — of the prospect's correct name, position with his firm or business, family connections, etc. His gross began to grow and so did his drive. This is an important point. Some salesmen, when they achieve a little success, let up — this is the time to pour it on. Work is the solution to every problem — and in sales it is a must.

#### The Mailing List

When our new resident of Florida came to join us, he had prepared a special mailing list that he expected to use in his prospecting. He had listed the top executives of every important national and local corporation in the area. He devised a "get acquainted" letter and he mailed just enough letters every week so that he could follow every one of them with telephone calls. He carefully weeded out those prospects who were not interested in having their name placed on his mailing list. He then sent those who were interested in special reports, the monthly investment letter, and other statistical material that might interest them.

He carefully, yet actively, telephoned them when any situation developed that might be of interest. If he noted on his card that Mr. X was an executive V.P. of some large corporation, he consistently mailed press releases, statistical studies, and pertinent information to them about their company. This was work — but if you intend to build for the future you have to go through this type of disciplined routine.

#### Have Confidence In Yourself

During slow weeks, down markets, and difficult times, this salesman kept on tilling the soil. He prepared the way for the future harvest. It takes

PERSEVERANCE to continue calling and contacting every day; and record keeping of these calls must be done meticulously. You must become acquainted with people who can invest in securities. You can't come in to your office day after day and pick out some fast-moving swinging stock and then decide you are going to make a few trades for a fast profit. That sort of business is over for a long, long time. The easy money days are gone. But there is a gold mine out there for the security salesman who is informed and organized.

And now I am going to give you the "punch line" of our recent educational campaign on "tax exempt bonds" that I covered during the past four weeks in this column. The salesman who listened with the most intense interest when I gave these lectures . . . the salesman who apologized and then called me at my home one evening when he didn't understand a point I had covered . . . the salesman who asked me if he could take a copy of the Blue List home and study it after we had finished a lecture on the secondary market . . . the salesman who remembered most of the facts I presented because he TOOK NOTES . . . you are right . . . it was this same man. Several weeks ago a very

attractive new issue of tax exempt bonds came along. And what happened? I placed those bonds before our sales organization and on my Xerox copy of our New York wire I made a few comments that I thought might be helpful to our neophyte bond salesmen. The payoff day has begun to arrive for this salesman who did not know anything about bear markets, down markets, or singing the WALL STREET BLUES. He sat at that telephone with that bond memo before him. He contacted the people he had been calling for months — and he offered those bonds. HE OPENED FIVE BIG TICKETS ACCOUNTS IN ONE DAY. Those attractive tax exempt bonds were only part of the reason for this performance — HE KNOWS WHAT IT TAKES TO BUILD A BUSINESS.

P.S — Those of you who have read this column for any length of time are aware that I would be the last person in the securities business to advocate selling for "selling sake." I personally believe that as long as we have some semblance of capitalism and free enterprise left in this country that it is our duty to seek out the very best investments we can find for our clients. But also, if we are carpenters, scientists, doctors, plumbers, or security salesmen we should be working at our job — efficiently and productively. That's what this column is trying to say.

(John Dutton is the pen name of William S. Baren, a registered representative employed by a large NYSE member firm.)

## New York State Bankers Elect for 1970-71

At the 76th Annual Convention of the New York State Bankers Association held June 17th through 19th at the Concord Hotel in Kiamesha Lake, New York, Lewis A. Lapham, Vice Chairman of Bankers Trust Company of New York City was elected Association President for 1970-71. He succeeds John A. Kley, President of The County Trust Company, White Plains, New York, who turned over the gavel to Lapham at the June 19th morning session.

Claude F. Schuchter, Board Chairman, President and Chief Executive Officer of Manufacturers and Traders Trust Company of Buffalo, was elected Vice President of the Association succeeding Lapham. Donald C. Crawford, Chairman and President of the National Union Bank of Monticello, New York, was selected as Treasurer replacing Charles L. Hughes, President of the Silver Creek National Bank, Silver Creek, New York. Others selected as members-at-large to the Association's Council of Administration for three year terms were: Group Two - William S. Gavitt, President, The Lyons National Bank of Lyons, New York; Group Five - Robert P. Larson, President, Glens Falls National Bank and Trust Company, Glens Falls, New York; Group Seven - Raymond A. Mazgulski, President, The Suffolk County National Bank,



L.A. Lapham

Riverhead, New York, and Group Eight - Richard K. LeBlond, Executive Vice President, Chemical Bank, New York City.

### Turbodyne Corp. Common Offered

The initial public offering of 600,000 shares of Turbodyne Corp. common stock at \$18 per share is announced by Dillon, Read & Co., Inc., New York.

Proceeds from the offering will be used for expansion, debt repayment and working capital.

Turbodyne, of Minneapolis, is engaged in the manufacture of turbine engines used in the generation of electricity.

*This is not an offering of these shares for sale, or an offer to buy, or a solicitation of an offer to buy, any of such shares. The offering is made only by the Prospectus.*

## 1,546,066 Shares Pacific Power & Light Company Common Stock (Par Value, \$3.25 Per Share)

Rights, evidenced by Subscription Warrants, to subscribe for these shares in the ratio of one share for each 10 shares of Common Stock held, have been issued by the Company to holders of its Common Stock of record June 25, 1970, which Rights expire July 16, 1970, as more fully set forth in the Prospectus.

### Subscription Price \$15.75 Per Share

The several Underwriters have agreed, subject to certain conditions, to purchase any unsubscribed shares and, during and after the subscription period, may offer shares of Common Stock as set forth in the Prospectus.

*Copies of the Prospectus may be obtained only from such of the undersigned as are registered or licensed dealers or brokers in securities in this State.*

Blyth &amp; Co., Inc.

Merrill Lynch, Pierce, Fenner & Smith  
Incorporated

Salomon Brothers &amp; Hutzler

Shearson, Hammill & Co.  
Incorporated

Alex. Brown &amp; Sons

F. S. Moseley &amp; Co.

June 29, 1970.

# Now Is The Time To Invest In Good Quality Stocks

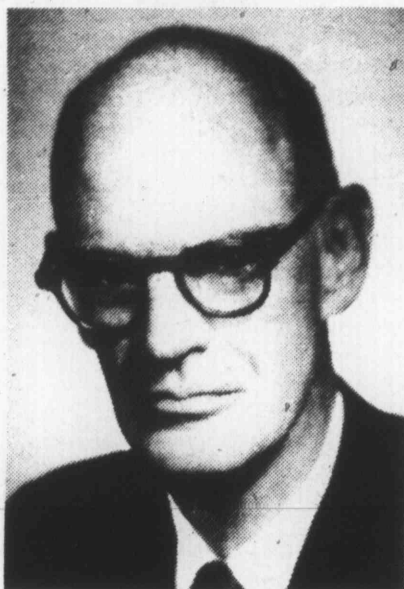
By **DR. ROGER F. MURRAY\***  
Executive Vice President and  
Chairman Finance Committee  
College Retirement Equities Fund,  
New York City

**Bullish assessment for good quality stocks finds they are materially undervalued, possess superb earnings and capital gains prospects, and are likely to advance by 20 per cent or more within the next twelve months. Dr. Murray eschews trading and forecasting near-term price movements. His outlook encompasses a three to five year holding period. He foresees a group of electric utility stocks growing 6.5 per cent with a current return of 4.7 per cent producing a total annual return of 11.2 per cent, assuming no change in P/E ratio of 13.1 per cent. Moreover, a modest rise to 15.1 per cent in a five year holding period would produce, he calculates, an about 14 per cent annual return. Cyclical stocks are said to show an even better compounded rate of return prospect with only a slight improvement in P/E ratios.**

Unless there has been a secular deterioration in the profitability of American business, common stocks are materially undervalued on an investment basis. My conclusion is that good quality equities represent unusually attractive investment opportunities at the present time. Since this situation is likely to become increasingly

apparent with the passage of time, I believe that share prices will advance by 20 per cent or perhaps more within the next twelve months. By the same token, there is little downside risk in equity investments at this point in time, perhaps 5 per cent or less.

This is a clear and explicit prediction, without the hedging



Dr. Roger F. Murray

which we all know is appropriate to expressions of expectations regarding any economic phenomenon as uncertain as the future course of share prices. If I present briefly the reasoning behind my conclusion, you will be able to judge whether it should have been qualified by an extensive disclaimer of

responsibility for the factors which just might interfere with or delay its realization.

## Current Profit Trends

All of us are acutely aware of the fact that corporate profits after taxes will have been on a plateau for the five years 1966 through 1970. More recently, we have observed the flat trend in output per man-hour. Ever since the end of 1965, the ratio of price to unit labor costs in manufacturing has been drifting downward as unit labor costs have skyrocketed. These are the infallible signs of a profit margin squeeze and this year's round of wage negotiations promises more of the same, especially in view of the negligible growth in real output that can be anticipated for the next three quarters.

As a consequence, total corporate profits after taxes in 1970 may not even equal 5 per cent of Gross National Product, compared with a peak of 6.8 per cent in 1965. Earnings of the Dow-

Jones Industrial Average this year are likely to be only 5.7 per cent of each billion dollars of GNP, compared with 7.8 per cent in 1965 and an average of close to this figure for the first twenty post-war years. We should anticipate some secular downward drift in this percentage with the growth of service industries and with some improvements in the marginal productivity of capital investment. Let us assume, for example, that in the first half of the 1970's a normal expectation would be for the Dow-Jones Industrial Average earnings to average between 6.5 and 7.0 per cent of each billion dollars of GNP. This would mean that the current level of the Dow represents 11.5 to 12.5 times a normal level of earnings expected to grow at a rate of at least 6 per cent.

## The Profit Outlook

These figures show the extent to which the impact of inflation on corporate profits has already been felt. They also show that the present market reflects expectations of little recovery and slow growth from current profit levels. If stocks are indeed selling at a modest multiple of depressed earnings, they ought to afford some unusually favorable investment opportunities. The key assumptions are (1) that corporate profits have not suffered a permanent loss of relative share in GNP and (2) that the capitalization appropriate to corporate earnings has not permanently risen or, to phrase the assumptions in a more conventional way, that there has not been a permanent decline in price/earnings ratios. The market does not accept the validity of these two assumptions. Is the market right or wrong? That is the question.

Without going into all the reasons, it seems to me that the American economy faces a period of high growth in real output, given the impact of favorable demographic trends, the high level of capital investment in recent years, the size and productivity of research and development outlays, and the under-utilization of plant capacity and minority group manpower. Once we emerge from the present slowdown induced by the urgency of eliminating inflationary pressures and expectations, we stand an excellent chance of enjoying high productivity gains. The deceleration of the rise in unit labor costs will be the first sign of both this shift and the easing of the profit squeeze. In such an event, we can anticipate that corporate profits will increase much more rapidly than even a smartly rising current dollar GNP.

Essentially, then, you are asked to believe that such is the resiliency of the American business system that not even three years of ill-timed and inappropriate economic policies leading to disruptive inflation can prevent the eventual recovery of the vitality of corporate enterprise. I am not sure whether this is the result of

*This announcement is neither an offer to sell nor a solicitation of an offer to buy any of these Bonds.  
The offer is made only by the Prospectus.*

**\$75,000,000**

## The Detroit Edison Company

### General and Refunding Mortgage Bonds, Series U, 9.15% Due July 1, 2000

*Interest payable January 1 and July 1*

**Price 100% and Accrued Interest**

*Copies of the Prospectus may be obtained in any State from only such of the undersigned as may legally offer these Bonds in compliance with the securities laws of such State.*

**MORGAN STANLEY & CO.**  
*Incorporated*

**BLYTH & CO., INC.**

**LEHMAN BROTHERS**

**DILLON, READ & CO. INC.**

**THE FIRST BOSTON CORPORATION**

**KUHN, LOEB & CO.**

**MERRILL LYNCH, PIERCE, FENNER & SMITH**  
*Incorporated*

**DREXEL HARRIMAN RIPLEY**  
*Incorporated*

**EASTMAN DILLON, UNION SECURITIES & CO. GOLDMAN, SACHS & CO. HALSEY, STUART & CO. INC.**

**HORNBLOWER & WEEKS-HEMPHILL, NOYES KIDDER, PEABODY & CO. LAZARD FRERES & CO.**  
*Incorporated*

**LOEB, RHOADES & CO. PAINE, WEBBER, JACKSON & CURTIS SALOMON BROTHERS & HUTZLER**

**SMITH, BARNEY & CO.**  
*Incorporated*

**STONE & WEBSTER SECURITIES CORPORATION**

**WERTHEIM & CO. WHITE, WELD & CO. DEAN WITTER & CO. PARIBAS CORPORATION**  
*Incorporated*

July 2, 1970.

economic analysis or an article of faith, buttressed by history.

**The Capitalization Rate**

As to the second assumption on the recovery of price/earnings ratios for normal earnings, we recognize that this is a more complicated and controversial subject. The return on equity investment should be determined by the rate of interest plus a risk premium plus an error term which may relate to the lag in profit realization or other factors not easily determinable. The long-term interest rate appears to be headed modestly lower; the risk premium should be declining as we work our way through the painful disinflation process; and the error term should be changing its sign. Thus, we have the makings of a decline in the capitalization rate, or a rise in the price/earnings ratios.

The chief uncertainty perhaps is in the forecast of the error term, which is a function not only of the timing of changes in real variables but also of the timing of changes in investor expectations.

**The Timing Problem**

The stock market is well established as a lead indicator. This is just another way of saying that prices will not wait to reflect the actuality of a change in the economic environment and trends in corporate earnings. On the contrary, they will anticipate changes and probably do so in a dramatic way. The possibility of a buying stampede cannot be ignored in view of the substantial cash reserves of mutual funds and other potential equity investors.

The huge volume of bond issues which lies ahead, the pent-up demand for real estate financing, and the high probability of a continuation of the materially larger volume of equity financing all suggest that a recovery of common stock prices could be long delayed and moderate in scope. But I do not need to make that observation because the market has been making it for over a year. If investors were not generally persuaded of this view, prices would not at present be depressed levels.

The unreliability of our estimations of investor expectations leads me to emphasize that my conclusion was stated in terms of investment opportunities, as distinguished from trading activity. It is the outlook for a three to five-year holding period that I would emphasize. My expectation of a material rise in prices during the next twelve months, therefore, is derived from my longer-range projection of values rather than from any illusion that I can forecast near-term price movements.

**Specific Illustrations**

The preceding remarks have been phrased in general terms. Before closing, I really ought to give some definition to my optimism. A group of 17 electric utility stocks expected to grow at a 6.5 per cent rate with a current return of 4.7 per cent would produce a total return of 11.2 per cent per annum if there were no change in the payout or price/earnings ratio. However, if at the end of five years, the price/earnings ratio should have risen from 13.1 to 15.1 times, not an extravagant expectation, the five-year holding period return would be above 14 per cent per

annum. If the improvement in the multiple came sooner, of course, the return would be even more attractive.

A similar kind of calculation for a group of cyclical stocks, involving only a modest improvement in price/earnings ratios but a genuine recovery in earnings shows a potential five-year compound rate of return in excess of 20 per cent per annum as a distinct possibility. Despite the reservations which any of us may have as to the reliability of such precise calculations, they are strongly suggestive of the size potential returns from equity investment at this point in time. To me, at least, the message is fairly clear: if you think bonds might be attractive for capital gain, the logical action to take is to buy good quality common stocks instead.

\* An address at the Graduate School of Business Administration, Emory University, 1970.

**Chapman Heads Shearson Hammill**

Alger B. "Duke" Chapman, Jr., 38-year-old executive vice president and director of Shearson, Hammill & Co., Incorporated, 14 Wall Street, New York City, took over July 1 as president and chief administrative officer of the large nationwide securities brokerage and investment banking concern.

Several other executive changes, including the election of two new executive vice presidents, were announced by Robert C. Van Tuyl, chairman and chief executive officer. These appointments also took effect July 1.

Mr Chapman, whose selection as president was announced late last January, succeeds H. Stanley Krusen, president of the firm from January 1, 1966. Mr. Krusen previously served for



Alger B. Chapman, Jr.

many years as senior officer in charge of Shearson's investment banking division. He had disclosed his intention last December to seek an early retirement. Mr. Krusen will

continue in a consulting capacity with the firm.

Mr. Chapman, formerly a vice president of the New York Stock Exchange for civic, governmental and legal affairs, joined Shearson as a vice president in 1966. In August, 1968, he was named an executive vice president, a director and member of the Executive Committee. He most recently headed the Branch Division which has charge of Shearson's extensive retail sales system.

The two new executive vice presidents are H. Blair Phillips, a director and formerly a first vice president, who since 1967 has been responsible for the firm's institutional sales department and David Teiger, a first vice president and director of corporate planning. Both men have also been elected to the ten-man Executive Committee.

Mr. Phillips, in addition, was named to a newly created post in

Continued on Page 14

*This announcement is neither an offer to sell nor a solicitation of an offer to buy any of these Shares. The offer is made only by the Prospectus.*

**2,885,486 Shares**

**The Detroit Edison Company**

**Common Stock**  
(\$10 par value)

*Rights, evidenced by subscription warrants, to subscribe for these Shares are being issued by the Company to holders of its Common Stock, which rights will expire at 5:00 P.M., Eastern Daylight Saving Time, on July 14, 1970, as more fully set forth in the Prospectus.*

**Subscription Price \$16½ a Share**

*The several Underwriters have agreed, subject to certain conditions, to purchase any unsubscribed Shares of Common Stock and, both during and following the subscription period, may offer Shares of Common Stock as set forth in the Prospectus.*

*Copies of the Prospectus may be obtained in any State from only such of the undersigned as may legally offer these Shares in compliance with the securities laws of such State.*

**MORGAN STANLEY & CO.** **BLYTH & CO., INC.** **LEHMAN BROTHERS**  
*Incorporated*

**DILLON, READ & CO. INC.** **KUHN, LOEB & CO.** **MERRILL LYNCH, PIERCE, FENNER & SMITH**  
*Incorporated*

**DREXEL HARRIMAN RIPLEY** **EASTMAN DILLON, UNION SECURITIES & CO.**  
*Incorporated*

**GLORE FORGAN STAATS** **GOLDMAN, SACHS & CO.** **HALSEY, STUART & CO. INC.**  
*Incorporated*

**HORNBLOWER & WEEKS-HEMPHILL, NOYES** **KIDDER, PEABODY & CO.** **LAZARD FRERES & CO.**  
*Incorporated*

**LOEB, RHOADES & CO.** **PAINE, WEBBER, JACKSON & CURTIS** **SALOMON BROTHERS & HUTZLER**

**SMITH, BARNEY & CO.** **STONE & WEBSTER SECURITIES CORPORATION**

**WERTHEIM & CO.** **WHITE, WELD & CO.** **DEAN WITTER & CO.**  
*Incorporated*

**BACHE & CO.** **FRANCIS I. duPONT, A. C. ALLYN, INC.** **PARIBAS CORPORATION**  
*Incorporated*

June 29, 1970.

## THE STATE OF TRADE AND INDUSTRY

### Labor Data Found Encouraging By "Argus Research Report" and "Fortune Magazine" Are Found Discouraging By "Chronicle's" Economist

The recent "Weekly Staff Report" published by Argus Research Corporation points out that labor costs so far have risen less than in the 1953-54 and 1957-58 recessions. It further points out that labor costs have been moving "crabwise" since January. Lastly, it points out that as a recession hits, output per man-hour tends to rise sharply and, as recovery commences, unit labor costs decline.

The July issue of *Fortune Magazine* reports that productivity, or output per man-hour, rose sharply this year. Based on May data, that publication estimates a 1 per cent increase and postulates a three per cent gain at an annual rate. It finds manufacturing unit labor costs have remained steady in the face of rising wages since December. The latter is the only observation with which we agree but manufacturing takes up less than 40 per cent of the private economy.

Our data, taken from the Bureau of Labor Statistics and from *Business Conditions Digest* (U.S. Department of Commerce and Bureau of the Census), reproduced below, are through the first quarter — the latest available at this date to the writer, who, unlike the above cited publications, bereft of a crystal ball, must rely on "official" data as they are released — and has found from experience that the past at times correlates poorly over short periods of time. True, previous periods of recession and recovery do everything that Argus states, but limited indications so far suggest that we may have to wait some time before the patterns of yesterday reappear. Until then, as we see it

and explain below, labor, business and government will manifest a serious case of schizophrenia since they are also consumers. The extraordinarily dangerous gap between output and costs may continue to push prices higher than Argus and Fortune expect.

This sequence may follow if we are correct in stating there has been an unprecedented productivity trend which will take much longer than usual to offset. If, as we hope, the Argus Research Corporation and the *Fortune Magazine* prognosticators have correctly observed an improving productivity trend then the fears raised here are groundless. We have repeatedly called attention to the urgent need of redressing rising unit costs, and increasing output per man-hour, if we are to get back to a healthy economic footing.

Sidney Brown

**Real per capita GNP** reached a high of \$3,590.00 in 1969's third quarter and dropped to \$3,540.00 in this first quarter. **Real Disposable per capita Income** dipped \$4.00 from \$2,526.00 in the third quarter, 1969, to \$2,522.00 in the fourth quarter, but rose to \$2,536.00 in the first quarter — unlike Real GNP.

Harold C. Passer, Assistant Commerce Secretary for Economic Affairs, informed the press Tuesday (June 30) that there is a pretty good chance that the Real GNP rose a fraction of 1 per cent (0.3% or 0.4%) in the second quarter, or at a 1% to 1.5% annual rate. Real GNP in the first quarter was \$724.3 billion which would make it the low point of the 1969 and, so far, 1970 period. That first quarter was

down 0.86 per cent, or 1.72 per cent at an annual Real GNP rate, from the presumed peak of \$730.6 billion in the third quarter of 1969. On a per capita Real GNP basis, the decline came to an annual 2.78 per cent rate whereas Real per capita Disposable Income crept up 0.78 per cent on an annual basis.

If we can, for discussion sake, assume, then, with fingers crossed, that the current so-called "cycle" consisted of a peak in 1969's third quarter and, taking Mr. Passer's preliminary estimate, the first quarter of 1970 marked the "trough", then we have a consistent way of examining the optimistic insights provided by Argus and Fortune publications.

As the data below shows, Argus errs in stating labor costs currently have risen less than in the two recessions of the 1950's. The present phase amounts to an unprecedented cost-push from wages and salaries (from top management down to the lowliest worker) far exceeding output per man-hour. There actually is no comparison to any of the previous post WW II cycles no matter which of the three approaches employed above are used. The figures for the total private sector, the total non-farm private sector, and the total non-financial corporations are just too close together to lend any support for any other conclusion; a conclusion that is diametrically opposite of what both Fortune and Argus maintain. They may have deduced what they did on the expectations of what occurred the second quarter to which we are not privy. But, unfortunately, this is not what they use as their base. We earnestly pray that they are correct and that our findings are incorrect.

In fact, never have we experienced this "so called cycle." It is and portends a monumental problem which we had hoped the Administration would tackle (see this space of June 11 suggesting what Pres. Nixon's economic message should face) and which it did not. The economic message called for a National Commission on Productivity to study the subject instead of making specific suggestions right then and there (see this space of June 18 on Nixon's disappointing noon day economic message). Between the first quarters of 1965-1970, non-financial corporation employee compensation averaged out annually to a gain of 9.7 per cent, nonfinancial

GNP's average gain was 3.5 per cent, and profits, after tax, 0.3 per cent. In the first half of the 1960's wage gains were more than outstripped by productivity increases. In the last half of the 1960's, right on through the latest available data, it has been the other way and, unfortunately, increasingly so.

Since the "so called peak" of this cycle, there has been but a one to two tenths of 1 per cent increase in output in the private and in the private non-farm sectors. The trend from the peak through the trough in each of the five cycles has steadily deteriorated — see, for example, the 1960-61 and the 1969-70 periods against the 1957-58 and 1953-54 periods. The first post-war phase was exceptional. Labor costs have escalated. After each trough, the tendency has been for unit output to rise and, despite higher wage rates, unit labor costs to decline. This past pattern has currently been ferribly ascerbated which casts doubts as to whether the normal will recur — especially if the promise and belief, no matter how fraudulent, of a painless recession offsets the therapeutic effects of rising unemployment and, more importantly, if Mr. Passer's observations regarding the second quarter serve as an additional restraint forestalling the forces of productivity.

What should be foremost in everyone's thinking, from the Administration on down, is that recent wage pacts in construction, teamsters, tugboat and longshoreman, newspapers and, who knows where else they may be emulated, perhaps such other industries as automobiles, providing for three year contracts of around 40 per cent increases far exceed even the "normal" fruition of technological and productivity advances should they occur. This situation will wipe out the head start of output exceeding wages during recovery sufficient to generate rising profits.

Today's news of a sharp rise in the Federal deficit this fiscal year 1971, commencing July 1 amounts to a tidy sum displacing expected reductions in increased capital spending. Even if food and other wholesale prices decline, the cost-push from labor still may leave the price level advancing at an unsatisfactory rate. It may be the kind of price inflation which leads to further reduced private, and to more public, spending. This environment is new to those

familiar with the 1930's. A recession with high interest rates and inflation may succeed Passer's conclusions about the second quarter.

Sidney Brown

#### Bank Clearings Rise 2.4% Above 1969 Week

According to data compiled by Dun & Bradstreet, Inc., bank clearings for the week ending June 24 were \$98,077,203,000 compared to \$95,759,426,000 the same week in 1969.

Since clearings for the week ended June 17 amounted to \$104,709,652,000, week to week loss amounted to 6.3 per cent.

The following depicts the clearings for the country's five principal cities for the latest week against last year's week.

	Week Ending June 24 (000 omitted)		%
	1970	1969	
New York	\$69,782,865	\$70,459,138	- 1.0
Chicago	2,159,203	2,205,200	- 2.1
Philadelphia	1,847,000	2,091,000	-11.7
Boston	3,325,487	2,316,588	+43.6
San Francisco	2,337,239	2,358,781	- 0.9

#### Steel Production Rises 0.1% From Previous Level

According to the American Iron and Steel Institute, steel production for the week ending

### DIVIDEND NOTICES

## BOSTON EDISON COMPANY

*Common Dividend No. 325*

A quarterly dividend of 56 cents per share on the common stock of the Company has been declared payable on the first day of August 1970 to stockholders of record at the close of business on July 10, 1970.

*Preferred Dividend*

A quarterly dividend of \$1.06 per share has been declared payable on the first day of August 1970 to stockholders of record at the close of business on July 10, 1970 of the Company's Cumulative Preferred Stock, 4.25% Series.

*Preferred Dividend*

A quarterly dividend of \$1.19 per share has been declared payable on the first day of August 1970 to stockholders of record at the close of business on July 10, 1970 of the Company's Cumulative Preferred Stock, 4.78% Series.

Checks will be mailed from Old Colony Trust Company, Boston.

JOSEPH P. TYRRELL  
Vice President and Treasurer  
Boston, June 22, 1970

# UGI CORPORATION

### 322nd CONSECUTIVE DIVIDEND

The Board of Directors has declared a quarterly dividend of 30c per share on the Common Stock of the Company, payable September 30, 1970 to holders of record August 31, 1970.

E. H. DICKOL,  
Vice President—Finance

Philadelphia, Pa.  
June 23, 1970

#### Labor Output and Costs, Peak to Trough In Five Post-WW II Cycles

Peak Trough	IVQ48	IIIQ53	IIIQ57	IIQ60	IIIQ69
	IVQ49	IIIQ54	IIQ58	IQ61	IQ70
<b>Private Economy</b>					
Index, Output					
per man-hour (BLS)	+3.4%	+2.9%	+1.8%	-0.1%	+0.2%
Index, Unit					
Labor Costs (BLS)	-3.3%	-0.4%	+0.9%	+1.3%	+3.7%
<b>Private Non-Farm Economy</b>					
Index, Output					
per man-hour (BLS)	+3.1%	+2.7%	+1.3%	0.0%	+0.1%
Index, Unit					
Labor Costs (BLS)	-2.6%	+0.1%	+0.1%	+1.2%	+3.6%
<b>Index of Output</b>					
per man-hour, Private Non-Farm (Series No. 858 BCD)	+7.3%	+3.0%	+1.3%	0.0%	+0.1%
<b>Labor Cost (Cur. \$) per Unit (1958-\$) GNP Non-Finc'l Corps. \$'s (Series No. 68, BCD)</b>					
	+0.8%	+0.9%	+2.9%	+1.8%	+3.9%

*This announcement is neither an offer to sell nor a solicitation of an offer to buy any of these securities. The offer is made only by the Offering Circular.*

New Issue

June 26, 1970

60,000 Shares

## Leisure Structures Incorporated



Common Stock  
(Par Value \$0.02 per share)

Price \$5.00 per Share

*Copies of the Offering Circular may be obtained directly from the company at the address indicated below or through its subscription agent, the State Street Bank and Trust Company, P.O. Box 5003, Boston, Massachusetts 02107 in such states as the undersigned may legally offer these securities and in which the Offering Circular may be legally distributed.*

### LEISURE STRUCTURES INCORPORATED

160 Old Derby Street  
Hingham, Massachusetts 02043  
(617) 749-0011

June 27 amounted to 2,647,000 compared to the prior week's 2,644,000 tons for a week-to-week 0.1 per cent increase. The index of production (1957-59 equals 100), was 142.1 and 141.9 respectively. Output in the 1969 week was 2,715,000 tons 145.7 representing 2.5 per cent decrease from the year-ago week.

Cumulative output to date this year totals 66,856,000 and 3.7 per cent below 69,437,000 tons created in the same 1969 period.

Last week's production by district in index number according to the Iron and Steel Institute came to:

District	**Index of Production for Week Ending	
	June 27	June 20
Northeast Coast	134	134
Buffalo	131	133
Pittsburgh	123	124
Youngstown	126	127
Cleveland	145	142
Detroit	178	178
Chicago	155	152
Cincinnati	169	167
St. Louis	132	138
Southern	167	163
Western	146	151
Total Industry	142.1	141.9

\*The Index of Production is based on 1957-1959 average weekly net output of 1,859,939 tons.

**Steel Is Bright Spot In Economic Gloom**

The steel industry continues to be a bright spot amid the gloom and pessimism accompanying the downturn in the nation's economy, **Industry Week** reported.

Raw steel production is running only a week behind the record pace of 1969. Since it is one of the basics of the U.S. economy, it stands as a solid floor under the slowdown, and could well keep it from becoming a full recession.

Currently, the output of raw steel is running at an annual rate of about 137 million net tons, not far behind the all-time high of 141.3 million tons recorded last year. The annual rate for the entire first half was 135.8 million net tons.

The picture also looks good in other aspects of the steel industry, the magazine said.

Shipments of steel, which have returned to near normal in the weeks following the end of the trucking strike (except in Chicago), are expected to run about 48 million net tons in the first six months — on par with 1969. For the entire year, deliveries are forecast at 93 million tons, only 2 million tons less than last year.

Although the situation varies widely from mill to mill, the inflow of new orders for steel continues strong overall. Mills in the Middle West are indicating that if ordering of steel by the auto industry, which has been low, is disregarded, bookings in June are possibly running as high as 10 per cent ahead of May, although this pace may be distorted by the truck strike.

The inventory position of U.S. industry adds optimism to the steel outlook. Despite the fact that they were caught without steel during the truck strike, many manufacturing companies have returned to their bare bones inventory policies, the magazine reported.

Some customers are asking mills to hold up on shipments because they have been inundated all at once by deliveries of orders placed before the strike.

Construction industry demand for steel continues spotty. While building trades union strikes have slowed activity in parts of

Ohio, structural fabricators in that state are getting subcontracts from such shops in New York and New Jersey that are swamped with business and can't meet delivery deadlines.

The first orders of steel for 1971 models are being placed by the auto industry. The orders are small, and mainly for use in testing dies and production line setups — but they are cheering many steel economists.

Steel scrap prices have declined for the second consecutive week as domestic ordering continues quiet and export demand weakens.

**Industry Week's** price composite on the No. 1 grade of steelmaking scrap slipped to \$43 per gross ton from \$43.67 the previous week.

**Steelmaking Technology Is Undergoing A Basic Change**

A basic change in steelmaking technology is now clearly indicated, according to **Iron Age** magazine.

The blast furnace, which has been the mainstay of iron and steel production for 300 years, is giving way to the direct reduction process.

(Direct reduction duplicates the chemical action that takes place in the top of the blast

furnace, reducing iron ore to iron by removing most of the oxygen. However, the iron isn't melted.)

Blast furnaces will still be around for years. But for major projects in the future, direct reduction will be the dominant process.

**Iron Age** says that steel men have reached the conclusion that the capital cost of a blast furnace complex is too great to permit a satisfactory return on investment.

Direct reduction makes it possible to cut capital costs in half. At the same time, it gives greater flexibility in the choice of energy sources. With the worldwide shortage of good quality metallurgical coal, this last point becomes a critical consideration.

High prices for steel scrap have made reduced ore more attractive to mills, especially the small, non-integrated mills.

The mini-mills have taken the lead in adopting the new process.

Now on stream or definitely planned throughout the world are commercial reduction plants rated for 5 million tons a year. Proposed for the future are plants that will turn out another 15 million tons.

At present only 800,000 tons of

the definite capacity is in the U.S. However, American companies have interests in half of the definite and proposed reduction plants.

All of this constitutes a major shift in steelmaking technology. Because of the current lull in steel industry spending, the change hasn't been apparent.

However, **Iron Age** says, the new direction is suggested by these events:

1. By the first quarter of 1971, United States Steel Corp. will be producing large quantities of reduced ore in a Venezuelan plant. Early estimates had placed the capacity of this plant at one million tons. The latest word is that it will be sized at 1.5 million tons.

2. U.S. Steel's approach in Venezuela now calls for skipping the blast furnace altogether. The original plan was simply to upgrade the ore for use in blast furnaces. The new concept is to make a full reduction of the ore to more than 90 per cent iron and charge the ore directly into steelmaking furnaces.

3. Two other major American mills will be part owners of a 1.4 million ton direct reduction plant in Australia. The size could be

doubled before construction starts.

1. The economics of direct reduction are looking more favorable. Steel plants are now being offered reduced iron pellets at \$30 a ton on the Gulf Coast. That is \$10 a ton under earlier estimates.

5. Test programs have established the fact that reduced iron can be charged directly into steelmaking furnaces. Production gains of up to 30 per cent have been reported for electric furnaces charged with iron.

6. There is a world shortage of metallurgical coal and coke. This has reached the point where the Federal government is thinking of limiting or even banning coal exports. Various fuel supplements are being tried for blast furnaces, but good coke is still a must.

**Auto Output Remains At High Level**

U.S. passenger car production last week continued at a high level, with Saturday overtime serving to counteract increasing assembly plant shutdowns for '71 model changeovers. The

Continued on Page 14

*This announcement is not an offer of securities for sale or a solicitation of an offer to buy securities.*

New Issue

July 2, 1970

**600,000 Shares**  
**Turbodyne Corporation**  
**Common Stock**  
(Par Value \$1 Per Share)

**Price \$18 per share**

*Copies of the prospectus may be obtained from such of the undersigned (who are among the underwriters named in the prospectus) as may legally offer these securities under applicable securities laws.*

**Dillon, Read & Co. Inc.**

**The First Boston Corporation      Goldman, Sachs & Co.      Kuhn, Loeb & Co.**

**Blyth & Co., Inc.      Drexel Harriman Ripley      Eastman Dillon, Union Securities & Co.**

**Glore Forgan Staats      Halsey, Stuart & Co. Inc.**

**Hornblower & Weeks-Hemphill, Noyes      Lazard Frères & Co.      Lehman Brothers**

**Paine, Webber, Jackson & Curtis      Salomon Brothers & Hutzler**

**Smith, Barney & Co.      Stone & Webster Securities Corporation      Wertheim & Co.**

**White, Weld & Co.      Dean Witter & Co.      Paribas Corporation**

## THE STATE OF TRADE

Continued from Page 13

industry planned to build 183,535 cars last week vs. 184,333 the previous week and 189,860 in the same week last year.

The previous week's output was bolstered by last-minute Saturday overtime scheduling by Chrysler Corp. The Hamtramck (Mich.), Belvidere (Ill.) and Los Angeles (Calif.) assembly plants worked the extra day.

Last week, Saturday overtime was planned at three General Motors Corp. car and three truck plants. Ford Motor Co. operated one car plant and three truck plants the extra day. Chrysler worked two car and one truck plant on Saturday, with a third car plant added later.

Meanwhile, the GMAD assembly plant at Framingham (Mass.) built-out its '70 model run of Buick Skylark and Oldsmobile F-85 models on Wednesday, June 24. Already down for the '71 model changeovers are the Cadillac Eldorado, the Buick Riviera and the Oldsmobile Toronado. Ford resumed building the '70 model Lincoln and Mark III last week following a one-week inventory shutdown, but the Wixom (Mich.) plant is phasing out '70 model production June 26.

The industry will build its four-millionth passenger car of 1970 Thursday, July 2. The milestone vehicle will be more than three weeks behind its 1969 counterpart which was built June 10th.

GM's output last week was scheduled at 97,435 cars vs. 97,873 the previous week. Ford's is 46,750 vs. 46,645. Chrysler's is 32,600 vs. 34,068 and American Motor's is 6,750 vs. 5,747.

Of the total car output, GM accounts for 53.1 per cent, Ford 25.5 per cent, Chrysler 17.8 per cent and AMC 3.6 per cent.

### Cumulative Rail Freight 1.1% Above 1969 Level

Freight traffic on U.S. railroads in the week ended June 20 totaled an estimated 15.5 billion revenue ton miles, 2 per cent above the corresponding week last year, the Association of American Railroads reported.

Cumulative volume for the first 25 weeks of 1970 was an estimated 369 billion revenue ton-miles, 1.1 per cent above the total for the corresponding period last year.

Loadings in the week ended June 20 totaled 563,608 cars, 0.6 per cent below the preceding week, but 0.5 per cent above the corresponding week last year.

Fourteen of the 21 commodity groups showed decreases from the comparable week last year with crushed stone, gravel and sand off 9.5 per cent. Grain loadings were up 26.1 per cent and coal loadings rose 8.1 per cent from last year, when a number of mines were closed in mourning after the death of John L. Lewis.

Piggyback revenue freight loadings in the week ended June 13 totaled 25,729 cars, down 4.1 per cent from the comparable week last year, and 42,500 trailers or containers, down 3.3 per cent from 1969. Cumulative volume for the first 24 weeks of 1970 is 585,031 cars, 4.4 per cent below the 1969 total, and 980,090 trailers or containers, down 2.2 per cent compared to last year.

In addition to freight, 3,377 cars carrying 5,194 trailers or

containers of mail and express traffic were handled piggyback. Cumulative figures for the first 24 weeks of 1970 are 81,651 cars, down 4.5 per cent from the 1969 total, and 129,006 trailers or containers, up 8 per cent over 1969.

### Truck Tonnage Down 21.0% From 1969 Week

Intercity truck tonnage in the week ended June 20 was 21.0 per cent below the volume in the corresponding week of 1969, the American Trucking Associations announced. Truck tonnage was 1.8 per cent above that of the previous week of this year. The many fluctuations in tonnage for the year and week are primarily a result of various work stoppages throughout the country during the past weeks.

### New Lumber Orders 18.7% Below 1969 Week

New orders for the latest week ending June 20 were 18.7 per cent below the year-ago week. They were, also, 0.5 per cent below the preceding week of this year.

Lumber production in the week under review turned out 28.6 per cent less board feet than the 204,904,000 board feet cut in the year-ago week. Shipments were down 19.1 per cent from the year-ago week.

Production, however, at 146,235,000 was 3.1 per cent below the previous week. The following lumber associations' returns are in thousands of board feet for the week ending:

	June 20 1970	June 13 1970	June 21 1969
Production	146,235	151,052	204,904
Shipments	160,207	169,328	198,059
Orders	163,853	164,668	201,750

### Electric Output Gains 2.5% Above 1969 Week

Last week's electrical energy totaled 2.5 per cent more than last year's weekly level.

In the week ending June 27, electric output aggregated 30,353 million kilowatt hours according to data compiled by the Edison Electric Institute, which is the industry's trade association. Output was 29,609 million kilowatts in the year-ago week. Compared with the previous week of this year, the latest week's production was 604 million kilowatts below output in June 20 ending week.

In the 52 weeks ending June 27 cumulative output was estimated at 1,484,698 million kilowatt hours or 8.5 per cent gain over the year-ago period.

### Weekly Business Failures Lowest Since February

Commercial and industrial failures fell to 180 in the week ended June 25 from 220 in the preceding week, reports Dun & Bradstreet, Inc. After seeing a rise from one week to the next ever since early May, business casualties in the latest week downturned to the lowest level since February and eased slightly below the 182 occurring in the similar week last year.

### Wholesale Index Continues To Advance

Continuing to make its way upward, the Wholesale Commodity Price Index compiled by Dun & Bradstreet, Inc. surged to 291.32 on June 29, the highest level since August 30, 1957 when it was 291.62. The index is 0.9 per cent higher than the previous week's 288.75 and 9.0

per cent larger than the 267.18 of a year ago.

### Clearances, Father's Day Boost Retail Sales

A last-minute surge of buying for Father's Day plus the early start of summer apparel clearances boosted retail volume in the week ended Wednesday, June 24, according to spot reports collected by Dun & Bradstreet, Inc. Also bulwarking the week's dollar total of consumer purchases was some of the liveliest action in auto sales since last fall. The quickened shopping tempo lifted overall retail results back above year-ago levels after a lag behind '69 in the prior week. Further enlarging the gain was the non-comparable Father's Day date — it came a week earlier last year.

### Department Store and Retail Sales

Department store sales in the week ending June 20 according to the Bureau of Census was 18 per cent above those of last year's week. The cumulative total of the year to date increased 6 per cent from the 1969 period and in the last four weeks advanced 7 per cent.

A broader set of data covering total retail store sales unadjusted for price difference or for seasonal variation shows they were 7 per cent above the year-ago week. The four most recent weeks showed an increase of 3 per cent and sales of nondurable goods were 5 per cent larger than a year ago, with durable goods store sales 1 per cent below a year ago.

## Chapman Heads Shearson Hammill

Continued from Page 11

which he will be charged with overseeing practically all Shearson securities trading operations involving the commitment of capital for the firm's own accounts. Reporting to him will be the firm's Syndicate, Block Stock Trading, Municipal Bond, Corporate Bond Trading and Over-the-Counter Trading Departments.

Named to succeed Mr. Chapman as director of the Branch Division is Stephen H. Fields, a first vice president, who moves up from regional manager in the Branch Division. As one of five regional managers, Mr. Fields has had responsibility for the operation of Shearson branches in the New York-New Jersey metropolitan area. He continues to have supervisory responsibility for Shearson's commodities operations.

Leo G. Federman, a first vice president and formerly manager of Shearson's Garden City, Long Island branch, was named to the regional manager post vacated by Mr. Fields. Named Mr. Phillips' successor as National Institutional Sales Manager is Heath B. McLendon, a first vice president and formerly Eastern Institutional Sales Manager.

Shearson, Hammill & Co., founded in 1902, is a broadly diversified financial services firm with 59 domestic offices and two abroad. Shearson ranks among the ten largest securities firms in the U.S. in terms of registered representatives. It is a member, in addition, of all leading securities and commodity exchanges in the U.S. and Canada.

## MUTUAL FUNDS

By JOSEPH C. POTTER

### Looking Ahead

The Nixon Administration took over in January of last year. And what a month that was for the mutual funds: share sales soared to an all-time peak of \$876 million. How long would it be, fundmen asked, before the trade turned in the first billion-dollar month. Others wondered whether 1,000 Dow would precede billion-dollar fund month or whether it would be the other way.

Well, they were close. Maybe the market and the fund trade will have another shot at these goals in the 1970's, but right now things are looking down. Indeed, fund sales were so lean in May that the Investment Company Institute, the national association of the trade, felt called upon to borrow from June in order to put a brighter look on things. Thus, said, I.C.I.:

"DURING THE SEVERE STOCK MARKET DROP IN May, mutual-fund sales fell sharply. But they continued to exceed redemptions by a small margin. Sales rose briskly, however, the first two weeks of June, according to preliminary figures."

This unorthodox reporting is readily understandable in light of the May statistics: sales amounted to \$303.5 million, compared with redemptions of \$300.3 million. Never before had redemptions come to within \$3.2 million of sales. Doubtless, for many funds, redemptions outran sales.

The I.C.I. sought comfort in noting that May sales and redemption figures were lower than those for April, which were \$371 million and \$306 million, respectively. That kind of comfort is calculated to drive fund managers to Southern Comfort.

Of course, the sales folk are doing a splendid job for the funds, especially in view of the behavior of the securities markets. It must have been a good deal easier to sell \$529 million worth of fund shares in May of 1969, when investors were still regarding the markets

optimistically, than to retail \$303 million of shares in May of 1970, when customers either were hiding or biding. By now, it's a familiar tale: the portfolio managers lose it faster than the sales department can rake it in.

Total net assets of the funds slumped during May from \$42.8 billion to \$39.8 billion. That drop of \$3 billion is plenty painful, but on a year-to-year basis the slide is in excess of \$13 billion, for at the end of May, 1969, net assets totaled almost \$53 billion. It may be rather indelicate to mention, but in November of 1968, when the American people voted in a new Administration, assets of the funds were almost \$55 billion, an all-time high.

Still, as the solace seekers over at I.C.I. note, redemptions in May as a percentage of average net assets "remained at a low 7.2 per cent, compared with 7.1 per cent for the 12 months' average ended in April and 8.2 per cent for May, 1969."

And for those who like their goodies wholesale, I.C.I. was able to report: "The funds also strengthened their liquidity position slightly during May, from \$3.9 billion to \$4 billion at the end of the month, or 10 per cent of total assets — the highest monthly rate on record."

Then looking ahead to summertime goodies, it added: "Following the market's partial rebound at the end of May, sales of mutual funds sharply increased. In a special survey covering the first two weeks of June, funds representing 50 per cent of the assets of I.C.I. members reported sales up sharply. But the amount was not released because the results are preliminary."

Lovers of goodies, needless to say, are hopeful that the uptrend in June carried through to the end of the month and that, in the event July should show another reversal, no one will demand a special survey to encompass the ill news. After all, a special survey must bring glad tidings. This is no time to be borrowing trouble.

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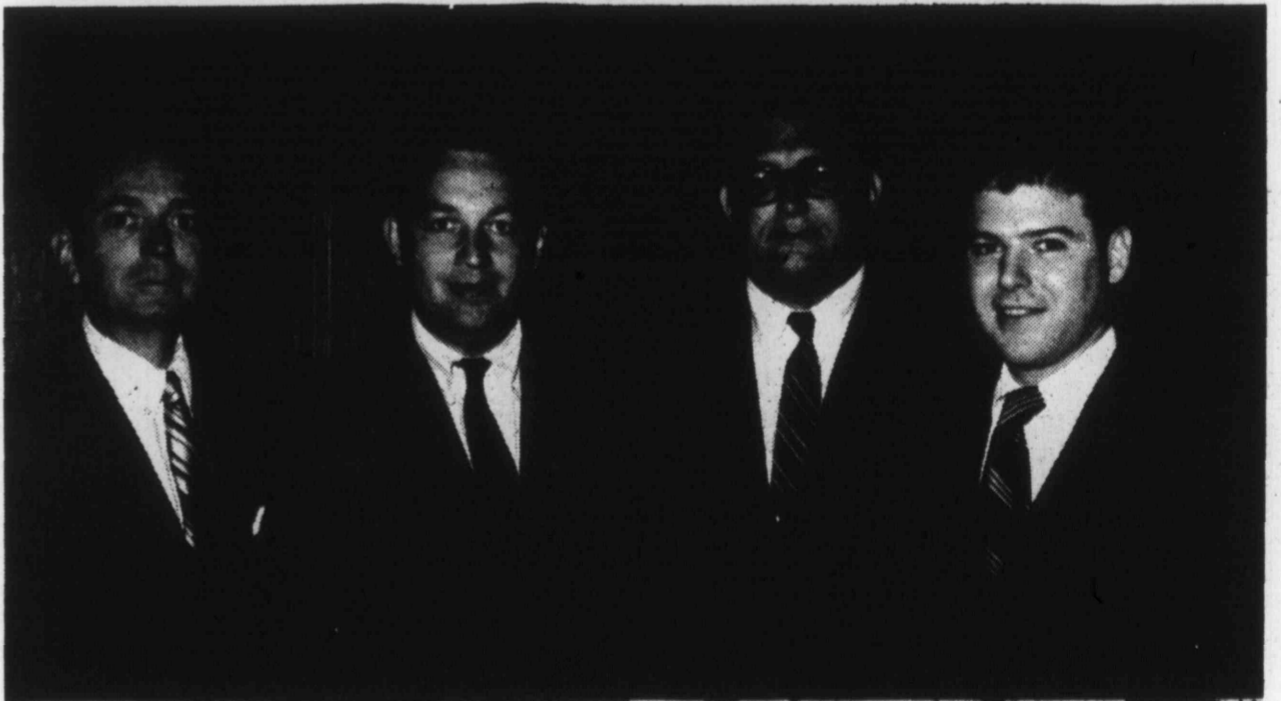
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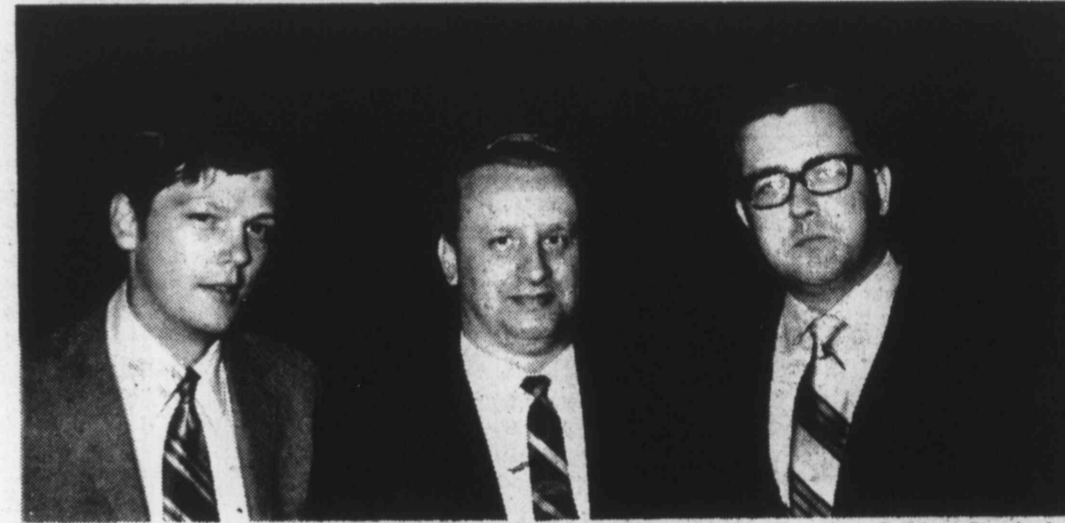
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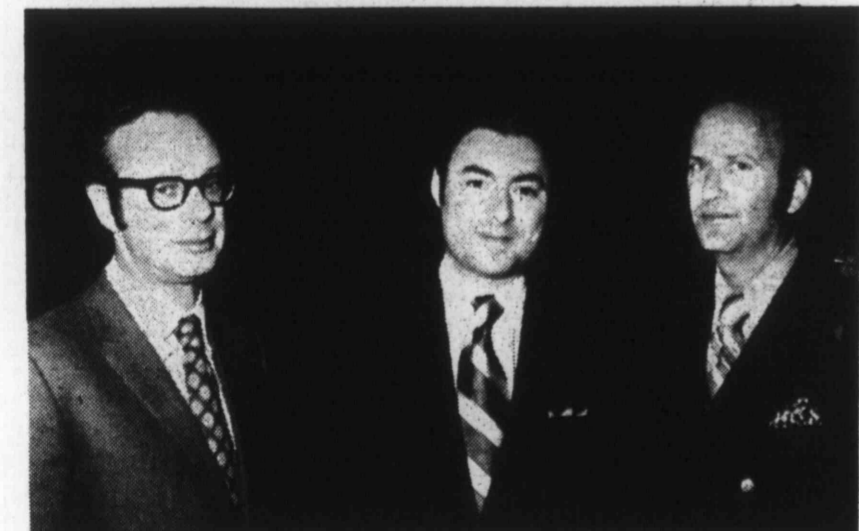
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Primary Markets in Over-the-Counter Stocks and Bonds

# Bond Market Faces Crucial Turning Point

Continued from Page 1

Inflation is still the dominant trend in Europe and in America, and there are some dangerous signs of complacency in high places. Today some are saying, "If our neighbors inflate, so can we." This point of view, of course, endangers the general confidence in paper promises which is the basis of all democratic economies. The history of our inflations proves that they are never stable. They are always accelerating or decelerating. Any significant level accepted by our Government as satisfactory will, in fact, be exceeded. An average stable rate of inflation, in America at least, is an economist's pipe dream arrived at by a fallacious process of averaging highly erratic percentages. Inflation and especially inflationary expectations is the basic cause of most of the structural changes in the American capital markets which I shall now describe.

## Highest Yields in U.S.A. History

The most obvious change in the American capital markets in recent years has been the rise in interest rates. Treasury bill rates have gone from 4 per cent in early 1965 to a recent high of 8.10 per cent. Prime new corporate bond yields have risen from 4½ per cent in early 1965 to over 9 per cent. This has not been a typical cyclical rise in interest rates such as we have always had during boom times, or in times of money crisis. In the Civil War crisis, our prime bond yields got up to 6½ per cent, not 9 per cent. In the boom of the early 1920's, our bond yields got up to 6 per cent, not more, nor did prime bond yields exceed this in the crisis of 1932-33. In our three booms of the post World War II period, the peak corporate bond yields were 3¾ percent, 5 per cent, and 5½ per cent. Present American bond yields are higher than any in our history going back to the founding of our country — much higher than any earlier crisis yields.

Capital values in our market for prime long-term bonds have declined 34 to 47 per cent in the last five years. The point is not that our bond holding institutions cannot absorb such losses: They can if the credit standing of most securities remains favorable which it will. The point is not that borrowers cannot afford to pay these high rates: Most can under existing tax laws especially with the aid of inflation. The basic structural effect of these high rates has been to alter and distort the money flows in our capital markets in a way which, if sustained, will penalize large areas of our economy and as a result will create grave political and social problems.

The structure of the money flows in American capital markets up to recently may be summarized as follows:

### Equities Resemble Market For Land

American corporations have financed their growth net of depreciation about half from internal funds and half from the sale of short- or long-term debt instruments. For many years, they have raised very little new money from the sale of new stock issues, perhaps 2 per cent of their

total needs. American Governments, of course, raise all their requirements by the sale of debt instruments. Finally, much the largest credit demander is the real estate mortgage market which often has accounted for well over half of all long-term capital market demands. Debt instruments of all sorts in the three years ending 1968 grew by an annual average of \$72 billion, while net financing through new equities averaged under \$1 billion. As a result of this long continued imbalance, that was a sustained acute shortage of new equities for twenty years. Our equity market came to resemble the market for land: almost no increase in the physical volume, but frequent changes in ownership and big changes in price.

On the supply side of the savings equation, American business invested all of its savings in its own capital expansion. American individuals, who create most of our savings, usually put 70 per cent of their financial savings into savings accounts and large amounts into other institutional intermediaries. These institutions bought the bonds and mortgages sold by American business, by governments, and by home builders.

In the 1950's, many institutions also began to buy a rising volume of equities. Since few new equities were being created, they had to bid them up until they could persuade private investors to sell. Through these years private investors as a group were steady net liquidators of equities on a rising scale and institutions as a group were net buyers. They still are. Nevertheless, private individuals still hold most of the outstanding equities.

### Massive Shift By Savers Into Bonds

During the last two or three years, several of these money flows in our capital markets have changed importantly. To understand these changes we must recall that ours is a market economy. Almost all investors in the United States are almost entirely free to change their traditional investment habits and preferences without notice. For example, recently soaring bond yields have attracted private savers away from institutions and away from equities and into the bond market. Savings institutions have not been able to increase their interest payments above 5 or 6 per cent, partly because of legal ceilings on rates, but mostly because their mortgage portfolios, accumulated over a long period of years at fixed low contract rates which cannot be raised, do not earn more than these ceiling rates. The shift by savings depositors to bonds, now going on, is gigantic. In the three years ending 1968, private investors placed an annual average of \$27 billion in savings accounts (most of which went into the mortgage market) and an annual average of only \$9 billion directly into the bond market. In 1969, this flow was approximately reversed: \$29 billion of private investors savings went directly into bonds and only \$8 billion into savings accounts. At the same time institutions reduced their

purchase of bonds, partly because their money flow was sharply reduced, partly because their unfavorable market experience with bonds and partly because they wanted to increase their purchases of equities.

Thus, our bond market suddenly became a predominantly private investor market for the first time in several decades. The table below tells the remarkable story.

In 1970 to date, these trends are continuing. Corporations are selling a record volume of bonds, far more even than in 1969, municipalities are selling a large volume of bonds, Federal agencies are selling a record volume of securities, institutions are strapped for new money and are buying bonds very sparingly, while private and miscellaneous investors are buying record amounts of bonds.

### Sudden Rise in Equity Flotations

Another important and very recent structural change is a sudden rise in the volume of equity financing by corporations both in the form of convertible securities and straight equities or warrants. The low level of corporate liquidity, the unreceptive bond market, the high interest rates and the need to maintain credit ratings, are forcing many corporations to dilute their shares. In late 1969, net equity financing suddenly rose to an all-time record and it is threatening to almost double that record this year in spite of a declining stock market. Therefore, it seems that the acute shortage of new equities, which has characterized the whole postwar period, is, for the time being, at least ending.

The sustained shortage of institutional bond money during recent years has led to other important structural changes. Institutional buyers have used their enhanced bargaining power to secure equity participations as a condition of bond investment, especially on private placements. These are sometimes convertible features, but most are warrants or other direct equity participations. More and more real estate mortgages on income properties are including large equity participations.

### Non-Fully Funded Long Term Debt

In contrast, most of the individual investors, who now dominate the market for publicly offered bonds, seemingly are not interested in equity participations. Their primary concern is high yield and high quality. Many also prefer shorter maturities, although many are buying large amounts of long-term bonds. To meet the demand for shorter maturities, many corporations have begun issuing bonds of 3 to 5 years maturity in contrast with the conventional 20

to 30 years maturity. Alternatively, some long bond issues have been offered with optional puts in five years or less. Thus, in many cases long-term fixed investments are really not fully funded, and these corporations are at the mercy of the market three to five years hence. This trend accentuates the need for liquidity at a time when corporate liquidity is at an all-time low. The current stampede to sell long-term bonds is, of course, partly due to an effort to achieve better liquidity. Accordingly, during recent months, the volume of commercial paper sold has declined from last year's extraordinarily high level, while the volume of long-term bond financing has soared.

### Burgeoning Agency Financing

Another important structural change results from the massive intervention of agencies of the Federal Government in an effort to rescue the market for home mortgages. The mortgage market heretofore has been strictly an institutional affair, but since no way has been found to provide home mortgages with equity, participation and, since mortgage yields are now less attractive than bond yields, institutions, which themselves are short of funds, have reduced their mortgage purchases drastically. Since housing has a high social priority, Government agencies have been trying to correct this acute shortage of mortgage money. These agencies are buying a large volume of mortgages from mortgage institutions, and they are financing these mortgage purchases by selling an enormous volume of Federal agency securities into the market at high yields. In addition, there is a new arrangement to package real estate mortgages as collateral behind bond issues which will bear the guarantee of the Federal Government.

Thus, an improved pipeline has been established to convey the demands of the enormous housing market to the bond and money markets. Private investor savings are now flowing into housing via Government agency bonds instead of via deposits in savings institutions. This new arrangement, however, has created new problems because the massive volume of new Federal agency bonds, \$8 billion in 1969 and much more this year, have helped to push up prime interest rates in the bond and money markets. As a result, depositors in savings institutions have been shifting large deposits out of institutions into Federal agency securities thereby increasing their rate of return from 5 per cent to 8½ per cent. Who wouldn't? A 70 per cent increase in investment income looks like a fine way to beat the inflation.

Nevertheless, this new technique of setting up privatized Federal agencies and Federal guarantees to direct the flow of public savings into those socially desirable investments which cannot compete effectively in the market place, is politically popular. Such Federal agencies may therefore proliferate. There is talk of a privatized Federal agency to finance state and local governments because our municipal market is grossly inadequate in a period of monetary restraint and gain municipalities cannot appeal to the institutions by offering equity participation. There is talk of another new Federal agency to finance pollution, again by raising money in the bond market and lending it to local agencies. It is safe to guess that many other similar schemes will be proposed all based on extending the credit of the Government to private credit instruments which otherwise would be impossible to sell. They are all outside the Federal budget and this makes it possible at times to point to a balanced budget. It has been facetiously suggested that the Pentagon be privatized, so that it could issue its own guaranteed paper; the way we keep our books this would indeed produce a huge Treasury surplus.

### Social Priorities Over Credit

All of these new governmental arrangements are part of an effort to establish social priorities for scarce credit. If we look at the distribution of credit in 1969, a year of severe market credit rationing, we can see the problem. Large corporations enjoy so many avenues of access to new funds that they almost always get all or almost all they want. So does the Federal Government. Consumer credit, at very high rates, has been freely available in the worst of money pinches. On the other hand, local governments are at the mercy of the municipal bond market except for their ability to persuade local banks to tide them over a money crisis. And finally home mortgages have been dependent on faltering deposit flows to local savings institutions. In 1969 mortgage volume slumped sharply, especially in the second half of the year. Net sales of long-term municipal bonds declined by over 50 per cent. On the other hand, the total credit obtained by business soared to an all-time high, although an undesirable portion of it was at short-term. I believe the success of business in obtaining a record volume of new credit last year, in the face of a brutally tight credit market was one of the reasons why the great boom continued much longer than was generally expected and for a while seemed to defy a monetary policy of severe restraint.

Other important structural changes have resulted from the rapid spread of equity performance standards among institutional portfolio managers. In simple terms, this meant that managers of pension funds, endowment funds and even personal trusts were being judged not only by the income their portfolios generated, but by the changes in market values of

NET CHANGE IN OWNERSHIP OF BONDS, 1969  
(Billions of \$)

	Total Net Increase in Outstandings	Net Purchases by	
		Institutions	Private and Miscellaneous Investors
Corporate Bonds	14.6	7.4	7.2
Municipal Bonds	8.6	3.4	5.2
U.S. Treasuries	-6.3	-17.0	10.7
Federal Agencies	8.1	2.1	6.0
Total	25.0	-4.1	29.1

their portfolios. On a long-term basis, this point of view can be sound. Many such funds aim primarily at total enrichment over the long-term and there is no valid distinction between a gain which comes from coupon or dividend income or one from capital gains. However, in the great bull stock market which ended in early 1969, an immature interpretation of performance became popular which concentrated on the success of near-term stock market speculations. As a result, a great wave of institutional stock speculation did great damage to our capital markets. It is now in process of being washed out.

The time has now come for me to face up to the difficult problems of the causes of these structural changes and their future. Are they transitory? Are they permanent? I am tempted to follow the example of the legendary Scottish Presbyterian minister who said to his congregation, "We come, noo, brethern, to a verra considerable deeficulty. Let us look it squarely in the face and pass on."

#### Business New Found Belief

At the beginning of my paper, I suggested that January of 1965 marked the start of our present difficult era of inflation and high interest rates. What happened then? President Johnson, in his State of the Union message, announced a policy of no recessions ever, and American business believed him. Many presidents before him had made optimistic statements, but the business community usually laughed them off as political. But not that time. The idea that the traditional policy of cyclical corrections was wasteful and an unnecessary break on growth had been developing since 1960. The success of the New Economics in cutting taxes in 1963 and 1964 had impressed economists and businessmen. Inflation had been dead or dormant for seven years. Why tolerate recession?

The new policy looked like a giant step forward. All downside risk seemed to be eliminated from the economy. As a natural consequence, American business promptly took off on its great sustained capital goods boom and now six years later it is still with us. Commodity prices promptly started to rise and now, five years later, they are still rising. Indeed, if there is little or no downside risk, why should not each economic participant borrow all he can and attempt to buy up the world? It is not surprising that a shortage of credit soon developed and has become progressively more acute. Six months later the Vietnam War started and, of course, aggravated the inflationary situation.

Today we can vividly see the economic effects of long range optimistic business expectations created by a policy of no recessions ever, and its survival over a long period of years. These expectations are often too narrowly called "inflationary expectations." Our free economic system is based on risk, that is to say, uncertainty. In the past, alternating waves of business pessimism and optimism have re-enforced official policies of restraint or expansion and helped them to maintain stability. In 1969, however, businessmen held to a fixed unalterable optimism about the long-term future in

spite of severe restraint. They felt able to go through the officially forecast short pause in our economy without even slowing down their expansion plans. This is one reason why both fiscal and monetary restraint failed to achieve their usual prompt effects in 1968 and 1969.

Furthermore, in the last few years something new has been added. A multiplicity of programs of social reform have developed calling for gigantic future government outlays; for example, pollution, poverty, housing, urban blight, racial imbalance, transportation deficiencies, education, health and the problems of old age. Very few of these social problems are new. Most were more pressing one hundred years ago than they are today. What is new is the conception that they can and must be dealt with by our Federal Government at heavy cost. Politicians of both parties have accepted these national responsibilities and promised action. Many, probably most, American businessmen accept in some degree this new and enlarged concept of Federal responsibility. However, as a by-product, the prospect of guaranteed future demands for the product of American business seemed firmer than ever.

#### Paradox

Right here we come to a paradox. Large new programs of social expenditure or social investment by the Federal Government will require a shift of physical resources and financial resources away from the corporate sector, but the prospect of these expenditures encourages business to borrow scarce credit and buy up these very same scarce resources. Put another way, large social programs are virtually impossible to inaugurate in an inflationary environment and yet the promise of these future programs is sustaining or augmenting our inflation. Until this paradox is resolved, we can only expect big social promises and token actions. The advocates of social expenditures should be the first to demand a rapid end of our inflation as an essential precondition to funding the programs adequately. Surplus resources must exist before they can be used for socially desirable ends.

If this analysis is correct, then we must attribute our high interest rates, our inflation, and the imbalances in our capital markets to fundamental social and political causes. They are much more than mere boomtime cyclical phenomena aggravated by policy mistakes.

#### Now at a Policy Watershed

What can I say about the future? My favorite hedge clause, which I like to mention first, is that while I am certain of nothing, I am not even certain of that. I believe we are in the middle of a mid-recession, but our Government officials say we are emerging from a mini-recession. In dollars, the difference is small. Either way the groundwork has not yet been laid for a new period of prosperity. The surplus resources, and the required liquidity, have not been rebuilt. Excessive business optimism, the expectation of a politically guaranteed demand for almost everything we can produce, is still alive. It is wavering, but it

can always revive quickly. Therefore, our Government's policy decisions during the next few months will be much more important for the long-term future than our current economic trends. We are, I believe, at a policy watershed comparable to that of 1965.

It is often said that worldwide demands for credit are so great that inflation must remain with us and that interest rates must remain high. This statement, as the professor said, has truth, but not quite enough to be true. It could be true, but only on two conditions, namely, that credit markets continue to function smoothly and that loaning standards remain liberal. We should look more closely at what we mean by credit demands.

#### Improved Credit Mobilization And Lower Standards

Capital demands the world over have always been infinite and always will be. Indeed, the real need for capital was probably proportionately as large fifty years ago as it is today. But most capital demands are not tied in to a capital market by effective credit machinery. The vast needs of Africa or of China put little or no pressure on the American capital markets because neither area enjoys efficient access to our markets. It is the credit machinery itself, which alone gives demanders easy access to our large market, which we must examine if we wish to judge the size effective demand.

Within the United States the efficiency of our credit machinery has increased vastly in the postwar years through institutional growth and innovations. This is why more and more of our latent but always enormous credit demands have reached the market and thus become effective. Also, after twenty-five years of prosperity our credit standards have declined. Some institutions have sought out marginal borrowers and prospered as a result. Thousands of entrepreneurs obtained vast amounts of credit last year who, ten years ago, would not have even requested credit because they knew in advance that they would be turned down. These then are the two basic causes of the great increase in American business credit demands: improved credit machinery and liberal lending standards. It is not enough to point to vast worldwide credit demands, or even vast American credit demands. We should rather analyze the credit machinery and the credit standards. These are the variables which determine how much of the always large credit demands will be effective.

#### World Credit Expansion And Inflation

I have omitted altogether references to the important international environment because others are much better equipped than I am to deal with it. I will only say that the recent improvements in the international credit machinery, for which we are thankful, are also probably having the unfortunate side effects of facilitating very heavy credit expansion and thus of sustaining international inflation. The old creaky payments machinery, by creating frequent crises, was able to reach across sovereign frontiers and force unpopular retrenchments. This sanction

seems today to be greatly reduced. Furthermore, almost all proposals to improve further the international payments system seem aimed at eliminating all deflationary threats. If so, this leaves the problems of excessive international credit expansion and international inflation unsolved.

#### Credit Brakes Have Not Improved

It is unfortunately true that while efficient credit machinery serves to enlarge effective credit demands it does not enlarge the volume of genuine savings correspondingly. Thus, efficient credit machinery can, by itself, help to accelerate inflation unless it is offset by correspondingly improved brakes. In the old days our creaky credit machinery had a way of breaking down under stress. This brought serious hardships which we believe will never be repeated, but it also stopped inflation dead in its tracks. An illustration of efficient new credit machinery is the new use of Federal agencies as credit intermediaries. By directly tapping our enormous money market, they provide a direct and efficient machinery for our local, heretofore primitive, real estate mortgage market to assert effective demand. This demand automatically adds to upward pressure on both interest rates and commodity prices unless offset by cuts elsewhere.

However, this efficient credit machinery of ours is not loss proof. Unfavorable experiences with marginal business credits are probably occurring today such as usually occur after a boom wilts. If so, there is probably now under way a general rise in credit standards among American lending institutions. In this way, the effective business demand for credit in the United States may decline sharply. Excessive business optimism could vanish and marginal borrowers be turned down. If this is to be the sequence of events, then over the next year or two we should see a decline in credit expansion in the United States, an end of excessive inflation, and a decline in interest rates. This is a model of a recession, not of a serious depression. Under this recession model, I presume that prime new corporate bond yields would go down in time from 9 per cent to, say, 6½ per cent (not a really low level), savings institutions would be able to compete again with the market, housing would move ahead independently of Federal money, and there would be ample surplus resources for our Government to fund large social programs. If so, many of the distortions in our capital markets, which I have outlined, will vanish.

There is, of course, an alternative. Let us say that our authorities are content with a compromise in their battle with inflation, that they settle for an early and favorable business recovery and a continued inflation. There would, of course, then be no change in the excessive optimism of business expectations and, indeed, it would be stronger than ever. Interest rates, of course, would remain high and market pressures would persist. If so, and nothing else were done, housing would be deeply depressed, municipalities could not obtain much credit, and other social programs would be

dormant. This would be socially and politically unacceptable.

#### Credit Rating Alternative

In such a context, I do not believe that our authorities will permit another round of rugged market credit rationing with escalating interest rates. Instead, I expect that some form of credit rationing will be attempted. Credit will be encouraged by subsidies or penalties to flow into mortgages of an approved sort, into local governments and into other demand areas which enjoy high political priorities and will be directed away from areas such as corporate mergers, excessive inventories and low priority capital projects and perhaps away from certain forms of consumer credit and low priority real estate projects.

Such a program of directing the flow of scarce credit has already begun in the mortgage market, but as yet nothing has been done to discourage low priority borrowers and thus provide the savings for preferred projects. Indeed, such denials will be enormously difficult to carry out effectively. They will also involve a large and undesirable expansion of the presence of Government in our private economy.

In the first place, it will not be enough to subject institutions to credit discipline, as has already been proposed in Washington. If this were all that is attempted, rationed demanders could borrow in the open market. Thus, it could be necessary to control both the commercial paper market and the bond markets and the credit institutions. Even states and municipalities might be forced to raise credit only for approved programs. Even so, rationed groups could find an escape through attracting the funds of private investors by a variety of novel instruments. Perhaps even the vast internal funds of business corporations would be subject to directives.

This is not an attractive picture. Such programs of credit rationing, however, would relieve some of the pressure on our capital markets for at least a year or two. A decline in interest rates would be a necessary objective and would be probable since many demanders would for a time be excluded.

Both of my gloomy models for the future imply some decline in interest rates and some decline in the rate of inflation. The ultimate solution to our capital market problems, however, is not so much to be discovered in economic analysis, or in money flows, or in fiscal or monetary policies. It will depend upon the sociological and political trends in America and in America's chief trading partners.

If my analysis is correct, the American capital markets are now at another basic turning point analogous in importance to January of 1965 or more so. Near-term events in our economy, and official policy reactions, will decide whether in the 1970's we will maintain our traditional market economy, or whether our Government will take another large step toward social credit. Most of us will agree that either course is better than accepting a high rate of inflation.

\* An address by Mr. Homer before the International Investment Symposium sponsored by P.N. Kemp-Gee & Co. of London, at Bellagio, Lake Como, Italy.

# Indications of Current Business Activity

The following statistical tabulations cover production and other figures for the latest week available. Dates shown in first column are for the week ended on that date, or in cases of quotations, are as of that date:

	Latest Week	Previous Week	4-Weeks Ago	Year Ago
<b>AMERICAN IRON AND STEEL INSTITUTE:</b>				
Steel ingots and castings (thous. net tons)	June 27 2,697,000	2,644,000	2,670,000	2,715,000
Index of production based on average weekly production for 1957-1959	June 27 142.1	141.9	143.3	145.7
<b>AMERICAN PETROLEUM INSTITUTE (60's Omitted):</b>				
Crude oil and condensate output-daily average (bbls. of 42 gallons each)	June 19 9,503	9,485	9,607	9,474
Crude runs to stills-daily average (bbls.)	June 19 10,594	10,715	10,218	10,883
Gasoline output (bbls.)	June 19 39,476	38,243	38,721	38,729
Kerosene output (bbls.)	June 19 4,062	4,569	4,126	4,585
Distillate fuel oil output (bbls.)	June 19 16,875	16,180	15,659	16,260
Residual fuel oil output (bbls.)	June 19 4,379	3,872	4,263	4,833
Stocks at refineries, bulk terminals, in transit in pipe lines	June 19 213,098	215,958	223,066	199,190
Finished gasoline (bbls.)	June 19 22,772	22,419	21,693	18,990
Kerosene (bbls.)	June 19 127,311	122,694	109,100	123,730
Distillate fuel oil (bbls.)	June 19 46,313	47,491	45,559	63,367
Residual fuel oil (bbls.)	June 19 110,456	110,201	108,642	105,424
Unfinished oils (bbls.)				
<b>ASSOCIATION OF AMERICAN RAILROADS:</b>				
Revenue freight loaded (number of cars)	June 20 563,608	567,235	575,156	561,075
Revenue freight received from connections (no. of cars)	June 20 420,994	418,878	440,121	429,632
<b>COAL OUTPUT (U.S. BUREAU OF MINES):</b>				
Bituminous coal and lignite (thous. tons)	June 20 12,100,000	12,010,000	11,820,000	9,845,000
Pennsylvania anthracite (thous. tons)	June 20 220,000	193,000	217,000	201,000
<b>NEW CONSTRUCTION PLANNING (900's Omitted):</b>				
Total advance planning	June 25 \$1,376,000	\$1,075,900	\$1,524,800	\$969,900
Private	June 25 862,200	426,500	730,600	414,000
Public	June 25 513,800	649,400	794,200	555,900
State and Municipal	June 25 8,800	9,900	98,600	3,300
Federal				
<b>RETAIL STORES, DEPT. OF COMMERCE:</b>				
(Millions of dollars, unadjusted)	June 20 7,373	7,098	7,005	-6,884
<b>EDISON ELECTRIC INSTITUTE:</b>				
Electric output (inc. 600kwh.)	June 27 30,353,000	30,957,000	27,851,000	29,609,000
<b>FAILURES (Commercial and Industrial)</b>				
DUN & BRADSTREET, INC.	June 25 180	220	198	182
<b>IRON AGE COMPOSITE PRICES:</b>				
Finished steel (per lb.)	June 25 7.813c	7.813c	7.560c	7.042c
Pig iron (per gross ton)	June 25 \$68.10	\$68.10	\$68.10	\$63.15
Scrap steel (per gross ton)	June 25 \$43.17	\$43.50	\$43.50	\$29.17
<b>METAL PRICES ("METALS WEEK" Data):</b>				
**Electrolytic Copper:				
US Producer delivered	June 26 60.2c	60.2c	60.2c	N. A.
London Equiv. f.o.b.	June 26 65.253c	65.253c	68.119c	N. A.
Atlantic Seaboard	June 26 16.500c	16.500c	16.500c	15.000c
Lead (New York)	June 26 16.300c	16.300c	14.800c	14.800c
Lead (St. Louis)	June 26 16.000c	16.000c	16.000c	15.000c
Zinc (delivered)	June 26 15.500c	15.500c	15.500c	14.500c
Zinc (East St. Louis)	June 26 29.000c	29.000c	29.000c	27.000c
Aluminum (primary pig 99.5%)	June 26 168.500c	167.750c	175.000c	159.750c
Tin Straits (New York)				
<b>MOODY'S BOND PRICES (Daily Averages):</b>				
Average Corporate	June 30 48.58	48.81	50.48	59.24
Aaa	June 30 50.48	50.48	52.42	61.63
Aa	June 30 49.87	49.93	51.85	60.18
A	June 30 48.30	48.87	50.42	59.31
Baa	June 30 45.89	46.26	47.40	55.96
Railroad Group	June 30 48.35	48.99	50.24	58.31
Public Utilities Group	June 30 47.01	47.01	48.81	58.16
Industrial Group	June 30 49.93	50.24	51.85	60.42
<b>MOODY'S BOND YIELD (Daily Averages):</b>				
U. S. Government Short Term Bonds				
Average Corporate	June 30 N.A.	7.88	7.73	6.99
Aaa	June 30 8.92	8.88	8.60	7.33
Aa	June 30 8.60	8.60	8.29	7.03
A	June 30 8.70	8.69	8.38	7.21
Baa	June 30 8.97	8.87	8.61	7.77
Railroad Group	June 30 9.41	9.34	9.13	7.77
Public Utilities Group	June 30 8.96	8.85	8.64	7.45
Industrial Group	June 30 9.20	9.20	8.88	7.47
	June 30 8.69	8.64	8.38	7.18
<b>MOODY'S COMMODITY INDEX</b>				
NATIONAL PAPERBOARD ASSOCIATION:	June 30 411.7	411.4	411.3	395.3
Orders received (tons)	June 20 498,400	496,500	517,900	537,100
Production (tons)	June 20 500,600	517,500	507,600	526,900
Unfilled orders (tons) at end of period	June 20 704,800	718,300	748,100	1,040,500
<b>OIL PAINT AND DRUG PRICE INDEX</b>				
1959 AVERAGE equals 100	June 26 107.08	107.10	107.13	106.10
<b>ROUND-LOT TRANSACTIONS ON THE N.Y.S.E. FOR ACCOUNT OF MEMBERS, EXCEPT ODD-LOT DEALERS:</b>				
Transactions of specialists in stocks in which registered:				
Total purchases	June 5 11,345,850	12,541,470	8,319,970	8,968,300
Short sales	June 5 4,127,000	4,070,270	2,145,760	2,013,650
Other sales	June 5 7,538,240	10,349,550	6,790,060	6,706,600
Total sales	June 5 11,665,240	14,419,820	8,935,820	8,720,250
Transactions of Floor Traders:				
Total purchases	June 5 437,700	367,000	274,600	251,900
Short sales	June 5 220,000	200,000	76,700	50,500
Other sales	June 5 227,200	221,300	247,800	230,900
Total sales	June 5 447,800	421,300	324,500	281,400
Other transactions:				
Total purchases	June 5 5,989,798	4,667,135	4,257,515	4,047,821
Short sales	June 5 1,040,740	1,407,150	568,870	768,300
Other sales	June 5 3,772,078	3,654,029	3,144,382	4,074,800
Total sales	June 5 4,812,818	5,061,179	3,733,282	4,843,100
Total round-lot transactions for account of members:				
Total purchases	June 5 17,973,348	17,575,605	12,850,089	13,268,021
Short sales	June 5 5,387,740	5,677,420	2,791,330	2,832,450
Other sales	June 5 11,537,518	14,224,879	10,182,242	11,012,300
Total sales	June 5 16,925,258	19,902,299	12,973,572	13,844,750
<b>STOCK TRANSACTIONS FOR ODD LOT ACCOUNTS OF ODD LOT DEALERS ON THE N.Y.S.E.</b>				
Odd-lot sales by dealers (customers' shares):				
Number of shares	June 5 2,802,143	3,618,961	2,142,091	2,079,302
Dollar value	June 5 \$91,603,682	\$111,239,314	\$83,327,032	\$96,265,921
Odd-lot purchases by dealers (customers' shares):				
Number of orders (customers' total sales)	June 5 1,743,698	2,176,741	1,710,963	2,725,466
Customers' short sales	June 5 52,152	81,393	54,258	15,563
Customers' other sales	June 5 1,691,546	2,095,348	1,656,705	2,709,903
Dollar value	June 5 \$64,953,799	\$80,171,175	\$71,980,397	\$134,904,531
Round-lot sales by dealers:				
Total sales (shares)	June 5 452,560	593,660	525,370	1,256,090
Short sales	June 5			
Other sales	June 5 452,560	593,660	525,370	1,256,090
Total Round-lot purchases by dealers (shares)	June 5 1,477,780	2,029,030	949,400	561,820
<b>TOTAL REPORTED VOLUME OF ROUND LOT SALES ON THE N.Y.S.E. (SHARES):</b>				
Short sales	June 5 8,288,370	9,932,880	5,002,180	3,441,840
Other sales	June 5 63,672,620	70,748,090	47,822,490	52,666,690
Total sales	June 5 71,960,990	80,680,970	52,824,670	56,108,490

## Prospective Offerings

ATTENTION UNDERWRITERS!

Do you have an issue you're planning to register? Our Corporation News Department would like to know about it so that we can prepare an item similar to those you'll find hereunder. Would you telephone us at REctor 2-9570 or write us at 25 Park Place, New York, N.Y. 10007.

- \* American Telephone & Telegraph Co.**  
June 29, 1970 it was reported that this company plans to offer \$35,931,100 of 8 3/4 per cent debentures with five-yr. common purchase warrants. The securities represent the unsubscribed portion of a recent stockholder rights distribution. Underwriter — Morgan Stanley & Co., New York. Offering — Expected in early July.
- \* Appalachian Power Co. (10/20)**  
May 25, 1970 it was reported that in addition to a sale of bonds set for mid-June, this utility plans to sell \$70,000,000 of debt securities ednte October. Underwriters — Competitive bidding. Bids — Expected Oct. 20.
- \* Bell Telephone Co. of Pennsylvania (7/31)**  
March 9, 1970 it was reported that this subsidiary of AT&T plans to offer \$100,000,000 of 36-yr. debentures in late July. Proceeds — For debt repayment and construction. Underwriters — Competitive bidding. Bids — Expected July 31.
- \* Blackstone Valley Electric Co. (8/18)**  
June 22, 1970 it was reported that this utility plans to offer \$7,500,000 of first mortgage and coll. trust bonds due 1973, in mid-August. Underwriters — Competitive bidding. Bidding — Expected Aug. 18 (11 a.m. EDST).
- \* Burlington Northern**  
June 22, 1970 it was reported that this road plans an offering of up to \$20,000,000 of equip. trust certificates. Underwriter — Morgan Stanley & Co., New York, was to have handled a recently cancelled offering of bonds for the company.
- \* Central Illinois Light Co. (8/19)**  
June 22, 1970 it was reported that this utility plans to sell \$20-\$30,000,000 of first mortgage bonds in mid-August. Office — Liberty St., Peoria, Ill. Underwriters — Competitive bidding. Bids — Expected Aug. 19.

- \* First National Holding Corp.**  
On June 18, 1970 it was reported that this company plans an initial public offering of \$30-\$50,000,000 of securities in a new real estate investment trust. Underwriters — Not named.
- \* Georgia Power Co. (9/21)**  
June 22, 1970 it was reported that this utility plans to sell \$60,000,000 of first mortgage bonds due 2000, and \$15,000,000 of preferred stock in late September. Underwriters — Competitive bidding. Bids — Expected Sept. 21.
- \* Hawaiian Telephone Co. (8/27)**  
June 22 1970 it was reported that this utility plans to offer \$35,000,000 of first mortgage bonds due 2000, in late August. Underwriters — Paine, Webber, Jackson & Curtis; Stone & Webster Securities Corp.; and Kidder, Peabody & Co. Inc., New York.
- \* Illinois Bell Telephone Co.**  
June 29, 1970 it was reported that this subsidiary of AT&T plans a \$184,000,000 rights offering of common stock, on the basis of one new share for each seven held of record Aug. 28. Proceeds — For debt repayment. Underwriter — Not named.
- \* Indianapolis Power & Light Co. (9/29)**  
May 25, 1970 it was reported that this utility plans to sell \$30,000,000 of first mortgage bonds in late September. Underwriters — Competitive bidding. Bids — Expected Sept. 29 (11 a.m. EDST).
- \* Kansas Power & Light Co. (9/17)**  
June 22, 1970 it was reported that this utility plans to offer \$20,000,000 of first mortgage bonds due 2000, in mid-September. Underwriters — Competitive bidding. Bids — Expected Sept. 17.
- \* Libby, McNeill & Libby**  
June 29, 1970 it was reported that this company is planning a rights offering of common stock. Underwriter — None.
- \* Long Island Lighting Co. (9/9)**  
May 25, 1970 it was reported that in addition to a common stock rights offering set for June, this utility plans to sell \$40-\$50,000,000 of first mortgage bonds due 2000 in early September. Underwriters — Competitive bidding. Bids — Expected Sept. 9 (11 a.m. EDST).
- \* Massachusetts Electric Co. (10/16)**  
June 29, 1970 it was reported that this utility plans to offer \$15-\$20,000,000 of first mortgage bonds, and 100,000 shares

- of preferred stock in mid-October. Underwriters — Competitive bidding. Bids — Expected Oct. 16 (bonds, 12 noon EDST; preferred, 11 a.m. EDST).
- \* Mountain States Telephone & Telegraph Co. (10/27)**  
May 25, 1970, it was reported that this utility plans to sell \$125,000,000 of debentures in late October. Proceeds — For debt repayment. Underwriters — Competitive bidding. Bids — Expected Oct. 27.
- \* New York Telephone Co. (12/14)**  
April 3, 1970 it was reported that in addition to a sale of bonds set for May, this utility plans to offer \$170,000,000 of bonds in mid-December. Business — A subsidiary of AT&T. Underwriters — Competitive bidding. Bids — Expected Dec. 14.
- \* New England Telephone & Telegraph Co. (9/1)**  
March 19, 1970 it was reported that this subsidiary of AT&T plans to offer \$150,000,000 of debentures due 2009, in early September. Proceeds For debt repayment. Underwriters — Competitive bidding. Bids — Expected Sept. 1 (11 a.m. EDST).
- \* Niagara Mohawk Power Corp.**  
June 18, 1970 it was reported that this utility plans a 2,886,468-share rights offering of common stock, to be made on the basis of one new share for each ten held. Proceeds — For construction. Underwriters — Not named.
- \* Northern Natural Gas Co.**  
June 29, 1970 it was reported that this utility plans to sell \$40,000,000 of 20-yr. debentures with warrants to purchase 800,000 Mobil Oil Corp. common shares. The offering will be made in units of \$1,000 of debentures and warrants to purchase 20 Mobil shares, sometime in late July. Proceeds — For expansion. Underwriter — Blyth & Co., Inc., New York.
- \* Northern Illinois Gas Co. (8/11)**  
June 22, 1970 it was reported that this utility plans to offer \$35,000,000 of first mortgage bonds due 1995, in mid-August. Underwriters — Competitive bidding. Bids — Expected Aug. 11.
- \* Ohio Edison Co. (9/15)**  
June 22, 1970 it was reported that this utility plans to offer \$45,000,000 of first mortgage bonds due 1995, in mid-September. Underwriters — Competitive bidding. Bids — Expected Sept. 15 (11 a.m. EDST).

Continued on Page 23

**NEW ISSUE PRICES**

THE CHRONICLE has computed the following list of most companies, excluding "Reg. A" underwriting, that have gone public since January 1, 1970. Data includes original offering price and July 1, 1970 opening price.

EDITOR'S NOTE — We list at the beginning those issues not previously shown in the tabulation.

	Offering Dated	Offering Price	July 1 Bid Price
Kenton Corp.	June 25	11	
A.G. Becker & Co. Inc., 175,550 shs.			
Leham (T.H.) & Co., Inc. (units)	June 24	3	
Globus, Inc., 100,000 units			
Neuro-Psychiatric Health Services, Inc.	June 17	7	
B.J. Lerner & Co., Inc., 215,000 shs.			
Syncom, Inc.	June 30	5	
Northeast Investors Planning Corp., 100,000 shs.			
Turbodyne Corp.	July 1	18	
Dillon, Read & Co. Inc., 600,000 shs.			

	Offering Dated	Offering Price	July 1 Bid Price
ABTO, Inc.	Jan 30	12½	4¼
ANW, Inc.	Jan 29	3	1¾
Ajay Enterprises	Jan 27	10	8¾
Algorex Data Corp	Apr 16	6	6¼
Allied Genl Inc	Feb 26	2½	2½
Allied Security Inc	Apr 14	5¼	3¼
Alloy Metal Products, Inc.	Mar 31	8¼	4¼
American Nat'l Enterprises, Inc.	Jan 22	14¼	4½
American Regitel	Feb 10	10	5½
Arlen Shopping Centers, Inc.	Feb 26	12½	7¼
Associated Computer Services Inc	Apr 1	4	3¾
Automated Environmental Systems	Apr 2	15	2¼
Automatic Switch Co	Apr 28	25	25½
Autotrol Corp (units)	Jun 18	8	9½
Babcock Industries	Feb 10	13	7
Bagprint Ltd	Jan 30	4	2
Baird-Case Funeral Homes, Inc.	Jun 11	6	6¼
Barstan Electronics Corp.	May 4	5	4
Behring Corp.	Feb 26	16½	9¾
Berg Enterprises	Mar 19	9	4
Best Products Co.	Mar 4	10	6
Booz, Allen & Hamilton, Inc.	Jan 13	24	14¼
Braewood Development Corp.	Feb 3	8	2½
Brenner Industries	Feb 20	12	9¾
Brian-Lloyd Co.	Feb 24	6	3
Brink's Inc.	Feb 20	30	26¼
Brookline Instrument Co., Inc.	Feb 17	7	4¼
Brothers Two Intl. Building & Land Technology Corp	Apr 17	6½	7½
Burke Security, Inc.	Jan 6	8	6½
C.H.B. Foods Inc.	Feb 11	7½	3¼
Capital Equip. Leasing (units)	Apr 5	5	3¼
Cayman Corp. (units)	Apr 30	14½	6

**\* Pacific Far East Line, Inc.**

June 30, 1970 it was reported that this company plans to offer \$51,000,000 of U.S. Government Insured Merchant Marine Bonds in six series (\$8,500,000 each). Three series will mature Nov., 1996, and three on Feb. 1, 1997. **Business** — Operation of a major shipping service in the Pacific trade. **Proceeds** — For equipment. **Office** — San Francisco. **Underwriter** — First Boston Corp., New York.

**o Pacific Telephone & Telegraph Co. (10/14)**

June 29, 1970 it was reported that this utility plans to sell \$175,000,000 of debentures in mid-October. **Business** — A subsidiary of AT & T. **Proceeds** — For repayment and expansion. **Underwriters** — Competitive bidding. **Bids** — Expected Oct. 14.

**\* Philadelphia Electric Co.**

June 29, 1970 it was reported that in addition to a sale of preferred set for late July, this utility plans to offer approx. \$80,000,000 of bonds and common stock sometime in the latter part of 1970. **Underwriters** — Offering may be competitive or negotiated.

**o Philadelphia Electric Co. (7/22)**

June 29, 1970 it was reported that this utility plans to offer \$40-\$50,000,000 of preferred stock in late July. **Underwriter** — Drexel Harriman Ripley, Inc., New York has handled a previous sale of preferred for the company.

**o Potomac Electric Power Co. (8/18)**

June 22, 1970 it was reported that this utility plans to offer \$60,000,000 of first mortgage bonds in mid-August. **Underwriters** — Dillon, Read & Co., Inc., New York, and

	Offering Dated	Offering Price	July 1 Bid Price
Granning & Treece Financial Corp	Feb 5	5	2½
Guardsmark Inc	Jan 8	8	12
Herzing Institutes	Jan 26	10¼	8½
Hoffman Rosner	Apr 9	11	5¼
House of Ronnie	Mar 30	7½	6¼
Hytel Int'l Corp.	Apr 29	7	5¼
Immuno-Science	Mar 17	7¼	5½
Intermedia Systems Corp	Jan 21	6	1¼
Int'l Foodservice Systems Inc.	Feb 11	14	8
Jaco Electronics	Mar 17	7½	2½
Kapok Tree Inns	Jun 18	7	6¾
Kettell (John D)	Mar 13	6	¾
Key Learning Systems, Inc.	Apr 9	7½	3
Keydata Corp	Apr 7	11	7½
Kiddie Care Corp	Apr 1	7	1½
Kiddie Products	Jan 14	10	6½
Killearn Properties, Inc.	Mar 20	8	4¾
Kirshner Entertainment Corp	Mar 12	10	6½
Lamp Fashion Inc	Jan 5	4	2¼
Lawnlite Co.	Mar 25	8¼	2¾
Lawson Products, Learning Aids Group, Inc.	Apr 2	5	1¼
Lee-Jeffreys Inc	Mar 25	5	2
Loctite Corp	Feb 25	26	19¼
Lumac Leasing Inc	Jun 18	3.30	a....
Magnum Communications Corp.	Feb 25	3	3¼
Marketing Resources & Applications	Jan 22	7	1½
Metalcrafters Specialties Inc	Apr 15	6	2½
Metropolitan Pathology Lab	Mar 4	6	5½
Microfilm Systems	Apr 28	3¼	3¾
Monfort of Colorado, Inc.	Jan 22	16	7½
Napco Graphic Arts, Inc.	Mar 19	7	3¼
Nat'l Compactor & Technology Systems, Inc.	May 7	5	2¼
Nayadic Sciences	Jan 15	7½	3
Nelson Resources	Jan 27	6	2¾
Nova Industries Inc	Feb 5	2½	1½
Nucleonic Products	Apr 6	5	2½
Octagon Industries	Jan 27	8	2
Offshore Logistics	Feb 4	13½	9
Ohio Sealy Mattress Mfg. Co	Feb 25	8¾	5¼
Omni-Research Inc	Jun 18	4	a....
On-Site Energy Systems Corp	Mar 2	10	6
Opticomp Data Management Corp	Apr 13	5	¾
Orion Research Inc	Jan 20	8¼	1¼
Oshman's Sporting Goods, Inc.	Apr 2	10	5
Oxford Pendaflex	Feb 10	13	9¼
Pacific Eng. & Production Co. of Nevada	Feb 5	2¼	3¼
Pacific Leisure Enterprises Inc	Jan 16	9	2¾
Pavco Amer. Corp	Feb 20	8	N14½
Peerless Mfg Co	Feb 26	11½	11
Penn Metal Fabricators, Inc.	Feb 5	1.15	2¾
Pharmacare, Inc.	Jun 5	5	5¼
Phil & Puff Inc	Mar 9	7½	6
Plasmine Corp	Jan 22	5	4
Poly Con Corp	Jan 27	4	4¼
Rahal Communications Corp	Jan 21	12¼	6¾
Raycomm Indus.	May 15	5	5
Raypak Inc	Mar 4	9	3

	Offering Dated	Offering Price	July 1 Bid Price
Recreation Leisure Land Corp	Jan 29	11¼	3½
Regency for Men	Mar 13	4	3¾
Resdel Engineering Corp.	Mar 31	13¾	3¾
R&R Associates,	May 11	5	8
Ring Around Products, Inc	Apr 28	3½	3¼
Rolamite Inc	Feb 11	10	4
Ross Aviation Inc	Mar 4	3¼	1¾
Royal Coach, Inc	Feb 11	10	4½
Royalpar Industries, Inc	Jan 14	5	5¼
Rupp Industries Inc	Apr 1	15	8¾
San Bar Electronics Corp	Mar 5	6	5
Scientific Software	Jan 28	12	4¾
Scrubaire Inc.	Jan 26	2.50	2¾
Seaco Computer-Display Inc	Mar 10	10	8¼
Sentinel Leasing Inc	Apr 10	5	1¾
Shenandoah Oil	Jan 13	16¾	10¾
Shoe World Inc	Feb 26	4	1¾
Shur-Gro Indust.	Apr 8	3¾	1¾
Sim-Kar Lighting Fixture Co Inc	Jan 27	8	4½
Sovereign American Arts Corp	Jan 16	6	4¼
Spectran Inc	Jun 12	4½	3¾
Spring Valley Foods, Inc.	Feb 5	14	4½
Stirling Homex Corp	Feb 19	16½	12¾
Stuart McGuire Co.	Apr 9	12½	7
Sunmade Electric	Mar 3	9½	4½
Sweater Bee By Banff, Ltd.	Jan 30	6¼	2¾
Sysco Corp	Mar 3	17½	12
Systematics Genl Corp	Apr 10	6	¾
Technical Communications Corp	Mar 19	5	3½
Teddy's The House of Sea Food, Inc.	Feb 3	10	2¾
Tele-Communications, Inc	Feb 5	16	10½
Telemed Corp	Jun 24	6	a....
TeleVision Communications Corp	Jan 15	17	6¼
Teradyne Inc	Apr 3	25	17¾
Tilco, Inc.	June 9	8	7¼
Time Industries	Feb 3	8½	5
Topper Corp	June 3	5	4½
Town & Country Reproductions Inc	Mar 11	4	2
Transcommunications Corp	Jan 15	8	1½
Unagusta Mfg Corp	Jan 22	10½	1¾
United Companies Life Ins. Co.	Jan 27	19	17¼
United Technology Labs., Inc	Jan 15	12½	5¾
Universal Tax Systems, Inc	Feb 27	3	1¼
Wachovia Realty Investments	Feb 3	20	18½
Wagner Mining Equipment Inc	Apr 2	13	14¾
Waxie Maxie Quality Music Co.	May 1	3	2¾
Western Union Comptr Utilites	Mar 17	12	4
Windy's National Franchise System	Jan 23	2½	¾
World Computer	Feb 19	5½	3

\* Now listed NYSE  
+ Now listed ASE  
a - Issue still in syndicate  
n - Nominal quotation  
x - sold ex-dividend

Johnston, Lemon & Co., Washington, D.C., handled a recent offering of bonds for the company.

**\* Public Service Co. of Colorado (8/26)**

June 22, 1970 it was reported that this utility plans to sell \$35-\$50,000,000 of first mortgage bonds due 2000, in late August. **Underwriters** — Competitive bidding. **Bids** — Expected Aug. 26 (12 noon EDT).

**Western Electric Co. (9/29)**

June 4, 1970 it was reported that this subsidiary of AT&T plans to sell \$150,000,000 of sr. debentures in late September. **Business** — Manufacture of communications equipment and other supplies for the Bell System. **Office** — New York. **Underwriters** — It has not yet been decided whether the offering will be competitive or negotiated. Morgan Stanley & Co., New York, acted as broker-dealer in a recent rights offering by the parent.



## WASHINGTON AND YOU

BEHIND-THE-SCENES INTERPRETATIONS  
FROM THE NATION'S CAPITAL

WASHINGTON, D.C. — Congressional sessions have been getting longer in recent years. This does not mean that Congress is working any harder. It may be working less efficiently.

There is an old cliché in politics that nothing sounds as good to a politician as his own voice. It is apparent that many of our distinguished members of Congress love to hear themselves talk.

It is no secret among some members of Congress that they would prefer that Congress remain in session, rather than adjourn which would take them back to their respective states where they are deluged with constituents who desire various things. Travel is more expensive these days, and constituents are less likely to strike out for Washington than they are to the home state city where the Senator or Congressman maintains offices.

Senate Majority Leader Mike Mansfield of Montana disclosed recently that the Senate would take no summer vacation this year, but only a two-week break for the November election. This sounds like a real emergency exists and Congress needs to be on hand ready to handle any major problem that might arise.

### Unofficial Vacations

Perhaps it is a bit shop worn to say there is a trick in every trade. Members of Congress have their own. The facts are most members of Congress have had more days of "vacation" or at least they have been absent from their Washington offices more often than the average man who has five or six weeks vacation a year.

Technically, the Senate and House may remain in session, but there is a gentleman's agreement there will be no record vote. Thus, it is not unusual for a member of Congress to be away from his office two or three weeks without being missed very much, if at all.

The last time that the Senate met after a Congressional election was in 1954. Returning to Washington from a recess on November 8, 1954, it adjourned December 2, 1954, after censuring the late Senator Joseph R. McCarthy (R-Wis.)

The "Congressional Quarterly," said research showed that since the 20th Amendment to the Constitution was ratified in 1933, setting the annual convening date for Congress as the third day of January, there have been only four lame-duck meetings of Congress in election years. Two of those sessions occurred in 1942 and 1944 during World War II. The others were in 1950 and 1954.

### Truman's Winning Strategy

The Republican-controlled 80th Congress adjourned June 19, 1948, subject to the call of the Republican leaders. However, President Truman, in a highly strategic political move, called the law-makers into

extraordinary session after the 1948 presidential nominating convention. President Truman made great political hay by describing the Republican controlled Congress as a "do nothing Congress."

Mr. Truman went on to score a political upset by defeating Republican Thomas E. Dewey of New York for the presidency of the United States.

Traditionally each spring, Congress adjourns for the traditional Lincoln Day addresses, and subsequently for the Jefferson-Jackson Day addresses. Technically, they may be absent for only three or four days, but with no recorded votes scheduled a member of Congress can remain out of Washington for longer than a week without being an absentee as far as his voting record is concerned.

There are also periods of "vacation" during the Easter holidays, and the July Fourth holidays.

### Too Much Traveling

If Congress really settled down and did not travel so much — much of it at taxpayers' expense — the law-makers could do their job in about half the time, instead of spreading it out over nearly the whole year.

Back in the days before air conditioning, and the airplane, Congress usually concluded its sessions before the middle of summer.

Historically, sessions have varied in length from a few weeks to a full year, with election year terms the shortest, according to the Congressional Quarterly. In the first decade of the 20th century, sessions averaged 132 days, less than half of the average of the 1960's.

While Congressional recesses for short periods have been more frequent in the last 10 years than ever before, final adjournment in the 1960s occurred, on the average, a month and a half later than in the 1950s.

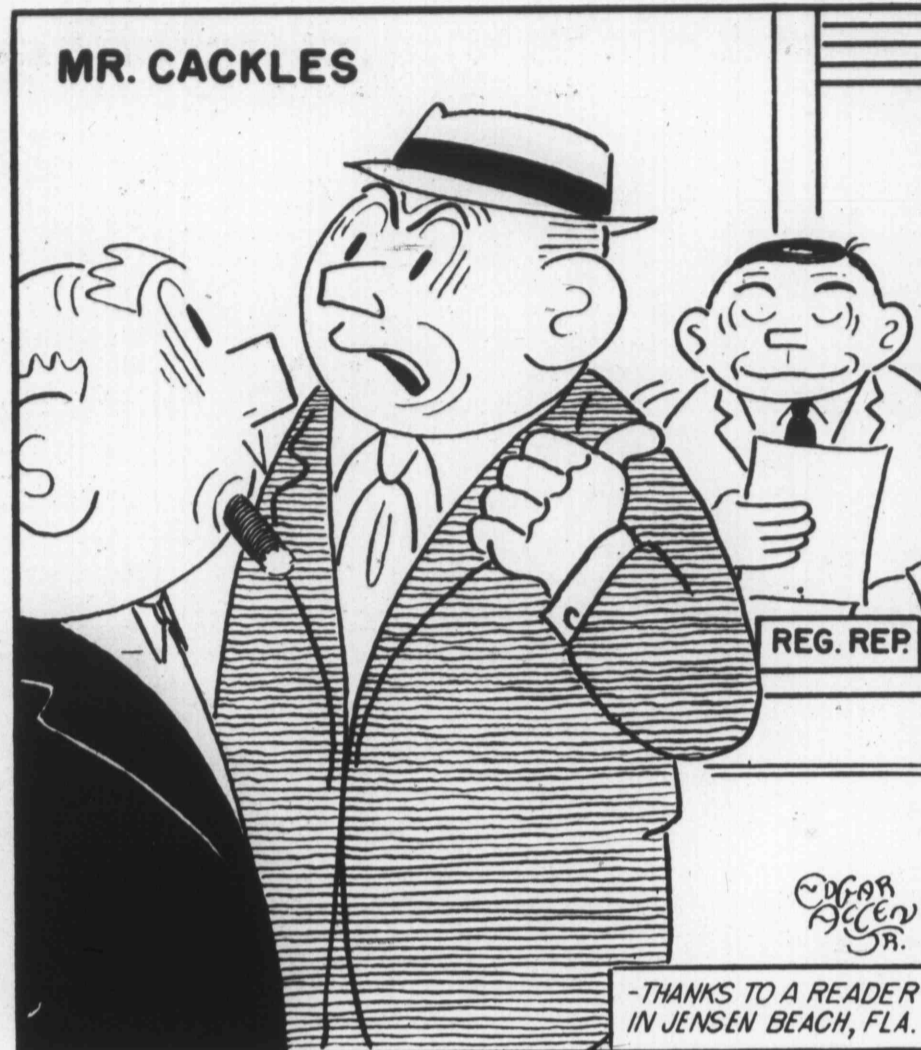
### Sine Die Adjournment

The Legislative Reorganization Act of 1946 provides that "except in time of war or during a national emergency proclaimed by the President, the two Houses shall adjourn sine die not later than the last day (Sunday excepted) in the month of July in each year unless otherwise provided by the Congress."

It is explained that sine die adjournment is adjournment without definitely fixing a day for reconvening; literally adjournment without a date. Thus, a session could continue until January 3 of the following year, when a new session usually begins.

Congress has met this "target date" for final adjournment only twice (1952 and 1956) in the 24 years since passage of the Legislative Reorganization Act.

Speakers of the House of Representatives have ruled in recent years that President Truman's December 16, 1950 proclamation of a State of



"He doesn't know his AS from his ARMCO!"

## Puerto Rico Development Admin. Names Pendleton

Puerto Rico's economic development administrator, Dr. Juan Rodriguez De Jesus, has announced the appointment of Brent Pendleton as executive director of the agency's operations in the United States. The appointment takes effect immediately.

Speaking at a staff conference attended by Governor Luis A. Ferre, Dr. Rodriguez said — "Mr. Pendleton's appointment signals the beginning of a new era in the promotional efforts of the Economic Development Administration. We shall continue to attract those industries that have made our modern development possible, but we are also going after a wide range of capital intensive, basic

National Emergency in connection with the Korean War is still technically in effect and overrides the July 31st adjournment deadline.

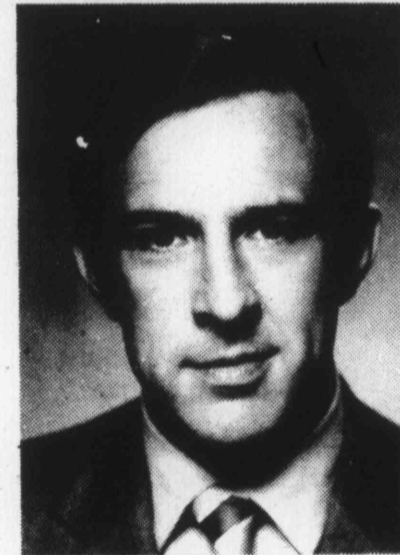
Under the Constitution, the President of the United States has had the authority to call one or both houses of Congress back into special session after they have adjourned.

### Wishful Thinking

Senator Mansfield said earlier in the year he hoped the Senate would adjourn Labor Day. However, the long-winded Senate sessions growing out of United States military operations in Cambodia caused the Senate to get far behind with its customary appropriation bills.

Members of families of Congressional members now more or less take for granted that the sessions of Congress will last throughout the year. Therefore, they are gauging their summer vacation schedules to a continuous session of Congress.

(This column is intended to reflect the 'behind-the-scenes' interpretation from the nation's Capital and may or may not coincide with The Chronicle's own views).



Brent Pendleton

industries that have only recently become feasible for Puerto Rico.

"This broad new effort will be spearheaded by Brent Pendleton, here in the States and anywhere else we have to go to assure our position as the fastest growing industrial community in the world."

The Economic Development Administration is responsible for the attraction of industry and for the sales promotion of the island's rums on the Mainland. Its headquarters office is in New York City and there are regional offices in Chicago and Los Angeles.

Mr. Pendleton, a native of Philadelphia and a resident of Puerto Rico since 1962, started his business career with General Electric, where he became a district sales manager. In Puerto Rico he worked as a management consultant and co-founded a plastics manufacturing company.

He has served as a director of the Puerto Rico Manufacturers Association and the Insurance Companies of America and has been an active member of Governor Ferre's Advisory Committee on Industry. He is a graduate of Lehigh University in 1959.

## COMING EVENTS IN THE INVESTMENT FIELD

July 17, 1970 (Cleveland, Ohio) Cleveland Security Traders Association annual outing at the Acacia Country Club.

Sept. 10-11, 1970 (Atlanta, Ga.) Georgia Security Dealers Association annual fall party — dinner Sept. 10 at Marriott Motor Hotel; outing Sept. 11 at the Standard Club.

Oct. 1-2, 1970 (Birmingham, Ala.)

Alabama Security Dealers Association annual fall party.

Oct. 11-14, 1970 (Miami Beach, Fla.)

American Bankers Association 96th Annual Convention.

Oct. 14-16, 1970 (San Antonio, Tex.)

Investment Bankers Association Sixth Municipal Conference at the Hilton Palacio del Rio Hotel.

Oct. 17-23, 1970 (Honolulu, Hawaii)

National Security Traders Association 37th annual Convention at the Rainbow Towers, Hawaiian Village.

Dec. 1-4, 1970 (Boca Raton, Fla.)

Investment Bankers Association of America 59th Annual Convention.

Dec. 7-8, 1970 (New York City)

National Association of Mutual Savings Banks 24th annual midyear meeting at the Waldorf Astoria.

### Brearley Opens

SOMERVILLE, N.J. — Brearley & Co., Inc. has opened offices at 18 Maple Street to engage in a securities business. Officers are Gary R. Brearley, president and treasurer; Joseph J. Kopf, vice president and secretary; and Frank A. Stabile, Jr., vice president. All were formerly with Bardsley Investment Service.

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