

The COMMERCIAL and FINANCIAL CHRONICLE

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Vol. 212 Number 7016

New York, N. Y. 10007 Thursday, July 30, 1970 In Three Sections-Section One Price 75 Cents a Copy

Stock Price Outlook During Coming Decade

By CHARLES G. CALLARD
Chicago, Illinois

The May 20-26 selloff marked an intermediate term trough that could signal the end of a major bear market. Since the 1969-70 bear market trough is below the 1966 trough, portfolio managers are asking whether a 1971-72 bull market will exceed the 1968 peak. What is the outlook for stock prices over the longer term?

This article examines interrelationships between growth, inflation, earnings, interest rates and price/earnings multiples and provides clues on the net effect these factors are likely to have on stock prices during the 1970's. The outlook for stock price averages is not encouraging, yet examination suggests some alternative strategies for managers of longer term but aggressive portfolios.

The analysis draws upon trend data that extends back to the Civil War. The 98-year period from 1871 through 1969 is divided into ten homogeneous eras during which trends in monetary conditions, inflation, real growth and interest rates interacted to affect the stock prices in special ways. Each of the ten phases in economic history has its own distinguishing characteristics.

The eleventh period, the 1970's, is likely to have its special characteristics. Earnings could increase substantially during the next few years, possibly by 25 per cent over 1969, but



C.G. Callard

Private consultant to various investment institutions examines basic factors shaping the oncoming stock price trend. For the near term, he foresees a substantial earnings increase not matched by a responding P/E rise which would leave the ratio less than the 16-to-18 level of the 1960's. This juxtaposition of lower P/E ratios and higher earnings is expected to push stock prices above their current levels in the next bull market. Mr. Callard envisions, for example, an EPS of \$7.20 in 1972 and a 13 times multiplier bringing about a potential \$94 for the S&P 500 — about 20 per cent above the current level. The next bull market is put above 1965's and below 1968's. This less exciting range than the 1960's is seen encouraging a return to investment fundamentals wherein can be found numerous innovative investment strategies. Mr. Callard offers a six-fold checklist of new approaches to investment decisions for a decade believed to hold a promising opportunity.

price earnings multiples are likely to decline, possibly to the 12 to 14 times earnings range. The next bull market peak should exceed the peak of 1965 but could fall short of 1968. For the decade, the outlook for stock prices, based on normal relationships between inflation, earnings, interest rates and price multiples, is more like the flat period of 1902-1922 or possibly 1881-1895 than the rapid rises of 1895-1902, 1922-1929 or 1948-1959.

The Ten Periods

Each period begins and ends with a bull market peak that is associated with a reference cycle expansion period as defined by the National Bureau of Economic Research (NBER). The dividing lines between the ten surprisingly homogeneous time periods are, however, based primarily on changes in monetary conditions(1). The ten periods are identified and the charted data summarized as follows:

(1) 1872-1881: Deflation associated with extraordinary gains in real output, increasing bond prices and increasing price/earnings multiples on stocks.

(2) 1881-1895: Deflation associated with major

increases in cash balances held by private business and individuals, increasing bond prices, and increasing price multiples on stocks.

(3) 1895-1902: Inflation caused by the gold boom. Price multiples on stocks dropped sharply to partially offset even sharper gains in earnings. Bond prices increased irrespective of inflation.

(4) 1902-1912: Continued inflation due to gold, bond prices decreased at about the same relative rate as inflation, stock price multiples remained flat.

(5) 1912-1922: Bank credit inflation traced to the establishment of the Federal Reserve System (FRS) and World War I, declining bond prices and decreasing stock price multiples.

(6) 1922-1929: Horizontal prices of goods and services, increasing bond prices with price multiples increasing from an abnormally low level.

(7) 1929-1937: Depression, increasing bond prices traced to purchases of governments by the FRS and the flight of foreign capital to this country during 1933-1936, and decreasing price multiples due to fear and uncertainty about the value of stocks.

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COMING EVENTS IN THE INVESTMENT FIELD

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.

Sept. 11-12, 1970 (Coeur d'Alene, Idaho)

Pacific Northwest Group of Investment Bankers Association meeting.

Sept. 21-25, 1970 (Copenhagen, Denmark)

International Bank for Reconstruction & Development annual meeting.

Sept. 27-29, 1970 (Pebble Beach, Calif.)

Investment Bankers Association Board of Governors meeting.

Sept. 30, 1970 (Denver, Colo.)

Rocky Mountain Group Investment Bankers Association meeting.

Oct. 1-2, 1970

(Birmingham, Ala.)
Alabama Security Dealers Association annual fall party.

Oct. 7-9, 1970 (New Orleans, La.)

Tulane Tax Institute at the University Center.

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. 14-16, 1970 (Southern Pines, N.C.)

Securities Dealers of the Carolinas annual meeting at the Mid Pines Club.

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

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

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Firestone Tire & Rubber Co.

Firestone Tire could exhibit an earnings recovery in the second half of fiscal 1970, and could achieve record earnings in fiscal 1971. Depressed profits from domestic tire operations adversely affected fiscal 1969 and first half of 1970 earnings. Production costs on bias belted tires are beginning to decline. The cost of carrying inventories in anticipation of a strike are diminishing. Second half results should also benefit from the July 1 price increase of 5 per cent on passenger tires, and of 6 per cent on most other tire types. This price increase more than offset the increased labor costs stemming from the recent settlement with the United Rubber Workers. Share earnings for the six months ended April 30 declined 10 per cent to \$1.55. This profit deterioration has been halted. Third and fourth quarter earnings should show favorable comparisons. Fiscal 1970 earnings are estimated at \$4.00 to \$4.10 a share. Earnings could advance 10 per cent in fiscal 1971 to the \$4.40 to \$4.50 a share level.

Firestone (38 $\frac{3}{4}$) trades at 9.7 times estimated fiscal 1970 earnings of \$4.10 a share, and 8.8 times projected fiscal 1971 earnings of \$4.40 a share. These multiples are at the low end of its 1960 to 1969 price/earnings range of 10 to 23 times, and sharply below its five year average multiple of 14.0 times. The shares, at this writing, trade at a scant 5.6 per cent premium over its book value of \$36.71 a share. These multiples do not discount Firestone's favorable prospects over the next several years.

In fiscal 1969, approximately 80 per cent of sales and 75 per cent of income before taxes was derived from tires and related products; these figures include tubes, tread rubber, retreaded tires, materials used in the production of tires, and auto service. Foreign subsidiaries accounted for 28 per cent of sales and 31 per cent of net income in fiscal 1969.

Domestic tire profits were adversely affected in fiscal 1969 by production problems on the new bias belted tires. The changeover to bias belted production involved extensive retraining of personnel in the building of a new tire type. Firestone's cost of goods sold increased from 67.02 per cent of sales in fiscal 1968 to 68.52 per cent of sales in fiscal 1969; this increase mainly resulted from the high cost of engineering, designing, testing and manufacturing bias belted tires. Upwards of 60 per cent of Firestone's domestic tire capacity has been converted to production of the bias-belted tire.

Profit margins on bias belted tires could exceed those obtained on conventional tires. These tires sell at a price premium of 20 to 25 per cent above conventional tires. Once the production problems are alleviated, bias

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belted tires could cost only 15 per cent more to produce than conventional tires. Production costs on the new tires are starting to fall. As these start-up costs decrease, the theoretically higher profit margins on the bias belted tires should be realized.

The use of softer rubber compounds (for greater traction on wet surfaces) to comply with the safety standards of the National Highway Safety Bureau will reduce the life of the tire. Several factors auger well for tire manufacturers: (1) the increased concern about tire safety may result in national safety legislation on tread depth, and (2) the increasing amount of wear on tires from higher speeds and power brakes.

Firestone's LXX tire, which combines the radial and wide oval concept, requires a special wheel assembly. Until Detroit provides this wheel assembly as part of the original equipment on an auto, the LXX tire will not be a factor in the replacement market. Different equipment is required to manufacture radial tires. At the present time, it does not appear that the industry wants to or can afford to incur the expense of converting its domestic capacity to radial production. In Europe, Firestone's capacity if 100 per cent radial. The radial tire is believed to provide better gas mileage, and steering capability. It also gives a harder ride at low speeds. The suspension system on automobiles might have to be adjusted to accommodate radials. The radial tire will not be a major factor, if at all, for several years.

The recent settlement with the United Rubber Workers resulted in an 8 per cent average annual increase in wages over the next three years; the settlement provides for a 12 per cent wage increase in the first year of the contract. Effective July 1st Firestone increased the price of passenger tires by 5 per cent and most other tire types by 6 per cent. This price increase more than offset the increased labor costs and should enable Firestone to improve its profit margins. Firestone built up huge inventories in the event of a strike. The cost of carrying these inventories was one of the factors that caused the decrease in earnings for the first six months of fiscal 1970.

International Operations are continuing to move ahead. Automobile production outside the U.S. and Canada is increasing at an average rate of 12 per cent per year; this is triple the rate of growth in the U.S. Unit tire production of this division has doubled within the past 5 years.

On October 31, 1969 current assets of \$1,141,186,258 compared with current liabilities of \$472,872,652, a current ratio of 2.4 to 1. Long-term debt as a percentage of total capitalization is 27 per cent. Firestone's balance sheet is the strongest in the tire and rubber industry. Capital expenditures in fiscal

This Week's Forum Participants

Firestone Tire & Rubber Co.; Stanley Lanzet, Research Dept., Edwards & Hanly, New York City
Bunker-Ramo Corp., John Alexander, Jr., Research Department, Howe, Barnes & Johnson, Inc., Chicago, Illinois

1970 should be in the \$160 to \$185 million region, vs. \$165.9 million in fiscal 1969 and \$199.0 million in fiscal 1968. Over the next three years, capital expenditures could be at the \$170 to \$200 million per year level. Approximately one-third of these expenditures will be invested in International operations. With a total cash inflow from operations of \$205.0 million in fiscal 1969 (net income of \$116.6 million, depreciation of \$80.5 million and deferred income tax of \$7.8 million) it appears that these capital expenditures can be financed internally.

The \$1.60 dividend affords a yield of 4.1 per cent on the basis of a share price of about 39. The stock is recommended for accounts seeking intermediate to long-term capital appreciation.

John Alexander, Jr.
Research Department
Howe, Barnes & Johnson, Inc.
Chicago, Illinois

Bunker-Ramo Corp.

For a stock to fall into the "I LIKE BEST" category, the company must meet certain basic and fundamental criteria Paramount among these are excellent management, ample financing from both external and internal sources, a saleable and high profit margin product or service, and a marketing system capable of capitalizing on and increasing product demand. The Bunker-Ramo Corporation meets these criteria and, in addition, offers a history of increasing profits, excellent year ahead sales and earnings prospects and, at the present price of \$6 $\frac{1}{2}$ per share, a most reasonable 12x price/earnings ratio.

Let us study Bunker-Ramo as it relates to the criteria set forth above. The present corporation was formed through the June 1968 merger of the Amphenol Corporation and the former Bunker-Ramo, and much of today's top management is a product of this consolidation. Unlike many mergers, however, the creation of Bunker-Ramo did not produce extensive management level duplication since Amphenol's people were largely manufacturing and sales oriented while the old Bunker-Ramo personnel were of the technical "think tank" type. Bunker-Ramo is led by its capable and aggressive president, George Trimble, who was formerly associated with the National Aeronautics and Space Administration and with Martin Marietta Corporation. The Martin Marietta Corporation owns roughly 25 per cent of Bunker-Ramo's common stock, assuming conversion of preferred stock and the exercise of outstanding warrants. The experience and ability of George Trimble and Malcolm MacIntyre, Chairman of the Board, as well as the dedication and expertise which are found at all levels of Bunker-Ramo's management, are definite pluses for the company's future.

Despite the tight money
Continued on Page 13

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A POINT OF VIEW

By MELCHIOR PALYI

Remedies Worse Than the Ailment

Dr. Palyi calls attention to the remedies which have managed our economy into the worse of both worlds—inflation and unemployment. He warns we are headed for inflation with strangulation unless we are willing to tolerate temporary deflation. After tolerating inflation and ruinous fiscal and monetary tinkering these many years, this is the one and viable way, Dr. Palyi concludes, of restoring normalcy and stability.

Unless the ceaseless money-pumping into the economy is terminated, it will inevitably lead to the replacement of the rational price-making process and the rule of Supply and Demand by authoritarian fiat.

That is where we are heading, inexorably. We seem to have reached the point of no return. The reason is that we can neither live with the vicious cost-price spiral, nor accept slowing down the growth of the economy. Both alternatives are political taboos.

Stopping the progress of inflation necessitates a policy of truly severe restraints. The Federal budget would have to be balanced, preferably over-balanced; the Federal Reserve System would have to cease pouring out credit; preferably, its outstanding credit volume would have to be reduced.

In 1969, the Nixon administration did make honest attempts in both directions. But it found that its fiscal and monetary restraints did not succeed in forcing labor to forego everrising pay claims. On the other hand, a sufficiently large volume of unemployment had been generated to induce retreat into inflationary habits on both the fiscal and the monetary front. The Administration acknowledged a large budget deficit and the Federal Reserve proceeded to relax its credit restraints.

Worst of Both Worlds

In other words, as a nation we have "managed" ourselves into a condition that has been called the worst of both worlds: Inflation is rampant; simultaneously, deflation raises its ugly head. Sufficient stimulus is being maintained to keep the flames of inflation burning, but not enough to maintain the momentum of full employment (meaning less than 5 per cent unemployment). We must have high interest rates in order to discourage over-expansion and to cool the inflationary expectations; but high interest rates do not restrain the wage demands, nor their acceptance by business. The recent case of a 40 per cent boost, over a 3 year period, of typesetters' wages in New York — to a weekly \$285, not counting fringe benefits — shows the direction and the amplitude of the trend.

The symptoms of an impending critical turn are unmistakable. The continued rise of labor costs is no longer offset by improved labor productivity per man-hour, notwithstanding a huge volume of business investment in plant and equipment. Further expansion of such investment is hampered by rising labor costs, high interest charges, increasing tax burdens, and the generally low level of corporate liquidity. Evidently, we are heading for "inflation with strangulation." Is there a remedy for this ailment?

Proposed Remedies

Politicians and allied bureaucrats do have a remedy —

one that might be worse than the ailment. The euphemistic name of the remedy is "income policy," which implies voluntary restraint of the economic partners, labor and business. But of course, no one in his right senses expects that anything short of enforced "physical" controls will do; or that such controls would be anything less than general and could be dispensed with in short drift. To be effective, the control of prices and wages must be all embracing.

In any case, "income policy," ultimately meaning "physical" controls, has been recommended by the Chairmen of ultimately the Federal Reserve Board and of the President's Council of Economic Advisors, by the President of the New York Federal Reserve Bank, and by the managing director of the International Monetary Fund. Mr. Romney, the Secretary for Housing and Urban Development, joined the chorus by extending the idea to the control of home construction.

The idea is that controls, effectively enforced, would solve the double problem: prices and wages would be "stabilized" by being fixed; yet, unemployment would be kept within "acceptable" bounds. However, to make the enforcement effective, the mere freezing of wage rates and prices would not do. Scarce resources have to be allocated in the order of their "importance," which would be determined by arbitrary political pull. Credit rationing (allocation) is an obvious necessity to make the system of fixed prices work. Foreign trade as well as international capital movements (and probably tourist traffic, too) would have to be strictly scrutinized and regimented.

The crucial question is: will labor consent to such regimentation? Can it be forced to comply?

First Victim

Surely, corporate profits would be the first victims of strict controls; they are the ones most easily enforced, next to rent control. Given the illiquid condition of many corporations — frequently over-indebted and with insufficient liquid reserves to face debt maturities — they will have to rely on the flow of external funds, issuing shares or bonds. Since the stock market is not likely to relish the regimentation of the economy, the main burden will be thrown on the bond market, overburdened as it is likely to be by the claims of national and local authorities. It is a reasonable expectation, therefore, that interest rates will stay high; the more so, since the near-desperate state of our balance of payments makes it mandatory to keep domestic interest rates above the level abroad. But the over-all "freezing" of the economy may be accompanied by a forced

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THE COMMERCIAL and FINANCIAL CHRONICLE

Published Twice Weekly Reg. U.S. Patent Office
WILLIAM B. DANA COMPANY, PUBLISHER
25 Park Place, New York, N.Y. 10007 REctor 2-9570 to 9576

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Thursday, July 30, 1970

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U.S. Fidelity & Guaranty

By IRA U. COBLEIGH, Economist

Reciting some of the merits of a leading ex-OTC company recently admitted to the NYSE. This blue chip with over a billion dollars in assets is devoted to the business of property insurance — still going strong after seventy-four years.

In times of liquidity crisis and money scarcity, it's nice to look at a major financial institution, loaded with money, sophisticated, and successful in the deployment and investment thereof; that has paid continuous dividends for 31 years and increased its cash dividends in each of the past 12 years. The company is United States Fidelity & Guaranty Company (U.S.F.&G.). Now is a good time to write about this company because, although its common stock has traded continuously on the OTC market for decades, it was listed on the NYSE this past Monday, July 27. Even though, in many instances, sound stocks acquired in a period just prior to exchange listing have performed well for their owners, investment consideration should not be guided by this factor alone.

Property Insurance

U.S.F.&G. writes a wide variety of fidelity and surety bonds, burglary insurances, fire and casualty insurance; and since 1960, life insurance, through a subsidiary, Fidelity and Casualty Life. Its policies and services are marketed throughout the United States and Canada, and in many foreign countries through some 7000 independent agents; a claim staff of about 1600; and approximately 60 branch offices. Each branch office supplies, for agents and clients, the equivalence of a complete home office facility. The company is renowned for prompt and fair claim settlement.

Uniquely Profitable For A Casualty Company

In contrast with many casualty companies, U.S.F.&G. has been

a consistently profitable underwriter. It has earned an adjusted underwriting profit in 8 out of the past 10 years, and has recorded underwriting losses only four times in the past 35 years.

The big thing, however, in insurance companies today is the investment portfolio. U.S.F.&G. has a splendid one. Not including its subsidiaries, the company reported invested assets of \$991 million at Dec. 31, 1969; 49.4 per cent invested in common stocks and 42.9 per cent in tax-exempt bonds with the balance in government (U.S. and Canada) and corporate convertible bonds. These investments generated, in 1969, \$2.17 per share in net investment income for the common stock. Annual premium income is about \$675 million and investable funds are increasing at an encouraging annual rate.

The very high yields prevailing in the bond market, and the relatively low prices for common stocks provide excellent current opportunities to the company to invest new funds, and the "roll over" of the present portfolio.

In an inflationary economy, the needs for constantly higher property and life insurance are obvious. Annual sales, premium and investment income are expected to continue their steady historic rise.

Capitalization

U.S.F.&G. has no senior securities outstanding. The equity valued on the books at \$425 million at March 31, 1970 is represented by 16,287,184 common shares. Earnings per share on insurance stocks are confusing to investors, and almost every company in the

past years has had its own way of expressing adjusted earnings (which take into account underwriting profits or losses, unearned premiums, and the value of new insurance placed on the books). Investment income is a fairly accurate company guide. For U.S.F.&G., showed investment income per share and adjusted earnings per share in its annual reports are as follows:

Net Invested Income Per Share	Adjusted (as reported) Earnings Per Share
1969 - \$2.17	\$3.29
1968 - 1.99	2.90
1967 - 1.79	2.44
1966 - 1.57	2.48
1965 - 1.45	1.18

Our estimates for 1970 would be \$2.65 per share in investment income and possibly \$4.25 in reported income; (accounting procedures will probably be varied somewhat in conjunction with the NYSE listing).

U.S.F.&G. common traded actively in the OTC market. The bid-ask on its last day was \$34½-\$35. At this quotation the \$2.20 dividend provides a 6.3 per cent yield. The stock has ranged this year between 27 and 35. Currently (July 29) its NYSE high-low range was about \$33¼-\$32¼ which should tip our projected yield a bit higher.

The positive factors favoring this equity are (1) able management, (2) sound underwriting capability, (3) a magnificent investment portfolio generating a rising rate of return, (4) inflationary need for more insurance coverage, (5) the attractive dividend yield, (6) opportunity for appreciation in stock holdings over time, (7) life insurance gains.

On the negative side are the claims from arson and property violations, particularly in ghetto areas, and the lag in securing higher premium rates to offset adverse underwriting experience in certain categories.

It is, of course impossible to compress the operations and potentials of so great a company as U.S.F.&G. into so short an article. We have, however, endeavored to highlight the quality and merits of this equity and to salute the company as having been one of the elite investments in the OTC sector which augurs well for its debut into the ranks of the "listed."

Laird Securities In New York

Laird Securities Incorporated, members of the New York Stock Exchange, will be formed with offices at 140 Broadway, New York City, effective August 3rd.

Officers will be Martin Fenton (Wilmington, Del.), chairman; Anson McC. Beard, Jr., president; Robert M. Dewey, Jr., and Arthur I. Rauch, senior vice president; and Thomas C. Kels, John H. Remer (Wilmington), Edward J. Burgie and Chester T. Smith, Jr., vice presidents.

New Witter Branch

MT. PLEASANT, MICH. — Dean Witter & Co., Incorporated, has opened a branch office at 1521 South Mission Street under the management of James Lockwood. Mr. Lockwood was formerly vice president in charge of the Mt. Pleasant office of Dempsey-Tegeler & Co., Inc.

Equity Funding — A Unique Total Estate Plan

By GEORGE KOMARNICKI*
Regional Vice President
Equity Funding Corporation
New York City

Equity Funding executive explains his financial services company's estate program registered as a security with the SEC. It provides both insurance and mutual funds with all the dollars paid going, however, into growth, instead of into fixed interest rate, investments. The formal name is "Program for the Acquisition of Mutual Funds and Life Insurance" and the generic name is Equity Funding. Premiums on the insurance portion are paid by the company and are repaid out of the expected growth of the program so that payments conveniently obtain both a living and a death estate for the same dollars. To Mr. Komarnicki, "It is like killing two birds with one stone."

Stripped of all of its sophistication, a brief definition of a new concept in estate planning might be stated thusly: "Equity" — ownership (of American Industry) — defined as capitalism. "Funding" — implies leverage (the use of someone else's money). This results in increased ownership through intelligent risk taking. To paraphrase an investment philosophy that I live by, "The man who takes no risk — takes the greatest risk."

The philosophy behind equity funding is the recognition of the basic need for two estates; total utilization of investment and insurance dollars to enhance the possibility of turning a net cost into a net profit.

The death estate is to buy time. The insured is betting premature death; the insurer is betting that he will live. Thus the living estate is even more essential because the odds of reaching retirement are weighted in the client's favor. In this program, both estates can be accomplished with the same dollar outlay.

The equity funding approach entails future benefits. The family death benefit is guaranteed. The retirement benefit is not guaranteed but neither is social security or fixed pensions. A man must realize that he has a financial life, as well as a natural life; and a healthy financial life should not end the day he retires.

The equity funding concept is aimed primarily at the thrift market; this includes banks, savings and loans, government bonds, and endowment policies. However, the clients in the investment market: common stocks or mutual funds, real estate, and commodities such as art, coins, and antiques, comprise the bulk of this phase of financial planning.

No Growth In Fixed Returns

All savers and investors would like to think that the action they get for their dollars is safety, liquidity, return, and growth; but it is a financial fact of life that growth is absent in a fixed rate of return position.

To illustrate how Americans are planning their future, consider the following. It is overwhelmingly weighted in favor of guarantees.

Year End 1968	
No. of Participants	Vehicle
10,000	Funds
26,000,000	Common Stocks
76,000,000	Savings
135,000,000	Life insurance policyholders

The risk-reward ratio of a "Program for the Acquisition of Mutual Funds and Life Insurance" puts the client first,



George Komarnicki

and provides diversification, professional management, flexibility, liquidity (literally a guaranteed buyer for the mutual fund shares), collateral value, and withdrawal plan (for retirement, college, mortgage, etc.).

The equity funding concept also recognizes that at the foundation of every successful business is a product which thoroughly satisfies a real need on the part of the buyer, and from which he profits and knows that he profits.

This concept has gone through the stages of ridicule and skepticism, and will within the decade be accepted as a self-evident must in financial estate planning. Intelligent research has been published in the following financial publications and client research reports:

- Maxwell-Ohlman and Co. (News and Views)
- Barrons (1967 and 1970)
- Adams and Peck (1967)
- Donaldson Lufkin; Lehman Brothers; Philips, Apple, Walden; Bear Stearns and Co.; and numerous others.

After a personal interview with a prospect, the dually licensed representative will complete a confidential financial planning survey which upon computer analysis will establish a need and suitability based on the information provided by the client.

All the services necessary to establish and maintain the dual estate can be accomplished with one check drawn automatically from the client's personal checking account.

Typical Programs

A typical split-dollar program would provide for \$1.00 of insurance for each \$1.50 of investment. The funding concept would provide \$2.50 in investments, \$1.00 of which would be borrowed at an interest rate of 6 to 8.5 per cent. The initial and maintenance

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investments would be as follows:

(a) An initial investment of 2.5 times the insurance premium requires 2.5 times the premium in dollar-cost averaging. (The investment may decline to 1.5 before margin call, and 1.35 before liquidation.)

(b) An initial investment of 7.5 times the insurance premium requires 1 (one) times the premium in dollar-cost averaging.

(c) An initial investment of 12 times the insurance premium requires no dollar-cost averaging.

Note: The premium and interest would be automatically deducted from the mutual fund assets at the end of each ten-year period. The only recourse the funding company has in recovering the premium loans is in the mutual fund shares held as collateral.

Conservative Basis

The philosophy behind the above investment ratio is based on a conservative estimate of the performance of mutual funds through all types of markets: bull, bear, and stagnant. Illustrations:

(a) Using Keystone S-4 as the investment vehicle (Keystone Funds are involved in the most programs at present.)

(b) Assuming a program had been initiated in any year since 1935, and loans repaid from assets at the end of each 10-year period.

(c) An appreciable capital gain and insurance cash value would have resulted over and above acquisition and loan costs.

These facts can be established by referring to appropriate prospectuses and brochures of the funds involved in the programs.

Programs sold (registered in 38 states at present) by the major financial services company in this field are as follows:

Prior to:	
1963	5,370
1964	682
1965	1,525
1966	2,763
1967	3,912
1968	5,783
1969	9,354
1970*	5,000

In first 4 1/2 months.

Note: Only 12 forced liquidations through 1969.

Obstacles To Overcome

I believe the major barriers to this type of sale are as follows:

- a. Communication
 - 1. Management to regulatory bodies
 - 2. Management to representatives
 - 3. Representative to client
- b. Functional illiteracy

A recent study, reported in the *New York Times* by a famous behavioral scientist, indicated that over 50 per cent of the American population is functionally illiterate, meaning that they are incapable of adequately responding to material that is above the normal tenth grade level. It is therefore essential that all of us in the estate planning field do all within our power to create simplified procedures in order to benefit our future clients and favorably compete with social security and savings institutions for the thrift dollar. I believe the equity funding concept can lead that breakthrough.

*Based on an address by Mr. Komarnicki before the 1970 Mutual Fund Estate Planning and Profit Sharing Conference sponsored by the COMMERCIAL AND FINANCIAL CHRONICLE.

Floating Exchange Advocates Are Divorced From Reality

By PAUL EINZIG

Floating, or flexible, exchange rate advocates are challenged by Dr. Einzig to defend their central thesis. He says they claim to be fully aware of the numerous forces besides trade affecting exchange rates but, unfortunately, promptly proceed to ignore what they profess in maintaining that exchange rates automatically adapt themselves to a level at which imports and exports balance. According to Dr. Einzig, equilibrium exchange rates for trade are never identical with their exchange ratios for capital movements, speculation, or arbitrage. Left to their own devices, he warns, they could not level off around their trade equilibrium levels.

LONDON, ENG. — Foreign exchange theory, like monetary theory and economic theory in general, is becoming increasingly divorced from practical realities. All good theories in the economic sphere should aim at deducting from practical experience the rules which establish the relationship between cause and effect. The task of economists should be to discover the principles which express the characteristics that are common in the wide variety of practical experience. This was the task that was sought to be performed by the economists whose names are household words not only among our generation of economists but also among educated businessmen and cultured people in general.

Divorced from Reality
During the last decade or two, however, the fashion in economic thinking has changed completely. Economists have become increasingly divorced from reality. They no longer aim at adapting their principles to practical life. They elaborate those principles in the abstract and conceive "models" with the aid of mathematical and geometrical formulae. They convince themselves and seek to convince others that their models represent economic realities.

Of course economic life is far too complicated to be expressed in any conceivable comprehensive model. What theoretical economists do is to try to isolate one particular aspect of an economic phenomenon from its other aspects and elaborate their models on the assumption that the aspect they had chosen exists in isolation from the other aspects.

The trouble is that, having elaborated a theory on the basis of such an artificial assumption, they are apt to forget that their conclusion is only valid in a non-existent unreal imaginary situation. They claim it to be the answer to the entire complex problem, not only to one of its aspects viewed in isolation from the rest.

To make the above argument clearer, let me illustrate it by a concrete instance. The foreign exchange market is a very complex institution. Streams of supply and demand converge into it from several directions, and the exchange rates are determined by the relationship between the grand total of supply and the grand total of demand, regardless of the origin of supply and of demand. Yet all economists who argue in favor of the adoption of floating exchange rates on the ground that, if left to their own devices, exchange rates would adapt themselves to a level at which imports and exports automatically balance base their theory on the

artificial assumption that all transactions in the foreign exchange market originate from imports and exports.

First Year Students

Of course every first-year student is aware that foreign exchange transactions also originate from international capital movements of various kinds, from speculative operations, and from various kinds of arbitrage. Yet when I tried to remind economists of this elementary fact in my book **The Case against Floating Exchanges** I was taken severely to task by one of my reviewers for suggesting that economists are not fully aware of these sources of foreign exchange operations. They are, of course, aware, but choose to ignore it for the sake of argument. My critic argued that they had to isolate the foreign trade aspect of the market from its other aspects, as a stepping stone towards the solution of the whole complex problem.

This method would be acceptable if, having reached their conclusion on the basis of the assumption that all foreign exchange transactions originate through trade, the economists concerned proceeded further by building a model based on the role of exchanges in capital movements, another model based on their role in speculation, and yet another model based on their role in

arbitrage. Having done so, their next step should have been to reconcile these models as far as possible and to try to construct a model that combines all of them.

Instead, having reached conclusions which might be correct if the foreign exchange market consisted exclusively of transactions arising from trade - even from that limited point of view their conclusions would be subject to important reservations - they simply assume that those conclusions are valid for the foreign exchange market as a whole. They ignore the fact that the equilibrium level of exchange rates for trade is never identical with their equilibrium level for capital movements, or with their equilibrium level for speculation, or with their equilibrium level for arbitrage. The fact that there are several different equilibrium levels completely invalidates the entire theoretical foundations of the policy proposal that exchange rates should be allowed to fluctuate freely so as to enable them to settle around a level at which import surpluses or export surpluses would automatically disappear.

Left to Their Own Devices

The truth is that exchange rates, if left to their own devices, could not possibly settle around their trade equilibrium levels. They would be diverted from that level by foreign exchange operations originating from capital movements or speculation or arbitrage.

It would be an insult to the intelligence of any economist to suppose for a moment that he is not aware that foreign exchange transactions do originate from non-commercial sources. But they choose to ignore those transactions deliberately because such transactions could not be fitted in with their models which could only be made to sound convincing in over simplified unrealistic conditions. It is more important to them to produce an elegant model than to express real life in terms of broad principles.

Obvious as the fallacious character of this method is, it is gaining ground all the time. The overwhelming majority of articles appearing in learned journals is completely divorced from reality. Their authors are at their best engaged in playing intellectual parlor games. At their worst they are guilty of pseudo-intellectual snobbery. They write more and more for the exclusive benefit of a mutual admiration society.

Philadelphia Electric Co. Preferred Sold

Drexel Harriman Ripley, Inc., and First Boston Corp., New York, announce the public offering of 650,000 shares of Philadelphia Electric Co. 8.75 per cent cumulative preferred stock, at \$100 per share plus accrued dividends.

Net proceeds from the sale of the new preferred stock will be used to provide part of the permanent financing of construction and expansion program, including partial repayment of short-term debt incurred for interim financing of that program.

No shares of the new preferred stock may be redeemed prior to Aug. 1, 1980 with funds borrowed at an effective interest cost to the company of less than the annual dividend rate of the new preferred stock. Otherwise the stock is redeemable at any time at prices ranging from \$110 per share through July 31, 1980, to \$101 a share after July 31, 1986, plus accrued dividends in each case.

The company and its subsidiaries serve electricity, gas and steam in southeastern Pennsylvania and northern Maryland. Electricity is supplied to a 2,255 square mile area having a population of about 3,850,000 including 2-million in Philadelphia. Natural gas service is supplied to a population of 1,750,000 in a 1,458 square mile area of southeastern Pennsylvania adjacent to Philadelphia. Steam heating service is supplied principally in the central Philadelphia area.

We are pleased to announce the following elections and appointments

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TAX-EXEMPT BOND MARKET

By WILLIAM J. RILEY

It was hardly a surprise that the market turned easier this week. In the week before Tax-Exempts had soared in price, fallen in yield, farther and faster than in any previous weekly period. It was the culmination of five weeks of almost continuous advance.

The entire bond market showed some cooling this week. Wednesday found the market obviously awaiting the Treasury's announcement of its plans for the August refunding.

Tax-Exempts faced a big week in new financing, totalling \$397.7 million, according to the **Daily Bond Buyer**, well above the weekly average so far this year of \$289 million.

The last big offering of the week before, two issues of State of Ohio, indirect Commission bonds, sold last Thursday, July 23, had fallen short of expectations. It was time now for the market to pause and recalculate.

New York Pays for Its Graciousness

Largest single item of the week was New York City, \$170,180,000 bonds, postponed from July 15. On that date the Chase Manhattan Bank group made the high bid at a net interest of 6.7694 per cent, but a technical error was made in filling out the bid form. The City fathers rejected both bids, that of the Chase and the First National City Bank group's bid of 6.8945 per cent, and re-advertised the bonds for sale again for July 28th. This time the bidding was reversed with the **First National City Bank** group high bidder at a net interest cost of 6.7759 per cent, over the Chase Manhattan account's bid of 6.81 per cent.

The new bid of July 28 was calculated to cost New York City \$65,200 more in interest charges over the life of the loan than the aborted bid of July 15. This was contrary to the expectation, in the market background a week ago, that the City would gain from the postponement, but market action is never a simple affair and the very magnitude of New York City itself and its borrowing make the marketing of its securities a far from routine affair.

The winning bid named a 6.60 per cent coupon rate for \$80,100,000 bonds due January 1, 1972-1975, a 6.70 per cent coupon rate for \$45,360,000 bonds due 1972-1981, and a 6.90 per cent coupon rate for \$44,720,000 bonds due 1972-2001. Reoffering scale ranged from 5.25 per cent for the 1972 maturity to 7.00 per cent for the bonds due 1990-2001. The first

four maturities, 1972-1975 totalling \$107,540,000 bonds were taken out of syndicate by a smaller group within the account. About \$37 million of these were reported sold at last report, to leave a balance of about \$70 million. The unsold balance in the syndicate itself late yesterday was \$33 million. Other leading members of the winning First National City Bank group on the New York City bonds included: Morgan Guaranty Trust Co. and Bankers Trust Co., joint managers, also, the **First Boston Corporation, Halsey, Stuart & Co., Inc., Mellon National Bank and Trust Company, Merrill Lynch, Pierce, Fenner & Smith, Salomon Brothers, Kidder, Peabody & Co., Inc., duPont Glove Forgan Municipals, Inc., Stone & Webster Securities Corporation, United California Bank, First National Bank in Dallas, White, Weld & Co., John Nuveen & Co., Inc., L.F. Rothschild & Co., etc.**

Pennsylvania Sale

Leading item in the high grade sector of the Tax-Exempt Bond Market was the issue Tuesday of \$75 million Commonwealth of Pennsylvania, general obligation highway bonds, rated double-A by both services. A syndicate headed by the **First National City Bank** made the better two bids at a net interest cost of 6.02 per cent. The full list of joint managers is as follows: First National City Bank; Bankers Trust Company; The Chase Manhattan Bank, N.A.; Halsey Stuart & Co. Inc. as managers of one group, in association with a group headed by Drexel Harriman Ripley, Inc.; and First National Bank of Chicago in association with a group headed by First Boston Corporation; Mellon National Bank & Trust Co.; and Bank of America, N.T. & S.A.

The runner-up bid for the Pennsylvanias was made by a group headed by The Morgan Guaranty Trust Co., New York, Salomon Brothers, Continental Illinois National Bank & Trust Co., Chicago, Lehman Brothers, Merrill Lynch, Pierce, Fenner & Smith Inc., Pittsburgh National Bank, John Nuveen & Co., Inc., Bear, Stearns & Co., and United California Bank, Los Angeles, in association with a group headed by The Fidelity Bank, Philadelphia and Philadelphia National Bank.

Reoffering of the Pennsylvanias was made from 4.60 per cent for the March 1, 1973 maturity to 6.40 per cent for 6.40 per cent bonds due 1997-1999. The coupon rate named on the final maturity, 2000, was 1/20th of 1

per cent. This maturity was sold presale. The balance late yesterday was \$52 million.

Another important sale on Tuesday, July 28th was an issue of \$28 million Port of Seattle, Washington, Revenue Bonds, taken by a **Salomon Brothers and Eastman, Dillon Union Secs. & Co.**, syndicate at a net interest cost of 7.0414 per cent. Reoffering scale ranged from 5.10 per cent for the 1973 maturity to 7.20 per cent for bonds due 1997-1999. The final maturity 6s of 2000 was reoffered at 7.10 per cent. The syndicate balance late yesterday was about \$18 million.

Yesterday's Key Issues

The key issue yesterday in the high grade sector was \$20 million Commonwealth of Kentucky, g.o. highway bonds that went to a small group headed jointly by **Salomon Brothers, W.H. Morton and Merrill Lynch, Pierce, Fenner & Smith, Inc.** at a net interest cost of 6.06 per cent. The offering ranged from 4.25 per cent in 1971 to 6.35 per cent in 1994-1995. The managers reported good early demand from institutional accounts.

The \$30 million Long Beach Cal., Harbor Revenue Loan won yesterday by the **Blyth-Merrill Lynch** group was reported in broad demand especially for the 7 per cent term bonds offered at par.

Why Yield Indexes Diverge

At mid-week the Tax-Exempt Bond Market is difficult to appraise. The action of prices has been far from uniform. Sales results, so far, do not give a clear picture. The Pennsylvania prices were probably as much as 20 basis points in some maturities cheaper, that is more yield, than they might have been a week earlier. Direct comparisons, even of similarly rated names, can be misleading because the market makes many other distinctions such as volume, frequency of borrowing, local tax advantages, weight of maturities, etc. In the case of long term revenue issues there is even a greater variation among similarly rated securities.

Something else deserving of comment is the inherent limitation of market indexes and averages. Averages are, of course, always made up of individual names that may be moving more or less differently than any composite. This has been especially noticeable in the recent market.

Our own **Chronicle** average, based largely in distributed issues, tends to lag behind new issue pricing. Our composite this week shows only a five basis point upward change on the week to 6.74 per cent from last week's 6.69 per cent. (Price and yield move inversely.)

The small scope of this change results partly from the fact that the average a week ago had not fully reflected, even at a 15 basis points strengthening, the extent to which new issue pricing had been pushed. (The **Daily Bond Buyer** 20-Bond Index, most venerable of the various Municipal Averages, showed a gain that week of 32 basis points — the steepest weekly gain in its long history.)

Market Outlook

To summarize the action of the Tax-Exempt Bond Market in the current calendar week, of which

Continued on Page 8

LARGER ISSUES SCHEDULED FOR SALE

July 30 (Thursday)			
Calvert County, Md.	1,000,000	1971-1985	11:00 a.m.
Norwich, Conn.	2,200,000	1971-1990	11:30 a.m.
St. Bernard City School Dist., Ohio	1,100,000	1971-1991	Noon
Vestal Central School Dist. No. 1, N.Y.	2,100,000	1971-1996	2:00 p.m.
August 3 (Monday)			
East Point, Ga.	1,250,000	1972-1985	-----
Pemerton Township School Dist., N.J.	2,510,000	1972-1988	-----
Bedford County, Va.	2,000,000	1971-1985	11:00 a.m.
August 4 (Tuesday)			
Brownsville Consolidated Independent School Dist., Tex.	1,000,000	1971-1998	7:30 p.m.
Golden Valley Independent School Dist. No. 275, Minn.	2,215,000	1973-1989	Noon
Kentucky Turnpike Authority	60,000,000	197-2010	-----
Toll road revenue bonds with syndicate managed by Dillon, Read & Co., Inc., Blyth & Co., Inc., Lehman Brothers, Merrill Lynch, Pierce, Fenner & Smith Inc., and J.J.B. Hilliard, W. D. Lyons & Co.			
Mecklenburg County, N.C.	16,925,000	1972-1994	-----994
Merrimack, N.H.	5,000,000	1971-1990	11:30 a.m.
Palm Beach County, Fla.	6,000,000	1971-1999	11:30 a.m.
Smithtown, N.Y.	1,214,880	1971-1992	11:00 a.m.
Spring Independent School Dist., Tex.	2,600,000	-----	8:00 p.m.
Springfield, Ill.	1,220,000	1972-1999	10:00 a.m.
Taylor School Dist., Mich.	12,150,000	1971-1998	8:00 p.m.
Vancouver, Wash.	1,500,000	1971-1990	1:00 p.m.
Virginia Public School Authority	25,000,000	1972-1986	Noon
August 5 (Wednesday)			
Atlanta, Ga.	15,000,000	1971-1995	Noon
Delafield, Dousman, Etc. Joint School Dist. No. 12, Wis.	1,200,000	1972-1986	1:00 p.m.
Gooding Joint School District No. 231, Idaho	1,110,000	1971-1990	2:00 p.m.
Holland, Mich.	1,230,000	1970-1989	7:30 p.m.
Houston, Tex.	2,500,000	1971-1990	10:00 a.m.
Lancaster County, Pa.	2,500,000	1972-1976	-----
Las Vegas, Nev.	8,000,000	1971-1982	10:30 a.m.
Salina and Clay Central School Dist. No. 1, N.Y.	4,260,000	1970-1997	1:00 p.m.
San Francisco Bay Area Rapid Transit Dist., Cal.	50,000,000	1972-1980	10:00 a.m.
Taylor, Mich.	1,160,000	1972-1985	7:00 p.m.
Terrebonne Parish Waterworks Dist. No. 1, La.	3,500,000	1971-1995	6:30 p.m.
Washington Suburban Sanitary District, Md.	17,000,000	1971-2000	11:00 a.m.
August 6 (Thursday)			
Natchitoches, La.	2,550,000	1970-1994	-----
Newark, N.Y.	1,625,000	1971-1985	2:00 p.m.
Rensselaer County, N.Y.	2,712,000	1971-1996	-----
Wayne County, Mich.	7,950,000	1971-2006	11:00 a.m.
Puerto Rico Aqueduct and Sewer Authority	20,000,000	1972-2003	-----
Revenue bonds with underwriting syndicate led by First Boston Corp.			
August 10 (Monday)			
Carlisle Local School Dist., Ohio	1,950,000	1971-1993	Noon
Cherry Hill Township, N.J.	2,115,000	1971-1988	8:00 p.m.
Scapoose School Dist. No. 1J, Ore.	2,125,000	1972-1991	-----
Tuscaloosa, Ala.	1,200,000	1973-1985	11:00 a.m.
Florida State Board of Education	20,000,000	1971-2000	11:00 a.m.
August 11 (Tuesday)			
Alabama Highway Authority	35,000,000	1971-1989	10:00 a.m.
California (State of)	100,000,000	1971-1990	10:00 a.m.
Charles County, Md.	4,000,000	1973-1990	11:00 a.m.
Charles County Sanitary District, Md.	1,500,000	1973-2000	11:00 a.m.
Clinton Community Unit School Dist. No. 15, Ill.	1,290,000	1972-1989	7:30 p.m.
Harris County Water Control and Improvement Dist., No. 123, Tex.	1,250,000	1976-1999	-----
Jackson County, Mo.	6,000,000	1978-1989	11:00 a.m.
Nekoosa, Wis.	1,240,000	1971-1985	1:00 p.m.
Roanoke County, Va.	7,900,000	1971-1985	11:00 a.m.
Saginaw School Dist., Mich.	1,500,000	1970-1978	8:00 p.m.
August 12 (Wednesday)			
Bettendorf Community School Dist., Iowa	2,520,000	1977-1989	1:00 p.m.
Cheatham County, Tenn.	1,250,000	1972-1994	-----
Grafton County, N.H.	1,800,000	1971-1988	11:00 a.m.
Harford County, Md.	11,500,000	1971-1995	11:00 a.m.
Hobbs Municipal School Dist. No. 16, N. Mex.	2,000,000	1971-1975	11:00 a.m.
St. Louis Park, Minn.	3,500,000	1971-1985	2:00 p.m.
August 13 (Thursday)			
Babylon, N.Y.	6,512,000	1971-1999	-----
Central Bucks School District, Pa.	2,200,000	1972-1991	7:30 p.m.
Cuyahoga County, Ohio	4,975,000	1985-1993	11:00 a.m.

STATE AND MUNICIPAL BONDS (Approximate)

	%	1988	Yield % (Asked)
Baltimore	6 1/2	1988	6.60
California	4.60	1988	7.20
Connecticut	6.10	1987	6.10
Detroit, Michigan	5.80	1989	7.40
Los Angeles, California			
Dept. of Water and Power	6.90	1989	6.50
Massachusetts	5 1/2	1988	6.70
New York State	6.70	1986	6.10
New York City	6.00	1988	7.20
Public Housing Authority	6.00	1989	6.10
Philadelphia	7.70	1988	7.50

Average: July 22 - 6.96%; July 29 - 6.74%.

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

PUBLIC UTILITY SECURITIES

By John D. O'Keefe

FPC Action On Natural Gas Rates

Two weeks ago, this column discussed some of the problems of the natural gas industry. Specifically, it dealt with the imbalance in the supply-demand equation, and how adverse price regulation has discouraged the development of new gas sources. The suggested solution centered on industry and regulatory policy changes.

New, Faster Pricing Policy

Last week, the Federal Power Commission announced a new tariff process which would mean faster action on setting producer rates and higher sale prices for the producers. This change incorporates an investigation, on a nation-wide basis, of Federal pricing policy, with the intent to set the new rates sometime this fall. In the past, however, the FPC has never been able to move as rapidly as it now plans.

The unique feature of the new procedure allows natural gas producers to apply immediately for higher charges, and these rates will not be subject to refund. The current practice forces gas companies to refund all or a portion of higher rates granted, should the subsequent FPC review conclude that the prices be lowered. The Commission has stipulated that the new prices apply to gas derived from gas only wells, and not from combination wells also producing oil. In addition, the FPC is limiting the increase to new gas on contracts signed after June 17 of this year. Current prices on the old gas contracts will remain unchanged.

Area Pricing Gives Ground

About ten years ago, the Commission established a rate policy which stressed the costs of producing gas between different areas of the country. The objective of area pricing was to clear up the number of cases before the FPC; however, the policy is not considered successful. The results were continued regulatory lag, consuming the time of both utilities and the Commission, and gas prices too low to spur development of new sources for transmission to other states. Some area-rate proceedings have drawn out for years.

The new Commission proposal will alleviate a substantial portion of the waiting period during hearings. Prices will be set on a nationwide basis according to a rule-making procedure. This entails study by the Commission of the evidence in a rate case, followed by a proposed rule with much more information than was previously submitted. The FPC will examine factors such as market conditions and the supply and demand situation, not just production costs as was the former procedure with the area-rate cases. Once the rule and prices have been released, the companies involved will be given the opportunity to comment on the proposal. The Commission will then issue a final rule that sets the prices.

The FPC hopes that the new proceedings and the interim effect of higher rates will increase the amount of gas in the interstate market, especially to forestall possible gas shortages

this winter in certain sections of the North. Should this new pricing method prove successful, it could replace the area-rate system. Meanwhile, the older system will be continued until the rule-making method is tested. The FPC has provided the incentive that has been expected for sometime, and a large amount of company applications can be expected.

Timed None Too Soon

From a gas distributor's viewpoint, the supply problem is

becoming quite serious and the FPC's action has come none too soon. A recent request by Consumers Power Company to the Michigan Public Service Commission is a good example. The company is seeking authority to limit the amount of new business it can accept from large commercial and industrial users of natural gas. Although the company is not anticipating difficulty in continuing to meet the present requirements of all customers on its system, it is confronted with a serious supply problem in the future, stemming from the nationwide shortage of incremental gas. Additional supplies are not forthcoming from the interstate pipelines. Consumers Power believes that even with modified Federal

pricing policy, it could be several years before the situation eases. The responsibility of preventing a supply crisis has been recognized by the Commission, and its new action should spur higher returns for producers. More reasonable returns in the industry will discourage gas companies from investing capital elsewhere.

Mr. O'Keefe is associated with Pershing & Co., New York City.

Diversified Equities

VILLANOVA, PA. — Diversified Equities, Inc. has opened offices at 6 Aldwyn Center to conduct a securities business. Officers are Gerald D. Strid, president, and James C. O'Neill, secretary-treasurer.

Medical Testing Systems, Inc. Offers Common

The public offering of 75,000 shares of Medical Testing Systems, Inc. common stock at \$10 per share is announced by Slepman, Sharp & Co., Inc., Los Angeles.

Proceeds from the offering will be used for equipment, working capital and other corporate purposes.

Medical Testing Systems, of New York, formerly known as Cancer Detection Services, Inc., provides mass population screening for the early detection of cancer and other diseases.

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.

\$200,000,000

International Bank for Reconstruction and Development

Twenty-Five Year Bonds of 1970, Due August 1, 1995

Interest Rate 8½%

Interest payable February 1 and August 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.

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Incorporated

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MANUFACTURERS HANOVER TRUST COMPANY **BANK OF AMERICA** **CONTINENTAL BANK**
N. T. & S. A. *Continental Illinois National Bank and Trust Company of Chicago*

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Mellon National Bank and Trust Company

DILLON, READ & CO. INC.

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PAINE, WEBBER, JACKSON & CURTIS **SALOMON BROTHERS** **SMITH, BARNEY & CO.**
Incorporated

STONE & WEBSTER SECURITIES CORPORATION **WERTHEIM & CO.** **WHITE, WELD & CO.**

DEAN WITTER & CO. **BACHE & CO.** **PARIBAS CORPORATION**
Incorporated *Incorporated*

July 24, 1970.

DEALER-BROKER INVESTMENT LITERATURE AND RECOMMENDATIONS

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

Canada's Northwest Territories — report — Canadian Imperial Bank of Commerce, 25 King Street, West, Toronto, Ont., Canada.

Mobile Home Industry — analysis — Walston & Co., Inc., 74 Wall Street, New York, N.Y. 10005. Also available are analyses of **Albertson's, General Telephone Company of California,** and **Simmons Co.**

National Fact Book of Mutual Savings Banking — 1970 edition — National Association of Mutual Savings Banks, 200 Park Avenue, New York, N.Y. 10017.

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.

Put And Call Options — a four booklet kit explaining Put and Call Options — Filer, Schmidt & Co., Inc., Dept. 36 Broadway, New York, N.Y. 10034.

Sold Drink Industry — analysis with particular reference to **Coca Cola Company, Coca Cola Bottling Co. of Los Angeles and Coca Cola Bottling Co. of New York** — Hornblower & Weeks-Hemphill, Noyes, 8 Hanover Street, New York, N.Y. 10004.

American Brands — discussion — Eastman Dillon, Union Securities & Co., 1 Chase Manhattan Plaza, New York, N.Y. 10005. Also available are discussions of **Clorox, Echlin Manufacturing, Standard Oil of California, Standard Oil (Indiana), and Standard Oil (New Jersey).**

Beneficial Corporation — report — Argus Research Corporation, New York (sample copies available from firms using Argus Research services. Also available are reports on **National Biscuit Company** and **Westinghouse Electric.**

Bristol Myers — report — Shearson, Hammill & Co., Incorporated, 14 Wall Street, New York, N.Y. 10005. Also available are reports on **Evans Products Co., Fluor Corp., W.T. Grant & Co., King's Department Stores and Rite Aid Corp.**

Chilton Corp. — comments — Eppler, Guerin & Turner, Inc., First National Bank Building, Dallas, Tex. 75202. Also available are comments on **Circle K Corp., Ennis Business Forms, Ft. Worth Steel & Machinery Co., Howard-Gibco Corp., Miller Bros. Hat Co., Oshman's Sporting Goods, Inc., Prochemco, Texas International Airlines, Trinity Industries and Zale Corp.**

Consolidated Accessories Corporation — analysis — Earp, Kenney & Smith, Inc., Republic

Bank Building, Dallas, Tex. 75201.

Diebold Inc. — analysis — Dreyfus & Co., 2 Broadway, New York, N.Y. 10004.

Edmos Corp. — report — Goodbody & Co., 55 Broad Street, New York, N.Y. 10004.

Ford Motor Company — analysis — Loeb, Rhoades & Co., 42 Wall Street, New York, N.Y. 10005.

Galbreath First Mortgage Investments — analysis — The First Columbus Corporation, 58 East Gay Street, Columbus, Ohio 43215.

General Automation, Inc. — analysis — Bateman Eichler, Hill Richards, Incorporated, 460 South Spring Street, Los Angeles, Calif. 90013. Also available are analyses of **Hyatt Corporation, Max Factor & Co., Travelodge International,** and **Southern California Edison Company.**

International Proteins Corp. — analysis & Marantette & Co., Penobscot Building, Detroit, Mich. 48226.

Jostens, Inc. — analysis — Piper, Jaffray & Hopwood, Inc., 115 South Seventh Street, Minneapolis, Minn. 55402. Also available are reports on **Kayot, Inc., Super Valu Stores, Fabri-Tek, AMF, Inc., CPC International, Continental Oil and Signal Companies.**

Lear Siegler — analysis — Watling, Lercherm & Co., Ford Building, Detroit, Mich. 48226.

Metrocare Enterprises, Inc. — analysis — M.P. Brown & Co., Inc., 55 Liberty Street, New York, N.Y. 10005.

Murphy Oil Corp. — comments — Oppenheimer, Newborg & Neu, 120 Broadway, New York, N.Y. 10005.

Southwest Forest Industries — analysis — Schweickart & Co., 2 Broadway, New York, N.Y. 10004. Also available is a report on **Flying Tiger Corp.**

Unicapital Corporation — report — Robinson-Humphrey Company, Inc., 2 Peachtree Street, N.W., Atlanta, Ga. 30303.

Troster Singer Coast Branch

Troster, Singer & Co., 74 Trinity Place, New York City, one of the nation's leading over-the-counter firms, has announced the opening of another branch office at 44 Montgomery Street, San Francisco to serve the northern west coast. Troster, Singer & Co. has a private wire network to correspondents coast to coast and a branch office in Philadelphia, Pa.

The firm makes primary markets for banks, brokers, dealers and financial institutions. All comparisons should be sent to the New York office and deliveries should be made either direct or to the Pacific Coast Clearing Corp.

TAX-EXEMPT BOND MARKET

Continued from Page 6

only three days actually have elapsed — the market has entered a period of correction and digestion. Fundamental factors, apparently, have not changed materially; the general outlook appears to be moderately optimistic for bonds. As more final distribution results of the week's issues emerge, a clearer reading may be made.

Technical factors at press time stood as follows: Floating Supply, as measured by the **Blue List** total, \$425 million including Housings; 30-Day Visible Supply, as compiled by the **Daily Bond Buyer** \$663.5 million.

The largest issue scheduled for next week is \$50 million San Francisco, Bay Area Rapid Transit, California, sales tax revenue issue, to be sold August 5th; another installment in the financing of a modern high speed transit facility for this area.

To Be Heine Co.

Effective July 1st the firm name of Spingarn, Heine & Co., 37 Wall Street, New York City, members of the New York Stock Exchange, has been changed to Heine & Co.

BANK AND INSURANCE STOCKS THIS WEEK: BANK STOCKS

Are Bank Stocks Overpriced?

For the month of July bank stocks have performed very well. They have posted gains almost every week in spite of a vast variation of the earnings reported for the first six months. In general, bank earnings are not increasing at the levels of the previous year.

In view of the rise in bank stock prices and the relatively high multiples for most of major banks, i.e., approximately 12 times, the statistics presented to date do not substantiate any continued rise in bank stock prices over the near term.

There are many measures of the growth in money supply and statistics are frequent as to the change in the figure. According to the latest statistics money supply has increased at an annual rate of 11 per cent for the month of July. This compares with a 12-month increase of 2.4 per cent, a nine-month of 3.2, a six-month of 4.3 and a three-month of 4.6. Obviously, the trend is towards monetary ease.

However, interest rates are trending lower. This has been reflected in the prime rate and it is also reflected in the rate of return on investments. On the other hand, the cost of money has declined as noted by the Euro-dollar rate which has fallen from a high of 12.13 per cent to a current three-month rate of 8.44. Also, certificates of deposit have grown at the expense of higher-cost Euro-dollar money. Statistics on interest rate spreads will be covered in the next column on bank stocks.

In general, the cost of borrowed money has come down faster than the rates which banks charge. On the other hand, as one will observe below, loans have declined appreciably and continue this trend; and in spite of the reported ease, evidenced by the money supply statistics, bank borrowings at the Federal Reserve System remain at record levels indicating the banking system is operating with a high degree of regulation in terms of the assets available to them.

BANKING STATISTICS

	As of 7/15/70	Change on Week		Change Since Beginning of Year		
		1970(*)	1969	1970(*)	1969	
ALL WEEKLY REPORTING BANKS						
(In Millions of Dollars)						
Total Loans and Securities	\$242,242	- 868(- 778)	- 1,996	- 3,145(+ 1,522)	- 6,469	
All Loans (adj.)	181,684	- 207(- 119)	- 1,507	- 3,998(+ 4,667)	+ 2,740	
Commercial Loans	86,779	+ 99(- 19)	- 144	- 1,527(+ 3,668)	+ 4,351	
Real Estate Loans	33,515	+ 35	+ 1	- 61	+ 1,201	
U. S. Governments	22,555	- 785	- 332	- 1,357	- 7,190	
Tax-Exempts	33,877	+ 160	- 176	+ 1,680	- 1,364	
Certificates of Deposit	15,982	+ 768	- 467	+ 5,113	- 8,916	
NEW YORK REPORTING BANKS						
As of 7/22/70						
All Loans (adj.)	\$41,798	- 79	+ 275	- 3,317	+ 1,561	
Commercial Loans	25,836	- 66	- 106	- 1,509	+ 956	
U. S. Governments	4,255	- 254	+ 819	- 453	- 783	
Tax-Exempts	5,836	- 140	- 149	+ 262	- 1,066	
Certificates of Deposit	4,158	+ 363	- 63	+ 1,456	- 4,063	
Euro-dollar Borrowing†	8,585	+ 107	+ 256	- 1,167	+ 5,110	
ALL MEMBER BANKS						
Four Week Moving Avg.						
		Latest Period	Change on Week	Change for 4 Weeks		
Excess Reserves	148	- 47	146	0	- 8	
Member Bank Borrowings	1,367	- 293	1,277	+ 191	+ 365	
Net Free Reserves	- 1,239	+ 246	- 1,131	- 191	- 373	

* Figures in parentheses reflect addition of loan transfers into reported data. Because of the reporting time lag, loan transfer data for N. Y. City Banks is not available for the latest week. † Weekly Average.

SOURCE: Salomon Brothers & Hutzler "Bond Market Roundup," July 24, 1970.

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THE MARKET AND YOU

By WALLACE STREETE

The market is finding fewer ways to rationalize an extension of its 100-point rally of the past two months.

Peace hopes in two trouble spots — Vietnam and the Middle East — have given investors some anticipatory leeway in the past two weeks, but as in the past, these vague straws promise only temporary handholds.

Analysts believe the market will revert to the basics of the domestic outlook — the heavy financing needs of the U.S. Treasury, the growing debate over how close to the vest the Federal Reserve Board should play its cards, the prospects of a disturbing auto strike and the harsh uncertainties over how soon and how fast business activity can once again move upward.

DJIA Outpaces Total List

Thus far, in the market's recovery from its May lows, a definite divergence has developed between the blue chips and the rest of the stock list. The Dow Jones average has outpaced the broader index of the New York Stock Exchange in its recovery effort.

There remains a great deal of doubt over the direction in which this gap will be closed.

Some analysts believe the inability of the Dow to thrust convincingly through the 740-750 area in the past week tips the odds in favor of a new testing period that could drop the Dow back to the 700-710 range.

Not unexpectedly, the relative strength of blue chips is mirroring trends already seen in the bond market. Ever since Penn Central's problems focused attention on financial statements, investors in both stocks and bonds have become increasingly discriminating about quality.

Confusion over Federal Finance

Not the least of the factors making for new uncertainties in the marketplace is the confusion arising over the Federal budget. Earlier estimates, which placed the budget in neutral ground as an element in the government's anti-inflation fight, are now giving way to serious concern over ballooning deficits.

Thus, Tuesday's report from Washington put the deficit for the year ended last June 30 at \$2.91 billion. This increase from \$1.8 billion predicted two months ago was due mainly to the decline in corporate profit taxes. The fiscal year 1969 ended with a \$3.25 billion surplus.

More important, there is speculation that the budget deficit in the current fiscal year could reach \$15 billion, well above the range in which Administration officials have suggested they'd feel it necessary to launch strong fiscal counter-attacks.

The thought of the strain of deficits approaching this magnitude on the financial markets — which are still in a high-demand phase as corporations rebuild liquidity — already appears to be influencing investor psychology. The fairly strong recovery of bond prices in recent weeks has stalled, and yields on some new

corporates have begun moving up again.

Among the other factors making for a tempering of investor confidence is the still-unpredictable scope of the current business decline.

Speculation on Economy's Decline

The government's leading indicators index slowed its decline in June by one-tenth of 1 per cent to 146.2 from 146.3 per cent in May, indicating that expansionary monetary policy of the past several months may be arresting the business downturn. The index fell from a fourth quarter 1969 reading of 152.2 to 149.3 in 1970's first quarter, and 148.3 in April.

However, the evidence is not yet clear that unemployment will not burgeon as the economic slowdown moves through the final summer days. Some economists believe it could reach the 6 per cent rate before it stabilizes.

In any event, few bull markets have begun in the past while leading business indicators were still in a downtrend, a fact which lent caution to the market scene in the past week and was reflected in dull trading volume, among other things. The decided slowing of the index's decline may have confirmed however, the leveling out in the second

quarter's GNP in 1959 dollars. The optimists see a ray of sunshine here.

Also adding to the assessment of analysts, that the market recovery has not yet proven its durability, are the crosscurrents at work within the administration over monetary policy.

Burns Sticks to His Business Cycle Diagnosis

Fed Chairman Arthur Burns took on an appearance of adamancy in recent testimony before a Congressional committee in light of the outspoken suggestions by the President's economic advisors and others that a greater rate of monetary expansion is necessary now. Chairman Burns is considered to be the world's leading expert on business cycles. He is sticking to his diagnosis and prognosis.

Burns stuck by a 4 per cent growth rate figure while allowing that some flexibility was in order. His stand in the face of an obvious Administration desire that greater stimulus be applied to the economy suggested to some analysts that the Fed wants to see more data. It may take a couple more months of statistics before it is convinced the business downturn has gone far enough to eliminate risks of a resurgent inflation.

With policy thus still treading carefully, the prospects of a vigorous upturn in the economy and a restoration of corporate profit margins is being pushed

further into the future by some analysts.

It now appears to these observers that any recovery before year-end will be narrow and limited and that a strong rebound will not occur before early or mid-1971.

Future Hands on Profits

In this framework, the course of corporate profits will continue to be a major determinant of stock prices, analysts believe, even though the market's holding power in recent weeks indicates that at least some of the profit declines now being reported have been discounted.

Corporate profits in the first quarter were nearly 11 per cent below the peak reached in the first quarter of last year.

The current earnings shakeout is already more severe than in 1966-67, when net fell about 6 per cent. One consequence is that dividend cuts and omissions are increasing, a development sharply intensified by the need of more corporations to husband their cash and rebuild their liquidity.

Among the latest to cut the dividend was Norfolk & Western Railway in a move obviously influenced by the atmosphere that followed Penn Central's slide into balance-sheet difficulties.

Some economists now estimate that second quarter profits will be down to \$80-\$82 billion pre-tax, from a downward-revised \$82.6 billion annual rate in the first quarter. After-tax profits in this

estimate would fall off to about \$43 billion from \$44.6 in the first quarter.

The Market's Assumption

While the market has discounted much of the profit expectations near-term, it is questionable whether investors have taken into account a possible continuation of the slump into the next quarter or two. Most forecasts expect an upturn in profits and any deviation from that anticipation could well subject many stocks to new pressure.

(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.)

Walston Expands in Houston

HOUSTON, TEX. — Walston & Co., Inc., has acquired the Houston, Texas, office of Dempsey-Tegeler & Co., Inc., it was announced by Daniel J. Cullen, chairman of the board and of the executive committee, and William D. Fleming, president, of Walston & Co., Inc.

With the addition, Walston & Co., Inc., will have 72 employees in Houston, including 57 account executives. Vice president Charles C. Roberts, who will direct the enlarged Houston operations, also announced that "Walston & Co., Inc., will move into larger and expanded facilities on the ground floor of the Shell Plaza Building early in 1971."

This advertisement is neither an offer to sell nor a solicitation of offers to buy any of these securities. The offering is made only by the Prospectus.

NEW ISSUE

July 29, 1970

600,000 Shares

Duke Power Company

8.70% Cumulative Preferred Stock, Series F
(par value \$100)

Price \$100 per share
plus accrued dividends, if any, from date of issue

Copies of the Prospectus may be obtained from any of the several underwriters, including the undersigned, only in States in which such underwriters are qualified to act as dealers in securities and in which the Prospectus may legally be distributed.

The First Boston Corporation

Merrill Lynch, Pierce, Fenner & Smith
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Drexel Harriman Ripley
Incorporated

duPont Glore Forgan
Incorporated

Eastman Dillon, Union Securities & Co.

Goldman, Sachs & Co.

Halsey, Stuart & Co. Inc.

Hornblower & Weeks-Hemphill, Noyes

Kidder, Peabody & Co.
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Paine, Webber, Jackson & Curtis

Salomon Brothers

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Wertheim & Co.

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Dean Witter & Co.
Incorporated

SECURITY SALESMAN'S CORNER

By JOHN DUTTON

"Securities worth hundreds of millions of dollars are traded every day over the telephone. The slightest doubt as to the trustworthiness of a broker's word or commitment would put him out of business over-night." - Alan Greenspan - THE OBJECTIVIST NEWSLETTER

August, 1963

It is now apparent that mergers, consolidations, and liquidations of brokerage firms conducting business with the public are proceeding at a rate never before known in the long history of the securities business. Many personal hardships will take place among clerical personnel and members of the sales organization. But there is no alternative. It serves no purpose to enumerate the mistakes of omission and commission that could be placed upon the shoulders of management. Discussion now of over-zealous expansionist policies, and inexperience in the extremely volatile nature of this speculative and hazardous business, will not resurrect the firms forced to disappear.

As one good client of many years standing said to me when he read of the current retrenchment now taking place in Wall Street, "maybe it is all for the best in the long run. If costs are controlled, and people begin to place a value on having a job in Wall Street, possibly this is one sign that inflationary forces are coming under constraint."

Behind the Scenes Leadership

It is no secret that the leaders of the financial industry are well aware that financially weak firms that cannot be saved must be liquidated without losses to the public. Other firms that could be salvaged were merged with stronger firms. This salvaging, still going on, fits the more profitable departments and salesmen into their organization. Unprofitable offices are closed and unproductive management personnel released.

Out of this painful readjustment will emerge a surviving group of well managed firms that will serve the public in a more competent manner than ever before.

There Will be a Better Day

The recent report of the New York Stock Exchange that covered the major exchanges, and a large segment of the over-the-counter market, indicated a total of 36.2 billion shares outstanding with a market value, early this year, of more than \$1 trillion. This is up from 17.3 billion shares worth \$620 billion in 1965. Of the total, 25.4 billion shares were held by 30.85 million individual stockholders compared with 11.9 billion shares held by 20.12 million individuals five years ago. The remainder, 10.8 billion were held by institutions, nominees, foreigners and broker-dealers. The magnitude of the responsibility

that rests upon the leadership of the financial community is so obvious that it leaves no choice but the most dedicated stewardship of this trusteeship. Anything less than that could help set the stage for a financial debacle too ominous to contemplate. Removal of the last doubts as to the financial solvency of the nation's investment firms will allow a more stable, rational, and customer oriented industry to emerge. Not the least among the pressing priorities is a dedication to the employee structure and its importance to a properly functioning investment organization. The clerical department must have some assurance of permanent employment in both years of high and low activity. When costs are controlled and allocated to vital areas of this business there will be a surplus that can be set aside and invested prudently for the times when the staff must be kept together despite a declining profit margin. To operate a business under any other set of conditions, particularly an endeavor as volatile as the merchandising and brokerage of securities, is inviting the kind of trouble many firms face today.

The Salesman Must Be Prepared

If you are among the salesmen who are now connected with firms that are in the process of merger, consolidated, or liquidation, it is especially important that you service your accounts more assiduously than ever before.

Do not be a gossip monger. Don't call other brokers to banter rumors and half truths. You should use your valuable time

contacting your clientele regarding their securities.

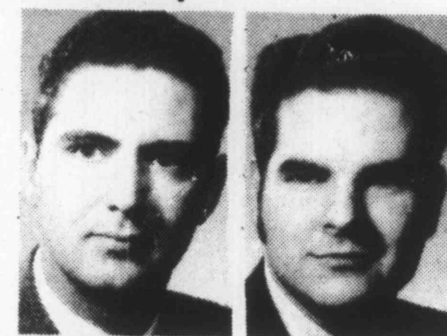
Every day, business is still being done by salesmen who are looking for opportunities to offer a suggestion that may be helpful to their customers. If you keep in touch with your customers, they will continue to have confidence in you and your firm. If you neglect them, it is quite probable that you may not be able to hold their loyalty should you be able to, make a change, or are forced to do so, because of a merger or consolidation.

Also, keep your records up to date. Have every one of your books in top shape. Keep all statements and go over them carefully to make certain that your customers have been credited with all dividends due them, and that both debit and credit balances are correct. This is your responsibility to the people who will help you to continue in this business and to rebuild.

No Procrastination

I have no intention of predicting a gloomy and pessimistic outlook for the years ahead. But, there is no possible way that the excesses of the past decade can be corrected without some very painful readjustment in the securities business as well as in the entire financial and economic machinery of our country. A realistic appraisal could only indicate that the exigencies of the day cannot be ignored or be dealt with specifically. The problems, no matter how difficult, must be solved as soon as possible. It is to the credit of the leadership of our industry that these moves are underway which in the long run should lead to a solvent and more

Cortese, McGuire & Co. Opens



F.R. Cortese P.A. McGuire

ARLINGTON, VA. — Fred R. Cortese and Patrick A. McGuire, former Securities and Exchange Commission Investigators, have formed Cortese, McGuire & Co. with offices at 2201 Wilson Boulevard. The firm is a member of the National Association of Securities Dealers.

Mr. Cortese is a graduate of Jacksonville University, Jacksonville, Florida and has done graduate work in finance at American University, Washington, D.C.

Mr. McGuire is a graduate of Mackin High School, Washington, D.C. and attended Montgomery College, Takoma Park, Maryland and Benjamin Franklin University, Washington, D.C.

responsible securities business. The economic health of our country is at stake, and now there can be no compromise. What is coming must be better than what we have known in the past.

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

Midsummer night's dream.

Midsummer, 1970. End of Act II.
We're bigger than we would have ever dreamed.
Connecticut's third largest commercial bank.
With forty five offices.

And over one-half billion dollars in resources.
Still growing quarterly.
An increasingly tough act for others to follow.
Finé.

Consolidated statement of condition as of June 30, 1970

Resources

Cash and Due from Banks	\$ 62,477,710
Investment Securities	
U.S. Government Obligations	45,338,107
Obligations of U.S. Government Agencies	3,600,000
State & Municipal Securities	41,318,347
Other Securities	10,909,732
Funds Sold	4,000,000
Loans and Discounts	338,026,292
Bank Premises & Equipment	8,747,908
Accrued Interest Receivable	4,264,255
Other Assets	3,113,989
Total Resources	\$521,796,340

Liabilities

Deposits	
Demand Deposits	\$259,052,780
Savings and Club Deposits	152,908,243
Other Time Deposits	38,411,028
Total Deposits	450,372,051
Mortgage Payable	4,317,979
Accrued Taxes and Other Expenses	3,741,016
Unearned Discount	7,124,956
Other Liabilities	8,418,428
Total Liabilities	473,974,430
Reserve for Loan Losses	6,950,569

Capital

Capital Stock (par \$5)	
(1,681,475 shares outstanding)	8,407,375
Surplus	22,000,000
Undivided Profits	9,627,929
Supplemental Reserves	836,037
Total Capital	40,871,341
Total Liabilities and Capital	\$521,796,340
Total Assets Trust Dept. (book value)	\$674,256,458

Union Trust

Dr. Upgren Sticks To Financial Collapse Forecast

Back in 1959, Dr. Upgren predicted a financial collapse occurring at a very precise time and place—Nov. 18, 1970 at 10:30 a.m. While known for his excellent humor and willingness to take unpopular stands, the former University of Minnesota banking professor and Dartmouth Dean of the Amos Tuck School of Business Administration has these many years been an outspoken advocate of an adequate money supply at all times. He praises Federal Reserve Chairman's recent promise of funneling enough liquidity to prevent a crisis and hopes that the rest of the Governors will support their Chairman, even if it makes his prediction miss its mark by a mile. Dr. Upgren was a vice president and economist for the Federal Reserve Bank of Minneapolis, a delegate to the Bretton Woods Monetary Conference, author of numerous Macalester College, St. Paul, Minn., bulletins and other papers. He now is actively retired and residing in Pompano Beach, Fla.

Dr. Jacob Viner, distinguished professor at Chicago and Princeton Universities, on once being asked when a man had a proper right to shout, replied that he thought those who ran down the Johnstown Valley as the dam broke had a proper right to holler at the top of their voices.

Dr. Arthur Upgren has also been shouting about the dangers of a financial collapse in the United States. To have the greatest impact on economic thought, he specified here, as he has with other predictions, the precise date and time of the collapse, namely November 18, 1970 at 10:30 a.m. His original prediction was made in the *Minneapolis Star* in 1959. The editor headlined his article: "U.S. to Go Bust, November 18, 1970". At the time Dr. Upgren raised questions as to whether such an article might be "anti-social" to which the executive editor of the *Minneapolis Star*, Robert W. Smith replied: "Heavens no, not when you are pointing out a serious problem eleven years in advance."

A speech in Philadelphia in 1962 on the same subject drew comment in some ninety papers including the English papers in Seoul, Korea, and Hong Kong. Dr. Upgren has since carried on a massive correspondence with many earnest people whose general comment has been: "That's good, Professor, that someone is telling the country not to let those terrible financial collapses of the past happen again." He naturally hopes many of them took heed of his warning.

Cites Chairman's Confirming Warning

He is now very pleased to record that Dr. Arthur F. Burns, chairman of the Board of Governors of the Federal Reserve System, late in May at the height of the finance and stock market crisis, announced that the Federal Reserve System would provide liquidity to prevent a serious crisis and would act as "the lender of last resort."

This is the classic, primordial function of a central bank. On two occasions, faced with an intense panic, the Bank of England, upon being indemnified by Parliament paid out all the money needed to stop a severe crisis and run on the banks of England for cash. In both instances the panic was broken at once.

In contrast our own Federal Reserve System utterly failed us in our last and great panic which culminated with the closing of the Federal Reserve Banks, the closing having been led by the



Arthur Upgren

prestigious Federal Reserve Bank of New York on Saturday, March 4, 1933. The resulting collapse punctured the supply of all bank money by more than 20 per cent and the consequences of the panic cost the American people two hundred billion dollars.

Liquidity Recommendation

Dr. Upgren, a long time professor of banking at the University of Minnesota, has felt for many years that the failure of the Federal Reserve System to declare itself as a lender of last resort and provider of liquidity, as its chairman Arthur F. Burns has now done, is perhaps the most serious omission of the entire finance arena even more serious than great declines in the stock market which have occurred recently. He still thinks the Federal Reserve Board of Governors should unequivocally declare the full support they will give and do this as a declaration policy rather than as an expression only of its chairman, Dr. Burns.

The Federal Deposit Insurance Corporation (FDIC) in its annual report for 1957 (pp.65-66) made it clear that its resources could not handle a serious crisis with substantial bank failures. The FDIC, notably in the case of the failure of the Public bank in Detroit in 1966 acted heroically to make good all deposits, even though a deposit was in excess of the guaranteed limit. This is action in the right direction and a complementary declaration of policy by the Federal Reserve Board would be helpful.

These strong assurances and actions are needed in the United States in light of the great weaknesses of the structure of our banking system according to Dr. Upgren. Since 1920 the United States has had fifteen thousand bank failures and our present-day banks number

slightly less than fourteen thousand.

In all of these years since and in fact for about one hundred years England has had no bank failures at all. Canada with a branch banking system similar to England's had its last banking failure, the Home Bank, in 1911. No bank failures occurred in Canada in the 1930's despite the fact that the wheat yield in Saskatchewan in 1936 was less than one bushel per acre.

With our insistence on a dual and independent banking system which does not in crisis have great inherent strength or breadth of resources, we require many "crutches" to provide us with a reasonably fluid banking system with support for that banking system. That support was utterly lacking in 1933 despite an indemnification against liability on the part of the Federal Reserve System if it paid out cash beyond the reserve ratios than required of it. It failed to take advantage of this built-in indemnification in 1933. The result was catastrophic.

Poor Crutches

Because of our repeated financial collapses, Dr. Upgren points out, we have built many crutches for our banking system. These include notably the FDIC but they also include such other devices to try to create a fluid banking system as overriding (across the country because we lack branch banking) FHA mortgage guarantees and other devices which try to support the banks and to encourage the fluidity and flow of resources nationwide such as takes place automatically when a nation has a branch banking system.

Dr. Upgren also notes that six banking collapses (five utterly complete) occurred within the space of the sixty years from 1873 to 1933. Since 1933 our sextupled gold reserves following the upvaluation of gold and, in reverse, the devaluation of the dollar in 1934, provided enlarged basic monetary reserves which at one time included more than seven billion dollars of "excess reserves". These reserves were provided in such large amounts that the commercial banks of the United States had absorbed a total of more than one hundred billion dollars of U.S. Government securities by the end of World War II. It is these actions which raised commercial banks liquidity to 83 per cent on December 31, 1945.

Since that time, Dr. Upgren notes, banks have expanded all loans (other than those to the Federal government) from thirty-nine billion in 1945 to three hundred and ninety billion dollars in 1969. The sale of more than one half of the 1945 holding of U.S. securities is also to be noted as something that has further lowered bank liquidity.

As a consequence commercial bank liquidity has fallen to the near danger point of 23 per cent. Thus the declaration of Federal Reserve Chairman Arthur Burns is timely and of the utmost importance, Dr. Upgren agrees, to upset his predicted collapse for later in 1970.

For those who have followed Dr. Upgren's analysis since 1959 this decreased liquidity has been well known.

Hopes for Liquidity Policy

He regards it unfortunate that democracies seem to require a severe and painful crisis, such as the recent financial and liquidity crisis, to bring the positive action so very late in the crisis. He also says it is to be hoped that the present actions and policies of the FDIC and Federal Reserve will prove adequate to thwart any repetition at all of the financial difficulties which have occurred so very frequently in our nation's history. It is these repeated difficulties that have led Dr. Upgren to make the assertion that "the people of the United States, in their long history, have never solved the problem of providing an adequate money supply to lubricate the growing commerce and production of which they are competent."

Dr. Upgren estimates that our Gross National Product (GNP)

will reach one trillion dollars early in 1971 and that it will reach two trillion dollars in 1980. To support this will require in 1980 more than a doubling of today's volume of bank credit. Here is the great activity for the recently appointed Financial Commission which is to survey, presumably, our banking and liquidity needs of the future. The United States spent three years of study to accomplish the same result by setting up the Federal Reserve System in 1913-14 without success only twenty years later. May better success attend the new commission.

E.G. Nichols Opens

HOUSTON, TEX. — E.G. Nichols & Co., Inc. has opened offices at 9186 Old Katy Road to engage in a securities business. Officers are Edward G. Nichols, president and treasurer; and Vernon V. Clinger, secretary.



As Demand Grows So Does First National

First National, for 106 years, has been meeting the challenge of a growing need for its services. In the past, the Bank was permitted to meet this demand only within the confines of its home county. Now, with geographical restrictions lifted, the Bank has extended its services to Bergen and Morris counties. The year ahead will see First National continuing to meet the demand for its services in its home county and outside.

Condensed Statement of Condition as of June 30, 1970

ASSETS	
Cash and Due from Banks	\$ 65,219,026
U.S. Government Obligations	39,428,529
Securities of Other U.S. Government Agencies and Corporations	-0-
Obligations of States & Political Subdivisions	65,298,889
Other Securities	1,184,000
Loans and Discounts	111,759,687
Real Estate Mortgages	116,465,817
Banking Houses and Equipment	3,733,383
Federal Funds Sold	7,000,000
Other Assets	2,778,211
TOTAL ASSETS	\$ 412,867,542
LIABILITIES	
Demand Deposits	\$ 175,749,541
Time Deposits	197,147,074
Reserve for Unearned Income	3,399,453
Reserve for Interest, Taxes, etc.	2,851,735
Federal Funds Purchased	1,000,000
Other Liabilities	636,107
TOTAL LIABILITIES	\$ 380,783,910
Reserve for Loans and Discounts	4,340,027
Capital Account	
Common Capital Stock (694,575 shares — \$10.00 par value)	6,945,750
Surplus	14,054,250
Undivided Profits	6,743,605
TOTAL	\$ 412,867,542

F. Raymond Peterson Chairman



21 Offices in North Jersey

MEMBER FDIC

OUR REPORTER ON GOVERNMENTS

By JOHN T. CHIPPENDALE

The betterment in the bond market, significantly lowering the cost of borrowing, seems to have had a favorable influence on common stocks. Prices of equities, coincidentally have improved quite sharply from their low levels. It is believed, even so, in not a few places in the financial district, that there will have to be further decreases in interest rates before the month old bond rally will help bring about more lasting and sustained uptrends in common stock prices. It should be borne in mind, however, that there is not as yet, any shortage in new offerings of fixed income obligations, such financing demands, will continue to keep interest rates high unless the authorities take steps to make more credit available and/or the economy fails to revive as expected.

Old Guessing Game

One of the most talked about points of concern in the whole economy today is the size of the Federal budget deficit—not only for the present fiscal year, July, 1970—June 30, 1971, but also for future fiscal periods. The old guessing game is on in full swing again, with the amount of outgo over income for June 30, 1971 getting most of attention at this time. The government now estimates a deficit of \$1.3 billions. Several administration spokesmen say that even a Federal deficit of \$5 billions for June 30, 1971 would not bring about a request from President Nixon for increased taxes to balance income and outgo.

Estimates of the size of the deficit of the government for fiscal year 1971 from various private sources have ranged from as small as \$5 or \$6 billions to as large as \$13 billions. The extent and depth of the current business cycle phase will dictate the size of the excess of expenditures over receipts.

There is a troublesome question as to whether a government deficit, financed by borrowings of the Treasury, will be inflationary unless

government obligations are sold to the non-bank investor. With a larger than \$200 billion budget in the making, it does not seem as though even a \$10 billion deficit should be feared. This might be about the right figure to overcome the kind of a recession which some claim we are in now. This, they say, would reflate the economy and prevent it from going into a depression.

Federal Agency Financing

Currently, others in the market are excited about a prospective \$5 to \$10 billion deficit in the budget for fiscal year 1971. They maintain we are still in an overheated economy which, with a few exceptions, still shows signs of little sustained progress in containing inflation. Moreover, income and expenses contained in the Federal budget do not take into consideration the tapping of the markets by Federal private agencies, such as F.L.B., F.N.L.B., F.N.M.A., F.I.C.B. and others. Their borrowings from the private markets are not included in the Federal budget. Nevertheless, their sizable demands for funds should be added to what the Treasury may have to borrow to cover its needs, if any, to get a truer picture of forces affecting interest rates. Made to turn over operations of the Post Office to another government corporation, and the very large deficit of this government, department will eventually be taken out of the budget. The excess of expenditures over income will nonetheless have to be met, one way or another, even if no longer reported in the Federal budget. This means that we will still be paying for the deficit of the Post Office and lending funds to other government corporations which, if added to the forecast deficit of the government, may approach a substantial level.

The movement into income paying obligations from common stocks goes on at an accelerated rate because of the rising costs

which are brought about by the inflation and the boom. Individuals and pension funds continue to be the main buyers of these securities. Smaller commercial banks have now joined the group, especially in the tax-exempt issues.

Treasury Financing

Details regarding today's Treasury financing announcement are found elsewhere in this issue.

As reported on page 2 of the July 20, Monday, edition of the Commercial and Financial Chronicle, "so far this fiscal year, the Treasury has added \$4.7 billion new cash to its debt level, and by August 20th, will have increased it to \$5.5 billion — if we include the present cycle of adding \$100 million to the weekly bill market ending August 20. On July 2, TAB's sold came to \$2.25 billion, and \$2.5 billion on July 16."

Rauscher Pierce in Kansas City

KANSAS CITY, MO. — Rauscher Pierce Securities Corporation, leasing southwestern-based investment firm, has acquired the Kansas City, Missouri, facilities and personnel of Dempsey-Tegeler & Co., Inc., Chas. C. Pierce, chairman of the board, has announced.

Headed by Joseph Weinrich and Jack Halper, who managed the former Dempsey-Tegeler operations, the staff of 24 registered representatives and clerical people will continue uninterrupted investment service under the Rauscher Pierce name in their present offices at Ten Main Center. Both Messrs. Weinrich and Halper have been elected vice presidents of Rauscher Pierce, and M. Leslie Griffin named assistant vice president.

The introduction of Rauscher Pierce to Kansas City extends to another major market the 37-year experience of one of America's fastest growing investment firms. From its main office in Dallas, Rauscher Pierce has expanded in recent years from coast to coast, with offices in 20 cities in eight states and a staff numbering over 650,

including 300 registered representatives.

Rauscher Pierce brings Midwestern investors, corporations and governmental bodies the complete investment service of a member firm of the New York, American, Midwest and Pacific Coast Stock Exchanges. Besides its growing trading activities in listed and over-the-counter securities, Rauscher Pierce ranked 35th among all investment firms in the nation in the volume of corporate securities underwritten during 1969. The firm also figures prominently as underwriter and dealer in municipal securities, acquisitions, private placements, institutional sales and block trading.

Other Rauscher Pierce offices are located in New York, Chicago, Los Angeles; Austin, Corpus Christi, Fort Worth, Harlingen, Houston, Lubbock, Midland and San Antonio, Texas; Denver and Pueblo, Colorado; Albuquerque, New Mexico; Phoenix, Flagstaff, Scottsdale and Sun City, Arizona.

Cogan Berlind Branch

HOUSTON, TEX. — Cogan, Berlind, Weill & Levitt, Inc. has opened a branch office at 2400 West Loop South with Patrick Green registered representative in charge.

Warns Of Overseas Impact On Japanese Stocks

Fuji Bank head calls for monitoring foreign investors' impact on Japanese stocks. He absolves domestic situation, and blames recent severe fluctuations on a lack of awareness of overseas factors triggering sudden sales.

"As Japanese stocks attract increasing numbers of international buyers, the country must learn to analyze overseas economic situations and market dynamics in order to anticipate and take measures against severe fluctuations."

That warning was sounded by Kuranosuke Saito, Director and Chief Manager of the Research Division of Fuki Bank, Ltd., Japan's largest commercial bank.

Writing in the current issue of Fuji's **Banking Briefs**, Mr. Saito said:

"The twenty per cent drop in

prices on the Tokyo Exchange following New York was most unexpected since the Japanese economy and corporate profits had been expanding steadily. Two precipitating factors were a wave of selling by foreign investors and an anxiety over the future of international investment trusts which hold large amounts of Japanese shares.

"However, underlying the slump were domestic factors: anticipated easing of the tight money policy failed to materialize; simultaneous issuance of large amounts of shares at current prices — in contrast to the older system of issuance at 50 yen par — and Japan's half-yearly deadline for a settling margin transactions which exerted selling pressure.

Absolves Domestic Factors

"Since Japan's Gross National Product and corporate profits are excited to continue rising, it appears that Japanese shares are basically sound and that there would be progress toward market recovery when technical problems have been ironed out.

"However, the international slump has given up some timely warnings. For one thing, we saw that an inflationary trend does not necessarily insure the stock market against bearish tendencies. Furthermore, the Japanese market has revealed its vulnerability to concerted selling by foreign investors whose purchases had given impetus to the bull market prevailing since 1968.

"Until recently, the effect of foreign market trends on Japanese shares had been largely psychological. But now such trends have a direct impact by influencing the ebb and flow of foreign capital through the market. Thus, as Japanese shares attract more and more international buyers, we must learn to analyze the overseas economic situation and market dynamics in order to anticipate and take measures against severe fluctuations in Japan."

This advertisement is neither an offer to sell nor a solicitation of an offer to buy any of these securities. The offering is made only by the prospectus.

NEW ISSUE

July 20, 1970

100,000 Shares

 **SYNCOM** INCORPORATED

Common Stock
(Par Value \$.08 per Share)

PRICE \$5.00 PER SHARE

Copies of the prospectus may be obtained in any state from only such of the undersigned and other dealers as may lawfully offer these securities in such state.



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MEDICAL TESTING SYSTEMS, Inc.

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Copies of the Prospectus may be obtained from the undersigned only in those states in which the undersigned may legally offer these securities in compliance with the securities laws of the respective states.

SIEPMAN, SHARP & CO., INC.

July 24, 1970

The Security I Like Best

Continued from Page 2

situation and a poor general economic climate, Bunker-Ramo has managed to keep its financial house in order, a fact which is even more impressive in view of the cash requirements necessary to implement Bunker-Ramo's revolutionary new data processing, retrieval and display systems. As many companies have discovered during the past eighteen months of sharply declining stock prices, the route of equity financing is becoming less and less attractive, and Bunker-Ramo has therefore canceled a proposed \$20 million convertible subordinated debenture offering. Fortunately the company had other sources of financing available to support its extensive expansion program. In February they arranged a two-year \$30 million revolving line of bank credit, and negotiations are presently under way for an additional \$30 million long term loan. In addition, the company has killed two birds with one stone by selling its unprofitable numerical control system division for \$9 million. This division had been operating at a loss due to its dependency on the highly depressed machine tool industry, and the proceeds of this sale will be put to better use assisting more profitable operations. Internal financial strength is also in evidence with working capital on March 31, 1970, reaching \$63.4 million compared with \$47.1 million on December 31, 1969. The current ratio also improved during the first quarter, closing at 2.46 to one versus 1.97 to one at the end of 1969.

Bunker-Ramo's business divides into three basic categories — electronic and electrical components and assemblies, the Borg textile group, and computer based systems and services. The largest of these in terms of dollar sales (51 per cent in 1969) is the electronics division. This group consists mainly of business from the old Amphenol Corporation, and the electrically wound automobile clock operations. Included in the group, besides the clocks, is the manufacture of electronic connectors, wire harnesses, coaxial switches (used in microwave systems), counting devices, potentiometers (sophisticated precision volume controls), and trimmers (adjustable resistance devices). This division is vital to the Bunker-Ramo family as a source of cash flow and as a basis upon which to justify credit financing. The Borg fabric division has been enjoying phenomenal growth from its high profit margin "fake fur" and knitted deep pile fabric products. Sales for 1969 grew to approximately \$46 million, up from \$34 million the previous year and production at the end of the year was running a full twelve months ahead of schedule. The Borg group and its director, Carl J. Seifert, Jr., are recognized throughout the world as leaders in the industry. Borg fabrics are sold to the producers of various finished goods. One of the most important and profitable among these, Borgana, is used as the outer fabric for women's quality coats and can be made to resemble seal, otter, snow leopard, or Persian lamb. Uncertainty among women's

fashion designers as to this Fall's hemline length has temporarily created some sales weakness in this market. However, once the controversy is resolved, sales volume will quickly regain its past momentum and, in fact, be greatly increased by wider acceptance of the maxi and midi coats. Through Borg-Alaskan, Bunker-Ramo is in the rapidly expanding field of men's fashion wear, while Sno-Berg is giving the company entry into the fantastic growth area of ski fashions. With ever mounting pressure by conservation groups and others against the slaughter of fur-bearing animals increased acceptance of "fur-like" substitutes, the prospects for a continuing increase in sales and earnings from the Borg group appear exceedingly bright.

The "big plus" in the Bunker-Ramo picture comes from the computer based systems and service groups, and more specifically from the phenomenal growth potential inherent in the company's computerized systems of total market information for the financial community. The newest and most revolutionary of these systems are NASDAQ (National Association of Securities Dealers' Automated Quotation System) and Telequote V. The NASDAQ system, which is slated to go on stream January 1, 1971, will eventually, through its computer facilities, make a market in over 20,000 OTC stocks and display this information on the company's standard Telequote III desktop inquiry/reply units and Telequote 70 multi-service terminals. The introduction of NASDAQ marks the first really progressive step taken by the investment community toward implementing computer capacity to the trading of securities. The future benefits and expansion potential for Bunker-Ramo from being the leading innovator in this area are unlimited. Acceptance of NASDAQ has run far ahead of expectations despite widespread retrenchment among brokerage firms, and it is reasonable to assume that this sales pace will accelerate with a return to more profitable times in the securities business. There are presently over 1,100 orders for the NASDAQ system, well ahead of the National Association of Securities Dealers estimate of 750 and we estimate a potential market over the next few years for over 3,000 orders. The potential for growth from this point is literally unlimited. Telequote V service is scheduled for initial operation in 1972 and will further enlarge upon and refine Bunker-Ramo's information gathering and display facilities using Telequote III, Telequote 70, the NASDAQ system and Bunker-Ramo Series 2200 equipment. Merrill Lynch, Pierce, Fenner & Smith, the world's largest brokerage firm, has put its stamp of approval on Bunker-Ramo with contracts for the full line of equipment, including NASDAQ and Telequote V when they become operational. Due to Bunker-Ramo's unique "building block" theory, new systems are designed to be compatible with and eliminate obsolescence of older equipment. With an

anticipated increase in the use of computer and electronic devices in the brokerage field, and with Bunker-Ramo's dominance over its only two competitors, Ultronic and Scantlin, the company appears to be standing at the threshold of unprecedented earnings prospects.

Bunker-Ramo's marketing is handled through a worldwide sales organization. Based on past experience in both the Borg fabric and information systems areas, the sales division appears to be adequately staffed to capitalize on new products and increased consumer demand.

Earnings for the first quarter of 1970 were flat, which is not unexpected due to present high interest rates and NASDAQ start-up costs, and second quarter earnings may well be flat also. For the year, however, earnings are estimated to grow to around 60 cents as compared to 53 cents in 1969 (a 13 per cent increase), and for 1970, once NASDAQ earnings begin to appear, we predict earnings of \$1.00 or more per share, and an increase in the multiple to as high as 20x would not seem unrealistic. With slightly over 18 million shares outstanding, Bunker-Ramo offers excellent growth potential and speculative appeal.

A POINT OF VIEW

Continued from Page 3

conversion of already outstanding credits in order to provide financial relief for hard-pressed corporations and communities.

End of the Rope-Unless

The Utopia of Eternal Prosperity, presently dubbed as Full Employment and Growth, was to be brought about by fiscal and monetary tinkering — perpetual inflation. It has "worked," more or less, for a good many years, but it has reached the end of its rope. Yet, we are still not ready to tolerate a temporary deflation, which is the one and only viable way to restore normalcy and stability. To postpone the ultimately unavoidable showdown, resort will most likely be taken to regimenting the economy. This will further distort the price and income structure and pile new problems on top of the old.

Training Salesman to Sell Corporate Retirement Plans

By JOHN H. PALMER*
Manager, National Mutual Fund Department
Kidder, Peabody & Co., Inc., New York City

Excellent guidance for the salesman of tax-deferred corporate retirement plans placed in mutual funds is as uncompromising against the uninformed as the salesman who acts as an expert. In view of bank and insurance company competition, Mr. Palmer says it is more necessary than ever before for the investment community's salesmen to function as catalysts, not as experts, who develop the contacts, pave the way for the plan specialists, and sell the plan on the basis of comparative performance and services. Mr. Palmer outlines a training program to enhance professionalism so as to better present outstanding opportunities through sensible investment channels.

The importance of the retirement area to the investment community has been well documented. There is a sizeable need for new thinking in this area to give maximum assistance to the plan's trustees, to unions, governmental agencies, to the corporation, and to their employees whose interests are all intertwined. Throughout my discussion I will refer primarily to the corporate plan area.

You have heard that to adequately work in this area requires expertise and specialized training. However, both of these factors must be properly analyzed and placed into the framework within which the investment community is operating. In some cases, there has been undue emphasis on these matters which has led to errors in judgement, if not in fact.

Dangerous Two Extremes

At the outset, a salesman is reluctant to embark upon a prospecting program in the corporate retirement plans until or unless he is fully conversant with all aspects of this subject. This causes him either to avoid this field completely or to take it so seriously that he embarks upon a program of making himself an expert wherein he will know all the answers. Both approaches are foolhardy. Tax deferred retirement plans are too important for him to lose out on them by default and too technical for him to make himsel



John H. Palmer

an expert without giving up his salesman's status. To be truly conversant and fully informed in these factors requires full-time concentration usually involving a legal background.

Rather than taking either of these alternatives, it is essential that we remember that the salesman should be a catalyst in creating or speeding up action on the part of the plan trustee. Sight must not be lost of the fact that we are investment people and should structure our presentations upon the premise of improving and restructuring the investment area of the plan to have that plan better able to accomplish the goals for which it was established. The salesman is

Continued on page 19

OIL DRILLING PROGRAMS

By Ira U. Cobleigh

This widely read brochure highlights the NOTABLE tax shelter available to those in high tax brackets through partnership investment in sound oil drilling programs.

Many leading producing organizations offering by prospectus several hundred millions in drilling participations in 1969 have found this brochure an amazingly effective sales tool.

To get your copy (and special prices in volume), just mail \$1 with your letterhead to the publisher:

COMMERCIAL & FINANCIAL CHRONICLE
25 Park Place, New York, N. Y. 10007

Stock Price Outlook During Coming Decade

Continued from Page 1

(8) 1937-1948: Inflation with increasing bond prices due to the methods used to finance World War II. Price multiples on stocks continued to decline to the historic trough established during World War I partially due to institutional restrictions that prevented large funds from flowing freely between the

markets for bonds and the markets for stocks.

(9) 1948-1959: Inflation due to bank credit created during World War II, decreasing bond prices from abnormally high levels and increasing price multiples from abnormally low levels. This ninth phase ends with bonds and stocks approaching a more normal relationship with one another for the first time in 30 years.

(10) 1959-1968: Increased inflation traced to changes in FRS policies, declining bond prices caused by the inflation, but horizontal to slightly declining price multiples on stocks. Stock price multiples peaked in 1961 and later showed evidence of resuming a normal direct relationship with bond prices.

The ten phases of economic

history range in duration from seven years to fourteen years. Stock price appreciation averaged 3.1 per cent per year over the full 96 years but ranged -6.6 per cent per year and +16.1 per cent per year for the ten periods. This substantial variation between periods reflects some of the risks associated with longer-range investment strategies and emphasizes the importance of an historical perspective about stock prices.

stable periods prices increased about 2 per cent per year. By comparison, this index increased at a 5.3 per cent annual rate from the fourth quarter of 1969 through the first quarter of 1970. (15)

Earnings and Price Trends

The second line describes trends in earnings per share. The annual data vary markedly but the longer trends are of course affected by growth in real output and inflation rates.

Annual averages of stock prices (top line) are clearly more stable and have more momentum from year to year than earnings or the P/E ratio component of stock prices. The record of stock prices provides a good perspective about longer range trends. Some of the trends are discouraging such as the fifteen years from 1881 to 1896, the fifteen years from 1906 to 1921, or the declines from 1929 and 1937. These discouraging periods were fortunately followed by better times. The rise from 1896 is associated with the gold inflation that followed the defeat by Bryan in 1896. The rise from 1921 is associated with what Friedman calls the "high-tide of the Federal Reserve System", a period during which people thought problems of domestic and international stability had been solved by the fractional reserve system. The rise since 1949 is due to low stock prices caused by two depressions and a war.

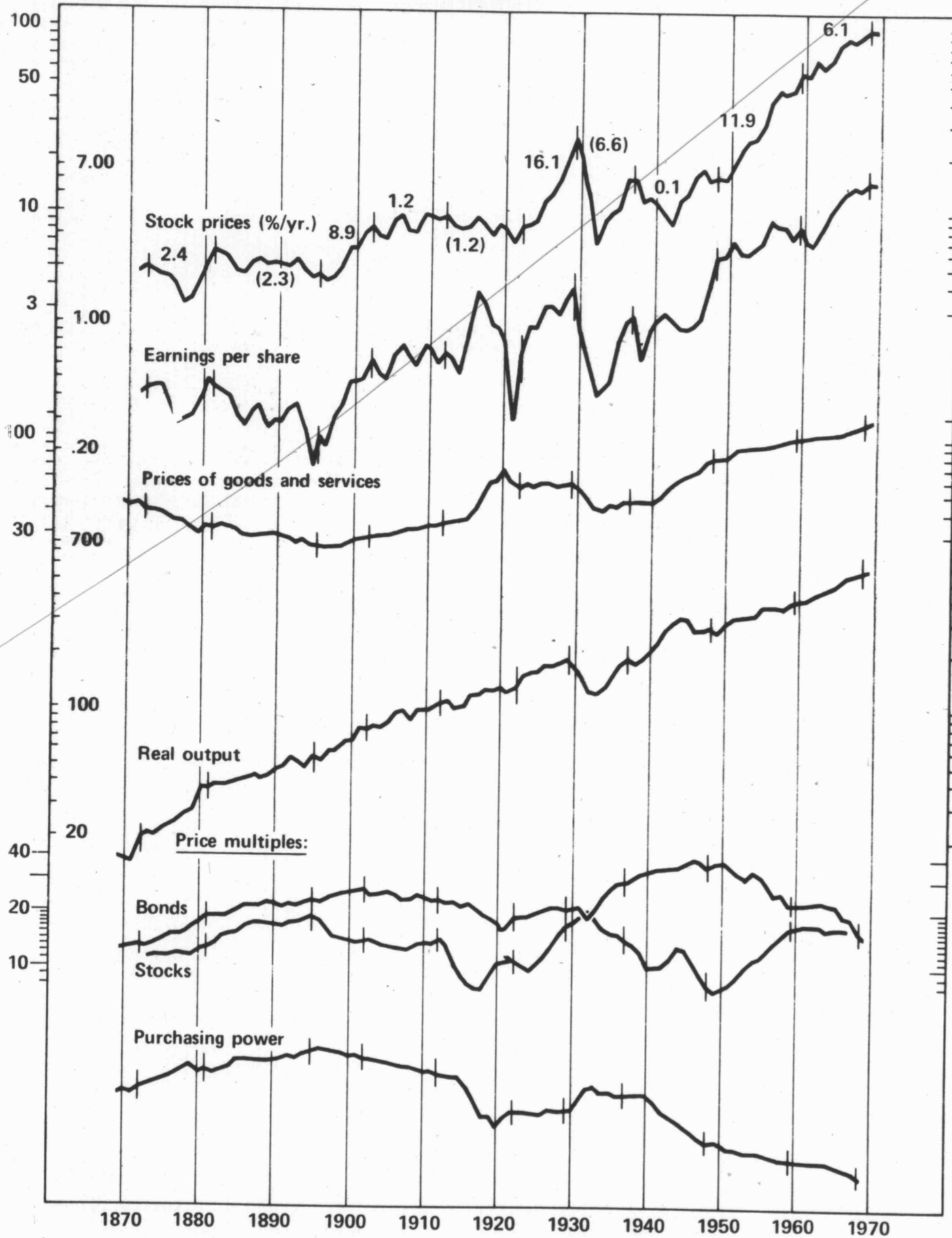
The bottom three lines illustrate how trends in price multiples on bonds and stocks generally relate to changes in the purchasing power of the dollar, the differences being accounted for by unusual factors. The unusual factors affecting these relationships between 1929 and 1948 are the catastrophic depression of the 1930's, the financing of World War II, the post war uncertainty which caused low stock prices, an extraordinary spread between multiples on bonds and stocks. The return to more normal relationships between bonds and stocks begins about 1959. More recently, bond price multiples declined throughout 1969 and into 1970. Stock price multiples have been declining since August, 1967, but are still high by historical standards vis-a-vis bond multiples and could go lower. (Chart 2)

For those interested in growth rates, the Table contains the annual relative rates of change for each series between the beginning and terminal years for each of the ten periods. The calculations use continuous compounding. The stock price multiple growth rates are based on annual P/E ratios rather than the smoother five-year averages which are plotted on the chart.

Indicated Outlook For The Early 1970's

The determination of the Nixon administration to reduce inflation provides a basis for judgments about future trends in interest rates, earnings, and price multiples, the primary factors affecting investment strategies for longer term investors. The FRS is expected to hold money stock to a more stable growth rate in the 3% to 5%

CHART I



Charted Data

All data are plotted on the same ratio scale to reflect relative rates of change and the relative impact of each variable on stock prices. The ten periods beginning with 1872 are indicated. Four variables which describe the relationship between real growth, inflation, earnings, and stock prices are plotted in this order:

- Stock prices S&P 500 composite index(2)
 - Earnings per share (EPS)(3)
 - Prices of goods and services (4)
 - Output of goods and services, deflated for price changes(5)
- The remaining three variables describe the interaction between price multiples assigned stocks versus interest rates and inflation:
- Price/"earnings" multiples on high grade, corporate bonds expressed as the reciprocal of yields to maturity(7).
 - Price/earnings ratios for stocks, five-year moving averages (6)
 - Purchasing power of the dollar, the reciprocal of the GNP implicit price index used for the third variable above.

Real Growth Trends

The fourth line on the chart vividly describes how real growth in output of goods and services has been the most stable of the factors affecting stock prices. For the 89-year period 1880 through 1969, deflated net national product increased 3.1 per cent per year. Real growth for most of the ten delineated periods ranged between 3 per cent and 4 per cent per year. From 1966 through 1969, a period characterized by low unemployment and full use of capital resources, real output increased 2.8 per cent per year.

The third line describes the inflation factor. For the 73-year period beginning with the 1896 trough, prices of goods and services increased 2.2 per cent per year. The variation between periods is large but for the more

Relative rates of change, % per year:

	1872-1881	1881-1895	1895-1902	1902-1912	1912-1922	1922-1929	1929-1937	1937-1948	1948-1959	1959-1968
Real output	6.9	2.8	4.8	3.4	2.1	4.9	0.3	3.4	3.1	4.8
Prices of goods	(2.4)	(1.6)	1.5	2.0	4.6	0.2	(2.6)	5.1	2.0	2.1
Total	4.5	1.2	6.3	5.4	6.7	5.1	(2.3)	8.5	5.1	6.9
Earnings per share	0.2	(4.2)	13.5	1.1	(0.1)	12.0	(4.4)	6.4	3.6	5.9
Purchasing power of \$	2.4	1.6	(1.5)	(2.0)	(4.6)	(0.2)	2.6	(5.1)	(2.0)	(2.1)
Bond price multiple	4.2	1.4	1.5	(1.0)	(2.0)	0.9	4.8	1.5	(4.1)	(3.6)
Stock price multiple	2.2	1.9	(4.6)	0.1	(1.1)	4.2	(2.2)	(6.3)	8.2	0.2
Stock prices	2.4	(2.3)	8.9	1.2	(1.2)	16.1	(6.6)	0.1	11.9	6.1

per year range during the foreseeable future. However, research conducted by the St. Louis Federal Reserve Bank suggests that inflation control with reduced interest rates will take longer to achieve than the Nixon administration originally contemplated. This research suggests that the current inflation rate of 5.3% per year will not slow to a 3% to 4% rate until the end of next year (1971). A lower growth rate in real output (2% to 4% per year) and higher unemployment (4% to 7%) through the fourth quarter of 1971 is also indicated. This research suggests that long term corporate bond yields will decline only marginally if at all through 1971 due to the lag between declines in inflation and the effect on interest rates.

From a strictly historical perspective price multiples on stocks near term should be less than the 16-18 times earnings range experienced during the 1960's. Although P/E ratios were surprisingly stable from mid-1958 through 1969, they were historically high by comparison with the yield multiples on competing media including corporate bonds, mortgages, real estate, and short-term 3-5-year Treasury's. This unfavorable relationship continued to the point where by mid-1967 multiples on stock prices exceeded the corresponding multiples on high grade bonds and U.S. Treasury's.

The correction in stock prices during the last 19 months helps reduce the risk of continued multiple erosion. The S&P 500 at 78 (July 24, 1970) is about 21 per cent below the average price for calendar 1968. One can argue that stocks should sell in the 12 to 14 P/E range from here, but the case for even lower multiples can also be built should political pressure cause the inflation battle to be delayed. The positive case for a return to higher multiples during the foreseeable future is difficult to build for the economic environment expected during the early 1970's.

The prospects for earnings gains however are good due to recent inflation. Current earnings rates are too low to finance normal growth in operating assets because interest costs and the cost of equity capital now exceed the returns most companies achieve on their incremental investments in operating assets. A cost-push gain in margins is indicated if production capacity is going to maintain normal growth. Operating income (pre-tax, pre-interest cost income) of manufacturing corporations during 1969 was less than 10 per cent on investment in gross operating assets (9). This operating income/gross operating asset ratio is likely to decline during the 1970 recession to the 1961 low of 8.5 per cent but should rebound by 1972 towards a 12 per cent rate versus 11 per cent in 1966 and 14 per cent in 1955. A 25 per cent gain in net income over the 1969 levels is a reasonable expectation for the early 1970's due to necessary pricing adjustments forced by the need for continued expansion of operating assets.

The net effect of a decline in price/earnings ratios coupled with higher earnings would increase stock prices above their current levels during the next bull market. EPS of \$7.20 in 1972

and a 13x's multiple indicates a potential \$94 for the S&P 500 stock composite index, about 20 per cent above current prices. The bull market peak would exceed the peak achieved in 1965 but fall below that peak achieved in 1968. Beyond 1972, higher stock prices will require higher multiples which in turn require minimal inflation and lower interest rates.

Outlook For The Later 1970's

The recent market environment caused investors to review once again the theories about common stock valuation. These theories are based on growth rates versus the cost of capital over infinite holding periods. The Gordon formulation of long term value (investor return equals dividend yield plus a long term growth rate) can be expanded to a price-multiple form that relates longer term indicated price/book ratios to earnings on book, long term growth and the cost of capital(10):

Price/book (equals) Return on equity-growth rate (divided by) Cost of capital-growth rate.

Based on normal equity returns in the 11 to 12 per cent area, long term growth around 5 to 6 per cent per year and a normal cost of capital of 9 per cent, this formulation of longer term value reaffirms that stocks should normally sell in the 1.5 to 2.0 times book value range.

Stocks reached the 2.0 times book level in 1956 and fluctuated about that level during the ten years ending 1969 (Chart 2). Data on price/book ratios for the Dow Jones Industrials Average (DJIA) beginning 1910 show that the DJIA fluctuated about the 1.5 times book level between 1910 and 1956(11). It sold at or above two times book when earnings/book ratios exceeded 15 per cent (1910-12, 1925-29), close to one times book in 1932-33, 1942 and 1949. Other research shows

that between 1952 and 1964 individual stocks that earned 9 per cent on book, the indicated longer term average cost of capital, usually sold for about 1.0 times book(12). Companies that earned 12 to 13 per cent were generally priced about 1.5 times book and 15 per cent returns brought 2.0 times book. This research suggests that price/book ratios for most stocks most of the time are related to earnings/book ratios and that a longer term guideline for market averages is somewhere between 1.5 and 2.0 times book.

Individual issues will of course sell at more or less than 1.5 to 2.0 times book range depending on their outlook for finite holdings periods. Companies that fail to earn the cost of capital sell at less than book. Companies that enjoy 20 per cent returns on equity frequently sell at three to five times book because the market believes these companies will continue to enjoy high returns for an extended period of time.

For finite investment horizons, the concept of a compounding period implied by the existing multiple provides a useful tool for evaluating individual issues. When 12 per cent return companies sell at the 2.0 times book level and 20 per cent companies sell at 4.0 times book, the market is assuming the 20 per cent returns will hold for about 10 years before regressing to more normal 12 per cent returns:

$$\frac{10}{1.20} = 4x's \text{ book}$$

$$\frac{10}{1.12} = 2x's \text{ book}$$

That is, 20 per cent returns yield a quantity two times as great as 12 per cent returns when each is compounded for 10 years. Beyond the tenth year, the

market is assuming that the 20 per cent company will become a more normal 12 per cent return company.

This compounding period is currently much longer for some of the higher multiple stocks. Those 20 per cent return companies being valued by the market at 10 times book (e.g. Xerox) are being compounded for a 23-year period vis-a-vis 12 per cent return companies. Whether compounding periods beyond 10 or 20 years will hold during the 1970's is the question currently being asked. High growth rates during finite holding periods of course offset some of the potential risks taken in buying or holding high-multiple stocks (13). Nevertheless, a restructuring of price multiples could occur during the 1970's based on prospective revaluation of compounding periods.

Emphasis For The 1970's

The current market climate accelerates renewed interest in fundamentals. Increased emphasis is likely to be placed on capital returns, leverage, interest costs, and implied compounding periods. Longer term investment decisions should emphasize these kinds of considerations:

1. The extent to which recent inflation will increase earnings/book ratios for capital intensive companies, those with high operating assets (gross plant and inventories) relative to common equity.
2. The extent to which continued high interest rates will reduce earnings/book ratios and price multiples for companies with short debt maturities that require refinancing.
3. The quality of earnings, high earnings/asset ratios versus high leverage, should receive more attention. Companies with effective return-on-investment programs will be distinguished from those with less financial discipline.

4. An emphasis on growth rates for finite holding periods that reflect financially viable growth in per share operating assets and common equity rather than short term swings in EPS is indicated.

5. Redefinition of debt capacity that penalize that portion of plowback earnings required to service and amortize debt are being developed.

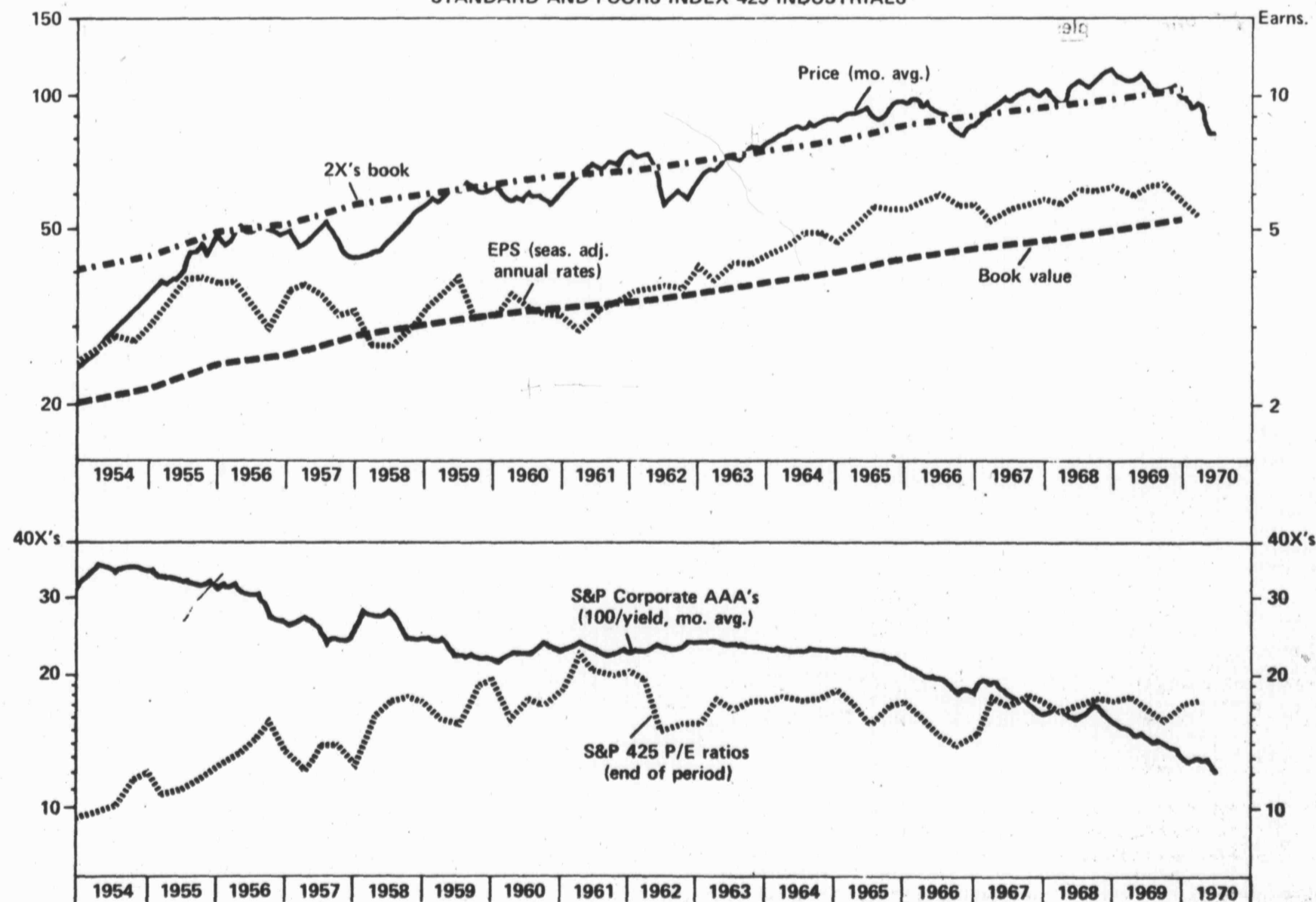
6. Re-examination of the trade-off between growth and potential multiple decline vis-a-vis capital returns and the implied compounding period is expected.

This return to fundamentals should provide an environment for the development of more innovative portfolio strategies. Improve stock valuation models that provide estimates of expected return for finite holding periods will permit better comparisons with returns from alternative investment media and better measures of market character. New definitions of risk that relate risk to the size, operating performance, and financial policies of the company are plausible.

Improved corporate growth models that deal with a company's ability to finance asset growth and maintain or improve returns on total assets will permit a larger number of investment opportunities to be examined efficiently with computers. Professor William Breen, Northwestern University, Evanston, Illinois, recently developed theoretical grounds for believing that even large institutions can improve performance and reduce risk by learning how to buy and sell more issues more frequently. The need to concentrate on a larger number of individual issues rather than market averages is also suggested by Fisher's data which describe the large spread between returns on alternative investment decisions in NYSE issues(14). This

Continued on Page 16

CHART 2
STANDARD AND POORS INDEX 425 INDUSTRIALS



Stock Price Outlook During Coming Decade

Continued from Page 15

variation coupled with the increased number options obtained by including ASE, OTC, and foreign securities provides special opportunities for new approaches to organizing data information systems.

Summary

The 1971-1972 bull market peak could top out below the 1968 peak due to substantially lower multiples being assigned substantially higher earnings. Beyond the early 70's higher prices will require improved multiples which in turn will require negligible inflation and declining interest rates.

Although movement of the market averages may be less than exciting over the next decade, new approaches to portfolio decision making that cover more issues more frequently are believed to hold large promise.

FOOTNOTES:

(1) Friedman & Schwartz: A Monetary History of the United States, 1867-1960, National Bureau of Economic Research, NYC, 1963.

(2) Annual averages of Standard & Poor's Composite Index, Security Price Index Record. See Geoffrey H. Moore's Business Cycle Indicators, Vol. II, NBER, 1961, pages 23-24 for description of back data and reference material pertaining to back data.

(3) Earnings for 1926 to date from Standard and Poor's Security Price Index Record, Orange, Connecticut. Data for 1871 through 1925 obtained by multiplying Cowles earnings-price ratios for R-1 stocks by S&P price index which is based on Cowles P-1 stocks. P-1 series includes companies for which earnings data were unavailable to Cowles. See Alfred Cowles III, Common Stock Indexes, Principia Press, Bloomington, Indiana, 1939.

(4) 1869-1963: GNP implicit price index, NBER, via correspondence with Mrs. Schwartz, 1964 to date: Department of Commerce, Survey of Current Business, Washington, D.C.

(5) Deflated net national product estimates for 1872 to 1960 are derived from Friedman and Schwartz (ibid.). 1961 to date: Department of Commerce estimates of national income deflated by the GNP implicit price index. Net national product is an estimate of the unduplicated total of all goods and services produced by people and the capital belonging to them. It differs from gross national product by the amount of capital consumed in the production of goods and services. Net national product is more directly related over longer time periods with net profit trends than is gross national product.

(6) Average price during five years divided by average earnings per share for the same five years. The ratio is centered on the third year.

(7) Bond yields 1920 to date are for Standard and Poor's High Grade (AAA) Corporate Bond Index, 1871-1920: Macaulay's "Unadjusted Railroad Bond Yields" from Table 10, Column 4 of The Movement of Interest Rates, Bond Yields, and Stock Prices in the United States since 1856, NBER, 1938. Macaulay's unadjusted yields are used to reflect a direct comparison with concurrent earnings yields on stocks.

(8) Andersen and Carlson "A Monetarist Model for Economic Stabilization", Federal Reserve Bank of St. Louis Review, April, 1970.

(9) Quarterly Report for Manufacturing Corporations, FTC-SEC, Washington, D.C. Operating income is after deducting depreciation charges but excludes the effects of interest cost, income taxes, other income, and extraordinary items. Operating assets include gross property, inventories and receivables.

(10) The Gordon statement and derivation is reprinted in Ezra Solomon: The Management of Corporate Capital, The Free Press of Glencoe, Illinois, 1959, as a chapter titled "Capital Equipment Analysis" by M.J. Gordon and Eli Shapiro.

(11) Testimony by T.O. Yntema, Ford Motor Co., Kefauver subcommittee on Antitrust and Monopoly, Committee on the Judiciary, U.S. Senate, February 4-5, 1958, page 61.

(12) Testimony by Dr. Walter Morton, University of Wisconsin, during A.T.&T. rate hearings before the Federal Communications Commission. Exhibits 11 and 12, F.C.C. Docket, No. 6258, May 2, 1966.

(13) See the writer's "The Third Yield", Financial Analysts Journal, Jan.-Feb., 1968, which suggests a useful approach for handling the trade-off problem, growth versus potential multiple decline, for finite versus infinite holding periods.

(14) Lawrence Fisher, "Outcomes for Random Investments in Common Stocks listed on the NYSE," Journal of Business, April, 1965. Fisher calculated the returns that would have been achieved after commissions for all combinations of listed NYSE issues and month-end purchase and sale dates between 1926 and 1960. The average case returned 9.8 per cent per year but about one-fifth of the 56.6 million possible transactions returned over 20 per cent per year versus the bottom one-fifth which lost money.

(15) Rates of inflation or deflation can conveniently be explained by changes in money stock, changes in money holdings by private businesses and individuals relative to the quantity of goods and services produced, and changes in real output per the Friedman-Schwartz analysis. Since these money variables affect stock prices indirectly through their effect on inflation, they are excluded from the charted data to simplify the presentation.

Bonds Offered By World Bank

Morgan Stanley & Co. Inc., and First Boston Corp., New York, as managers of a nationwide underwriting group, announced the public offering of \$200,000,000 of International Bank for Reconstruction & Development (World Bank) twenty-five year 8% per cent bonds of 1970, due Aug. 1, 1995, at par.

The bonds are not redeemable prior to Feb. 1, 1983. They are redeemable on or after Feb. 1, 1983 at the option of the Bank as a whole or in part at any time at 102 per cent to and including July 31, 1986 and at decreasing prices thereafter; and through operations of the sinking fund at 100 per cent, together in each case with accrued interest.

The net proceeds to the Bank of the sale of the bonds to the underwriters and under the contracts for delayed delivery will be used in the general operations of the Bank.

The bonds being offered are not subject to the Interest Equalization Tax. Furthermore, the revised guidelines for nonbank financial institutions, issued by the Federal Reserve System on Dec. 17, 1969, place no restraint on purchases of the bonds. Thus no guidelines restrictions affect purchases by nonbank financial institutions, including trust companies or trust departments of commercial banks.

In addition to the initial delivery of the bonds, which is expected on Aug. 5, 1970, bonds will also be offered for sale on a delayed delivery basis through the underwriters, to certain institutional purchasers. Delayed delivery sales will be made under contracts providing for delivery on Feb. 3, 1971; Aug. 4, 1971; Feb. 2, 1972, and Aug. 2, 1972.

The International Bank for Reconstruction & Development is an international institution, the members of which are governments now numbering 114. Its principal purpose is to assist the economic development of its member countries by facilitating the investment of capital for productive purposes, thereby promoting the long-range growth of international trade and the improvement of standards of living; to promote private foreign investment; and when private capital is not available on reasonable terms, to supplement private investment by making loans for productive purposes out of its own resources or funds borrowed by it.

THE STATE OF TRADE AND INDUSTRY

Steel production . Electric Output . Carloadings . Retail Trade
Food Price Index . Auto Production . Business Failures . Commodity Price Index

Philadelphia Reserve Bank Publicly Prescribes "Incomes Policy" as a Placebo

The latest entrant into the growing list of prescribers of the ills of our economy is the Federal Reserve Bank of Philadelphia. That it should make independent diagnostic, prescriptive and prognostic contributions to the economic scene need not be emphasized or questioned; it is, indeed, as imperative as it is welcomed. As the head of the Third Federal Reserve District it is charged with numerous responsibilities including actively advising the Federal Reserve Board of Governors and the Federal Open Market Committee of its findings and views. In line with the minimum requirements of scientific methodology, it has publicly disclosed many of its studies and views through its eminent monthly publication. Progress is enhanced by the free play of ideas and the requirement of defending ones views.

What is surprising is that the July Business Review publicizes a major policy recommendation which willingly admits as a virtue that even if the recommended policy should fail it "could have a placebo effect".

Recommended, with the rational clearly states, is an "incomes policy", stopping short of direct wage and price controls.

It is not yet certain according to the Bank, whether the current business slowdown will be enough to reduce the pace of inflation quickly enough. The author of the article, economist Edward G. Boehne, wrote that the stage has been set for the classical unwinding of inflation — the economy has slowed, excess capacity prevails, an unemployment is up — but prices continue to rise. An incomes policy, supplementing current economic policies, could help end inflation more quickly, he stated in the article "The Inflation That May Not Stop?".

The lack of tangible results does not mean that what monetary and fiscal authorities have been doing to combat inflation is wrong, the Business Review article stated. No business slowdown has yet failed to bring relief to rising prices. Rather what authorities have done may not be tolerable for a long enough period.

The combined thrust of monetary and fiscal policies in the past year and a half has been aimed at eliminating excess demand and creating just enough excess capacity to dampen inflation without bringing on a serious recession or high rates of unemployment.

This strategy, which attempts to trade the sharper but shorter slowdowns of the past for a milder, longer one, has been

necessitated by social constraints, the article explained, the Nation's intolerance toward unemployment and its concern with who as well as how many are out of work preclude the high unemployment rates which were used in the past to control serious inflation. Yet, because inflation has become so deeply

entrenched, the level of unemployment needed to check rising prices may be the same or even higher than it was a decade and a half ago, the Business Review article pointed out.

Another difficulty with this strategy is, with inflation as stubborn as it appears to be, it may take considerable time for a mild slowdown to unwind the price spiral. If unwinding inflation takes too long, national patience will wear then and time may become as much a constraint on policymakers as unemployment, the article warns.

An incomes policy, which stops well short of price and wage controls, could help ease this time constraint by shortening the transitional period between economic slowdown and price slowdown, the Business Review article stated. Even if this is not the case, an "incomes policy conceivably still could have a placebo effect; people would just feel better psychologically knowing that 'more' is being done to curb rising prices." (Emphasis added.) It would, thereby, make it easier to allow monetary and fiscal policies additional time to work their effects through the economy. In either event, an incomes policy improves somewhat the changes of bringing inflation to heel.

An incomes policy would not be without some possible dangers, the article warns. Should inflation persist, voluntary guidelines on wages and prices could escalate into direct controls. Or the ill-advised use of an incomes policy too early in the game might preclude its more effective use in the future.

All this theorizing to justify the prescription makes an important contribution to the debate over which policies to pursue. If the Bank stopped there, its case — which amount to "we tried everything and they didn't work, what have we go to lose if we try this — should have made the economic doctors, in and out of the Administration and the Federal Reserve redouble their efforts. But, in submitting that even if it failed it could have a placebo effect a contradiction of serious proportions was raised. That contradiction actually invalidates the proposition of giving monetary and fiscal policies a breather within which to work. If they failed, it simply means that a breather was not provided. If they succeeded, it means guidelines were unnecessary in the first place. There would in effect, be no placebo effect taking place. As the span of time lengthens, and fiscal and monetary policies enjoying the cloak of "voluntary" guidelines prove less and less effective, then the placebo would correlatively grow thinner and thinner. No where is there any recognition of the contradiction between guidelines and other policy. They are difficult to coexist unless aimed at preserving the guidelines.

More importantly, what happens when the deluge sets in as a result of existing policies

collapsing? Does the placebo remain? We doubt it; but even if it did, the economy and its inhabitants would be so fare gone they would never know the difference. If this is policy recommendation, it is time to look at the total consequences of such action.

—SIDNEY BROWN

Bank Clearings Rise 7.2% Above 1969 Week

According to data compiled by Dun & Bradstreet, Inc., bank clearings for the week ending July 22 were \$103,159,310,000 compared to \$96,192,165,000 the same week in 1969.

Since clearings for the week ended July 15 amounted to \$97,722,054,000, week to week gain amounted to 5.2 per cent.

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

City	Week Ended July 22 (000 omitted)		%
	1970	1969	
New York	\$74,357,000	\$69,986,275	+6.2
Chicago	2,145,144	2,183,600	-1.8
Philadelphia	2,074,000	1,868,000	+14.7
Boston	2,426,474	2,379,971	-6.0
San Francisco	3,446,000	3,135,724	

* Estimated.

Steel Production Falls 2.7% From Previous Level

According to the American Iron and Steel Institute, steel production for the week ending July 25 amounted to 2,377,000 compared to the prior week's 2,442,000 tons for a week-to-week 2.7 per cent decrease. The index of production (1957-59 equals 100) was 127.6 and 131.1 respectively. Output in the 1969 week was 2,635,000 tons 141.4 representing 9.7 per cent decrease from the year-ago week.

Cumulative output to date this year totals 76,794,000 and 3.9 per cent below 79,828,000 tons created in the same 1969 period. The respective indexes are 140.1 versus 145.6.

District	** Index of Production for Week Ending	
	July 25	July 18
Northeast Coast	127	128
Buffalo	102	101
Pittsburgh	114	112
Youngstown	104	118
Cleveland	134	135
Detroit	171	166
Chicago	140	147
Cincinnati	102	111
St. Louis	132	138
Southern	150	167
Western	142	141
Total Industry	127.6	131.1

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

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

Can Cheer Of Auto Suppliers Last?

The auto industry has placed its first large orders for materials needed to produce its 1971 models — and, in most cases, they're about on target with what suppliers had hoped they would be, Industry Week reported.

However, the cheerful implications of this news will be pretty meaningless if strikes hit the carmakers as expected in September, the magazine said.

New car output felt the economic slowdown sooner and harder than any other major

segment of U.S. business, with the possible exception of color TV. And because so many other industries are affected by Detroit's troubles, most are looking in that direction for recovery.

Steel producers count the auto industry as one of their two largest customers and have felt the sag in its needs. They have been able to partially compensate for this by filling heavy foreign demand for semifinished steel — but these markets are starting to dry up, and strong automotive ordering would be most welcome.

Amid rumors General Motors Corp. is planning large purchases of Japanese steel, there are also indications that Ford Motor Co. and Chrysler Corp. have lined up significant quantities of foreign steel.

Meanwhile, U.S. labor costs in steel go up again Aug. 1 as wages rise by 12 cents per hour at the lowest job levels and more in the higher work classifications, and benefits are broadened by the addition of such things as major medical insurance and an extra holiday, **Industry Week** pointed out.

At the same time, it's going to cost more to ship by truck. Highway freight rates, which rose 5 to 9 per cent earlier this summer, will be gaining another 3.5 per cent to 6 per cent as a result of a sweetening of national Teamster wages following an independent settlement with drivers in Chicago.

And the Interstate Commerce Commission has approved a Post Office plan to hike the cost of parcel post 15.2 per cent.

While overall steel ordering is spotty, some improvement in demand has occurred since mid-July. One mill in the Northeast says its orders "look good, the best in quite a while." Still, other report new business is down as much as 20 per cent from normal.

The price of steel scrap continues to slip downward as supplies improve and major customers look for further declines. **Industry Week's** price composite on the No. 1 heavy melting grade of steelmaking scrap dropped 50 cents to \$40.58 per gross ton.

First Big Auto Steel Orders Due This Week

Steel orders continue to drift downward due to plant vacations and other seasonal factors. But mills should get a lift this week from the placement of the first big batch of automotive orders, according to **Iron Age** magazine.

The national metalworking weekly says that the auto companies are preparing for a strong startup on production of new cars when the last of current model runs end and changeovers are completed.

Most 1970-model production will be ended by the last of this month. Production of some new cars is already underway and will accelerate through August as more and more of the plants come back on stream.

Iron Age says that the program outlined by one large automotive system calls for September steel tonnage requirements to be as great as that of September, 1969.

Last year the auto industry took in 1.65 million tons of steel in September. That was 100,000 tons more than in August and 300,000 tons more than July.

This year's July to September increase could be greater. Shipments to the auto industry

have been running 20 per cent under the 1969 rate.

The major new buying programs still have not shown up officially on the order books. The official order rate is well below the shipping rate and mill backlogs are being reduced. But steel sales offices have been given indications by the automotive steel buyers as to what their needs will be.

Some orders, of course, have already been placed. Officials at two steel sales offices in Detroit say their orders are up 10 per cent over a year ago. On the other hand, two sales offices say their orders are still trailing by 10 per cent.

While the automakers are just getting ready to go into production on the new cars, their suppliers are in full swing to fill the supply pipelines. They usually have to get a 4 to 6 week headstart on the assembly lines.

But, **Iron Age** says there is little doubt that the steel producers are looking forward to the pickup in automotive orders.

Steel production dropped 4.9 per cent in the latest week reported. This was down more than 10 per cent from the high of the year. And it was the lowest production week — at 2.44 million tons — since January of 1969.

With steel exports easing and other steel market areas showing weakness, the automotive surge is not expected to produce any significant general upturn.

Mills are still looking for steel shipments to average about 7.5 million tons a month for the rest of the year.

However the auto spurt should end backlog erosion and inject some firmness in the shipping picture. And despite static demand, last year's auto demand did lift the whole market.

Start Of New Model Year Finds 1970's Cumulative Total But 10% Below Year-Ago Period

U.S. car output took its expected precipitous plunge last week, falling off approximately 50 per cent from the previous week, as the industry continued shutting its plants down for changeover. Automakers scheduled 56,598 cars vs. 117,310 the previous week and 58,440 in a similar week of 1969, **Ward's Automotive Reports** said.

Since the first of the year, total auto-truck assemblies fell 9.9 per cent below the year-ago cumulative total for the same period. Last mid-June the spread this year was 12.7 per cent behind last year. The gap from 1969 steadily narrowed from an alarming 34 per cent in mid-February to the present reading. Strike and price rise fears are spurring sales this summer.

American Motors' Kenosha (Wis.) plant closed all last week, is scheduled to re-start Aug. 11.

Ford Motor Company halted assembly at three car plants last week, leaving one of 16 U.S. plants operative this week. Scheduled to go down July 24, are Kansas City (Mo.), Lorain (O.) and San Jose (Cal.). However, Kansas City and Lorain truck operations were slated for Saturday overtime, July 25. Meanwhile, the Wixom (Mich.) plant began July 20 to produce the first of the company's '71 models.

Only Chevrolet Division of General Motors still showed relatively strong output. The Chevy changeover schedule had Baltimore (Md.) and Leads (Mo.) going down July 21 and Doraville (Ga.) and Van Nuys (Cal.) July 20. Saturday

overtime is scheduled for St. Louis (Mo.) Corvette, July 25.

Chrysler Corp. plants going down July 24 include Belvidere (Ill.) and Newark (Del.) Saturday overtime was slated for Los Angeles (Cal.), that plant going down July 31. Hamtramck, the only other car plant operative, is going down July 30.

Of last week's scheduled output, GM accounted for 42.1 per cent, Ford for 25.2 per cent, Chrysler for 32.7 per cent, with American Motors zero.

Cumulative Rail Freight 1.2% Above 1969 Level

Freight traffic in the week ended July 18 totaled an estimated 14.2 billion revenue ton-miles, 0.1 per cent below the corresponding week last year, the Association of American Railroads reported.

Cumulative volume for the first 29 weeks of 1970 was an estimated 425 billion revenue ton-miles, 1.2 per cent above the total for the corresponding period last year.

Loadings in the week ended July 18 totaled 520,050 cars, 14.5 per cent above the preceding week but 3.2 per cent below the corresponding week last year.

Fifteen of the 21 commodity groups showed decreases from the corresponding week last year, with metallic ore loadings off 7.5 per cent. Coal loadings were up 5.4 per cent.

Piggyback revenue freight loadings in the week ended July 11 totaled 23,265 cars, 3.7 per cent below the comparable week last year, and 37,906 trailers or containers, down 4.3 per cent from 1969. Cumulative volume for the first 28 weeks of 1970 is 685,808 cars, 4.1 per cent below the 1969 total, and 1,143,985 trailers or containers, down 2.2 per cent compared to last year.

Truck Tonnage Down 8.9% From 1969 Week

Intercity truck tonnage in the week ended July 18 was 8.9 per cent below the volume in the corresponding week of 1969, the American Trucking Associations announced. Truck tonnage was 0.6 per cent below that of the previous week of this year.

New Lumber Orders 5.4% Above 1969 Week

New orders for the latest week ending July 18 were 5.4 per cent above the year-ago week. They were, also, 26.4 per cent above the preceding week of this year.

Lumber production in the week under review turned out 2.4 per cent more board feet than the 185,404,000 board feet cut in the year-ago week. Shipments were down 0.4 per cent from the year-ago week.

Production, however, at 190,022,000 was 21.5 per cent above the previous week. The following lumber associations' returns are in thousands of dollars for the week ending:

	July 18 1970	July 11 1970	July 19 1969
Production	190,022	149,129	185,404
Shipments	186,111	185,106	186,974
Orders	205,189	150,935	194,027

Electric Output Gains 0.4% Above 1969 Week

Last week's electric energy totaled 0.4 per cent more than last year's weekly level.

In the week ending July 25, electric output aggregated 30,455 million kilowatt hours according to data compiled by the Edison Electric Institute, which is the industry's trade association for an all time high output. Output was 30,321 million kilowatts in the year-ago week. Compared

with the previous week of this year, the latest week's production was 1,488 million kilowatts below output in July 18 ending week.

In the 52 weeks ending July 25 cumulative output was estimated at 1,488,141 million kilowatt hours or 7.7 per cent gain over the year-ago period.

Weekly Failures Highest Since May '68

Commercial and industrial failures climbed to 250 in the week ended July 23 after subsiding to 180 in the preceding week, reports Dun & Bradstreet, Inc. At the highest level since May 23, 1968, business casualties exceeded considerably the 199 occurring in the similar week of 1969.

Wholesale Index Firms

Dun & Bradstreet's Wholesale Commodity Price Index edged up a fractional 0.3 per cent to 287.61 on Monday July 27 from the previous week's seven-week low of 286.85. At the same time, the index exceeded the 266.12 of a year-ago by 8.1 per cent.

All the grains underwent an upward movement during the week. The wholesale cost of wheat firmed on the recommendation of mills for extended coverage on high ratio soft wheat as insurance against uncertain crop conditions later in the year. Corn prices rose amid speculation of increased need due to reports that some Nebraska counties were granted extended haying and grazing privileges because of poor moisture conditions. Lacking independent influence, quotations for rye and oats advanced in tandem with the other grains. Lighter than expected arrivals led to strengthening hog pricings, and, after bottoming out last week, hide quotations firmed as buying

Treasury Announces \$9.2 Billion Cash and Exchange Financing

The Treasury decided not to enter into any prefunding of the November 15, 1970, notes in announcing that next week's financing will be confined to the holders of August 15, 1970 maturities.

The financing will involve a two-fold transaction involving an exchange and new cash. Next Monday through Wednesday, August 3-5, inclusive, two new notes will be offered strictly in exchange for the \$6,460 million due this coming mid-month. In addition, the Treasury will sell for cash, and/or exchange an 18-month note totaling \$2,750 million due August 15, 1972. The cash sale is for one day only, Wednesday, August 5. Should payment be made with maturing issues, then the subscribers will be given no preference over cash subscriptions with regard to allotments. Payment and delivery date is set for August 17.

Form Janfred Corp.

COMMACK, N.Y. — Janfred Corporation is conducting a securities business from offices at 105 Caramel Road. Officers are William F. Hitschler, president and treasurer, and Janet Hitschler secretary. Mr. Hitschler was formerly with Halle & Stietlitz and Shearson, Hammill & Co.

activity was brisk in the first post-vacation week. Silver prices also built in a reflection of the higher prices received at the government's weekly silver auction. Costs of coffee, butter and gasoline continued upward. On the down side, in contrast, were prices of rubber, steel scrap, yellow pine and Douglas fir.

Consumer Buying Uneven Toward End Of Clearances

Purchases at retail stores lost some momentum in the week ended July 22 as clearance sales neared completion, according to spot reports collected by Dun & Bradstreet, Inc. Holding at a brisk pace, however, was buying of men's furnishings, particularly of sports and casual wear. Whereas new emphasis on fashion has lifted activity in the masculine sector, the new skirt lengths shown for fall have made women shoppers cautious. The early start of White Sales drew heavy attention. In home goods, demand for refrigerators, air conditions and hardware stepped up from the prior week.

Department Store and Retail Sales

Department store sales in the week ending July 18, according to the Bureau of Census, was 3 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 4 per cent.

A broader set of data covering total retail store sales unadjusted for price difference or for seasonal variation shows they were 5 per cent above the year-ago week. The four most recent weeks showed an increased of 5 per cent and sales of nondurable goods were 7 per cent larger than a year ago, with durable goods store sales 2 per cent above a year ago.

Of the exchange rights issues coming due, \$5,596 million are publicly held. The table below depicts the new 18-month cash issue sold at a discount, and the 3½-year note is sold at par. Their generous yields are compared to those prevailing the day just prior to the financing announcement.

Treasury's \$9.2 Billion Financing

	% Yield
New Issues	
7.50% Note due Aug. 15, 1971 for cash or payment with maturing notes.	7.54
7.75% Note due Feb. 15, 1974	7.75
7.75% Note due Aug. 15, 1977	7.80

	% Yield*
Comparative Outstanding Issues	
4.00% Bond due Aug. 15, 1971	7.03
8.25% Note due Aug. 15, 1971	6.93
4½% Bond due Feb. 15, 1974	7.56
8.00% Note due Feb. 15, 1977	7.62
4.00% Bond due Feb. 15, 1980	7.38

*Yields based on asked price for delivery June 30.

The treasury expects to raise \$1 to \$2 billion new cash. It also anticipates being in the market for an undefined amount of cash between now and September 15 tax-date. Subsequently, after the mid-September revenue date, it will make plans regarding the November 15 maturities. The Treasury did announce it expects to engage in raising cash right on until the low water tax receipts mark of December 15 tax payment date. — Sidney Brown.

MUTUAL FUNDS

By JOSEPH C. POTTER

A Bouquet For Willy Loman

It is a fact that, at any social function, people will gather about investment managers and other denizens of the Executive Suite, no doubt hoping to unravel the mystery of money-making or to learn some great secret about the world of finance. The cynosure of neighboring eyes, wearing the Brooks Brothers suit and the very dry Martini, may qualify as a disaster area to the shareholders, but it doesn't seem to matter, for the guests never will tire of asking him about the prospects for monetary ease, peace in Southeast Asia, a turnaround in the market and G-rated movies.

The Willy Lomans of the business, if they are lucky enough to get invited to the party, may be asked by the waiter what they would like to drink. Still, it would be nice, once the business has turned the corner, to have a party for the vendors of mutual funds at which they would be treated like the Delphic oracle. After all, people could ask: "How do you go about selling shares when the market is collapsing?"

If the bosses aren't ready to toss a party, at least they aren't tossing the new money brought in by Willy into the market either. Even so, they continue to lose it in the marketplace faster than the salesman can bring it in. Thus, in June the net assets of the mutual-fund members of the Investment Company Institute amounted to \$38.5 billion. This is a decline from the \$39.8 billion reported a month earlier and a long way from the \$49.4 billion reported for June of 1969. Actually, the figures are even worse than they look, for the latest statistics are based on 323 funds, up two from the preceding month and up 62 from a year earlier.

Sales of mutual funds in June of this year rose 20 per cent from May, while redemptions by shareholders declined more than 34 per cent to reach the lowest dollar level of redemptions since February, 1967. Gross sales of fund shares in June totaled \$364.5 million. This compares with \$303.5 million in May, when sales were only a shade better than the \$300 million of redemptions. But in the latest reporting month (June) redemptions shrank to \$197 million.

The month of June also marked a further increase in the share of fund assets held in cash or the equivalent. Liquid assets at the end of June amounted to \$4.4 billion. This compares with a

figure of \$4 billion reported for the end of May.

Of utmost significance is the fact that the funds at midyear, with \$4.4 billion of cash included in their \$38.5 billion of assets, had boosted their reserves to 11.4 per cent of total worth. That figure was under 8.5 per cent as recently as March and under 8 per cent on a few occasions in dismal 1969.

Of course, the latest figure, amounting to 11.4 per cent, is based on assets that have dwindled by \$11 million in the span of a year. At midyear in 1969, less than 8 per cent of fund holdings were in cash or equivalent, but assets at that time were close to \$50 billion.

Though total net assets dropped in June, redemptions as a percentage of average net assets provided a measure of comfort. At 7.3 per cent, the figure compared with the 7.2 per cent for the 12-month average (ended in May) and 8.3 per cent in June of last year.

Anyhow, let's have that party for the salespeople. Thanksgiving would be an appropriate time. Not only do their bosses owe them a blowout, but all investors are in their debt. It is questionable whether the market this summer would be in the early stages of recuperation if the funds had been forced to liquidate large blocks of stock to redeem shares. And the current cushion must be a comfort to all.

By all means, let's have a party. "And, say, Willy, where do you get all that drive? Pep pills?"

Common Offered By Syncom, Inc.

The public offering of 100,000 shares of Syncom, Inc. common stock at \$5 per share is announced by Northeast Investors Planning Corp., Bronx, N.Y.

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

Syncom, of Tonawanda, N.Y., is engaged in the maintenance of magnetic computer tape.

Warren Gold Opens

TUCSON, ARIZ. — Warren S. Gold, Inc. has opened offices at 1433 East Broadway to engage in a securities business. Officers are Warren S. Gold, president and treasurer, and Deanna L. Gold, secretary. Mr. Gold was formerly an officer of L.G. Victors, Gold & Co.

Now Glenwood Equities

EAST ORANGE, N.J. — Grunberg, Bellomo, Kaufer, Raff & Co., 44 Glenwood Avenue, has announced that the firm's name has been changed to Glenwood Equities Corporation.

The business, structure and management remain unchanged. The new name is being adopted mainly to bring the corporate designation in line with that of its parent, Glenwood Securities, Inc. and also with a view to future expansion further afield.

Both firms are wholly-owned divisions of Pennsylvania Life Company.

Grunberg, Bellomo, Kaufer, Raff & Co. was founded in 1959 and is specialized in Mutual Funds and Funding Programs. Apart from its principal office in East Orange, N.J., it has branches in Trenton, N.J., Scranton, Penn., and Washington, D.C.

J. Julien Grunberg, Chairman of the Board of Glenwood Equities Corporation, stated that the company is considerably expanding its activities and is also developing the acquisition of various related brokerage and insurance sales organizations.

Duke Power Co. Preferred Sold

The First Boston Corp., and Merrill Lynch, Pierce, Fenner & Smith Inc., New York, as managers of the underwriting group, announce the public offering of 600,000 shares of Duke Power Co. 8.70 per cent cumulative preferred stock, Series F, at \$100 per share.

Proceeds from the sale of stock, together with those from \$100 million first mortgage bonds to be sold at public bidding on Aug. 5, will be applied toward repayment of the major part of the outstanding short-term obligations incurred in the construction of additions to the company's electric plant facilities.

The new preferred stock is not redeemable prior to Sept. 16, 1980 through certain refunding operations. Otherwise, it is redeemable at \$110 per share prior to Sept. 16, 1980; at \$107 per share thereafter and prior to Sept. 16, 1983; at \$104 per share thereafter and prior to Sept. 16, 1986; and at \$101 per share thereafter, plus, in each case, accrued dividends.

Duke Power, headquartered in Charlotte, is engaged in the production, transmission and

sale of electricity in the central portion of North Carolina and the western portion of South Carolina. Its service area, approximately two-thirds of which lies in North Carolina, covers about 20,000 square miles with an estimated population of 3,300,000. The area includes a number of cities, the largest of which are Charlotte, Greensboro and Winston-Salem in North Carolina and Greenville and Spartanburg in South Carolina.

DIVIDEND NOTICES

QUARTERLY DIVIDENDS SINCE 1935

NATIONAL DISTILLERS CHEMICAL CORPORATION

DIVIDEND NOTICE

The Board of Directors has declared a quarterly dividend of 22½¢ per share on the outstanding Common Stock, payable on September 1, 1970, to stockholders of record on August 10, 1970. The transfer books will not close. July 23, 1970.

RAMSEY E. JOSLIN, Vice President and Treasurer
NDCC DIVISIONS: NATIONAL DISTILLERS PRODUCTS CO. U.S. INDUSTRIAL CHEMICALS CO. BRIDGEPORT BRASS CO. ALMADEN VINEYARDS, INC. - TEXTILE INTERNATIONAL

DIVIDEND NOTICES

AMERICAN ELECTRIC
AEP
POWER COMPANY, Inc.

242nd Consecutive Cash Dividend on Common Stock

A regular quarterly dividend of forty-one cents (41¢) per share on the Common Capital Stock of the Company, issued and outstanding in the hands of the public, has been declared payable September 10, 1970, to the holders of record at the close of business August 10, 1970.

W. J. ROSE, Secretary
July 29, 1970.

98th Dividend

Suburban Propane

Quarterly cash dividends consecutively paid since first corporate year. A quarterly dividend of 40 cents a share will be paid on August 15, 1970 to stockholders of record August 3, 1970.

Mark J. Anton, President

DIVERSIFIED COMPANIES: Plateau, Inc. Suburban Manufacturing Company Frio-Tax Oil and Gas Company Suburban Cablevision Inc.

SOUTHERN RAILWAY
SERVES THE SOUTH
LOOK AHEAD-LOOK SOUTH

Southern Railway Company
New York, N. Y., July 28, 1970

A dividend of seventy-five cents (75¢) per share on the Common Stock of Southern Railway Company has today been declared out of the surplus of net profits of the Company for the fiscal year ended December 31, 1969, payable on September 15, 1970, to stockholders of record at the close of business on August 14, 1970.

J. J. MAHER, Secretary

DIVIDEND NOTICE

More than 822,000 owners of Standard Oil Company (New Jersey) will share in the earnings of the Company by a dividend of 90¢ per share declared July 29, 1970 and payable September 10, 1970 to shareholders of record August 12, 1970.

1970 is the 88th consecutive year in which cash dividends have been paid.

Standard Oil Company
(New Jersey)

ESSO

THE SOUTHERN COMPANY

The Board of Directors has declared a quarterly dividend of 30 cents per share on the outstanding shares of common stock of the Company, payable on September 5, 1970 to holders of record at the close of business on August 3, 1970.

L. H. JAEGER,
Vice President and Treasurer

THE SOUTHERN COMPANY SYSTEM

Serving the Southeast
ALABAMA POWER COMPANY
GEORGIA POWER COMPANY
GULF POWER COMPANY
MISSISSIPPI POWER COMPANY
SOUTHERN ELECTRIC GENERATING COMPANY
SOUTHERN SERVICES, INC.

NOTICE OF REDEMPTION

Notice is hereby given that the following numbered Burt County Bridge Revenue Bonds 4 per cent Series A, totaling \$5,000.00 par amount are called for payment August 1, 1970. The described bonds are called at par plus accrued interest to August 1, 1970, at the office of the Morgan Guaranty Trust Company, New York, New York.

93	769	1123	1530	1783
508	942	1431	1595	1919

The above bonds which have been called for payment August 1, 1970, will cease to draw interest on that date.

BURT COUNTY BRIDGE COMMISSION
BY: Frederick S. Nance, Manager

Consecutive dividend payments since 1937

Panhandle Eastern

Pipe Line Company
Houston, Texas

Increased Quarterly Dividend
45¢ per Common Share
(formerly 40¢ per share)

Payable September 15, 1970
Record August 31, 1970
Declared July 22, 1970

Cyril J. Smith
Secretary

438th Dividend

Pullman Incorporated

Quarterly Cash Dividends
Consecutively Paid
For 103 Years

A quarterly dividend of seventy cents (70¢) a share will be paid on September 14, 1970, to stockholders of record August 14, 1970.

W. IRVING OSBORNE, JR.
Chairman and President

Divisions

Transportation Equipment
Pullman-Standard
Trailmobile
Engineering/Construction
The M. W. Kellogg Company
Swindell-Dressler Company

Principal Subsidiaries

Pullman Transport
Leasing Company
The Canadian Kellogg Company, Limited
Kellogg International Corp.
Trailmobile Finance Company
Canadian Trailmobile Limited
Societe des Remorques, Semi-Remorques et Citernes Trailor
Empresas Tecnicas Asociadas
Pullman, S.A. (Mexico)
Berry Metal Company
Aloe Coal Company
F. C. Torkelson Company
Unimation, Inc.

Training Salesman to Sell Corporate Retirement Plans

Continued on Page 13

a motivated force rather than a technical advisor. He is not compensated as a plan specialist nor legally or morally prepared to perform their functions. He must be the agent who brings in the full-time expert who has been thoroughly trained and experienced in these matters. A little bit of education can be a dangerous thing and we must remember that we are not actuaries, accountants or attorneys. We are the experts in investment advice and service.

This brings me to the discussion of the best method to secure this business and be of service to the retirement plan field. At present, it seems to me that the soundest approach is to work on the existing plans. Because of this feeling, further discussion of the prototype plan seems to be in order.

Dangers in the Prototype Approach

A disservice has been done to the investment community by those who have fostered the impression that opening retirement plan accounts through the prototype plan route is a simple procedure requiring 15 or 20 minute discussions wherein it is just a matter of "signing on the dotted line." Supposedly the prototype was going to revolutionize the new plan area wherein salesmen would be establishing plans by the dozens. We were told that all you needed to do was to fill your attaché case with all sorts of prototypes and you would walk away with new pension, profit-sharing, thrift plans and salary deduction plans.

Many salesmen enthusiastically embarked upon the prototype approach only to strike out miserably and return to their office disillusioned and vowing never to become involved in any type of work in retirement plans again.

The fact must be faced that the prototype plan requires greater expertise in the specifics of the tax sheltered retirement plan area than through working with existing plans. When the salesman prospects for new plans, even with the prototype, he must first advise the corporate officer about the reasons for establishing some type of plan, then upon the proper plan for him and finally must review with the corporation such matters as eligibility, vesting, contribution schedules, etc. to enable the plan to be the most effective and advantageous to those for whom the plan is considered to be the most needed. All of the variables must be considered and the correct prototype plan recommended. In addition, analysis of that particular plan must be presented to make certain that it fits their specific requirements. Incursions into earning power and disgruntled executives and employees may occur if the wrong plan or an improperly designed plan is established.

To put it even more negatively, the salesman and his firm may place themselves in a morally or legally embarrassing position if a salesman with only a cursory knowledge advises the establishment of a prototype plan improperly.

Prototype plans are a convenience package aimed primarily at the smaller corporation with a limited number of employees. They are designed to save time and legal expense and in many cases may serve as a framework upon which their tailor-made plan may be structured. Perhaps it will act as a checklist for establishing a plan. Decisions involved in opening a prototype plan requires just as much thought and expert consideration as with a tailor made plan.

This is not to indicate that prototype plan prospecting should be abandoned. On the contrary, they present an excellent opportunity as a prospecting tool for the salesman and an efficient and convenient package to present. However, caution must be exercised by the salesman not to overstep his ability and authority.

Many of these problems are avoided when working with existing plans as the technicalities have been thrashed out thoroughly. Of course, many times existing plans must be modified or rewritten to have them conform with any investment changes that may be necessary.

Prospecting in existing plans presents the salesman with opportunities which he is best able to handle. Those are the advice and assistance in structuring the plan along the best channels to provide the best performance and services commensurate with the needs and requirements of the plan.

The technical work as to the type of plan required, vesting privileges, contribution schedules, eligibility, benefits etc. have all been worked out. If restructuring is necessary, it may often be accomplished with a minimum of effort through contacting their legal staff and/or through the salesman's working with a proven expert who is in the proper position to advise.

Selling Points

Emphasis in selling to existing plans should be placed upon securing better performance for the plan which can reduce the corporation's contributions in a fixed benefit plan or increase the benefits in a money purchase pension plan or a profit-sharing plan.

Many trustees are unaware that a 1 per cent improvement in the annual performance of their plan can result in as much as a 25 per cent reduction in contribution or benefit whichever the case may be. This is a substantial figure for a minimum improvement in performance and it should be the foundation upon which prospecting in existing plans is based.

Here he is really "doing his thing" which is to be the investment expert rather than the technical expert.

Since his success hinges in a great part upon showing better performance, a comparison of the current plan with a Mutual Fund's performance over the same time period is the key offering ingredient. Many of the leading Fund groups provide computerized comparison on a

rapid turn around basis to allow almost immediate servicing of the prospect.

Other Selling Points

Of course, there are other keys besides performance which should motivate the trustee to place the plan in the hands of Mutual Funds and the salesman must be well-versed in these areas. Such things as communications to employees, ease of administration, ease of distribution upon retirement, possible establishment of Withdrawal Plans at retirement, etc. should be important considerations and advantages obtained through investment in Mutual Funds.

This approach works. It is factual and relevant. It is essential that investment services be emphasized. The salesman must remain within the bounds of his investment posture.

Salesman's Training

This brings me to training. If I appear to be the devil's advocate, so be it but it seems to me that the whole picture must be viewed intelligently.

Salesmen working in the corporate retirement plan area must be as knowledgeable as possible in as many of these plan's basic aspects as possible. He must know what he is talking about without purporting to the prospect that he is an expert. However, in training salesmen and managers, it must be made quite clear that just because a few hours of classroom study has been received on these technical aspects, only limited expertise has been acquired and this limitation must be respected.

We have at our intelligent and sensible disposal, men with proven expertise, experience, and ability who may be relied upon for the detailed answers to specific technical questions or even to the restructuring of the plans themselves. Dick Farrington and Ed Sippel are fine representatives of these experts with some of the major Fund managements whose services are available to the salesman. Some investment firms have their own in-house specialists who are well able to field these questions and give the necessary structuring to a plan.

Training should center upon knowledge of the nomenclature and glossary of terms involved in these plans. The basics should be fully understood. The salesman must know what the trustee is talking about. He should be able to ask some leading questions to draw out the information required to make a good presentation, one that will be meaningful to the official involved in making the decision about the plans. All this must be done within his investment posture and not as an expert in these matters. The training efforts should emphasize the factors which will place the salesman on the correct path to develop a meaningful relationship with his prospect and be of valued service to him. He must lead from strength which is the investment area.

One of the most important aspects of training in these fields and usually the most neglected is

teaching salesmen how to ascertain whether or not he has a good prospect. Far too often salesmen are impressed by the size of a particular plan and immediately call upon the experts to contact a plan administrator where there is really no area for doing any business. Emphasis should be placed upon probing the contact and asking the key questions before calling in anyone. Much time and effort will be saved through the salesman's placing a proper value judgement upon his contact.

Often, the salesman leans upon the expert for fear of "striking out" with his contact and brings him into the picture far too early without adequately detailing whether his services are necessary. In other instances, the expert is brought in "cold" without enough information to do his homework and come in prepared.

The salesman must know when to call in his technical aid and whom to call upon for this assistance. He should be able to spell out the essential details to this technician to best prepare him to assist in a meaningful way.

In short, I feel that training should emphasize the basic terminology, definitions and factors involved in retirement plans. Also, training should educate on how to find a prospect and then teach the salesman how best to approach that prospect to gain a client in Mutual Funds if they are suitable. Training should emphasize the goal which is to secure the investment account. It should also teach and make clear the limitations that are placed upon the salesman in this field.

Prospecting in the retirement plan area provides many fringe benefits to the salesman in addition to the plan itself. Of course, the plan provides the salesman and his firm with a type of annuity as each year the plan will invest additional sums. Of course, the salesman must service the account properly and make certain that everything is operating in its proposed fashion.

Soliciting Personal Accounts

In addition, however, the salesman may obtain the personal accounts of the officers or others with whom he is working. He may open accounts for many of the employees. He may receive radiation and access to many other accounts.

It is essential that the security salesman offer full services to his prospect be he an individual or a corporation. He must offer more than just individual securities ideas and research recommendations. He should learn about all aspects of financial planning. He must learn more about the tax deferred plans in the corporate, union and public areas plus knowledge of HR.10 plans for the self-employed. He must improve his expertise and widen his horizons. But he must know his legal, moral and sales limitations and call upon attorneys, accountants and other experts to assist him. He must handle himself with intelligence, imagination and creativity.

We must get down to basics and remember that we are

primarily and fundamentally investment-oriented people and it is to this end that we should be working, planning and constantly striving.

Conclusion

In conclusion, the challenges and opportunities open to the investment community in the tax deferred retirement plans are vast. To gain their maximum advantage and benefits require a commitment to learn and understand the basic fundamentals in this specialized field. It requires that time be spent which is necessary to find the prospects and to tell them your story. It requires probing and analyzing to ascertain whether there is a true promise in working further with this contact. It requires calling upon the true experts when necessary.

There must be greater professionalism in the investment community. As has been discussed at this C&F C seminar for the past two days, we must sell to the prospects personal or corporate needs, goals and aspirations. We must offer him an opportunity to fulfill his dreams and needs for the future in a sensible and fundamentally sound way. We must educate him that investing is a necessity regardless of short term market posture and that Mutual Funds through the major, well-financed, well-motivated, experienced management companies, is the most logical and most adaptable method of investing.

To accomplish this, it is necessary to educate, train, motivate and structure sales staffs and management to be of maximum assistance and aid to the tax deferred retirement plan areas which have tremendous need for our services.

Outside Competition

The investment community has become greatly more competitive with the entry of insurance companies and banks into the Mutual Fund industry. This competition is healthy. It will require greater imagination and creativity on all of our parts to serve the future markets.

Let us move into this area with professionalism and high-quality services to raise the whole standing of the investment community from a feast or famine business to a sound, well-motivated industry which sells the American economy with strength and confidence. Investment is a necessity in order to achieve personal financial good health. The corporate retirement plan area presents outstanding opportunities through sensible investment channels. We must accept those opportunities as a challenge to constantly improve upon our attitudes, abilities, and services through better training, better prospecting, and through the realization of our responsibilities in the investment community and through working with those who are best able to assist us and our prospects towards achieving their goals and needs.

* An address by Mr. Palmer before the 1970 Mutual Fund Estate Planning and Profit Sharing Conference sponsored by the COMMERCIAL AND FINANCIAL CHRONICLE.



WASHINGTON AND YOU

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

WASHINGTON, D.C. — The Bureau of the Census, in answer to a query a few days ago, said there are only nine States remaining that have not had a preliminary 1970 census count released.

Two of these nine States are New York and California, our Country's most populous States. Of the two there is no doubt that California is the larger. The Census Bureau has been hinting out loud for several years that the Golden State has surpassed the Empire State in total population. It will soon become official in the eye of the Bureau.

Calif. to Outvote N.Y. State

The new decennial census means that the Legislatures of California and New York, like the Legislatures of nearly all the States, in 1971 will have to carve out new Congressional districts. They are obligated to realign the districts since the United States Supreme Court issued its one-man, one-vote doctrine in 1964.

Completion of the 1970 (as of April 1) census will have interesting and far-reaching ramifications including the casting of the electoral votes in the 1972 presidential election.

Based on preliminary estimates by the Census Bureau, California will be the biggest gainer of all in picking up additional seats in the United States House of Representatives. It is expected to gain four more seats in Congress or a total of 42 from the present 38 seats.

On the other hand New York, currently with 41 seats, apparently is going to lose two seats. Thus, assuming the estimates are correct, the count will show California will have three more members of Congress than New York.

The presidential electoral votes of the various states of course is based on the number of members in Congress.

The fact that New York stands to lose two seats does not mean that it has lost population. It has gained in population by several hundred thousands of persons. However, New York State has not kept up with the national average increase.

Penn. and Ohio Face Shrinkage

Pennsylvania, long a power in presidential elections with its big block of presidential electors, may also lose two seats. Pennsylvania now has 27 Congressional districts. Ohio, another big State and a maker of Presidents of the United States, stands to lose one seat. If this materializes Ohio will have 23 seats after next year's redistricting by the Buckeye State Legislature.

The growth of the big prosperous cities of Texas, which now has 23 seats, apparently will be large enough to offset the population in the rural and small town areas and then some to

increase its seats in Congress by one to a total of 24.

Florida Gains Seats

Next to California, "sunny" Florida has chalked up the greatest population increase of any state. Florida currently has 12 representatives in the House of Representatives in Washington. Indications are it will pick up two more seats. Only California and Florida will gain more than one Congressional district.

Besides California's gain, it appears that Western States will increase their electoral strength by two additional. Arizona and Colorado each will gain a seat.

The South, which has nearly one-third of the Nation's population, will gain three seats as a region, unless it turns out that Mississippi, which once had cotton as its economic base, will lose one seat.

Mississippi, long one of the foremost agricultural states of Dixie, has been undergoing an agricultural technological revolution. As a result thousands of persons, predominantly of the black race, have left the fields for work in the cities. Preliminary figures indicate Mississippi lost a few thousand persons during the past decade.

Agricultural Iowa, with perhaps the richest soil overall of any state, is losing another seat. It takes fewer and fewer workers to raise corn and hogs and beef cattle as the agricultural landscape becomes more mechanized from the Corn Belt to the rich, table-top flat Mississippi Delta Lands.

Another agricultural state, North Dakota, which has only two House seats, apparently is going to lose one of those. However, no attempt will be made here to give a complete rundown of all States that will gain or lose under the decennial census which our Constitution requires at least every 10 years.

Under the one-man, one-vote doctrine, each Congressional District in a State is supposed to be as nearly equal in population as is feasible for the Legislatures to draft in making district alterations.

It is an old legislative custom that the political party that controls the law-making body try to redesign the district to give the party a political advantage. Sometimes this can create great frustration for the minority party.

While on the subject of electing members of Congress, it is known that President Nixon and the White House staff are going to do all possible to try and elect a Republican Senate majority this autumn, but things do not appear favorable at this time.

Republican Voting Aspirations Day

There is no question the Nixon Administration is having great difficulty with the Democratic controlled Congress, and the



"It's just not Mr. Cackles' day—"

Senate in particular. The House Democrats, particularly the Southern conservatives, have more or less worked with the Administration on most measures.

Privately the Republican leadership in Congress have felt all along that the odds were heavy against the Elephant Party gaining control of the House of Representatives in this fall's elections. However, there has been strong hope and belief for perhaps 16 months, more or less, that the Republicans could capture control of the Senate by taking several seats from the Democrats.

Now there is no real enthusiasm that the Republicans can pick up seven or eight seats as originally hoped. The economic slowdown and our unpopular foreign policy in Southeast Asia — right or wrong — seemingly is hurting the Administration.

Also the Administration's school desegregation or intergration policies in the Old South could prevent the Republicans from gaining two or three additional Senatorial seats in the South.

Republicans are hopeful of gaining seats in Florida, Tennessee and Texas. The Texas race will be between two candidates—Democrat and Republican labels of pretty much the same conservative ideology. Liberal incumbent Texas Democrat Senator Ralph Yarborough lost the seat in the Texas Democratic primary weeks ago.

(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.)

Dreyfus, Moore & Schley to Merge

Effective August 1st Dreyfus & Co. and Moore & Schley Incorporated, both members of the New York Stock Exchange, will consolidate and continue to business under the name of Moore & Schley, Cameron & Co. from offices at 120 Broadway, New York City.

Golder Pres. of First Capital



James S. Brannen Stanley C. Golder

CHICAGO, ILL. — Election of Stanley C. Golder, vice president of the First National Bank of Chicago, as president of First Capital Corporation, the bank's wholly owned small business investment subsidiary, was announced today by Chairman Gaylord A. Freeman, Jr., effective Aug. 1.

Mr. Golder succeeds Robert P. Perkaus, who retires July 31 after 46 years of service, since 1960 as a vice president of the bank and since 1965 as president of First Capital Corporation.

Succeeding Mr. Golder as vice president and general manager of First Chicago International Banking Corporation in New York is James S. Brannen, assistant vice president of the bank.

Eastman Dillon Resident Mgr.

MINNEAPOLIS, MINN.— Eastman Dillon, Union Securities & Co. has appointed Harold D. Covlin, Vice President, as Resident Manager of the Firm's Minneapolis office, 2000 Midwest Plaza Building.

Mr. Covlin joined Eastman Dillon in 1968 as Manager in the Institutional Sales Department, a function he will continue to handle as Resident Manager. He was appointed Vice President in March of this year.

F.S. Smithers & Co. Directors

Arthur D. Lewis, chairman of the board of the 113 year-old New York investment banking firm of F.S. Smithers & Co., Inc., 45 Wall Street, has announced the election of six new directors.

The new directors, all vice presidents of Smithers, are: Josephus R. Corbus, manager of the Chicago Regional office; Paul L. Swenson, manager of the San Francisco regional office; Gene R. McHam, general counsel and corporate secretary; and Robert T. Hoerle, William O. Melvin, Jr. and Robert A. O'Leary, all of institutional sales.

Mr. Corbus' former professional associations include R.W. Pressprich & Co., The Illinois Company and Brown Brothers Harriman & Co., all of Chicago.

Prior to joining Smithers, Mr. Swenson, was associated with A.G. Becker & Co., Inc. as a Vice President and sales manager for the West Coast and international offices. Other professional associations include Eastman Dillon, Union Securities & Co., Lehman Brothers, and the U.S. Rubber Co., Inc.

Mr. McHam, joined Smithers from Stock Clearing Corporation, New York. Prior to that he was associated with the New York Stock Exchange as Executive Assistant to the President of the Exchange, and the law firm of Lord, Day & Lord in New York.

Mr. Hoerle, joined Smithers in 1962.

Mr. Melvin, prior to joining Smithers in 1966, was affiliated with W.C. Langley & Co., New York.

Mr. O'Leary was formerly with B.J. Van Ingen & Co., Inc., before joining Smithers in 1965.

Form Stanton Inc.

P.J. Stanton, Inc. has been formed with offices at 40 Exchange Place, New York City to engage in a securities business. Stanley Needleman, formerly with Packer, Wilbur & Co., Inc., is president.

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