

# The COMMERCIAL and FINANCIAL CHRONICLE

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In Three Sections — Section One

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## Hazards of Speculating On Higher Silver Price

By **WALTER L. FRANKLAND, JR.\***  
Executive Director  
Silver Users Association  
Washington, D.C.

It is estimated that members of the Silver Users Association account for approximately 80 per cent of all silver consumed by the arts and industries in the United States. Last year, consumption was estimated at 147 million ounces.

I would like to emphasize that keeping track of silver is the full-time occupation of the Washington staff of SUA. We do not dilute our efforts by keeping up with other commodities unless they affect silver and certainly spend no time analyzing companies, industries and new issues. I do not believe that anyone in the metal market devotes more time to "silver watching" than we do. Perhaps this is one reason for our analyses being as accurate as they have been. I will admit, though, that we have been wrong in our judgment of the silver market this year in that our predictions have been high. We apparently gave too much credit to the influence of brokerage houses and advisory services bulling silver and thus we set our sights too high.

I would like to make clear that we are not in the crystal-ball-gazing business and do not like to predict prices; however, in January, we were pressured into going on record concerning the price for this year. At the time, we were laughed at with our prediction of an average price of \$2.00 to \$2.10. Everyone else was higher; and some, very much higher. I wish to point out that the average price for silver through August was \$1.78. So far, this is lower than 1969 when the government was selling more silver. Since there are too many factors which contribute to the price for silver, we get into the guessing game only when others make predictions which have absolutely no basis; hence, we feel it necessary that our members be aware of a reasonable price range based on analyses of all factors affecting silver.

Silver-users spokesman predicts that a new post-1967 low price for silver will probably occur before we begin to see a new high. Attention is directed to the vast silver stores overhanging the market dampening opposite pressures coming from speculative demand. This year's silver production is expected to increase 8 per cent with domestic consumption, however, falling off as much as 10 per cent. Half the current deficit between new supply and demand will come from scrap salvage and the other half from costly speculative holdings, Mr. Frankland opines.

(EDITOR'S NOTE: The Treasury will sever its remaining supporting ties to the silver market next November 10. At that time, the General Services Administration will hold its last competitive weekly bid sale of surplus silver which will leave the Treasury an inventory close to what it was on June 30, 1968. Silver coinage for all practical purposes ended with the passage of the Coinage Act of 1965 on July 23, 1965, and Silver Certificates were demonetized after June 24, 1968.)

We have attempted to point out the availability of silver in order that the users, producers, investors and those who might be interested in speculating with this metal would be completely aware of all the supply and demand factors involved. On the other hand, some producers, analysts and advisory services attempted to portray an impending shortage of silver in the hopes of higher prices.

The consumer of silver products, as well as the investor who bought silver bullion, has been seriously hurt as a result of the speculative bulge in the market that took place in 1968. The consumer suffered because he was required to pay higher than necessary prices for his silver, and the investor was injured because he bought silver in anticipation of higher prices when, in fact, silver was already overpriced.

### Shorts Have Been The Winners

It is interesting to study the commodity market in view of the price range of silver since 1967 when the Government ceased selling silver at \$1.29 per ounce to domestic users. Those individual investors who followed a course predicated on the SUA evaluation of the silver supply and demand factors have been the winners. Instead of listening to the promoters of higher prices who advocated

buying silver contracts, the prudent move was to sell futures. Had an individual sold one contract of silver each time it came on the board and liquidated it as it went off the board, he could have averaged a net gain of 22½ cents per contract. With a maximum investment of \$12,000 per year (\$2,000 per contract), the gross return would have been about \$45,100 during this three-year period. Obviously, those who believed that buying silver was the proper move would have lost a comparable amount.

Some have said that the information from SUA is designed primarily to keep the price of silver as low as possible. This is certainly not the case. The information issued by the Silver Users Association over the past years has been an attempt to "tell it like it is". SUA members look to the Association for an evaluation of the silver market rather than a rosy picture if, in fact, there is reason to believe otherwise. From the record, it is evident that SUA predictions on silver prices have been far closer to actual happening than any other analysis of the silver market. The methods used in previous analyses by SUA are still being employed, and the factors involved, if anything, have improved in a

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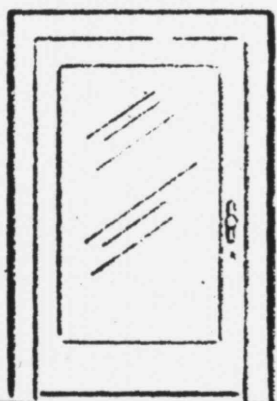
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**ARVID F. JOUPPI**  
Vice President and  
Director of Research  
Wm. C. Roney & Co.,  
Detroit, Mich.

#### Chrysler Corporation

Chrysler Corporation's September quarter brought approximately 20,000 extra shipments of United States passenger cars above expectations. There were slightly in excess of 300,000 units shipped versus productions in the year earlier period of 269,000 units. This added approximately \$50 million to our sales estimate of \$1.75 billion and probably boosted the result into the black from a loss expectation of \$0.10 per share.

There still are not many reasons to rejoice about Chrysler's earnings outlook, but the recent stock price of 25 is down from a 1968 high of 73 and the management has cut operating costs by more than \$3.00 per share and the outlook appears to us to be far more promising than the past few quarters' problems.

Plus factors now are: (1) GM's continuing struck plants are causing fleet buyers to move toward Chrysler and Ford products — the fleet market now is a million cars annually in the United States and GM normally gets more than half of it and their half million unit "share" is concentrated in the October-January period. (2) Chrysler's share of market is up partly because of GM's strike and partly because dealers are pushing left-over 1970s to qualify for rebates — but the near-term record for Chrysler will look good, in our view. (3) Any near-term optimism on the Chrysler situation, both by stockholders and the entire company system, could well create a momentum which would aid earnings results for the balance of this year and for 1971 — which will probably see U.S. producers making a million more cars than this year's still uncertain total. Total personal consumption expenditures in 1971 should be up by 8.2 per cent according to our Roney Research Economic Model. (4) There is no assurance yet that domestic sub-compact cars are going to be the answer to the import invasion. Chrysler has pushed back its introduction time for its own sub-compact by a half dozen months, and could, in our view, possibly drop it — unless Vega and Pinto show exceptional strength, including price firmness. Chrysler's laggardness, made necessary by cash flow considerations, may well prove a blessing to the Townsend-Boyd-Riccardo team, which has been hard pressed to recover from over-optimism on expansion plans in 1968 and overproduction of cars in 1969. (5) The overseas problems of Chrysler show some signs of containment, if not easing.

Chrysler's earnings outlook is clouded, but the management appears to be moving flexibly to handle well both difficult situations and opportunities as

they arise. We tentatively project earnings of \$3.00 per share for 1971, and look for full year 1970 earnings of \$0.50 to \$1.00, and use \$0.75 as a single best estimate now. Sales should reach \$7.4 billion, up from \$7.01 billion last year. The full sales capacity of Chrysler now, even without completing capacity expansion, which has been placed into abeyance, is near \$8 billion by our estimate. The conditions have disappeared which would enable Chrysler to earn 5 per cent net on \$8 billion, but, in our view, 4 per cent is still a good target, and achievable possibly in one of the next two or three years.

This is an up and down stock. We strongly believe the trend now is up. There are some reasons — an undertone that can be detected in Detroit — to believe that Chrysler has built the foundation now for a new general improvement thrust. The stock should NOT be regarded as a prime blue chip, but the management is trying to make it so.

**DAVID S. LOEB, JR.**  
Research Department  
Newburger & Co., Division of  
Advest Co., Philadelphia, Pa.  
**Weis Markets**

Weis Markets operates a rapidly growing chain of supermarkets located in central Pennsylvania and the Albany, New York area. The company has the distinction of having the highest profit margin of any supermarket chain in the country. As a matter of fact, Weis' after tax margin is higher than the pre-tax margin of any major food chain in America. Coupled with the best profit margin in the industry, Weis Markets has had an enviable record of increasing sales and earnings every year since public figures have been available (1957). Yet, with this exceptional record in both growth and profitability, Weis Markets sells at only 11½ times this year's estimated earnings of \$2.80. In our opinion, this well-managed chain appears undervalued in comparison to other supermarket equities.

The first public offering of 611,000 shares, at 21, was made in May 1965. The current dividend of 92 cents, up from 82 cents last year, provides a 2.9 per cent yield on the recent 32 quotation.

Weis operates 72 large, modern markets serving such cities as Harrisburg, Lancaster, Reading, Pottstown, Allentown, and many others within a radius of 125 miles from its home base of Sunbury, Pennsylvania. The highly automated distribution center serving these markets encompasses almost ten acres of warehouse space under one roof. In 1967 Albany Public Markets, currently an operator of eight stores, was acquired for \$6,200,000 cash. The company has never been interested in mere numbers of stores, but has centered as much time and attention to the older stores as to the newer ones. Weis is large

### This Week's Forum Participants

**Chrysler Corporation;** Arvid F. Jouppl, Vice President and Director of Research, Wm. C. Roney & Co., Detroit, Mich.  
**Weis Markets;** David S. Loeb, Jr., Research Department, Newburger & Co., Division of Advest Co., Philadelphia, Pa.

enough to secure all the benefits of volume buying but small enough to move and make decisions promptly without the red tape found in a large food chain.

Weis' emphasis on private label merchandising has contributed to the high profitability of this company. Over 800 products, accounting for 18 per cent of sales last year, carried a higher mark-up than competing national brands.

The average supermarket chain store in the United States produced approximately \$1.68 million in business last year. Weis did better than \$2.61 million per unit and that figure has increased substantially every year. Weis' newer outlets are generally larger than the average 15,000-plus square foot of floor space. The newer units range from 23,000 to 30,000 square feet as the company has added such specialty departments as a delicatessen and a baked goods shop. Weis Markets is a highly integrated operation; it owns a real estate company which owns half of its 72 stores. With no mortgage debt, the occupancy cost is the lowest in the industry. Weis has its own construction company and acts as its own general contractor in its building operations. Practically all operations are integrated in the company from maintenance of its stores to trucking to and from the warehouse.

The company has recently completed a modern ice cream plant with the capacity to produce two million gallons a year. The opening last year of Amity House, an ice cream and food shop, has been expanded to three units in operation. While it is too early to assess this new venture, the company is highly encouraged by the results to date.

Profit margins of most food chains are eroding steadily as costs continue to rise while it has not been possible to pass broad price increases along to the consumer. While earnings have been declining generally this year in the industry, Weis reported an 18 per cent increase for the first nine months (\$2.06 vs. \$1.75) on a 7 per cent gain in sales. Earnings for the full year should be in the area of \$2.75-\$2.80. We think investors are paying very little premium for this outstanding growth company. The stock, available at an 11.5 times this year's estimated earnings, appears exceptionally attractive when compared to other food chain equities.

Orders should be placed with care as management owns 79 per cent of the 3,063,250 outstanding NYSE-traded shares.

#### New Roney Branch

SOUTH BEND, IND. — Wm. C. Roney & Co. has opened a branch office in the St. Joseph Bank Building under the management of Frederick S. Kahn. Mr. Kahn was formerly local manager for Mid-American Corporation.

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# Investment Potential Of Offshore Drilling Industry

By **FRANK M. RUDON**  
Swiss American Corporation  
New York City

Up-to-date review of offshore oil and natural gas developments takes exception to the investment community's disenchantment with offshore drilling and related marine construction. Mr. Rudon briefly describes many of the smaller and larger companies associated in one way or another with offshore drilling. In the light of the impending narrowing gap between worldwide demand/consumption, and the vast potential hardly tapped compared to the free world's remaining land with good oil prospects, he suggests earnest consideration be given to long-term investment opportunities present in this area. Especially noted is the extent to which companies involved in this area have diversified.

The general softening in the offshore drilling market can be attributed to tight money, delays in offshore leasing, uncertainty about import quotas, public reaction to oil spills, changes in tax laws, and the overall general slide in the price of the so-called glamour issues. As a consequence, the investment community is overlooking the long-term growth potentials of the offshore contract drilling and the marine construction industries at a time when these two closely related industries may be facing their best decade of growth.

No doubt this evaluation may sound rather hollow, and in fact 'old hat' to the many investors who jumped on the oceanography bandwagon in the late 60's, only to see the wagon come to a sudden halt, as both the Federal Government and private industry pulled back on their projected expenditures. Yet, all signs now point to an era of growth for these two industries, not because of a false oceanographic boom — not because of investor whims — but because there exists an actual and proven need for their services.

There is no denying the fact that sulphur and hydrocarbon recoveries are the prime reason for the strong interest private industry has continued to show in the offshore development. They are the reasons for the growth of the offshore drilling industry. And now that there is talk of an impending world shortage of energy (artificial or real), oil and gas explorations should continue to lead the way in man's search beneath the seas.

Worldwide demand for crude oil has risen steadily in the last 30 years. The Oil and Gas Journal has estimated that total world consumption of oil will more than double by 1980, going from 38.7 million barrels per day in 1970 to 83 million barrels per day in 1980. And the Petroleum Industry Research Foundation recently concluded that by the year 1980, at present rates of production, supplies of crude oil will be far short of the estimated need of 13.3 million barrels per day. Thus, if no more hydrocarbons were to be discovered, anticipated consumption would deplete the supply in the 1980's. For this reason there is to be an even more intensified search for new oil and gas deposits, with greater concentration being directed at the offshore possibilities.

In the ten year period 1959-1969, the oil industry spent close to \$150 billion for capital and exploration purposes, and of this



Frank M. Rudon

amount over half went for equipment, storage facilities, distribution systems, oil tankers, natural gas plants, refineries and chemical processing plants. The balance went for actual exploration and development. During this same time the Free World's consumption of crude doubled. Over the next decade, all signs point to at least another doubling of consumption. Even though leading authorities such as John D. Moody, senior vice president of Mobil Oil, M. Yves La Prairie, Director of France's National Center for Exploitation of the Ocean, and M.M. Parnell, managing director of British Petroleum Exploration Co., may not agree on a maximum figure, at least they agree on a minimum consumption figure of 69 million barrels per day by 1980.

In 1970, the oil industry will have to provide about 2.5 million barrels per day more than in 1969 — equivalent to an oilfield of almost the size of Kuwait. By 1980 the annual increase will require oilfields well beyond the current capacity of Libya. The demand growth in the U.S., while below that of the 60's, will still grow from 14.2 million b/d to 19 million barrels per day or more. Shell Oil's projected figures of the average annual increase of Free World consumption of oil, for the period 1970-80 show the U.S. increasing by 3.9 per cent; Canada 4.0 per cent; Australia 5.7 per cent; Japan 9.8 per cent; Western Europe 6.4 per cent; Latin America 5.8 per cent; Africa 7.7 per cent; the Middle East 6.6 per cent; and South/South East Asia by 8.6 per cent.

### Growth Forecasts

In order to meet these demands the petroleum industry is expected to double its expenditures over this decade to

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## The COMMERCIAL and FINANCIAL CHRONICLE

25 Park Place New York, N.Y. (10007)  
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## Will Europe Retaliate To American Protectionism?

By PAUL EINZIG

Two wrongs don't make a right, says Dr. Einzig in pleading with European policy-makers not to retaliate against our sudden desperate drive toward protectionism. At the same time, Dr. Einzig deplures our step and explains, for the benefit of those who should know better, that we have been fighting single-handed the Free World's battle to the point where our dollar position has been sacrificed. If anything, Europe's immense debt to the USA, Dr. Einzig says, should be weighed in the balance. He asks his country to disassociate itself from any retaliatory action by the EEC, should they pursue such a suicidal step—even if it costs admission into that group. Dr. Einzig would like to see the U.S.A. devalue gold as one way of preventing a split but urges, nevertheless, no retaliation if we choose not to raise the price of gold.

LONDON, ENG.—Is the free world doomed to be split into two camps as a result of an economic war between the United States and Europe? It looks very much like it. Protectionist legislation is making progress in Congress, and both the EEC and the British Government is threatening with retaliation.

It would be a thousand pities if, solely for the sake of deferring the inevitable rise in the official price of gold which would solve the American problem with a stroke of the pen, the United States were to risk such a split which would endanger the security of the free world. But two blacks don't make one white. Because the United States is determined to embark on such a suicidal policy it does not justify the European Governments to be equally suicidal.

### Immense Debt Owed

In any case, Europe in general and Britain in particular owes

the United States an immense debt of gratitude for all the financial and military assistance received in two World Wars and since the second World War. The main reason why the dollar has weakened to such an extent that it is now deemed necessary in Washington to support it by reverting to protection is that the United States has been fighting practically single-handed for the benefit of the free world as a whole.

When Europe was militarily and financially at its weakest it was the protective shield of the American forces in Europe and the American nuclear power that prevented a Communist Imperialist invasion, and it was American financial aid that enabled Europe to avoid a currency chaos. The 'German miracle' and other European 'miracles' would not have taken place if it had not been for Marshall Aid and other forms of

American financial assistance, and if the military power of the United States had not enabled European Governments to reduce and keep down their spendings on defense.

### England

Britain in particular is indebted to the United States for the big loan of 1946 - even though its convertibility clause deprived Britain from most of the dollars obtained - for Marshall Aid, and for the innumerable occasions on which sterling was saved with the aid of Federal Reserve support.

Moreover, whenever sterling or other currencies were in danger the United States never tried to prevent the adoption of trade protection and exchange control if they were deemed necessary for the defense of the currencies under attack. Under the labor Government imports from the United States were affected by various British measures, but the Washington Administration willingly put up with them for the sake of reducing the pressure on sterling.

### France and Germany

Had it not been for American assistance, Germany and France would not possess today large gold and foreign exchange reserves. France, forgetting her debt of gratitude for her liberation, in 1918 and in 1944 aggravated the difficulties of the United States some years ago by converting her dollars into gold. In other respects, too, she is pursuing anti-American policies and is using her influence on the EEC to inspire an anti-American policy.

Now that it is the United States that is in need of an understanding attitude towards protectionist measures - ill-advised as they are - Europe and even Britain displays a complete lack of understanding. It would be the duty of the British Government to dissociate itself completely from any retaliatory action by the EEC. Unfortunately the chances are that, for the sake of proving how good European Britain is, the British Government is likely to pursue exactly the opposite course. The negotiations about Britain's entry into the Common Market are not going too well, and the Government might hope that such gesture would improve the atmosphere in Brussels.

I firmly believe that Britain's interests lie, not in throwing in her lot with Western Europe but in trying to re-establish her special relationship with the United States and with the loyal countries of the Commonwealth. There is a fairly large section of intelligent British opinion that shares this view. If only some encouraging gesture could come from the United States it would greatly strengthen the hands of pro-American and anti-Common Market circles.

### Wainwright Ramsey Branch

SAN FRANCISCO, CALIF. — Wainwright & Ramsey Inc., nationwide independent consultants on municipal finance since 1932, announces that it has opened a regional office at 58 Sutter Street. Charles A. McPhee was named Vice President and Manager, and James K. Chilton, Jr., Assistant Vice President.

## PUBLIC UTILITY SECURITIES

By John D. O'Keefe

### New Jersey Natural Gas Company

Despite a vigorous year of customer growth, this natural gas distributor was unable to transfer higher revenues into higher earnings during fiscal 1969. The company added 8,804 new customers last year, a 4.5 per cent increase, bringing the total to 206,164. The resulting revenue gains were offset by increased costs charged by two gas suppliers, a rise in interest rates and the full year's effect of the surcharge tax. The net result on common share earnings was a one cent rise over the previous year to \$1.55. However, some improvement has been recorded since then with earnings for the twelve months ended June 30, 1970 amounting to \$1.73.

The company is engaged in the sale of natural gas in New Jersey through three service divisions, located in Morris County in the north, in Monmouth and Ocean Counties in the center of the territory, and in Cape May County in the south. The total service area has an aggregate population exceeding 950,000 in about 120 municipalities. During the twelve months ended June 30, 1970, residential sales comprised approximately 79 per cent of total operating revenues while commercial and industrial revenues contributed 15 per cent and 6 per cent, respectively. Although diverse commercial, agricultural and military activities are carried on in this territory, vacation and resort establishments abound along the Atlantic seaboard section. The summer population of these areas, therefore, is greater than in winter. However, the company's peak demand is experienced in the winter months as a result of residential house heating sales.

### Gas Supply

New Jersey Natural Gas depends on its source of gas from the pipeline companies. The operating service divisions are supplied by Texas Eastern Transmission, Algonquin Gas Transmission and the South Jersey Gas Company under long-term contracts. As of the twelve months ended June 30, 1970, the company had purchased 33,903,151 MCF costing more than \$17.4 million. Before the current gas shortage, the company had been able to obtain additional natural gas from its suppliers as its load increased. However, new allocations for future load growth are presently unobtainable from traditional sources. New Jersey Natural Gas must rely on more expensive sources of supply, such as liquefied petroleum gas and liquefied natural gas, in order to meet estimated peak day demands. The company is now in the process of constructing a propane air facility to be finished this year and a liquefied natural gas plant to be completed in 1971. Additionally, management has adopted a policy of limiting sales of additional gas for commercial and industrial use.

The rates paid by New Jersey Natural Gas to the pipeline companies are based on tariffs filed by those companies with the Federal Power Commission. Recently, the interstate transmission companies serving

New Jersey Natural Gas filed rate increases to be collected under bond subject to refund on the Commission's final determination. Management estimates that if these increases are approved, the additional cost to the company over a twelve month period would be about \$2.7 million. The company's tariff contains a purchased gas adjustment clause, and consequently, the higher costs would be passed on to its customers. The company, itself, is subject to regulation by the New Jersey Board of Public Utility Commissioners, which reviews its rate of return annually. The Board's last recommendation to the company for a rate reduction occurred in 1968 in the amount of \$160,000.

### Financial

The corporation has spent an estimated \$7 million on construction of plant additions during the fiscal year ended September 30, 1970, and management anticipates expenditures of approximately \$24.5 million during the next five fiscal years. These funds will be generated internally, from short-term borrowings and the issuance of additional securities. Recently, \$15 million of first mortgage bonds were sold to retire short-term loans. The resulting capitalization is approximately 52 per cent long-term debt, preferred stock 12 per cent, and common equity 36 per cent. The indicated annual dividend rate is \$1.22, and provides an excellent yield on the current price of the common stock.

New Jersey Natural Gas is traded in Over-the-Counter Market.

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

## Puerto Rico Highway Bonds Marketed \$50,000,000

The Puerto Rico Highway Authority on October 22 sold an issue of \$50,000,000 bonds to an account headed by The First Boston Corporation, as senior manager, and a group of fifteen co-managers. The bid was for a combination of \$25,000,000 6 per cent, 6½ per cent, 7 per cent, and 7.10 per cent serial bonds, due 1972 through 1992, and \$25,000,000 7½ per cent term bonds, due 1999. The net interest cost was 7.16 per cent.

Associated with the First Boston Corporation as co-managers are: Blyth & Co., Inc.; Drexel Harriman Ripley Incorporated; du Pont Glore Forgan Municipals, Inc.; Eastman Dillon, Union Securities & Co.; Halsey, Stuart & Co., Inc.; Kidder, Peabody & Co., Inc.; Lehman Brothers; Merrill Lynch, Pierce, Fenner & Smith, Incorporated; John Nuveen & Co. (Inc.); Phelps, Fenn & Co. Smith, Barney & Co. Incorporate; White, Weld & Co.; Banco Credito y Ahorro Ponceño; Banco Popular de Puerto Rico; and Banco de Ponce.

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## Cement Stocks Look Good

By Ira U. Cobleigh, Economist

A traditionally cyclical industry sets the stage for near-capacity operation and enhanced profitability in 1971-72.

Cement is one of the classic Yo-Yo industries. In the 1920's, demand was intense, mills hummed and profits were high. By the end of that decade, many new cement plants had been built. As the Great Depression set in, there was obvious overcapacity; cement was a glut commodity selling at \$1 a barrel in New York; and weaker companies had to be re-organized.

Because of the hard times and financial anguish during the 1930's, managements were scared to build new plants even when demand for cement upsurged after World War II. By the 1950's however, when existing mills were running at near capacity, and newer managers were at the helm (whose memories of the 1930's were less acute), many large new cement mills were built across the land. Then in the late 1960's, the earlier syndrome was repeated — overcapacity, price cutting and feeble returns on invested capital. This is about where we are in 1970.

### Cement — A Commodity

Although there are dozens of brand names for cement, the common variety turned out by the several companies is really a standardized commodity. Because it is strong, long lasting, weather-impervious, wear resistant, fire-proof, easily molded and shaped, can be reinforced, prestressed, precast, quick set and offered in various colors, it is a basic construction element, rising and falling in demand, directly with the level of building and construction activity. A standard ingredient in the building of single family homes, it is especially useful in multi-dwellings and the newer modular homes' techniques.

Of total 1969 shipments, about 23 per cent went into residential construction, 49 per cent public construction, 21 per cent commercial and industrial buildings, and the balance in airports, sewer pipes and sewage systems, dams and water control, etc. In total, about 410 million barrels of domestic cement were shipped in the U.S. in 1969 (this total will be about 3-1/2 per cent lower in 1970).

### Demand/Supply Projections

Such enthusiasm as exists for cement stocks today is based on the expectation that demand for cement will rise by a total of at least 20 per cent over the next three years to approximately 485 million barrels in 1973. This is calculated to push mill operating rates from about 83 per cent now to 95 per cent or higher. In general (depending on prices), a cement plant will break even at 70 to 75 per cent of capacity; and production above this point will convert into 65 or 70 per cent pre-tax profits. It is this leverage in cement companies that makes their shares so attractive during upturns in the business cycle.

Equally, price increases create leverage, and a 4 per cent price hike might enhance after

tax profits of a company by 20 per cent. Until 1970, price structures had been weak for several years; and even the "posted" prices were diluted by special discount arrangements. This year, price increases of 5 per cent and higher have been sustained, and company earnings have benefited correspondingly.

### Plant Capacity

In the cement industry, as in the beer industry, small plants are becoming obsolete. In the 1920's, a plant with 1 million barrel annual capacity could make money. Today, however, to maximize the effectiveness of capital, labor and machinery inputs, a new plant has to be at least 4 million barrels, and 6 million is preferred. Such a plant would cost around \$8 a barrel to build; and the returns on investment in such a plant have not been sufficiently rewarding to encourage capital outlays of \$30 to \$50 million on a new facility. So relatively few new plants have been built, and few are projected.

Meanwhile, many old cement mills have become too costly to run competitively, and several have, in fact, been abandoned. The costs of modernization, and of equipment to comply with more rigid air pollution regulations have been prohibitive. Only within the past month, Lehigh Cement closed 3 of its older mills, representing about 15 per cent of that company's total production capacity.

### Marketing Areas

Because cement is so bulky and heavy a commodity, transportation costs have limited the effective sales area of a plant to within a radius of about 300 miles. Accordingly, serious consideration must be given, if a new plant is to be built, to the number (and newness) of existing local plants, and the indicated regional rate of expansion of demand. To illustrate, plants abound in Northeast United States, and no great upsurge in demand above existing capacity is foreseen. More rapidly growing cement markets are the South, The Gulf area, Arizona and New Mexico, the Rocky Mountain states centering around Colorado, and the West Coast. Alaska and Hawaii should be strong centers of future demand.

### Suggested Companies

In selection of specific companies for current investment, accent should be placed on the size of the company, the location of its plants, and how modern they are. (If the company needs to modernize old mills or build a substantial amount of new capacity, it will take time to do so, and require heavy capital outlays at ever rising costs.) Note also the leverage provided in capitalizations.

Our selections would include three companies: Ideal Basic

Industries, Inc., General Portland Cement and Lone Star. Ideal has 16 cement plants, well located to serve a total of 26 Southern, Gulf and Western States. Ideal, through ownership of Potash Company of America, with plants in Arizona, New Mexico and Saskatchewan is also a major potash producer with foreign and domestic sales to makers of mixed fertilizers.

Earnings have been increasing — 38 cents per share on 13 million shares of common in the first 6 months of 1970 against 31 cents in 1969. Preferred stock is particularly attractive, paying 4-3/4 per cent in dividends, selling at 65-1/2 and convertible at \$23 (roughly 4 shares of common per preferred share). Rising rate of cement operations and improving conditions in potash could enhance earnings. Leverage is created by \$56.5 million in long term debt. IDL common has paid continuous cash dividends since 1925. Present rate, 60 cents.

### General Portland Cement

This company ranks Number Four, with 27.3 million barrel capacity. Capitalization consists of 5,230,000 shares of common, preceded by \$8.6 million in long term debt — the least leverage of the majors. General has good territory, principally Texas, Florida and California. General Portland is also engaged in large-scale building developments. Balance sheet is strong and earnings steady, \$1.36 in 1969, and about the same this year. For 1971, a 40 per cent gain in net is anticipated. Stock sells at 23-1/4 paying 80 cents.

### Lone Star

Lone Star is international in scope with 10 million barrels of capacity in Latin America and 34 million in the U.S. By spending about \$80 million on plant expansion in the past three years, Lone Star is not only the largest cement company but one of the most modern and efficient as well. Latin mills are operating at capacity. The company also owns Hawaiian Pacific

## Eastern Penn. IBA Group Elects

PHILADELPHIA, PA. — The Eastern Pennsylvania Group of the Investment Bankers Association of America elected new officers for the coming year. Also, local officers were elected to represent the Eastern Pa. Group in the IBA's newly formed "Mid-Atlantic District," which represents the states of Pennsylvania, Delaware, Maryland, West Virginia, Virginia, North Carolina, and the District of Columbia.

The Eastern Pennsylvania Group elected the following officers: National Governor (representative to the national Investment Bankers Association



N.T. Wilde, Jr. J.B. Richter of America), Norman T. Wilde, Jr., president, Janney, Battles & E.W. Clarke, Inc.; Chairman, John B. Richter, managing partner, Butcher & Sherrerd; Vice Chairman, Philip P. Gaughan, partner, DeHaven & Townsend, Crouter & Bodine; and Secretary-Treasurer, Charlton Yarnall, II, partner, Yarnall, Biddle & Co. Named Executive Committee Members were: Thomas W.L. Cameron, president, Hopper, Soliday, Brooke, Sheridan Inc.; John C. Bogle, president, Wellington Management Co.; and Richard W. Hole, senior vice president, R.W. Pressprich & Co. Inc.

Officers elected to the IBA's new Mid-Atlantic District are: Vice Chairman, John B. Richter; and Executive Committee Member, Philip P. Gaughan.

Mr. Richter said the formation of the Mid-Atlantic District is part of the IBA's nationwide reorganization, effective this year, into larger administrative district units. He noted that this reorganization is intended to facilitate ease of administration, and to enable member firms to have a more rapid influence nationally on questions of broad interest.

Mr. Richter observed, "The three IBA units that comprise the new Mid-Atlantic District — the Eastern Pennsylvania, Western Pennsylvania, and Southeastern Pennsylvania Groups — will retain their identity, in order to continue exerting an impact on local developments that affect the investment banking industry. A recent example of this local influence was the Eastern Pennsylvania Group's role in the successful efforts in 1969 by the securities industry to combat the proposed tax on Philadelphia stock transfer transactions."

## Warren Shore Now With Herzog Co.



Warren Shore

Warren Shore has become associated with Herzog & Co., Inc., 170 Broadway, New York City, as vice president. Mr. Shore was formerly a vice president of Suez American Corporation in charge of trading operations.

Industries, a real estate development company.

Common stock of Lone Star, 8,600,000 shares outstanding, is leveraged by \$91 million in long term debt. The common sells at 24, pays a \$1 dividend. Earnings of about \$1.75 this year should advance to \$2.35 in 1971.

In general, we hold to the view that the cement list may be a good market vineyard in which to work for capital gains in coming months. A horizon of rising demand, firm prices, and high capacity operations could increase net earnings of favored companies by as much as 75 per cent (over 1970) in calendar 1972.



## American Medical Enterprises, Inc.

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## TAX-EXEMPT BOND MARKET

By WILLIAM J. RILEY

The Tax-Exempt Bond Market sagged under the weight of supply as the week began, along with the entire bond market. But by Wednesday, October 28, cheaper prices and excellent sales results among new issues turned the market around. In fact increased activity sprang up in some older names at issue prices.

### Yesterday's Spirited Turnaround

Whether it was price that stirred up fresh buyer appetite or whether it was a change in viewpoint, such as might derive from a prospective cut in the discount rate, or a combination of both, was hard to say. But yesterday was a spirited market day in sharp contrast to the gloom of Monday.

Renewed activity even took place in the previous week's huge New York City offering in the large blocks of the 1974-1977 range moving out.

### Pricing Sharpens

Pricing ideas for the week's new issue were abruptly lowered from levels of the week before. The secondary market retreated severely. Some older syndicates were terminated on Monday and some names and maturities were offered in the free market with as much as 25 basis points, and more, yield than in the original offering sale.

Scales continued to display a sharp yield curve from early to late maturities, with yields mounting rapidly after the early 1980's. Longer maturities came in for the greatest cheapening and short maturities the least.

### Mounting Supply

Supply has loomed on all sides since September, but the news last Thursday, October 22nd, that AT&T planned to sell \$500 million of debt securities early in November seemed to cap the climax. The borrowing needs of the U.S. Treasury, Federal agencies, corporations, States and municipalities indicated no let-up.

New municipal offerings of the previous week showed a poor percentage of distribution, 59.4 per cent as calculated at the end of the week by the **Daily Bond Buyer**. Floating Supply, as measured by the **Blue List Total**, rose above \$800 million, a hefty sum in the face of another heavy slate of new bonds this week. A total of \$525 million new long-term state and municipals were scheduled, as this week began, for competitive sealed bids. Not all of this is coming to market as

postponements and bidding rate limits lopped off a portion of this amount.

### Louisiana Under The Wire

Some bonds did come out that were not given much chance before hand. State of Louisiana managed to draw one bid just within its 6 per cent limit on Tuesday for its \$25 million, Highway Construction and Improvement, full faith and credit bonds. The bid, a net interest cost of 5.9987 per cent, was made by a small four-member syndicate consisting of **Morgan Guaranty Trust Co., Salomon Brothers, Kohlmeier Co., and Loewi Co., Inc.** Reoffering was made at 3.90 per cent for the Nov. 15, 1971 to 6.60 per cent for 1990. The bonds due 1991-1995 were not reoffered. The syndicate was closed the same day, with perhaps around \$4 million still in street hands.

### Public Housings Ceiling Problem

A total of \$130,790,000 new housing bonds were advertised for sale on Wednesday, October 28, comprising six local authorities. These were not conceded to have much chance of drawing bids within the maximum 6 per cent rate limitation, but a syndicate headed by **Morgan Guaranty Trust Co. and First National City Bank** made bids, at small premiums, for a 6 per cent coupon rate for two of the names:

\$16,500,000 New York City Housing Authority and \$15,515,000 Waco, Texas Housing Authority.

This was the first time the department of Housing and Urban Development has been able to sell at least some long term bonds since late 1969. These federally backed bonds, rated triple-A, are probably the premier blue chip in the tax-exempt bond market. Reoffering scales in both issues ranged from 3.60 per cent in 1972 to 99 for the 6 per cent bonds due 2011. Early unofficial reports indicated good reception. No bids were reported for the \$98,775,000 remainder according to our information.

### Dallas-Fort Worth Negotiated Issue

A negotiated offering of \$50 million Dallas-Fort Worth, Regional Airport Board, Revenue Bonds, originally planned for offering yesterday was temporarily postponed because of market conditions, but then with the sudden rebound

in market feeling, machinery was set in motion to bring it back shortly. **Merrill Lynch, Pierce, Fenner & Smith, Inc. and F.S. Smithers & Co. Inc.**, are Co-managers of the underwriting group. The New York State Job Development Authority cancelled the scheduled sale of \$25 million bonds on Tuesday, pending an I.R.S. ruling on the tax-exempt status of the bonds.

### Seattle Sale

A **Morgan Guaranty Trust Co. group and First National City Bank** group combined on Tuesday to make the best bid for \$25 million City of Seattle, Washington, various purpose general obligation bonds at a net interest cost of 7.31 per cent. Reoffering scale ranged from 4.00 per cent for the 1972 maturity to 7.50 per cent for 7-1/2 per cent bonds 2004 to 2008. The final two maturities, 2009-2010 were 6-1/2 per cent bonds priced to yield 7.40 per cent.

Less than \$3 million remained in the syndicate books at our last check.

### Maine and Memphis Offerings

A syndicate headed by the **First Boston Corp.** made the winning bid on October 27th for \$14,585,000 State of Maine, triple-A rated general purpose bonds at a net interest cost of 5.4472 per cent. Reoffering scale ranged from 3.75 per cent for the 1971 maturity to 6.00 per cent for 6 per cent bonds due 1987. The 1988-1990 maturities were 4 per cent bonds priced to yield 6.50 per cent. The bonds were just about cleaned out.

Another leading issue on Tuesday, \$34 million City of Memphis, Tenn. double-A rated general improvement bonds went to syndicate headed by **Morgan Guaranty Trust Co.** at a net interest cost of 5.8296 per cent. Other joint managers were: **Soloman Brothers and W.H. Morton & Co.**

Reoffering was scaled from 3.80 per cent for the 1971 maturity to par for 6.30 per cent bonds due 1990 and 1991. The 1992-1995 maturities carried a 5 per cent coupon reoffered at 6.70 per cent. The syndicate balance late yesterday was about \$12 million.

### Voters to Decide on \$3.4 Billion

A total of approximately \$3.4 billion of new bond authorizations of varying kind and size are on State and local ballots at next Tuesday's elections, as compiled by the **Daily Bond Buyer**, embracing 10 states and 205 local governmental bodies. The largest single item will be a \$750 million Clean Water Program in Illinois. Second will be two amendments in Oregon to provide for loans of \$180 million each for veterans loans and education. The **Daily Bond Buyer** speculates as to what portion of these proposals may be approved at the polls, considering the recent trend for voters to be cost and tax conscious.

### Fahnestock Branch

READING, PA. — Fahnestock & Co. has opened a branch office at 50 North Fourth Street with James G. Connor registered representative in charge. Mr. Connor was formerly in charge of the local office of Blair & Co., Inc.

## LARGER ISSUES SCHEDULED FOR SALE

OCTOBER 29 (THURSDAY)			
Austin, Tex.	7,500,000	1971-1995	10:30 A.M.
Checktowaga Union Free Sch. Dist. No. 2, N.Y.	3,064,000	1970-1995	11:00 A.M.
Huntington Central Sch. Dist. No. 6, N.Y.	3,617,500	1971-2000	2:00 P.M.
Jackson, Mich.	1,500,000	1973-1996	3:00 P.M.
Mercer County, N.J.	12,455,000	1971-1990	2:00 P.M.
North Hempstead and Oyster Bay Union Free Sch. Dist., No. 3, N.Y.	6,350,000	1971-1998	11:00 A.M.
Ocean City, N.J.	1,000,000	1971-1990	2:00 P.M.
Pasco Sch. Dist., No. 1, Wash.	1,030,000	1972-1990	11:00 A.M.
Pittsburgh, Pa.	10,500,000	1971-1990	11:00 A.M.
Pittsford Etc. Central Sch. Dist. No. 1, N.Y.	6,015,000	1971-1996	2:00 P.M.
Ramapo, N.Y.	7,968,700	1971-2005	11:30 A.M.
Scioto Co. Joint Vocational Sch. Dist., Ohio	1,415,000	1972-1993	Noon
Wellesley, Mass.	1,000,000	1971-1980	11:00 A.M.
York Sch. Dist. No. 1, S.C.	1,000,000	1972-1990	Noon
OCTOBER 30 (FRIDAY)			
Arkansas State University	2,250,000	1972-2009	11:00 A.M.
NOVEMBER 2 (MONDAY)			
Dallas Fort Worth Regional Airport Board, Texas	50,000,000		
Revenue bonds with syndicate managed by Merrill Lynch, Pierce, Fenner & Smith, Inc., and F.S. Smithers & Co.			
Phoenix Union High Sch. Dist. No. 210, Ariz.	2,800,000	1980-1981	11:00 A.M.
NOVEMBER 3 (TUESDAY)			
Huntington Beach City Sch. Dist., Cal.	1,100,000	1971-1985	11:00 A.M.
NOVEMBER 4 (WEDNESDAY)			
Boston Metropolitan Dist., Mass.	3,486,000	1980-1991	Noon
Clover Park Sch. Dist. No. 400, Wash.	2,750,000	1972-1990	8:00 P.M.
Cookeville, Tenn.	1,250,000	1970-1994	1:30 P.M.
Fall River, Mass.	1,485,000	1971-1980	11:00 A.M.
Kettering City Sch. Dist., Ohio	2,660,000	1972-1985	Noon
Massachusetts (State of)	63,000,000	1971-1990	Noon
Philadelphia Sch. Dist., Pa.	45,360,000	1972-1991	11:00 A.M.
NOVEMBER 5 (THURSDAY)			
Omaha Public Power District, Neb.	50,000,000	1973-1975	
Electric revenue notes with syndicate managed by Smith, Barney & Co., Inc., Kirkpatrick, Pettis, Polian, Inc., and First Mid-America Corp.			
Dade Co., Fla.	40,000,000	1971-2000	11:00 A.M.
Fostoria City Sch. Dist., Ohio	5,275,000	1972-1992	1:00 P.M.
Gloucester Co., N.J.	2,500,000	1971-1989	10:30 A.M.
Hingham, Mass.	1,350,000	1971-1985	11:00 A.M.
Lafayette Parish, La.	3,550,000	1972-1995	2:00 P.M.
Ramsey-Washington Spec. Intermediate Sch. Dist. No. 916, Minn.	9,280,000	1972-1990	7:00 P.M.
Richland-Lexington Airport Dist., S.C.	1,100,000	1972-1986	Noon
Stratford, Conn.	9,355,000	1971-1990	11:00 A.M.
Washington Co., Tenn.	5,500,000	1972-1991	11:00 A.M.
NOVEMBER 9 (MONDAY)			
Calhoun, Ga.	1,400,000	1975-1999	7:30 P.M.
College of the Mainland Jr. Coll. Dist., Tex.	4,217,000		5:00 P.M.
Grant Co. Public Utility Dist. No. 2, Wash.	3,000,000	1972-1989	11:00 A.M.
Newark, Del.	2,011,000	1975-1991	10:00 A.M.
Wareham, Mass.	4,230,000	1971-1985	11:00 A.M.
Westlake City Sch. Dist., Ohio	1,600,000		Noon
NOVEMBER 10 (TUESDAY)			
Anchorage, Alaska	5,000,000	1971-1990	10:00 A.M.
Brunswick Co., N.C.	2,585,000		
Covington, La.	1,375,000	1971-1990	7:30 P.M.
Detroit, Mich.	18,035,000	1971-1985	
Detroit City School Dist., Mich.	30,000,000	1972-1981	
Lanape Regional H.S. Dist., N.J.	1,955,000	1973-1990	8:00 P.M.
Las Virgenes Unified Sch. Dist., Cal.	2,095,000	1973-1990	9:00 A.M.
Lyon Co. School Dist., Nev.	2,500,000		2:00 P.M.
Mendota Heights, Minn.	1,020,000	1972-1988	5:30 P.M.
Memomonic, Wis.	1,965,000	1972-1990	1:00 P.M.
New Lexington City Sch. Dist., Ohio	1,505,000	1972-1991	1:00 P.M.
New York State Power Authority	120,000,000		
Revenue bonds with syndicate managed by Dillon, Read & Co., Inc., W. H. Morton & Co. Division of American Express Co., Kuhn, Loeb & Co., and Hornblower & Weeks + Hemphill, Noyes			
Pennsylvania State Public School Building Authority	29,430,000	1973-2010	Noon
Rutherford Co., Tenn.	4,800,000	1972-1990	11:00 A.M.
San Diego Penasquitos Sewer Dist., Calif.	9,500,000	1973-1990	
South Carolina (State of)	36,700,000	1971-1985	Noon
Springfield, Ill.	14,000,000	1973-1998	10:00 A.M.
Vicksburg, Miss.	2,900,000		2:00 P.M.
Wayne Township, N.J.	3,941,000	1971-1994	8:00 P.M.
NOVEMBER 12 (THURSDAY)			
Delaware (State of)	40,000,000		
Dickson Co., Tenn.	1,500,000	1971-1990	11:00 A.M.
Greene Co. Hospital Assn., Ind.	4,050,000	1974-1993	2:00 P.M.
Massachusetts Health and Educational Facilities Authority	10,500,000	1972-2002	11:30 A.M.
Oceanside, Cal.	4,000,000	1971-1995	4:00 P.M.
Saginaw Building Authority, Mich.	3,500,000	1974-1999	Noon
San Francisco Stadium, Inc., Cal.	16,100,000	1972-1999	
Recreation Center revenue bonds with syndicate managed by Blyth & Co., Inc.			
West Des Moines, Iowa	2,040,000	1972-1991	Noon
NOVEMBER 15 (SUNDAY)			
Jackson County Sports Complex Authority, Mo.	13,000,000	1972-1982	
NOVEMBER 16 (MONDAY)			
Arden Hills, Minn.	1,200,000		8:00 P.M.
Grand Prairie Ind. Sch. Dist., Tex.	3,000,000	1973-1994	5:30 P.M.
Maple Shade Tp. Sch. Dist., N.J.	2,400,000	1973-1992	8:00 P.M.
Nashua, N.H.	2,160,000	1971-1990	11:00 A.M.
NOVEMBER 17 (TUESDAY)			
Allegheny Ind. Sch. Dist., Tex.	1,250,000	1972-1991	7:00 P.M.
Anaheim Union H. S. Dist., Cal.	3,900,000	1972-1990	11:00 A.M.
Caddo Parish-Wide Sch. Dist., La.	3,000,000	1972-1991	10:00 A.M.
Chattanooga, Tenn.	8,000,000	1971-1995	11:00 A.M.
Chester Water Authority, Pa.	2,400,000	1971-2000	2:00 P.M.
Grand Rapids, Mich.	3,200,000	1971-1989	11:00 A.M.
Illinois State Highway Toll Authority	130,000,000		
Lenoir Co., N.C.	4,100,000		
Mukwonago Union High Sch. Dist., Wis.	2,500,000	1972-1986	1:00 P.M.
Newark, Ohio	2,200,000	1971-1992	Noon
Ohio (State of)	75,000,000	1972-1991	11:00 A.M.
Vidalia, La.	1,229,000	1971-1995	7:30 P.M.
Wicomico Co., Md.	2,100,000	1971-1984	Noon
NOVEMBER 18 (WEDNESDAY)			
Albuquerque Municipal Sch. Dist., N. Mex.	5,000,000	1972-1976	10:00 A.M.
Belleveue Sch. Dist. No. 405, Wash.	5,000,000	1972-1990	11:00 A.M.
Decatur, Ill.	2,600,000	1972-1988	10:00 A.M.
Franklin Co. Sch. Board, Fla.	1,600,000	1971-1990	11:00 A.M.
Los Angeles Community Redevelopment Agency, Cal.	10,000,000	1971-1985	10:00 A.M.
Swan Valley Sch. Dist., Mich.	5,270,000	1971-2000	8:00 P.M.

### STATE AND MUNICIPAL BONDS (Approximate)

	Maturity	Yield	
		Oct. 21 Week	Oct. 28 Week
Baltimore, 6 1/4s	1988	6.25	6.50
California, 4.60s	1988	6.40	6.60
Connecticut, 5 1/4s	1987	5.90	5.85
Detroit, Michigan, 5.80s	1989	7.20	7.40
Los Angeles, Calif., Dept. of Water and Power, 6.90s	1989	6.20	6.30
Massachusetts, 5 1/2s	1988	6.50	6.60
New York State, 7.00s	1986	5.90	5.90
New York City, 7.25s	1988	7.25	7.25
Public Housing Authority, 6.00s	1989	5.90	5.70
Philadelphia, 7 1/2s	1988	7.50	7.60

Average: Oct. 21 - 6.50%; Oct. 28 - 6.57%.

*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.*

**\$140,000,000**

**Mortgage Backed Bonds**  
**Fully Guaranteed as to Principal and Interest by**

**Government National Mortgage Association**

*(Backed by the Full Faith and Credit of the United States of America)*

**Issued by**

**Federal Home Loan Mortgage Corporation**

**8.60% Bonds, Due November 27, 1995**

*Interest is payable May 27 and November 27, beginning May 27, 1971.*

**Price 100%**

*(plus accrued interest from November 19, 1970)*

*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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New York

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**CONTINENTAL BANK** Continental Illinois National Bank and Trust Company of Chicago    **THE FIRST NATIONAL BANK** of Chicago    **HARRIS TRUST AND SAVINGS BANK**

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**CRAIGIE** Incorporated    **L. F. ROTHSCHILD & CO.**    **WOOD, STRUTHERS & WINTHROP INC.**

October 28, 1970.

## DEALER-BROKER INVESTMENT LITERATURE AND RECOMMENDATIONS

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

**Cincinnati Bank Stocks** — comparative data — Geo. Eustis & Co., Tri-State Building, Cincinnati, Ohio 45202.

**Commercial Bank Stocks** — third quarter operating and market statistics — First Boston Corporation, 20 Exchange Place, New York, N.Y. 10005. Also available is a report on **Lincoln First Banks, Inc.**

**Electric Utility Equities** — report with individual comments on **Montana Power, Consolidated Edison Co. of New York and Cleveland Electric Illuminating Co.** — Pressman, Frohlich & Frost, Inc., 140 Broadway, New York, N.Y. 10065. Also available is an analysis of **Tesoro Petroleum.**

**Financial Data on Schools** — a digest of financial statistics — New York State Department of Audit and Control, Albany, N.Y.

**Foreign Investment In U.S. Companies** — report in current issue of Morgan Guaranty Survey — Morgan Guaranty Trust Company, 23 Wall Street, New York, N.Y. 10015. Also in the same issue is a discussion of **South Korea: Asia's Newest Growth Economy.**

**Mobile Home Industry in Arizona** — report — First National Bank in Arizona, Marketing and Research Department, P.O. Box 2551, Phoenix, Ariz. 85002.

**Over-The-Counter** — Index folder showing 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.

**Petroleum Situation** — report — Chase Manhattan Bank, 1 Chase Manhattan Plaza, New York, N.Y. 10015. Also available is the current issue of "Business in Brief" containing articles on "Improving the Quality of Life," "Women's Work," and "Toward a World Central Bank."

**Put & Call Options** — a four booklet kit explaining Put and Call Options — Filer, Schmidt & Co., Inc., Dept. C26, Broadway, New York, N.Y. 10004.

**Treasury Financing** — report — New York Hanseatic Corporation, 60 Broad Street, New York, N.Y. 10004.

**Wall Street: Before the Fall** — Containing articles on Declining Supply, Institutional — and Other — Demand, Growing Markets, Back Office Problems, and Market Measures — Federal Reserve Bank of San Francisco, 400 Sanome Street, San Francisco, Calif. 94120.

**What's Ahead in Argentina** — newsletter — Philadelphia National Bank, Corporate Public Relations Department, Philadelphia, Pa. 19101.

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**Air Reduction** — Comments — Oppenheimer, Newborg & Neu, 120 Broadway, New York, N.Y. 10005.

**Atlantic Richfield** — comments — Hoppin, Watson & Co., 25 Broad Street, New York, N.Y. 10004. Also available are comments on **American Export Industries.**

**Bankers Security Life Insurance Society** — analysis — Bateman Eichler, Hill Richards, Inc., 460 South Spring Street, Los Angeles, Calif. 90013. Also available is an analysis of Southern Union Gas Company.

**Chrysler Corporation** — analysis — Wm. C. Roney & Co., Buhl Building, Detroit, Mich. 48226. Also available is an analysis of **Sunbeam Corp.**

**Eastman Kodak Co.** — comments — Goodbody & Co., 55 Broad Street, New York, N.Y. 10004. Also available are comments on **Hospital Supply Group, Imperial Corp. of America, United Aircraft, Southwest Forest Industries, U.S. Tobacco, Republic National Bank of New York, Sperry Rand, Republic Mortgage Investors, Apco Oil, Avon Products and American Savings & Loan.**

**Flying Tiger Corp.** — comments — Peter P. McDermott & Co., 42 Broadway, New York, N.Y. 10004. Also available are comments on **Pittston Co. and Safeway Stores.**

**Guardian Industries Corp.** — analysis — Marantette & Co., Penobscot Building, Detroit, Mich. 48226.

**International Harvester** — report — Newburger & Co. division, Advest Co., 1401 Walnut Street, Philadelphia, Pa. 19102. Also available is a report on **Weis Markets.**

**Japan Air Lines Company Ltd.** — report — Yamaichi Securities Company of New York, Inc., 111 Broadway, New York, N.Y. 10006. Also available is a report on **Wacoal Co. Inc.**

**Joy Manufacturing Company** — analysis — Delafield, Harvey, Tabell Division, Montgomery, Scott & Co., 909 State Road, Princeton, N.J. 08540.

**Lawson Products, Inc.** — analysis — Bacon, Whipple & Co., 135 South LaSalle Street, Chicago, Ill. 60603.

**Mercury General Corporation** — analysis — Newburger, Loeb & Co., 5 Hanover Square, New York, N.Y. 10004.

**Milton Bradley** — analysis — C.B. Richard, Ellis & Co., 5 Hanover Square, New York, N.Y. 10004.

**Mohawk Data Systems** — chart analysis — Weis, Voisin & Co., Inc., 111 Broadway, New York, N.Y. 10006. Also available is a chart analysis of **Addressograph-Multigraph.**

**Mortgage Associates, Inc.** — analysis — Dain, Kalman & Quall, Incorporated, Dain Tower, Minneapolis, Minn. 55402.

**National Packaging Corporation** — analysis — Piper, Jaffray & Hopwood, Inc., 115 South Seventh Street, Minneapolis, Minn. 55402.

**Philip Morris** — report — Robert W. Baird & Co., 731 North Water Street, Milwaukee, Wis. 53201. Also available are reports on **Sola Basic Industries, Electrical Equipment Industry, L.E. Myers Co., U.S. Natural Resources, and Marine Corp.**

**RCA Corporation** — analysis — Argus Research Corporation, New York (sample copies available from firms using Argus Research services).

**Reserve Oil & Gas** — analysis — Schneider, Bernet & Hickman, Inc., First National Bank Building, Dallas, Tex. 75202. Also available is an analysis of **Sabine Royalty Corporation.**

**Robertshaw Controls** — report — W.E. Hutton & Co. 14 Wall Street, New York, N.Y. 10005.

**Royal Inns of America Inc.** — analysis — North's News Letter and Special Reports, 1690 Tiburon Boulevard, Tiburon, Calif. 94920 — \$2.00.

**Ryder System Inc.** — analysis — Robinson Humphrey Company, Inc., 2 Peachtree Street, N.W., Atlanta, Ga. 30303.

**Scott Foresman** — comments in current issue of "Monthly Investment Letter" — CBWL-Hayden Stone Inc., 767 Fifth Avenue, New York, N.Y. 10022. Also available are comments on **Utah-Idaho Sugar.**

**Sealed Power Corporation** — analysis — A.G. Becker & Co. Incorporated, 120 South LaSalle Street, Chicago, Ill. 60603.

**Shell Oil** — report — Walston & Co., Inc., 74 Wall Street, New York, N.Y. 10005.

**Sundstrand Corp.** — analysis — Investment Corporation of Virginia, United Virginia Bank Building, Norfolk, Va. 23510.

## Bullish 1971 Auto Year

By **RAYMOND JALLOW\***  
Senior Vice President and Chief Economist  
United California Bank, Los Angeles, Calif.

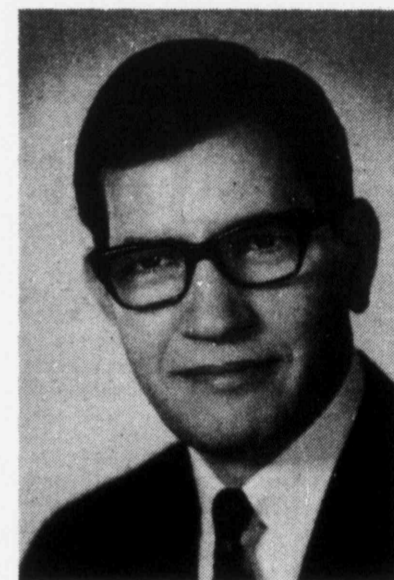
**Prediction of an excellent 1971 automobile year puts total auto sales at a new record high of 9.5 million — 4.4 per cent more than in 1970 — which includes 2.2 per cent less imports. Little gain for profits is expected because of the concentration on less profitable smaller cars in competition with foreign-made vehicles. Truck sales, too, are depicted as increasing 8.1 per cent.**

With imports contributing heavily to the growth, 1969 proved to be a record sales year for total new cars, foreign cars, and trucks. By way of contrast, there were signs of trouble on virtually the first day of the 1970 model years. Overly optimistic predictions by manufacturers resulted in a glut of cars during the first few months of the model year, and though production cutbacks were quickly enforced, profit and loss statements showed the effects of overstocking and depressed sales. Two of the major auto manufacturers experienced a severe earnings decline in the first three quarters of the 1970 model year, and the other two actually suffered losses of over \$65 million. The loss of dealerships also reflected the severe profit squeeze. Profitless operations appeared to be the primary reason for the 1970 falloff, which saw well over 1,000 dealerships go out of business in the U.S.

### Outlook for 1971 — A Bullish Trend

Despite the upswing in sales toward the third quarter of 1970, it came too late to overcome the losses incurred by sluggish activity during the first half. The industry attributed this improvement to the end of consumer resistance, but it seemed to overlook a few salient points involving artificially stimulated sales. For example, Ford was the first to announce a blanket price increase on its 1971 models, and the rest of the industry soon followed suit. An announcement of price advances on new models usually spurs sales of old models, as the consumer attempts to beat the increase — thus the gain in 1970 sales volume. Another stimulation to buying was the early introduction of 1971 models — a move which was necessitated by the possibility of a strike in September. Fearing such a shutdown, manufacturers pushed the production of new models in order to build up inventories — an action that proved to be expedient.

The outlook is considerably more bullish for 1971. Total auto sales in the U.S. should be up to 9.5 million, an increase of 4.4 per cent over the 9.1 million autos sold in 1970. There are many factors which indicate that 1971 will be an excellent year: (1) Personal income is still high and will rise even further despite



Raymond Jallow

the weakened economy; (2) Savings are unusually high; and, (3) The auto manufacturers had the bulk of their 1970 stock cleaned up by the time the new 1971 models arrived at their dealers' showrooms.

A sales surge in 1971, however, may not add very much to the already low profits of the auto companies. To be sure, dollar volume will be greater, but most of this increase will be due to the inflationary factors which initially forced the price

increases. Thus, the expected gain in gross sales volume will contribute little to profits, because small cars generate only one-half as much profit as the larger cars. Nevertheless, the small car seems to be the wave of the future, and some experts are predicting that overall import and domestic "small" car sales may expand from their current share of 29 per cent of the total U.S. market to as much as half of the market by 1980.

### Imported Cars — Surging Sales Bring A Response

The U.S. automobile industry is once again attempting to snatch the small car market from foreign manufacturers. Ten years ago it scored heavily against foreign makes by bringing out the first compacts; but as time went on the domestic industry let its advantage slip away. With the explanation that it was only responding to customer demand, the auto makers took the compact cars of 1960 and expanded their size, their equipment options, and most importantly their price.

Foreign manufacturers with small cars at budget prices accounted for over 12 per cent of the total car market in the U.S. in 1970. However, import sales mushroomed in the third quarter of 1970 when their share of the market rose to 15.6 per cent in July, and then accelerated to record 17.3 per cent in August. It appears that after a decade-and-a-half battle with imports, U.S. automakers are coming to recognize that their strategy of giving the public a little more car than the imports for a little more

### New Passenger Car Sales In The U.S.

Year	Domestic Cars (000)	Foreign Cars (000)		Total Cars (000)	Foreign Car Sales as a % of Total Sales (%)
		Foreign	Total		
1965	8,745	570	9,314	6.1	
1966	8,350	658	9,008	7.3	
1967	7,578	779	8,357	9.3	
1968	8,418	986	9,404	10.5	
1969	8,385	1,062	9,447	11.2	
1970 (est)	7,975	1,125	9,100	12.4	
1971 (forecast)	8,400	1,100	9,500	11.6	

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money has failed. The U.S. industry has learned that price, in the final analysis, is the most effective weapon. Consequently, the battle was resumed with renewed vigor when Ford and General Motors began marketing a unique line of home-built "mini" cars with a somewhat foreign style, small size, and economy.

In order to compete effectively in the pricing sector, Ford's new Pinto and General Motors' Vega, both of which appeared in September 1970, were expected to retail below \$2,000. However, when the Vega was unveiled, it carried a base price of 2,091, while the Pinto's base price stood at \$1,919. Although the Pinto was intended to compete directly with the Volkswagen, the 1971 "Beetle" sold for \$1,399, or \$20 cheaper than the Pinto and \$192 cheaper than the Vega. Volkswagen compounded Detroit's problem by announcing the entry of a more austere car than the standard "Beetle", carrying a basic price of \$1,780 and on a comparable basis this would undersell the Pinto by \$139 and the Vega by \$311, excluding transportation and dealer preparation charges. The avowed purpose of both the Pinto and the Vega is to turn back the tide of foreign cars flowing into the U.S., but there is serious doubt whether their prices are really low enough to meet import competition.

In any event, Detroit will soon discover whether the allure if imports lies solely in price, or whether it is really bound up with the foreign origins of the car itself and the importers' claim of so-called "old-world" craftsmanship. The importers have accepted Detroit's challenge, and will be out to boost sales through greater outlays for advertising and promotion, and by introducing even cheaper models as Volkswagen has done.

**Truck Sales — An Upturn**

The market for truck sales in 1971 is expected to follow a pattern somewhat similar to that of passenger cars. National sales in 1970 were down slightly by about 2 per cent. Truck sales in the U.S. will reach 2 million for the first time (an increase of 8.1 per cent).

**New Truck Sales — U.S.**

Year	U.S. Sales (000)
1965 . . . . .	1,529
1966 . . . . .	1,610
1967 . . . . .	1,518
1968 . . . . .	1,776
1969 . . . . .	1,889
1970 (est.) . . . . .	1,850
1970 (forecast) . . . . .	2,000

The weakness evident in car sales in 1970 in the U.S. was also felt in the truck sector of the market, this slowdown presumably being related to the setback in the automobile

**Dominick Names Four V.P.s**

Dominick & Dominick, Inc., member of the New York Stock Exchange has announced the election of four vice presidents based in its branch offices. They are: Louis J. Gexler, resident manager, Greenfield, Massachusetts; Joseph J. Sproules, operations manager, Boston; Bourke C. Trask, Jr., resident manager, Bangor, Maine; and Lawrence D. Webber, resident manager, Portland, Maine.

market, since many of the light trucks which are sold are used, at least in part, as recreational vehicles. Sales of trucks as business vehicles were affected by some of the same factors that determine business capital expenditures. Thus, with the downturn in the capital spending boom, demand for trucks was quite soft throughout 1970. As in the case of the passenger car sector, 1969 was a record sales year for trucks. Thus, 1970 must still be regarded as an excellent year, despite the 2 per cent decline in the U.S. sales.

The price of 1971 model trucks will be boosted. The Dodge Division of Chrysler Corporation announced a price increase in excess of 3 per cent, and declared a major reduction in warranty protection. Both the size of the price hike and the reduction of warranty protection may well be an indication of things to come — not only for 1971 truck models, but also for 1971 model cars.

\*An address by Dr. Jallow before the Consumer Credit Conference of the California Bankers Association, Los Angeles, Calif., October 8, 1970.

**Complete Ponce Bond Offering**



Hon. Juan M. Cintron, Mayor of Ponce (seated), on September 15, 1970, signs bonds of the City of Ponce, amounting to \$8,000,000, which were recently sold to a group headed by Banco Credito; Paine Webber, Jackson & Curtis; L.F. Rothschild & Co.; Phelps, Fenn & Co., and Dean Witter & Co. Photo shows (left to right, standing) William G. Carrington, Jr., Senior Vice President of Banco Credito, Angel M. Rivers, President of Banco Credito, Mrs. Haydee Piris de Maldonado, Secretary of Ponce and John J. Ward, Vice President of the Government Development Bank for Puerto Rico, fiscal agent.

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

**\$150,000,000**

**The Mountain States Telephone and Telegraph Company**

**Forty Year 9% Debentures, due November 1, 2010**

*Interest payable May 1 and November 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 Debentures in compliance with the securities laws of such State.*

- |   |   |   |
|---|---|---|
| <b>MORGAN STANLEY &amp; CO.</b><br><i>Incorporated</i>                  | <b>THE FIRST BOSTON CORPORATION</b>                     | <b>LEHMAN BROTHERS</b>                                |
| <b>MERRILL LYNCH, PIERCE, FENNER &amp; SMITH</b><br><i>Incorporated</i> | <b>DREXEL HARRIMAN RIPLEY</b><br><i>Incorporated</i>    | <b>SALOMON BROTHERS</b>                               |
| <b>BLYTH &amp; CO., INC.</b>  | <b>EASTMAN DILLON, UNION SECURITIES &amp; CO.</b>       | <b>duPONT GLORE FORGAN</b><br><i>Incorporated</i>     |
| <b>HALSEY, STUART &amp; CO. INC.</b>                                    | <b>KIDDER, PEABODY &amp; CO.</b><br><i>Incorporated</i> | <b>GOLDMAN, SACHS &amp; CO.</b>                       |
| <b>PAINE, WEBBER, JACKSON &amp; CURTIS</b>                              | <b>STONE &amp; WEBSTER SECURITIES CORPORATION</b>       | <b>HORNBLLOWER &amp; WEEKS-HEMPHILL, NOYES</b>        |
| <b>DEAN WITTER &amp; CO.</b><br><i>Incorporated</i>                     | <b>BACHE &amp; CO.</b><br><i>Incorporated</i>           | <b>LOEB, RHOADES &amp; CO.</b>                        |
|   |   | <b>SMITH, BARNEY &amp; CO.</b><br><i>Incorporated</i> |
|   |   | <b>WHITE, WELD &amp; CO.</b>                          |
|   |   | <b>PARIBAS CORPORATION</b>                            |

October 28, 1970.

# Don't Count On A Housing Boom Prior To 1975

By **EDWARD F. RENSHAW**  
Professor of Economics and Finance  
State University of New York at Albany

Do not count on residential construction to spur an otherwise stagnant economy. Taking an iconoclastic position, professor Renshaw wagers that the need for housing has been greatly exaggerated. He arrives at his pessimistic conclusion by taking a less ebullient array of assumptions than Pres. Nixon did in announcing the nation's housing goals. The industry is expected to remain in the doldrums until at least 1975 before topping the previous annual high. If the writer is correct, then a large number of corporations, including those which have diversified into real estate, housing and building materials, are tooling up to obtain a share of a non-existent growth market. His analysis follows.

In President Nixon's second annual report on national housing goals which was transmitted to Congress in April, 1970, some revised projections are presented which suggest that the total number of new and subsidized rehabilitated dwelling units including shipments of mobile homes will increase from two million units in fiscal 1969 to over three million units in fiscal 1975. This would imply an increase of more than fifty per cent in less than five years.

While it is not unreasonable to suppose that a maturing baby boom should increase the demand for new housing substantially, this increase could be largely, if not entirely offset, if the volume of post war construction was abnormally high in relation to current population growth. At least three kinds of considerations leads one to suspect that residential construction has been much greater than was necessary to accommodate post war growth.

The first factor to consider is the very large swings in residential construction which



Edward F. Renshaw

have taken place since World War I. About half a million new urban dwelling units were started each year on the average in the period from 1904-1916. Housing starts slumped badly during World War I and did not fully recover until 1922. The major upswing which had begun in 1921 persisted and reached a fevered pitch in 1925 when more than one million new urban

dwelling units were estimated to have been started.—1)

Residential construction declined sharply in the late 1920's and by 1929 had fallen back to about half a million starts.

The number of non farm housing starts continued to fall during the great depression and for the 16 year period from 1930-45 only 316 thousand units were started, on the average, per year. This volume of construction was barely sufficient to provide one new house for every four persons aged 20 and over that were added to the population. If we start with the idea that there should be about one new house for every two adults added to the population and also assume that 200 thousand additional units should have been started each year from 1930-45 to replace dilapidated dwelling units, it is not unreasonable to suppose that make-up demand may have bolstered post-war construction by at least 300 thousand dwelling units per year, on the average, in the last 25 years.

#### Population Shift

A second factor to consider is a sizable absolute shift of the U.S. population from farms, mines and declining agricultural towns to metropolitan areas. Rapid mechanization of agriculture and the substitution of trucks and automobiles for animal transport has eliminated 3 million farms since 1945. If a quarter of these consolidations represented abandonments of sound dwelling units and houses that had been prematurely depreciated in anticipation of forced migration to areas with expanding job opportunities, non farm construction in the post war

period would have been increased by about 30 thousand units per year.

#### Undoubling

A third factor to consider is an undoubling of large households to the point where grandparents rarely live with their offspring. In the last 40 years there have been about 10 million more households formed than would have been predicted on the basis of the increase in population aged 20 and over divided by two. On the assumption that all of this undoubling has occurred in the last 25 years, this would have bolstered housing construction by about 400 thousand units per year over that required to accommodate incremental growth in the adult population.

When the undoubling effect is added to our estimates of make-up demand and the number of premature abandonments in rural areas and small towns, we obtain a composite estimate of excess housing construction amounting to almost three-quarters of a million units per year. If this estimate is subtracted from the 1.5 million new units which were started on the average in the last 25 years we come up with the surprising conclusion that only about half of the residential construction which occurred in the post war period may have been necessary to accommodate ordinary replacement and growth in the population.

#### Mobile Homes

The amount of productive capacity that might be available to help satisfy the housing requirements of the post war baby boom is even more startling if we accept the idea that mobile

homes can provide satisfactory dwelling units. Mobile home production has increased from about 100 thousand units in the early 1960's to a current production capacity of over 400 thousand units per year.

The more than one million units of productive capacity which may already be in existence to meet the housing needs of the baby boom is particularly interesting, since the population aged 20 and over is only projected to increase 2.15 million on the average between 1970 and 1975. After the projected increase is divided by two, the implication is that we might not have to increase residential construction and mobile home production hardly at all in order to satisfy housing needs in the next five years.

While the procedures that were used to arrive at this conclusion do depend in an important way on our having done a reasonably good job of catching up with the longer run effective demand for housing, one can as easily arrive at the same conclusion by critically examining the assumptions that were made in determining our national housing goals.

#### Optimistic Population Assumption

In Appendix B of the Second Annual Report on Housing Goals it is assumed that net additional household formation in the period 1969-78 will require 13.5 million additional housing units. This figure is based on the highest projection of the U.S. Census. If the low estimate had been used, net additional households would only equal 11.6 million for the decade—a difference of almost two million household units.

The main difference between these two projections is the rate at which households containing two or more adults will continue to undouble. The low estimate assumes very little undoubling; while the high estimate would seem to imply that undoubling will continue at a rate in excess of 200 thousand household units per year, or at about half the post war rate of undoubling that cannot be explained by a lack of housing construction in the period from 1930-45.

Recent data for the years 1965-69, a period of exceptionally low unemployment and unprecedented prosperity, indicate the rate of undoubling has already declined to less than 180 thousand households per year. It is not unreasonable, moreover, to postulate a limit to the undoubling process and to suppose that the United States may have already entered a period in which the over-all tendency will be little undoubling and perhaps even an increase in the number of adults per household. Statistics on marriage and remarriage indicate that most adults do not prefer to live alone. The long term trend in the proportion of the population standardized for age which is married, as to distinct from being single, widowed or divorced, is up instead of down. This trend would seem particularly significant since the undoubling process has already proceeded to

Continued on Page 21

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

**\$60,000,000**

## Northern Natural Gas Company

**9½% Sinking Fund Debentures Due November 1, 1990**

**Price 100%**

(plus accrued interest, if any, from November 5, 1970)

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

**Blyth & Co., Inc.**

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**Smith, Barney & Co.**

**Stone & Webster Securities Corporation**

**White, Weld & Co.**

**Salomon Brothers**

**Smith, Barney & Co.**

**Dean Witter & Co.**

October 29, 1970.

# The Conglomerate Insurance Take-Over Has Been Harmful

By **KENNETH J. CREPAS, Ph.D.**  
Assistant Professor of Insurance  
Illinois State University,  
Normal, Illinois

Dr. Crepas accuses the twelve conglomerate acquirers of insurance companies of pushing the bounds of safety, if not exceeding them, in their expansion of premium writings. The writer also indicts them for failing to improve the profitability of the major insurers they took over. He confirms the industry's fears of deterioration in underwriting performance once the acquiring conglomerates siphoned surplus and instituted a hazardous premium-writing expansion amounting to 50 per cent greater increase than that for the industry as a whole, with two exceptions. Tabular material dealing with these conclusions are included in the author's paper.

The intent in this paper is to examine the effect upon the insurance industry of the recent conglomerate movement.

By the way of background, the conglomerate movement assumed special significance for the insurance industry during 1968.\* In that year a number of non-insurance companies sought, both successfully and unsuccessfully, to acquire property-liability and life insurers. The ongoing movement was viewed with considerable alarm, both by members of the insurance industry and by insurance regulators. The extent of concern by the insurance industry over the pace of acquisition of insurance companies by non-insurers was evidenced, in part, by space allotted in the trade press. Two major questions became paramount in the journals apropos the implications of the conglomerate movement upon the structure of the industry. They questioned:

(1) Effect upon the capacity of the industry—i.e., upon the ability of an insurer to write business.

(2) Effect upon underwriting results.

The general consensus initially was negative. Most industry experts predicted: (a) acquired insurers were likely to suffer a reduction in capacity following acquisitions, while (b) underwriting results of acquired insurers stood to deteriorate following acquisition.

Now, two years later, one can ask the question: Was the earlier appraisal of what would likely result borne out by experience?

Accordingly, we turn here to an examination of operating data for acquired insurers for 1969, the year following acquisition, to ascertain the extent of change conceivably attributable to conglomerate action.

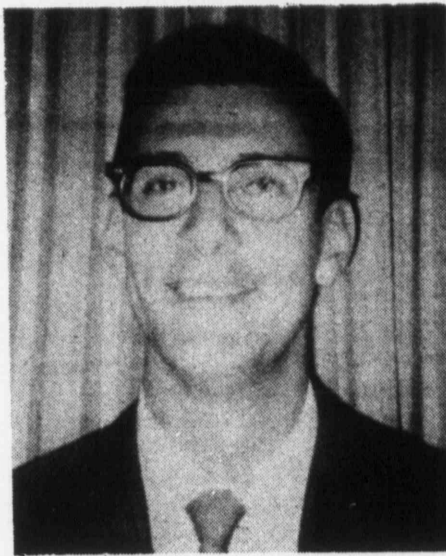
### Effect Upon Capacity

The insurance industry had a legitimate basis for concern about capacity to write insurance coverages when, during 1968, numerous large insurers were being acquired by non-insurers. Given a situation of historic unprofitability in insurance operations, whatever concern about capacity might normally have existed anyway tended to be accentuated by a not-unreasonable suspicion, as non-insurers purchased insurance companies, that a major motive for acquisition could well stem from an intent to divert available surpluses for use in other fields of endeavor.

Indeed, attendant fears were sustained when transfers of

surplus actually occurred from two major insurance companies to the conglomerates that had acquired them in 1968: National General Corporation transferred \$170 million in surplus from Great American Holding Corporation, and Leasco Data Processing Equipment Company transferred \$38 million in surplus from Reliance Insurance Company.

In gauging the level of effective capacity, a critical indicator exists in the magnitude of net premiums written by companies; changes in net premiums written indicate



Kenneth J. Crepas, Ph.D.

changes in capacity in the sense that net premiums are a measure of insurer-willingness to write new business. Viewing the matter in this way, we note from data summarized in Table 1 (detailing the absolute changes in premiums written by insurance companies acquired by non-insurers in 1968), that, in fact, the effective capacity of insurers was not reduced following their acquisition by non-insurers.

Elaborating on the above, we observe that, during the period 1967-1969, an increase in net premiums written for the industry as a whole of 14 per cent was surpassed by the increase for acquired insurers of 20 per

cent—a rate of increase for the acquired insurers some 50 per cent greater, than that for the industry as a whole. Continuing, only two of twelve acquired insurers—Calvert Fire and Providence Washington—experienced declines in net premiums written during the period.

In short, the fact that acquired insurers increased their net premiums written at a rate faster than true for the industry, as a whole invites the assessment that acquired insurers did not concurrently suffer a reduction in effective capacity.

### Underwriting Results

The underwriting results of an insurer can be measured through reference to the loss ratio, the expense ratio, and the combined ratio (obtained by adding the loss ratio and the expense ratio). Best for measuring the effect of conglomerate acquisitions on underwriting results obviously is the combined ratio, since it best relates to the total underwriting performance of an insurer.

Data summarized in Table 2 show the combined ratios, for 1967 and 1969, applicable to insurers acquired during 1968. We note there that four acquired insurers had combined ratios of over 100.0 in 1967 (indicating underwriting losses), while six insurers had combined ratios of over 100.0 in 1969; that the four

insurers with ratios of over 100.0 in 1967, only one—Great Central—improved underwriting experience sufficiently thereafter to become profitable by 1969; and that, conversely, three insurers with ratios of over 100.0 in 1967—Calvert Fire, Fireman's Fund Companies, and Home—experienced retrogressions in their combined ratios, putting these insurers in the unprofitable category by 1969.

While the data relative to combined ratios, 1969 in comparison with 1967, might be construed to indicate that acquired insurers, as a group, achieved profitable underwriting results, such a verdict should be eschewed because further examination reveals an inherent distortion in overall data. We note, first, that the apparently favorable underwriting results of acquired insurers, as a group, is heavily weighted by the disproportionately favorable performances of three companies: Argonaut, American Credit, and Calvert Fire. We note, further, that acquired insurers with net premiums written during 1969 in excess of \$100 million experienced deterioration in their combined ratios during this period of greater magnitude than the worsening characteristic in the

Continued on Page 22

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

## Portland General Electric Company

**\$20,000,000**

**First Mortgage Bonds, 9 7/8% Series due November 1, 2000**

**Price 99.50%**

(plus accrued interest from November 1, 1970)

**100,000 Shares**

**9.76% Series Cumulative Preferred Stock**

(Par Value \$100 Per Share)

**Price \$100 Per Share**

(plus accrued dividends from date of original issue)

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

**Blyth & Co., Inc.**

**duPont Glore Forgan**  
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**Salomon Brothers**

**White, Weld & Co.**

**Dean Witter & Co.**  
Incorporated

**Bache & Co.**  
Incorporated

October 28, 1970.

# THE MARKET AND YOU

By WALLACE STREETE

E-Day nears and Wall Street is just as apprehensive as the rest of the nation.

The political sounds from the running furies border on the incredulous to those of us nurtured on the proposition that candidates for office must tell the voters what they're going to do for them (they used to call it a platform or a program) and not just label their opponents either radical or neanderthals.

As a spectator sport, the current campaigns are great-great, that is, if your taste runs to stockyard brawls and castrated reputations. Issues? There are plenty but the cast of characters in the main seem to adhere to this year's maxim:

Take care of your opponents and the issues will take care of themselves.

## Market Maintains Its Cool

Against this backdrop of fun, games and calling names, the stock market and those who make it go have exhibited a remarkable cool.

Prices have done almost nothing for 13 straight sessions through Tuesday and that's supercool, in fact, positively chilling.

And prospects are for more of the same. A swing to the right among the electorate would probably encourage a continuance of the economic orthodoxy presently espoused in Washington. A move leftward, on the other hand, could well trigger over-energetic spending and monetary pump-priming and erase any small inroads against inflation achieved heretofore.

The prudent path, of course, is somewhere between the extremes. Walking the chalk line of economic temperance would be a cinch if it weren't for one thing—people.

## Everybody Wants More

If they're workers, they want more to both overcome inflation and improve their standard of living. If they're bosses, they want more to overcome everything their employees are trying to overcome and then some. But if they're unemployed, such as 5.5 per cent of the labor force was in September, then they become a potent yet pliable social-political force ripe for the use of those who hold out the promise of something better.

The unfortunate fact to date has been that despite the best laid "game plan", inflation is still the star boarder in the land and the cost of supporting this rapacious free loader has become much more than "acceptable" in sums of the jobless.

## June 30, 1972 Target Date

Presidential economic adviser Herbert Stein said this week that real (after discounting inflation) Gross National Product will have to hit an annual growth rate of 8 per cent for "some succession of quarters" to meet Nixon's election year target of full economic capacity by June 30, 1972. It should be noted that factories operated at 76.2 per cent of capacity in the September quarter, down from 84.2 per cent a year earlier.

Stein admitted that the projected growth pace could

hobble progress on the price stability front but added that "at the minimum, the evidence is not so compelling that a prudent man should feel logically required to abandon the full employment goal in order to make progress towards reasonable price stability."

The adviser also pointed out that the President's full employment target (anywhere from 3.5-3.8 per cent jobless is considered full employment) by the end of fiscal 1972 (1971, it appears, has been written off as a time of underachievement) implies an annual real growth rate of just over 6 per cent.

Since the economy is now

running well below this pace and should ideally be running below it at the end of the target period, an 8 per cent growth rate will be necessary for some period in the interim, according to Stein. This prospect could stir the Street's tired bulls a bit.

## Basis of Optimistic Forecast

Stein, speaking at a **Financial Times** conference in London, explained that Administration confidence in an economic turn-up was based on the delayed impact of present monetary expansion; the easier posture of the federal budget (it could be in the red around \$15 billion this fiscal year and Defense spending is due for a boost); a rise in state and local government spending, and increased home building activity.

Sounds reasonable though strung out; but that last item building seems to be faltering slightly.

## A Demurrer

The Dodge index of construction contract value slipped to 183 in September, down from August's 212. The reduced rate, according to economist George A. Christie, "seemed more in line with the slowness of the business recovery than did the very high August index. During the months immediately ahead, construction markets will be showing further improvement in housing and continued sluggishness in nonresidential contracting. These opposing trends will hold the index in the vicinity of 190 for a while."

For the first 9 months of the

year, non residential building contracts totaled \$19.1 billion, down 2 per cent from the like 1969 span. Residential awards declined 6 per cent to 18.3 billion while nonbuilding construction (powerplants, highways etc.) advanced 15 per cent to \$14.5 billion.

\*\*\*\*

(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.)

## M.F. Ltd. Opens

LA JOLLA, CALIF. — M.F.Ltd. has been formed with offices in the Southern California First National Bank Building to conduct a securities business. Officers are Laurie A. Morine, president and treasurer, and J.O.H. Ferm, vice president and secretary.

October 23, 1970

*Under the provisions of the Acts of Congress now in force, the Bonds and income therefrom are, in the opinion of Bond Counsel, exempt from Federal and State taxation.*

NEW ISSUE

\$50,000,000

# Puerto Rico Highway Authority Highway Revenue Bonds (Series C)

Dated July 1, 1970

Due July 1, as shown below

The Bonds may be redeemed, upon thirty days' notice, either (a) the Term Bonds in whole or both the Serial Bonds and the Term Bonds in whole on July 1, 1980, or on any date thereafter from any moneys available therefor, or (b) the Term Bonds, in part, on July 1, 1980, or on any interest payment date thereafter from moneys in the Redemption Account, at the following prices plus accrued interest: July 1, 1980, through July 1, 1983 at 103%; thereafter and on or prior to July 1, 1987 at 102%; thereafter and on or prior to July 1, 1991 at 101%; thereafter and on or prior to July 1, 1995 at 100½%; and thereafter 100%, except that an amount of Term Bonds equal to the respective amortization requirement may be redeemed on July 1, 1993 and on July 1 in each year thereafter at 100% and accrued interest without premium.

Principal and semi-annual interest January 1 and July 1, payable at the Corporate Trust Office of The Chase Manhattan Bank, N. A., New York, N. Y. or at the office of The Chase Manhattan Bank, N. A., San Juan Branch, San Juan, Puerto Rico, or at the Corporate Trust Office of the Bank of America, N. T. & S. A., San Francisco, California. Coupon bonds in denomination of \$5,000, registrable only as to both principal and interest. Registered bonds may be reconverted into coupon bonds, without charge by the Authority to the Bondholder.

THE CHASE MANHATTAN BANK, N. A., NEW YORK, N. Y., Fiscal Agent and Registrar

*Legal investment for Savings Banks in the State of New York.*

Eligible for deposit by banks in Puerto Rico to secure public funds, and by insurance companies to qualify them to do business in Puerto Rico as required by law.

The Bonds are being issued to provide funds for the construction of highways and, subject to Section 8 of Article VI of the Constitution of Puerto Rico, will be secured by a pledge of 8/11ths of the net receipts of the gasoline tax of 11¢ per gallon imposed by the Commonwealth of Puerto Rico and of the full 11¢ per gallon on and after July 1, 1971 and of the net receipts of 4¢ of the 8¢ per gallon tax on gas oil or diesel oil, together with the proceeds of any other taxes, fees or charges which the Legislature of Puerto Rico may allocate to the Authority and authorize the Authority to pledge to the payment of the principal of and interest on bonds issued by the Authority, and by a pledge of the proceeds of any tolls or other charges which may hereafter be imposed by the Authority for the use of any of its traffic facilities financed by bonds of the Authority issued under the Bond Resolution. Neither the credit of the Commonwealth of Puerto Rico nor the credit of any of its political subdivisions is pledged for the payment of the Bonds.

## AMOUNTS, MATURITIES, INTEREST RATES AND YIELDS (OR PRICES)

### \$25,000,000 Serial Bonds

Amount	Maturity	Interest Rate	Yield or Price	Amount	Maturity	Interest Rate	Yield or Price
\$580,000	1972	7%	4.20%	\$1,430,000	1986	7%	6.70%
610,000	1973	7	4.40	1,520,000	1987	7	6.90
660,000	1974	7	4.65	1,630,000	1988	7	100
700,000	1975	7	4.90	1,740,000	1989	7.10	7.05
750,000	1976	7	5.00	1,860,000	1990	7.10	100
790,000	1977	7	5.15	2,010,000	1991	7.10	100
850,000	1978	7	5.30	2,130,000	1992	7.10	100

\$25,000,000 7 ¼% Term Bonds

# SECURITY SALESMAN'S CORNER

By JOHN DUTTON

## A Practical Way to Develop Business

The successful career security salesman is always seeking better ways to improve his public relations. He knows that it is important to contact a maximum number of potential clients with the least amount of physical and mental effort. If you can accomplish this, using one good workable plan that to a large extent solves your prospecting problems, then you do indeed have something worth while.

Here's the way one enterprising Account Executive is building his business. He approached several of his friends

who were operating successful business enterprises in his community and suggested that they form a club to promote their mutual interest - more profit. They were limited to only one firm in a particular line of business. A simple purpose attracted more and more members - do business with club members whenever it is possible to do so. Meetings are held bi-monthly. The dues are modest and the club is operated on a non-profit basis.

### Substantial Success

It is now becoming a

substantial success. Many of the meetings are addressed by the members themselves who are specialists in the fields in which they operate. Recently, a meeting of members was held in this broker's office. It was addressed by the manager of the office. Many wives attended and the information pertaining to opening an account, and operating both cash and margin accounts were actively explored. You can appreciate that the expansion of a salesman's contacts with a growing number of business executives in many diversified lines is solving the salesman's public relations problems. The potential for an expanded clientele is substantial.

### How to Lose an Account

A salesman had a large account. Time after time when

he made a sale in this customer's cash account his main office would hold up payment, incorrectly misnaming the delivery a legal item. Nothing he could do would correct this continuing snafu in the cage. The customer was a simple partnership. Proper legal papers were on file with the firm. But regardless, every time a sale was made back came the wire, "Can't pay, must have legal approval."

Finally, the salesman was told by this exasperated good client of many years standing, to either get his firm straight or he would take his business elsewhere. The salesman knew he could not get through that concrete wall in New York, and he was just about ready to give up and tell this good friend to go to a competitor when the customer said, "I'll give you

just one more chance. Sell this block of stock for me and this time I want my check on settlement date. You get yours when I buy, now produce." He was right.

Fortunately the stock that was sold transferred in the city where the customer and the salesman lived. The customer signed over the stock to the salesman's firm on the day it was sold. He called the Vice President of the bank that transferred the stock and told him the salesman would bring the stock down for transfer. He was well known to almost every officer of this bank and they were glad to accommodate him. The salesman waited fifteen minutes at the bank and brought the stock back to his office transferred over to his firm. No fuss, no bother, no nonsense. This was not control stock, nor was it management stock. This time the new York office started its same old tune and the branch manager got on the telephone and straightened them out. The customer was paid on time.

It is distressing that conditions such as this have to be endured by salesmen with the ability and knowledge that enables them to hold good accounts under such conditions. Until a better operational procedure is established by some firms, however, there are times when someone has to use a little common sense and get things done. If this idea ever can be used by another salesman who is faced with the same sort of impasse, possibly it may save an account. Unfortunately, not too many stocks transfer in Keokuk, Iowa or Paducah, Kentucky.

### Waste of Time

One of the most unprofitable things any salesman can indulge in is gossip. In these times when the news media is making capital out of the serious financial and back-office problems of brokerage firms, it is not going to do any good to tell a friend or a customer anything about pending mergers, acquisitions, or failures in Wall Street. Let the news media carry the stories, they are doing all they can to spread the word as widely as possible. They don't need any help from anyone.

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

## Phila. Mortgage Bankers to Hear

PHILADELPHIA, PA. — Richard C. Mitchell, Director of the Mobile Homes Manufacturers Association's Land Development Division, will be guest speakers at the monthly dinner meeting of the Philadelphia Mortgage Bankers Association on Monday, November 9th, at the Union League, Philadelphia.

Mr. Mitchell, who has been associated with MHMA since 1963, is responsible for the national trade association's efforts in developing mobile home communities. The division designed over 118,000 mobile home sites in 1969 and provided engineering services, zoning assistance and economic counsel, on many of these.

John M. Schubert, Senior Vice President of Commonwealth Land Title Insurance Company, is in charge of arrangements.

\$25,000,000 7 1/4% Term Bonds  
Due July 1, 1999  
Price 100%

Term Bonds are to be amortized beginning July 1, 1993 in annual amounts as provided in the Bond Resolution (Plus accrued interest)

The Bonds are offered for delivery when, as and if issued and delivered to us and subject to the approval of all legal proceedings by Mitchell, Petty & Shetterly, New York, N.Y., Bond Counsel. The offering of these Bonds is made only by means of the Official Statement, copies of which may be obtained from such of the undersigned as are registered dealers in securities in this State.

### The First Boston Corporation

Blyth & Co., Inc.	Drexel Harriman Ripley	duPont Glore Forgan Municipals	Eastman Dillon, Union Securities & Co.
Halsey, Stuart & Co. Inc.	Kidder, Peabody & Co.	Lehman Brothers	Merrill Lynch, Pierce, Fenner & Smith
John Nuveen & Co.	Phelps, Fenn & Co.	Smith, Barney & Co.	White, Weld & Co.
Banco Credito	Banco Popular de Puerto Rico		Banco de Ponce
Allen & Company	Bache & Co.	Bear, Stearns & Co.	Alex. Brown & Sons
Hornblower & Weeks-Hemphill, Noyes	Ladenburg, Thalmann & Co.	Loeb, Rhoades & Co.	W. H. Morton & Co.
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E. F. Hutton & Company Inc.	W. E. Hutton & Co.	Stern Brothers & Co.	Spencer Trask & Co.
Walston & Co., Inc.	Wells & Christensen	Altgelt & Company	Matthews & Wright, Inc.
Bacon, Whipple & Co.	Barr Brothers & Co.	CBWL-Hayden, Stone Inc.	Cutter Bennett Securities Corp.
Dick & Merle-Smith	Robert Garrett & Sons	The Illinois Company	Wm. E. Pollock & Co., Inc.
Roosevelt & Cross	Tripp & Co., Inc.	Tucker, Anthony & R. L. Day	G. H. Walker & Co.
			Yarnall, Biddle & Co.

# Investment Potential Of Offshore Drilling Industry

Continued from Page 3

around \$300 billion, and offshore expenditures are likely to triple to around \$25 billion over the next ten years. It is estimated that offshore oil and gas production will increase from 17 per cent of total worldwide production in 1970, to a level of about 32 per cent by 1980. The industry's annual growth has been forecast at between 15 per cent to 18 per cent.

The expected increase in production, along with the increase in expenditures, should prove beneficial to the offshore drilling and marine construction companies such as Dillingham, Dixilyn, Dresser Ind., Falcon Seaboard, Fluor Corp., Halliburton, Global Marine, Kerr McGee, J. Ray McDermott & Co., Ocean Drilling & Exploration, Ocean Science & Engineering, the Offshore Co., Reading & Bates, Santa Fe International, SEDCO, and Zapata-Norness.

In the Free World, only 10 per cent of land with good oil prospects remains to be drilled, while offshore, only 7 per cent of regions considered possibly hydrocarbon bearing have been fully explored. The major portion of offshore drilling is now taking place along the sedimentary basins which make up the continental shelves. These shelves border the continents, and comprise an area of roughly 4 billion acres, which if they could be placed together would equal the land space of the African Continent. The shelves have an average width of about 40 miles, and an average depth of about four hundred feet.

Outside the U.S. and Canadian waters, the Free World's principal areas of offshore oil production are in the Khafji and Safaniya areas of the Persian Gulf, Lake Maracaibo in

Venezuela, and the North Sea, where Phillips Petroleum, Shell, Standard Oil of New Jersey and Tenneco have reported strikes. Recent oil finds have been made in the offshore waters of South East Asia by Atlantic Richfield and Natomas.

## U.S.A. Offshore Drillings

U.S. offshore lands to a water depth of 600 feet, include 875,000 square miles, which, according to estimates of the U.S. Geological Survey, may contain a potential resource base of between 660 and 780 billion barrels of oil, and from 1,640 to 2,220 trillion cubic feet of natural gas. These offshore lands currently supply 13 per cent of the nation's oil and natural gas requirements. At the present time, the bulk of production comes from the Louisiana area of the Gulf of Mexico (Shell Oil, alone, drilled a total of 212 wells in this area in 1969), and in waters of the Pacific off California (see Table II).

For obvious reasons relating to cost, equipment available at the time, and difficulties of deep sea drilling, the oil industry has been concentrating mostly in the oil basins that exist in water depths of 600 feet or less. For the long term, however, the industry is expected to begin moving out to deeper waters, as it expects to have the technological know-how to extend its operating capabilities to water depths of 4,000 to 6,000 feet.

How fast this transmission to deeper waters takes place will of course depend on deep-sea drilling developments, capabilities and equipment available. Worldwide, there are now some 200 offshore drilling rigs, and of these, 70 are in the U.S. and Canadian waters, 21 are in Europe, 23 in Africa, 14 in the Middle East, 25 in the Far East/Australasia, 29 in Latin

America, and some 15 to 18 are either idle, under repairs, or under construction. There are five basic offshore drilling rigs, and these consist of stationary platforms suitable for shallow waters, and four types of mobile rigs, which are:

(a) Submersible - suited for water less than 100 feet deep. These rigs sit on the bottom in shallow waters while drilling, and are pumped out and floated for movement to a new drill site.

(b) Jack-up type rigs - suited for water depths up to 300 feet. This is a mobile self-elevating rig, which can be towed to location and is primarily used in waters of up to about 250 feet in depth. Once on site, the legs are lowered to the seabed and the platform jacked-up to a safe level above the sea.

(c) Semi-submersible - suited for waters up to 600 feet deep. This rig is used in a partially submerged position to increase its stability.

(d) Ship shaped vessels or barges - suited for water depths 600 feet or more.

In using the latter type equipment, perhaps the two companies with the most experience and greatest capabilities are Global Marine and the Offshore Company. Offshore designs and constructs its own drilling rigs, and the company's latest contribution to the industry is a self-propelled elevating drill ship, which is the first of its type. Global Marine stands second to none among those companies with actual working experience in deep water drilling having worked first on the Mohole Project, and most recently on the Deep Sea Drilling Project for the National Science Foundation. Global Marine has taken over 60 core samples in both the Pacific and Atlantic Oceans in water depths of 5,000 to 20,000 feet, using its specially designed vessel, the Glomar Challenger. The Challenger, an unusually sophisticated piece of technological developments in automatic drilling equipment, and features such innovations as satellite navigation and automatic dynamic positioning equipment, which allow it to maintain position and drill in water depths to 23,000 feet. Working in the Gulf of Mexico, Global Marine retrieved cores from more than 17,000 feet of water, and discovered oil in water depths of almost 11,750 feet. Global Marine's success not only proved invaluable to the scientific community, but also proved that mobile drilling ships were capable of drilling in very deep waters. As a result, the oil industry can now be expected to begin a slow but steady trek toward waters exceeding 1,000 feet in depth.

This outward move toward the deeper waters of the Pacific, and the more hazardous conditions which exist in the North Sea and the Arctic waters, will require a bevy of new equipment and machinery. Additional materials and metals which are able to meet both the extreme cold, and the seas' corrosion problems will be sought, giving metals, plastics, and glass

manufacturers a complete new market for which to compete.

## Oil Spills

To avoid, or at least cut down on, the problems of oil spills, the industry will have to be more closely regulated, and greater safety precautions will have to be taken. Shell Oil for example has come up with a new method to dispose of large oil spills at sea, which utilizes sand as the catching agent. In a recent demonstration of its 'sand sink' method, Shell cleared 100 tons of Kuwait crude from the surface of the North Sea in less than 45 minutes. Ocean Science & Engineering, and Goodyear Tire & Rubber have both demonstrated a system for recovering oil from damaged tankers. The system consists of a rubber bag, which is dropped by aircraft near a grounded or damaged tanker, along with a pump to transfer oil from the tanker to the bag. When the bag has been filled with oil, it is then towed away for safe disposal.

## Undersea Equipment Production

To counter the hostile environmental conditions found in water depths 300 to 1,000 feet, a number of companies such as Halliburton, Ocean Science & Engineering, Union Carbide and Westinghouse Electric have come up with underwater habitats for divers having to work at these depths for any period of time.

Aiming to improve prevailing systems, North American Rockwell has teamed up with Mobil Oil Company to develop a subsea oil production system that is to be used economically and efficiently to extract the extensive oil and gas deposits at water depths to 6,000 feet. The core of the North American Rockwell/Mobil Oil System is a seafloor satellite or station, which is used to maintain and control a number of producing wells. Each satellite can service between 12 to 8 wells, and it is automatically controlled from an offshore platform, shore station, or surface ship. Thus, the system is designed to withstand wind and wave motions to hurricane strength and severe currents, tides, and other environmental conditions without disruption.

Not wanting to fall behind in this new area of competition, Westinghouse Electric has chosen the international route, in teaming up with British Petroleum, Compagnie Francaise des Petroles, and Group Deep (a French engineering firm) in forming Subsea Equipment Associates, Ltd. (SEAL), an international company that will design and build deep water oil production systems and equipment.

Both North American Rockwell/Mobil Oil, and the SEAL systems will make use of manned and unmanned submersibles to monitor, service and repair the systems once in operation, thus creating an additional market for undersea equipment; and perhaps truly paving the way for the new modes of undersea transportation that will develop by the end of the decade. Companies active in the building of submersible vehicles include Aluminum Company of America,

General Dynamics, Litton Industries, Grumman Corp., Lockheed, North American Rockwell and Westinghouse Electric.

The movement of the oil industry further out to sea should also prove beneficial to the marine construction companies that provide the offshore oil companies with service and support systems, vessels and equipment, and excavating and pipelaying machinery. These companies also design and construct the production equipment platforms which replace the drilling rigs after the initial development. These platforms, which can run as high as \$18 million each, include such equipment as oil and gas separators, gas compressors, water injection pumps, gas dehydrators, oil pumps, and just about all the equipment one would find in an onshore installation.

In addition, the marine construction companies build docking, loading and unloading facilities, and they dredge harbors, offshore channels, rivers and other important waterways. Dredging will begin to take on greater importance in the next few years as a result of the tremendous increase in the size of modern tankers to over 250,000 deadweight tons, and drafts to 65 feet or more. These huge tankers have not only created the necessity of dredging channels deeper, but of installing offshore loading and unloading platforms serviced by pipeline or shuttle vessels.

## Outlook For The Industry

The general outlook for the industry is one of continued growth, and increased earnings over the long term notwithstanding the negative factors. The latter stem from the possibility of losses, resulting from the capsizing or sinking of rigs, barges and support ships which may cost as much as \$12 million each. As a result of such prior losses, insurance rates on such equipment have climbed to as high as 10 per cent, and even at these rates, many insurance companies are not willing to assume coverage. Thus, several of the offshore drilling companies have had to start their own insurance companies for self coverage. Until adequate reserves are set up for these possible losses, there will always be a dark cloud hanging over the industry.

An additional negative factor is the fact that the offshore drilling industry is cyclical in nature, and that many of the companies in this industry are highly leveraged, thus any idling of their equipment puts a severe strain on earnings.

On the positive side, however, is the fact that the offshore drilling industry has started branching out into marine construction activities, and that the marine construction industry has started branching out into offshore contract drilling activities; and that both industries are beginning to move into other areas of operation which do not carry the degree of risks inherent in pure offshore industry specialization.

Regarding profit potentials, it has become increasingly difficult

NEW ISSUE  
October 21, 1970

This 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.

150,000 Shares

**AFRICA** U.S.A. INC.

Common Stock  
(Par Value \$ 01 Per Share)

Price \$10.00 Per Share

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RESCH-CASSIN & CO., INC.  
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to either chart, or make specific reference to earnings, in that so much diversification has taken place within the industry that often exact breakdowns are not available. Fluor Corporation (see Table I), for example, is not primarily a contract drilling concern. Yet, the company derived 10 per cent, or \$43 million, of total 1969 revenues from offshore drilling activities. This was more in some cases than the total revenue derived by companies solely in contract drilling activities. Then too, almost all of the companies in this industry are now taking positions as participants in onshore and offshore mineral explorations, which may or may not produce important future earnings.

**Thumb-Nail Sketch**

The following generalized briefings on some of the companies in the offshore drilling and the marine construction industries, serve to focus on the diversification that is taking place within these industries.

**Global Marine**

In addition to being one of the foremost companies with deep sea drilling capabilities (Global Marine has the largest fleet of self-propelled drilling ships and barges), GLM has started branching out into natural resources in the Philippines and the Canadian Arctic. Global Marine discovered a nickel laterite ore body evaluated as one of the largest known in the world in the Philippines. The nickel deposit is said to contain more than 90 million tons of ore with an average nickel content of 1.3 per cent.

The company also has a half interest in 6.5 million acres onshore and offshore in the Canadian Arctic, and has obtained offshore concessions in Australia & New Zealand. Global Marine has formed a joint venture with Raymond International Inc., to provide the oil industry with drilling, construction and support services in the Alaska-Arctic area.

Other areas under investigation by the company include construction and design of fishing vessels, undersea mining, marine construction and transportation systems.

**Halliburton Co.**

Reputed to be the world's largest marine services company, Halliburton is also a leading factor in the building of drilling platforms, and the laying of underwater pipelines. The company is represented in the insurance field and environmental control, through its subsidiaries; and in addition to manufacturing oil well equipment, the company manufactures such products as hydraulic cushioning devices for freight cars, pressure control equipment, and is also a distributor of explosives for the oil industry.

**The Offshore Company**

Principally an offshore drilling company, Offshore recently acquired a waterfront construction firm; and organized two wholly-owned insurance firms to service part of its own insurance needs. The company is seeking participation in oil exploration leases and concessions on an international basis, and at the end of 1969, held interests in approximately 1,610 net acres located onshore

Mississippi, and onshore and offshore Louisiana.

**Ocean Science & Engineering**

Headed by the very imaginative Willard Bascom, Ocean Science and Engineering is engaged in ocean mining, ocean engineering, and the design and building of specialty vessels for oceanographic activities, and the design and construction of specialized underwater dredging equipment. The company offers a complete survey package of marine pipeline construction, and for offshore, shoreline and breakwater construction. Recently it has branched out into offshore oil pollution control, and marine protein through its scallops harvesting and processing operations.

**Reading & Bates Offshore Drilling**

An important offshore drilling and exploration company, Reading & Bates purchased a 54 per cent interest in Carver Dodge International Company, whose principal asset was a 22.6 per cent interest in a production-sharing contract covering an area of approximately 50,000 square miles offshore Southwest Sumatra, and then acquired all of the stock of Carver-Dodge Oil Company, which brought the company an additional 12.25 per cent interest in a production sharing contract covering 21,000 square miles offshore Java. Recently Reading & Bates

acquired Associated Pipe Line Contractors, Inc., and a 10 per cent interest in Hamilton Brothers Oil Co. The company is also engaged in the production of oil and gas, as in 1969 hydrocarbon production was approximately 3,900 barrels of oil per day.

It is quite conceivable that by the end of this decade the marine construction industry and the offshore contract drilling industry will emerge as one, becoming stronger with greater diversification, and enabling it to improve overall profit margins.

**Representative Companies**

The following, while not all

inclusive, serves as a representation of the public companies with important stakes in oceanography, offshore hydrocarbon development and marine construction:

- Aluminum Company of America(1)
- Dillingham Corp.(1)
- Dresser Industries(1)
- Falcon Seaboard(2)
- Fluor Corp.(1)
- General Dynamics Corp.(1)
- Global Marine Inc.(1)
- Grumman Corp.(1)
- Halliburton Corp.(1)
- Joy Manufacturing Co.(1)
- Kerr McGee Corp.(1)
- Litton Industries(1)

- Lockheed Aircraft(1)
- J. Ray McDermott & Co.(1)
- Mobil Oil Corp.(1)
- North American Rockwell(1)
- Ocean Science & Engineering(3)
- Ocean Drilling & Exploration(3)
- Offshore Company(2)
- Reading & Bates Offshore Drilling(1)
- Rowan Drilling Co. Inc.(2)
- Santa Fe International(1)
- Sedco(1)
- Tidewater Marine Service(1)
- Union Carbide(1)
- Westinghouse Electric(1)
- Zapata-Norness(1)

(1) Listed on New York Stock Exchange.  
(2) Listed on American Stock Exchange.  
(3) Traded over-the-counter.

**TABLE I**  
1969 — STATISTICAL DATA ON SEVEN CONTRACTING DRILLING COMPANIES

Name	1969 Total Revenue (Million \$)	% of Revenue from Contract Drilling (Estimate)	Total Revenue from Contract Drilling (Million \$)	Earnings Per Share	Price High-Low	P/E Ratio
Fluor Corp.	\$434.64	10%	\$43.46	\$2.05	53-23	26-11
Global Marine	38.56	90%	34.71	0.69	40-17	59-25
Offshore Co.	72.86	88%	64.11	1.95	39-30	20-15
Reading & Bates	61.16	50%	30.58	1.02	48-16	47-16
Santa Fe Int'l	101.83	51%	51.93	2.08	53-28	26-13
SEDCO	41.08	70%	28.76	0.96	34-21	36-21
Zapata-Norness	191.11	13%	24.84	3.30	67-32	20-10

**TABLE II**  
TOTAL OFFSHORE DRILLING IN THE U.S. TEN-YEAR PERIOD 1959 - 1968\*

Number of Wells	1959	1960	1961	1962	1963	1964	1965	1966	1967	1968
Oil	277	301	336	342	372	477	487	531	468	783
Gas	75	87	86	115	90	125	118	145	156	191
Dry	121	148	179	302	323	393	429	422	430	454
<b>Total</b>	<b>473</b>	<b>536</b>	<b>601</b>	<b>759</b>	<b>785</b>	<b>995</b>	<b>1,034</b>	<b>1,098</b>	<b>1,054</b>	<b>1,428</b>
Percent Success	74	72	70	60	59	60	58	62	59	68

\*Total does not include Cook Inlet, Alaska.

Source: Joint Association Surveys 1959-1965, American Association of Petroleum Geologists, 1966, 1967, 1968.

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

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**Broadway-Hale Stores, Inc.**  
**\$2 Convertible Preferred Stock**  
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**Price \$35.50 per share**  
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- Lehman Brothers
- Loeb, Rhoades & Co.
- Merrill Lynch, Pierce, Fenner & Smith  
Incorporated
- Paine, Webber, Jackson & Curtis
- Salomon Brothers
- Smith, Barney & Co.  
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- Stone & Webster Securities Corporation
- White, Weld & Co.
- Dean Witter & Co.  
Incorporated
- Bache & Co.  
Incorporated

October 23, 1970.

# Hazards of Specializing on Higher Silver Price

Continued from Page 1

manner to support further the current estimate offered by the Association.

I guess some might be thinking that I am really blowing the SUA horn, and I would have to agree. We are simply tired of reading the predominantly bullish information about silver when little in the statistics indicates this viewpoint for the next two to three years as a minimum. We believe it is an injustice to potential buyers of silver to deny them all of the facts. Only a few analysts and advisory services have been open minded enough to print what some refer to as "the other side" of the silver story. As far as I am concerned, this is the most important side of the story because it deals with the near term.

## All Price Predictions Have Been High

In preparing these remarks, I recalled that at the previous seminars, the attendees were asked their predictions on the silver price a year hence. Does anyone remember the predictions made in September, 1968, at the first seminar? It was \$2.33. At the time of the prediction, spot silver was \$2.22. When the year ended, silver was actually \$1.75. At last year's meeting in November, the composite figure was \$2.26, and spot silver at that time was \$1.90. As we know, the spot price September 21 was \$1.76. So, on both occasions, the experts, were high in their estimates, and the price each time was lower than the then current price. I submit that this trend may very well continue, and the price next year very possibly will be lower than that of the present. My basis for this statement is the belief that the speculative pressures to which silver has been subjected for five and even ten years will let up and even be replaced by the heavy pressure of the vast quantities of silver available to the market.

## Growing Overhang Inventory

As I have so often said, there is more silver available to the market, today than when silver

established its post-1967 low of \$1.54 last year. At that time, there had been a ban against the private melting of U.S. coins. The rate of scrap recovery was lower, demand was higher and production had decreased because of strikes during the previous year. The overhang in the hands of speculators and in excess inventories of industrial users, both in this country and abroad, was then estimated at between 200 and 300 million ounces. Today, this figure has increased to at least 500 million ounces. It is interesting to note that this buildup has been at a rate equivalent to the rate of GSA sales. Or, in other words, Government sales have been contributing to the overhang with other supplies filling the gap between new production and consumption. Thus, when the sales are ended, supply and demand should approximate a balance. These factors would seem to substantiate the SUA analysis that only speculative activity and monetary crises could contribute to higher prices for silver in the near term. There certainly is no shortage of the white metal for industrial users.

## Past Government Role Has Been Significant

During the past 194 years, the United States Government has been the largest buyer, the largest user, and the largest supplier of silver of any government in history.

As a buyer, the Treasury has purchased more than three and a half billion ounces of silver between the years 1933 and 1963. In the production of silver coins, the U.S. Mint has consumed more than two billion ounces of silver. In its role as a supplier to the market, the Government has sold slightly more than 650 million ounces with nearly half of this released under the GSA auction program which began in 1967. The Government has also exchanged about 550 million ounces for silver certificates. The next chart depicts these Treasury supplies of the past.

At this point, perhaps the silver user might have serious concern

over the future of silver with the world's largest supplier soon to leave the scene. In order to appreciate the current silver situation, a review of the supply and demand factors might be helpful. Let us turn first to the supplies of silver which are immediately available.

## Future Supplies Expected From Primary and Secondary Sources

For the future, as in the past, supplies of silver will come from demonetized coins, scrap recovery, silver held by speculators and investors as well as new production. On a worldwide basis, production accounts for approximately 250 million ounces per year. In 1970, it is estimated that between 65 and 80 million ounces of silver will be recovered from scrap material, principally photographic film and paper. As I pointed out earlier, silver in bullion form available to the market has continued to accumulate and is now estimated to be more than 500 million ounces. This silver is held by investors, speculators, hoarders and users. An additional 700 million ounces in U.S. silver coins being held for their silver content supplement the bullion silver making a total estimated overhang of 1.2 billion ounces.

In estimating the extent of possible coin recovery and melting, perhaps the experience of the British government is of some significance. The British so far have recovered about 85 per cent of their old silver coins. Admittedly, the circumstances under which the bulk of these coins have been gathered were different from those facing us today; however, it cannot be denied that 85 per cent recovery is a high rate. With this high rate of recovery, let us review how much silver is involved in the U.S. coinage program. Since 1933, the U.S. Government has consumed approximately 2 billion ounces of silver for coinage. It is reasonable to assume that during a period of 10 to 15 years, at least half of this silver or a billion ounces will find its way to the melting pot. The

Treasury has already melted 212 million ounces for its sales program which ends in November. Private operations have accounted for the melting of another 75 or 80 million ounces of coins, leaving the remainder of approximately 700 million ounces for future melting. We believe this figure to be a conservative estimate. It could be even higher.

## Domestic Production Increases; Consumption Down

The augmentation in the silver overhang during the past several years has been the result of a reduction in domestic industrial demand, an increase in world production and secondary recovery in scrap and coins, the continuation of Government sales, and the substitution of material other than silver for coinage worldwide. This accumulation will continue for at least several months and perhaps longer depending upon industrial usage rates, scrap recovery, and new production increases.

Leading silver producing countries last year were Mexico-48 million ounces, Canada-43 million ounces, the United States-41 million ounces, and Peru-37 million ounces. Other Latin American countries accounted for 16 million ounces while all other countries produced 63 million ounces for a grand total of 248 million ounces. For 1970, Canada is expected to pass Mexico for first place, and the U.S. with nearly 45 million will be a close second or third.

Despite the repeated claims to the contrary by those interested in higher prices for silver, domestic industrial use of silver has actually decreased since 1966 while production has increased. This year there could be even less silver consumed in this country than last year when consumption was estimated at 147 million ounces.

In 1966, the domestic industrial consumption of silver reached an all-time high at 150 million ounces. Since that time, consumption has fallen off, and based on the figures for the first half of 1970 as published by the Bureau of the Mint, consumption this year could be 5-10 per cent less than 1969. The use of silver in coinage has decreased considerably since the high year of 1965 when approximately 385 million ounces were consumed throughout the world. Last year, 45 million ounces were used, and it is expected that during 1970, this will show a further decline to less than 25 million ounces.

Worldwide industrial demand for silver during the past 5 years has shown an increase of about 2 per cent per year and is estimated for 1970 to be some 365 million ounces.

In recent years, the U.S. Government has been the primary source of secondary silver needed to meet total demand. Other sources of supply during this period have also been important and include other governments' stocks, demonetized coins, liquidation of speculative holdings, and salvage and scrap recovery. All of the latter sources have been increasing their portion of the total supplies to the market.

In the future, it is expected that at least half of the deficit

between new production and consumption will be filled by material recovered from scrap. The other half will come from speculative holdings, either coins or bullion. It is interesting to note that on this basis the amount of silver needed from speculative holdings is less than 250,000 ounces per day. When this relatively small amount is compared with the average daily trading on the Commodity Exchange of some 40 million ounces, it is difficult to believe that there is any shortage of silver requiring extreme increases in price for the near future. When one compares further this daily need with the vast quantities of silver overhanging the market, the arguments for higher prices seem even less realistic.

## Summary of GSA Sales Program

The GSA sales program began on August 4, 1967. During slightly more than three years, some 300 million ounces of silver have been sold. Until 1969, silver was offered at two million ounces per week and restricted to domestic industrial users. On May 12, 1969, the Joint Commission on the Coinage announced a change in policy which reduced the amount of silver offered to a million and a half ounces per week and opened the bidding to all comers both here and abroad. Total sales will bring in more than \$550 million to the general fund. The profit on these sales or the difference between the selling price and the monetary value of silver (\$.29) was \$55 million in FY 1968, \$51 million in FY 1969, and \$35 million in FY 1970. The rate of government profit on these sales has been more than 25 per cent.

Silver was sold in grades varying from unrefined to .999 fine with the bulk of the silver released being in the form of melted coins which is .900 fine. The highest price obtained for Government silver during this period was for .996 silver on May 17, 1968, when the price paid was \$2.43. The lowest price paid during these sales was \$1.5060 on June 24, 1969, for .900 fine silver. Silver of .999 fineness varied in price between \$1.6250 in September of 1967 to a high of \$2.22 in March of 1968.

During the first 32 months of the sales, no bid deposit was required and thus the amount of silver bid for gradually increased until it reached a high of 32 million ounces on May 12, 1970. Shortly thereafter, because of bidders' failing to pick up the silver and going into default on their purchases, GSA instituted a requirement of a 5 per cent bid deposit to accompany all bids. Following that action, the volume of the bids dropped dramatically and was never more than 5 million ounces.

The sales program has been conducted during a period of a very volatile market, and the administrators of the program, the General Services Administration, were hard pressed to award silver without affecting the market on one side or the other.

## Treasury Program Commended

Before concluding I would like to refer to the manner in which recent government sales have been conducted. The Treasury is to be commended for having

All of these securities having been sold, this advertisement appears as a matter of record only.

NEW ISSUE

October 2, 1970

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announced a sensible plan for disengaging from its historic role in silver. In 1967 and at various times during the past three years, Treasury officials have reiterated the well-designed program to end the sales. This period of transition has been helpful to all concerned.

As agent for the sale of Treasury silver, the officials at the General Services Administration have done an admirable job in disposing of this important raw material in a manner so as to keep to a minimum any disruption in the market. There were occasions when we argued on the weekly cut-off price because they appeared arbitrary when volatile market conditions were considered. However, during the entire period, the GSA has disposed of silver at the rate determined by the Treasury and the Joint Commission on the Coinage.

#### Much Speculation Over Future of Silver

There has been much speculation over the type of market which will follow the end of GSA sales with the bulk of the brokerage houses and

commodity advisory services predicting extremely high prices for the white metal. The speculative fever present in the market resembles that which existed in 1968 when the same services were predicting higher prices for silver, some at the \$3.00, \$5.00 and even the \$10.00 level. The error made by those who predicted higher prices was a failure to give serious consideration to the amount of silver available for the market. It would appear that these services are making the same mistake again when they fail to weigh properly the impact of the vast overhang now conservatively estimated as 500 million ounces in bullion form and at least 700 million ounces in U.S. silver coins.

In a final reference to the silver situation today, there is one element of the picture which is decidedly different from previous years; namely, the end on November 10 of the Government's participation in the market. It is a goal which has been long sought by the industrial users of silver who are convinced that the laws of supply and demand will work to find an

## MUTUAL FUNDS

By JOSEPH C. POTTER

### Wall Street Waiters

In other times it was rather easy to get an analyst to cite the stocks he liked and why — and how! Times, of course, have changed, typified by a luncheon meeting with a senior analyst of one of the country's oldest and largest investment advisory companies.

Plainly, this shrewd student of the marketplace, who in the 1960's could put together a portfolio on a wet bar napkin, did "not want to be put on the spot." Finally, the recommendations came: food chains and utilities. And, then, only those with the best records of growth.

appropriate and reasonable price for the metal. Without Government intervention for the first time in nearly 200 years, silver should seek its own level. Because of the vast quantities of silver available, it would appear that a new post-1967 low price for silver will probably be established before any new high will be recorded. There is no more reason, today, to believe the predictions of those seeking higher prices than there was in mid-1968.

\* Based on a talk by Mr. Frankland before the AMERICAN METAL MARKET seminar, New York City, September 23, 1970.

This is a bull?

Yet another distinguished analyst, who had been saying the institutional buyers would set the pace for a resurgent stock market, was even less buoyant last week. The reason was not hard to find: the mutual funds reported that the trade's liquid assets (cash, Government holdings and short-term corporate obligations) were at 10.4 per cent of total assets amount to \$44.4 billion. Obviously, our distinguished analyst had been pinning his hopes on a large chunk of that \$4.6 billion in cash and equivalent finding its way into stocks. Indeed, he had been waiting for almost a year.

But the record shows that a year earlier (September, 1969) liquid assets of the funds totaled up to \$4.4 billion. While the funds thus are holding on to a little less cash, the year-earlier figure represents only 9 per cent of total assets. Whatever this adds up to, it certainly does not amount to spirited buying of equities.

Still, the mutual funds are not in business to prop up the stock market. Nobody, but nobody, is going to bail out fundmen if their shareholders should accelerate the level of cash-ins.

In August, cash-ins were at a comfortable \$167.4 million, a four year low. A month later (latest figures available) redemptions were up to \$217.6 million. Wall Streeters dismissed the rise as "expected." As one report put it: "Investors historically have tended to hold fund shares during stock market doldrums, then sell after an apparent market resurgence is underway."

Maybe now that the market has stopped "resurging," the customers will come back, but nobody in the fund trade is counting on it and the salespeople now are reaching for more cold doorknobs.

Apparently they are getting results too. Fund sales, as reported by the Investment Company Institute, increased last month to \$357 million from \$312 million in August. On a year-to-year basis, however, that's \$85 million less than the figure for September of 1969.

On balance, the latest report must be viewed as encouraging: assets rose to \$44.4 billion from \$42.5 billion in August, \$40.7 billion in July and \$38.5 billion in June. So the patient has been making good recovery progress.

It may be that the funds soon will take the rubber band off the bankroll and become aggressive buyers of stocks, but the Financial District is counseled by one investment manager: "We better not hold our breath while we're waiting."

## Merrill Lynch Executive Changes



Seated: Donald T. Regan, Chairman and Chief Executive. Standing: Ned B. Ball, President.

James E. Thomson, chairman of the board of Merrill Lynch, Pierce, Fenner & Smith Inc., 70 Pine Street, New York City, members of the New York Stock Exchange, has announced that the board has elected Donald T. Regan, to be chairman and chief executive officer, succeeding Mr. Thomson, who reaches retirement age at the end of the year. Mr. Thomson also announced the election of Ned B. Ball as president and chief operating officer, the post now held by Mr. Regan. All the moves take effect on January 1, 1971.

Donald Regan has served as president of Merrill Lynch, the world's largest securities firm, for the past 2½ years. He has spent his entire business career at Merrill Lynch, which he joined in 1946 as an account executive trainee. Regan became a partner of the firm in 1954, and was elected executive vice president in 1964. As president, he has been principally responsible for

Merrill Lynch's diversification into a wide range of investment services.

Mr. Ball, the new president, moves up from chairman and chief executive of Merrill Lynch International, the 23-branch system that comprises the overseas operating arm of Merrill Lynch.

Like Mr. Regan, Mr. Ball has worked for his entire career at Merrill Lynch. He joined a predecessor firm in North Carolina, his native state, in 1928. Since then he has moved steadily up the managerial ladder, becoming a member of the Merrill Lynch board of directors in 1966. He became chairman of Merrill Lynch International two years ago.

James Thomson, the retiring chairman, started with Merrill Lynch as a runner in 1924. He was the driving force behind Merrill Lynch's move toward automation, in anticipation of the trading volume of the 1960s.

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Paine, Webber, Jackson & Curtis

Smith, Barney & Co.  
Incorporated

Stone & Webster Securities Corporation

Wertheim & Co.

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October 29, 1970

## THE STATE OF TRADE AND INDUSTRY

Steel production . Electric Output . Carloadings . Retail Trade  
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### The Remarkable Stability of Per Capita Income and Consumption Share of Per Capita GNP — 1929-1969

The year 1929 witnessed our "greatest credit crisis" which collapsed the economy into an all-time unexampled record long, numbingly disastrous depression. Forty years later, 1969, showed uncomfortably disturbing signs of another such crisis which, fortunately, was assuaged more expertly than similar symptoms in 1966. Both crises, however, were uncomfortably reminiscent of 1929 events. And, even though the very dangerous symptoms have disappeared, it should be noted that the underlying problem, while dormant, is still latent.

Comparing the two years, forty years apart, 1929 and 1969, points up the tremendous differences in the share of Gross National Product now going to all layers of government, predominated by another year of cold and hot war defense spending. It also is underscored by the unprecedented eruption, or revolution, or such problems as pollution of our ecology, metropolitanization's consequences evidenced by urban decay, mass transportation failure, and white suburban populace surrounding a concentration of black central city residents, and by backbreaking medical-hospital-early retired pension expenditures.

Equally important are the differences in price inflation, then and now, and the quality of our dollar both here and abroad reflecting another kind of proliferation, or pollution. From a narrower social point of view, law and order and the costs of attempting to alleviate the lot of the poor are eroding us morally and financially, in that order. Certainly the cold war, which so many of our vociferous younger student and teacher adults are forgetting or not accepting, since 1950, takes up much of our resources which otherwise could be better deployed.

It is within the above context that we should like to call attention to the "plus side" of our economy. We have, rightly so, belabored frequently in this space the problems of cost-push inflation, and the incredible siphoning of loanable funds into non-productive areas attracted by greater return obtainable there than from the net worth on productive assets including housing, transportation and utilities.

The "plus side" here refers to the remarkable stability of the share of per capita personal income, disposable income and personal consumption of per capita gross national product. The years we have selected are, except for 1964, peak years —

1929, 1959, 1964, and 1959. In both real and constant (1958) dollars, per capita P.I., D.I., and P.C. shares of per capita GNP, have remained in a relatively narrow range.

Personal consumption in constant (1958) dollars did take a larger share of GNP in 1929 than in the indicated succeeding benchmark years. Much of this is attributable to the small amount of GNP going into the government especially for the above cited reasons. Thus, P.C. and, for that matter, Disposable (after-tax) Income, were larger at 68.5 and 74.0 per cent, respectively, than in the three subsequent years.

The share of per capita Personal Income, which is income from all sources before taxes, was larger in 1929—as should be expected.

In the lower half of the above table dealing with per capita ratios, we added in what would have otherwise been a blank column, the ratio of per capita total (private and public) debt to per capita GNP. Coincidentally, in 1969, we were not quite at the same extraordinary high ratio as forty years ago. Thus, all the ratios for all practical purposes point up the inherent stability of per capita distribution of GNP in terms of consumption and income. Perhaps there is a warning in the debt ratio in view of its increasing non-productive compositional share in the total figure of 182.5 per cent. We will come back to this point shortly.

At the same time, the annual average for the above components reflect a real increase in the recent years. Per capita GNP grew at an annual average of 3.7 per cent in constant (1958) dollars in the five years ending 1969 whereas the forty years' average (which includes the devastating 1930's) was 2.8 per cent. Per capita Personal Consumption paralleled per capita GNP — which should be no surprise. (See Table II)

The tremendous acceleration of productivity in the first half of 1960's has helped offset the leveling out after 1968 to date; thus, 1964-1969 period carries the momentum of the 1960's astounding productivity advances.

Just above, we pointed out that the 1969 ratio of per capita debt to

per capita GNP was approaching where it was in 1929. The annual average per capita debt of 4.3 per cent for the past forty years should be contrasted with the annual per capita average of 7.8 per cent and 7.9 per cent for the past ten and five years, respectively. Failure of the market to exercise proper credit allocation, handicapped by government credit subsidies and guarantees, may have been responsible for the increased debt annual average far outpacing the real per capita average growth of the economy.

If we can reverse the debt problem outpacing real GNP without a correlative response in real assets, the recent past year and a half leveling out of productivity and increasing unit labor costs, and the worrisome rise in loanable funds into non-productive areas, resuming prosperity and solving our monumental problems could then be easily accomplished. If we could overcome the disastrous collapse of the 1930's, successfully fight the WW II threat to the "free World" maintain a twenty-year "cold war" defense establishment with three hot wars thrown in, we can safely conclude that we have what it takes to correct our current problems and forge ahead—assuming the cold war gets no worse and, better yet, improves from our point of view.

—SIDNEY BROWN

#### Bank Clearings Rise 9.9% Above 1969 Week

According to data compiled by Dun & Bradstreet, Inc., bank clearings for the week ending October 21 were \$107,051,291,000 compared to \$97,408,094,000 the same week in 1969.

Since clearings for the week ended October 14 amounted to \$88,558,509,000, week to week gain amounted to 17.2 per cent.

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

	Week Ended October 21 (000 omitted)		%
	1970	1969	
New York	\$78,863,929	\$69,018,245	+14.3
Chicago	2,272,723	2,217,883	+2.5
Philadelphia	1,998,000	2,077,000	-3.8
Boston	2,635,412	2,659,232	-0.9
San Francisco	2,534,996	2,381,241	+6.5

#### Steel Production Falls 0.2% From Previous Level

According to the American Iron and Steel Institute, steel production for the week ending October 24 amounted to 2,397,000 compared to the prior week's 2,403,000 tons for a week-to-week 0.2 per cent decrease. The index of production (1957-59 equals 100) was 128.7 and 129.0 respectively. Output in the 1969 week was 2,796,000 tons 150.1 representing a 14.2 per cent decrease from the year-ago week.

Cumulative output to date this year totals 108,686,000 and 5.1 per cent below 114,580,000 created in the same 1969 period. The respective indexes are 137.5 versus 145.0.

Last week's production by

district in index number according to the Iron and Steel Institute came to:

District	**Index of Production for Week Ending	
	Oct. 17	Oct. 24
Northeast Coast	126	125
Buffalo	103	107
Pittsburgh	108	105
Youngstown	112	117
Cleveland	137	123
Detroit	178	186
Chicago	136	129
Cincinnati	167	170
St. Louis	139	137
Southern	164	168
Western	133	137
Total Industry	129	128.7

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

#### GM Strike Delays Business Upturn

Any upturn in business is being delayed by the strike against General Motors Corp., Industry Week said.

Declines in new orders and work backlogs at manufacturing plants are continuing in a variety of industries, and most companies say the strike is the major culprit, the business magazine reported.

Although some firms are experiencing a pickup in demand, many still are waiting for a turnaround. Some companies have just begun to feel an order slackening, while others began cutting back operations several weeks ago. A scattering of firms haven't even been hit by a downturn.

Behind the weak operating outlook for industry generally are the widening impact of the strike against General Motors and the economic slowdown.

At one extreme, a company in the chemicals, metals, and packaging materials field says its business decline is accelerating and hurting. Conversely, a major aluminum company says its order drop seems to be over and order backlogs are expected to grow. A specialty metals firm expects improvement early next year as the economy rebounds.

Although work backlogs are low for firms in the consumer electronics field, they are looking for recovery as the Christmas season approaches.

The tire and rubber industry presents a mixed picture, with companies that were strikebound earlier in the year catching up and others adjusting to order declines, Industry Week reported.

A New England paper firm that produces board and electrical insulation has cut the work week to 32 hours at three facilities.

Manufacturers in the Detroit area are singing the blues. The owner of a stampings plant there said: "Even if the General Motors strike were over tomorrow, business wouldn't have time to recover this year." A parts supplier added: "Some small outfits will go out of business or close down until the strike is over. In good times I

**TABLE I**  
Share of Per Capita GNP by P.I., D.I., and P.C.  
(Dollars)

Per Capita Years:	GNP		P.I.		D.I.		P.C.	
	Curr.	'58 \$'s	Curr.	'58 \$'s	Curr.	'58 \$'s	Curr.	'58 \$'s
1929	\$ 846	\$1,671	\$705	\$1,274	\$ 683	\$1,236	\$ 634	\$1,145
1959	2,731	2,688	2,166	2,138	1,905	1,881	1,758	1,735
1964	3,292	3,025	2,589	2,411	2,280	2,123	2,088	1,945
1969	4,583	3,578	3,685	2,985	3,108	2,517	2,916	2,301

	Ratio of Total Debt to GNP (Percent)							
	1929	1959	1964	1969	1929	1959	1964	1969
	185.1%	172.2%	182.1%	182.5%	83.3%	79.3%	78.6%	80.4%
					76.2%	79.5%	79.7%	83.4%
					80.7%	69.7%	69.3%	67.8%
					74.0%	70.0%	70.2%	70.3%
					74.9%	64.4%	63.4%	63.6%
					68.5%	64.5%	64.3%	64.3%

All of these shares having been sold this notice appears  
as a matter of record only.

New Issue

60,000 Shares

**FINANCIAL CONGENERIC CORPORATION**

Common Stock

(\$0.1 Par Value)

Price \$5 Per Share

Copies of the Offering Circular may be obtained from the undersigned.

**Frank, Goldman and Drake, Incorporated**

80 Wall Street

New York, N.Y. 10005

One Cherry Hill

Cherry Hill, N.J. 08034

**TABLE II**  
Per Cent Change Per Capita Annual Average

	40 YEARS		10 YEARS		5 YEARS	
	1929-69		1959-69		1964-69	
	Curr.	'58 \$'s	Curr.	'58 \$'s	Curr.	'58 \$'s
GNP	11.0	2.8	6.8	3.3	7.8	3.7
Personal Income	10.6	3.4	7.1	4.0	8.5	4.7
Disposable Income	8.9	2.6	6.3	3.4	7.3	3.7
Personal Consumption						
Total	9.0	2.5	6.6	3.3	7.9	3.7
Total Debt	4.2	.....	7.8	.....	7.9	.....

have about 100 employees. Right now, I'm down to 40, and we may have to go on a short week to keep them busy."

Steel mills generally report demand is soft across all product lines and that any steel item can be obtained promptly, **Industry Week** reported. Ordering of steel is fluctuating widely, but it generally is off about 10 per cent from this time a year ago. Meanwhile, production of raw steel is drifting downward.

Some steel mills are advising their small customers to order ahead to avoid being lost in the rush when General Motors again calls for steel deliveries. There are also hints that current raw steel output cutbacks will result in a tightened supply after the first of the year when hedging against a possible steelworkers' strike begins.

Steel scrap, a raw material for steelmaking, is being carried down pricewise by the steel production decline that reduces scrap needs. **Industry Week's** price composite on No. 1 heavy melting steelmaking scrap dropped to \$39.83 per gross ton from the preceding week's \$41.33. This is the lowest the composite has been since the close of 1969.

#### Steelmakers Try to Prod Users Into Building Inventories

Steelmakers are trying to prod their customers into doing something to build up their inventories. But not many users are getting the message, according to **Iron Age** magazine.

The mills feel that all of the pressures are building up for another inventory rush. And the mills would like to avoid having it turn into a stampede that they can't handle.

Steel stocks of users and producers are at about the same level as they were at the same time in 1967, the last time strike-hedge stockpiling took place. Consumption of steel in 1971 is expected to equal the 1968 chewup of 103 million tons.

However, **Iron Age** points out, there are these differences:

1. In the fourth quarter of 1967, steel users stabilized inventories. In the present quarter they are continuing to liquidate stocks to the tune of 1.5 million tons.

2. Steel mills increased their own inventories in the fourth quarter of 1967 by 2 million tons. Mills are building stocks now, but a good part of this is earmarked for General Motors.

3. During the 1968 boom, General Motors lost 8 million manhours due to strikes. In 1971, GM is expected to be making up for the time lost this year. Abnormal production requirements will come on top of abnormal inventory buying.

4. In 1968, steel users took in a record 18 million tons of foreign steel. The prediction for 1971 is 15.5 million tons.

All of this, say the mills, could add up to a crush that will steamroller the smaller companies. Right now, steel users are taking in steel at the rate of 6.5 million tons a month. In the first half of 1971, shipments are expected to average more than 9 million tons a month.

With this abrupt swing due, mill officials are putting out all of the red flags that they can. However, **Iron Age** says, steel users are doing their best to ignore the warnings—and with reason.

While steel users concede that they are apt to get caught in a supply squeeze next year, they are having other problems this year.

For most of them, their own business is down substantially—and they don't see it moving up very fast in the near future.

The Commerce Department's Index of Industrial Production for durable goods industries averaged 166.6 in the last quarter of 1967. And it was headed upwards as the boom started to take off, reaching a peak of 178.8 in August of 1969. By September of this year the index had plunged to 160.9 and still falling.

On top of this, stockpiling of steel costs money. With high interest rates and many companies strapped for cash, manufacturers have little incentive to tie up their money in stocks that won't be used for months, according to **Iron Age**.

So while steel users realize the dangers of getting caught in the squeeze, it looks as though many will take the risk as long as they can.

#### Weekly Auto Output Levels Out

U.S. Passenger car production last week continued at a strike-curtailed level of around 88,000 units, the same as the prior week, **Ward's Automotive Reports** said this week. During the same week last year the industry produced 183,401 units.

GM production losses for both cars and trucks in the U.S. and Canada continue to mount at a corporation estimated level of 26,000 for every working day. With the strike now in its 39th day (29 working days) total losses come to 754,000 units. **Ward's** said this figure does not take into consideration possible accelerating production had there been no strike.

Ford Motor Co. worked seven assembly plants the extra day last week; Chrysler Corp. scheduled only the Jefferson Ave., Detroit car plant for Saturday work.

The industry's statistical publication said that passenger car output so far this calendar year is running 19.1 per cent behind that at the same time last year. Truck output is trailing by 7.1 per cent.

Of last week's scheduled passenger car production, Ford accounts for 58.7 per cent, Chrysler 33.4 per cent, and American Motors Corp. 7.9 per cent.

#### Pinto Expected to Win 1971 Small Car Sales Race

Of the three small car contenders, Pinto (Ford), Vega (GM), Gremlin (AMC), Ford Motor Co.'s subcompact is expected to win the 1971 sales race according to **Wards**. The trade publication says AMC expects the Gremlin to be a sell out at 100,000 units but cannot expand beyond that due to capacity limitations. Both Ford and Chevrolet have each set 400,000 mark goals. The ongoing strike has handicapped Vega, but its heavier weight and more equipment and model choice will still put it in the running for what could be a close race.

#### Cumulative Rail Freight 0.6 per cent Below 1969 Level

Freight traffic on the nation's railroads during the week ended

October 17 totaled an estimated 15 billion revenue ton-miles, 4.8 per cent below the corresponding week last year, the Association of American Railroads reported.

Cumulative volume for the first 42 weeks of 1970 was an estimated 614 billion revenue ton-miles, 0.6 per cent below the total for the comparable period last year.

Loadings in the week ended October 17 totaled 544,935 cars, 1.4 per cent below the preceding week and 6.5 per cent below the corresponding week last year.

Eighteen of the 21 commodity groups showed drops from a year ago with loadings of motor vehicles and equipment off 50.3 per cent and metallic ore loadings down 12.9 per cent. Grain loadings were up 25.3 per cent.

Piggyback revenue freight loadings in the week ended October 10 totaled 25,592 cars, 8.7 per cent below the corresponding week last year, and 41,402 trailers or containers, down 12.3 per cent from 1969. Cumulative volume for the first 41 weeks of 1970 is 1,005,871 cars, 5.1 per cent below the 1969 total, and 1,661,222 trailers or containers, down 4.7 per cent from last year.

In addition to freight, 4,252 cars carrying 6,009 trailers or containers of mail and express traffic were handled piggyback. Cumulative figures for the first 41 weeks of 1970 are 143,820 cars, down 3 per cent from the 1969 total, and 219,417 trailers or containers, up 3.4 per cent over 1969.

#### Truck Tonnage Down 13.1 per cent from 1969 Week

Intercity truck tonnage in the week ended Oct. 17 was 13.1 per cent below the volume in the corresponding week of 1969, the American Trucking Associations announced. Truck tonnage was 3.0 per cent below that of the previous week of this year.

#### New Lumber Orders 21.8 per cent Below 1969 Week

New orders for the latest week ending October 17 were 21.8 per cent below the year-ago week.

They, were, also, 8.4 per cent below the preceding week of this year.

Lumber production in the week under review turned out 24.0 per cent less board feet than the 211,264,000 board feet cut in the year-ago week. Shipments were down 25.6 per cent from the year ago week.

Production, however, at 160,541,000 was 4.7 per cent above the previous week. The following lumber associations' returns are in thousands of board feet for the week ending:

	Oct. 17 1970	Oct. 10 1970	Oct. 18 1969
Production	160,541	152,875	211,264
Shipments	134,762	130,874	208,088
Orders	139,423	174,134	204,076

#### Electric Output Gains

##### 2.1 percent Above 1969 Week

Last week's electrical energy totaled 2.1 per cent more than last year's weekly level.

In the week ending October 24, electric output aggregated 27,454 million kilowatt hours according to data compiled by the Edison Electric Institute, which is the industry's trade association. Output was 26,900 million kilowatts in the year-ago week. Compared with the previous week of this year, the latest week's production was 123 million kilowatts below output in October 17 ending week.

In the 52 weeks ending October 24 cumulative output was estimated at 1,514,615 million kilowatt hours or 6.9 per cent gain over the year-ago period.

#### Failures Hold Steady In Latest Week

Commercial and industrial failures held at 213 in the week ended October 22, virtually even with the 214 in the preceding week, reports Dun & Bradstreet, Inc. Considerably more business casualties occurred, however, than in the similar week last year when there were 173.

#### Wholesale Index Softens From Week-Ago

After slipping to a five-week low in the middle of last week, the Wholesale Commodity Price Index, compiled by Dun & Bradstreet, Inc., firmed slightly and ended at 292.84 on Monday October 26, still a slim 0.1 per cent under the previous Monday's 293.24 and 0.6 per cent less than the 294.63 of a month-ago. However, the index remained 8.1 per cent ahead of last year's comparable 271.01.

Primarily accounting for the downward motion of the index were falling prices of steel scrap and copper. Costs of steel scrap eased with a fall off in demand due to the cutback in steel production. Copper quotations skidded amid rapidly spreading price cuts by the major producers, the first such since 1961, reflecting the softened market of the past few months. Hog costs slipped with continued heavy hog runs and sugar quotations also dipped. Braking the declines, wheat prices firmed due to the constructively interpreted government stocks report and the announcement of an agreement by which Brazil promised to buy fifteen million bushels of U.S. wheat by the end of the year. Too, corn prices rose as widespread rains in the Midwest prompted fears that harvesting could be hindered by

#### DIVIDEND NOTICE

### THE SOUTHERN COMPANY

The Board of Directors has declared a quarterly dividend of 31½ cents per share on the outstanding shares of common stock of the Company, payable on December 5, 1970 to holders of record at the close of business on November 2, 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.

a long rain, and the water might damage the stalks. Oats quotations followed corn, and fewer receipts of steers over the week led to firming costs. Silver prices moved upwards, influenced by advances in the London bullion market and sharp rises in world gold prices. Lard and tin quotations also advanced.

Continued on Page 20

#### DIVIDEND NOTICES

##### AMERICAN ELECTRIC



##### POWER COMPANY, Inc.

#### 243rd Consecutive Cash Dividend on Common Stock

An increased quarterly dividend of forty-two and a half cents (42½¢) per share on the Common Capital Stock of the Company, issued and outstanding in the hands of the public has been declared payable December 10, 1970, to the holders of record at the close of business November 10, 1970.

W. J. ROSE, Secretary

October 28, 1970.

#### QUARTERLY DIVIDENDS SINCE 1935

### NATIONAL DISTILLERS CHEMICAL CORPORATION

#### DIVIDEND NOTICE

The Board of Directors has declared a quarterly dividend of 2½¢ per share on the outstanding Common Stock, payable on December 1, 1970, to stockholders of record on November 10, 1970. The transfer books will not close.

October 22, 1970

RAMSEY E. JOSLIN, Vice President and Treasurer



DIVISIONS: NATIONAL DISTILLERS PRODUCTS CO.  
U.S. INDUSTRIAL CHEMICALS CO.  
BRIDGEPORT BRASS CO.  
ALMADEN VINEYARDS, INC. - TEXTILE INTERNATIONAL



LOOK AHEAD-LOOK SOUTH

### Southern Railway Company

New York, N. Y., October 27, 1970

A dividend of 1¼% (25¢) per share on 3,000,000 shares of Preferred Stock of Southern Railway Company has today been declared, payable December 15, 1970, to stockholders of record at the close of business November 13, 1970.

A quarterly 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 December 15, 1970, to stockholders of record at the close of business November 13, 1970.

J. J. MAHER, Secretary

#### DIVIDEND NOTICE

More than 820,000 owners of Standard Oil Company (New Jersey) will share in the earnings of the Company by a dividend of \$1.05 per share declared October 28, 1970 and payable December 10, 1970 to shareholders of record November 11, 1970. 1970 is the 88th consecutive year in which cash dividends have been paid.

Standard Oil Company  
(New Jersey)



## OUR REPORTER ON GOVERNMENTS

By JOHN T. CHIPPENDALE

The Treasury offered owners of the 5 per cent notes maturing November 15th the option of either a 3½-year 7¼ per cent note due May 14, 1970 at \$100, or a 5½-year 7½ per cent note due August 15, 1976 at 100½ to yield 7.39 per cent. The refunding obligations are tailored to meet competitive conditions in the market for fixed income issues, but the Treasury nonetheless expects "cash ins," or an attrition of between 15 per cent and 20 per cent. New money to take care of the anticipated cash demand will probably be borrowed this week in the form of a short-term security.

The Treasury likewise indicated that \$4.5 billion of additional new money will be raised by the end of 1970 to be followed by further borrowings during the first quarter of 1971. The enlarging deficit financing of the Government for fiscal 1970/1971 is putting upward pressure on short and long-term interest rates. Because of the growing deficit, the Treasury will be a larger borrower of new money than had been expected by many financial experts earlier in the year.

### Terms Attractive

The November refunding offer to the holders of the so-called Magic 5's, while attractive from the standpoint of maturity and yield, will not be accepted by all of \$6,037,000,000 held by the public. Since the grand total maturing is \$7,675,000,000, the amount held by the public is very substantial.

It should be remembered that this maturing 5 per cent Treasury note was bought heavily by the public when it first came out, as well as later on, because of the very high coupon rate and yield that was obtainable at that time. However, as we moved into the late 60's the cost of borrowing or interest rates went up to levels that had not been seen in more than a century.

This fact is well illustrated in the refunding terms available to the holders of the maturing 5 per cent obligation. For those who

want a near-term maturity with high income, the short refunding note due 1974 with a 7¼ per cent rate and yield is attractive for such purposes. The longer note due 1976, with a 7½ per cent coupon and giving a yield of 7.39 per cent, is a very fine issue for investors interested in income for a longer period of time. It should be remembered, too, that there is no fixed income obligation which is as good as a Government security. They are the best issues in the market.

### Higher Yields on Corporates

Those who must have more income than what is obtainable in Government securities, including the current refunding issues, can satisfy their needs in the corporate note market.

On the other hand, those who are interested in greater income and for a longer period of time can turn to the new offerings of public utility and industrial bonds, as well as to previously issued obligations. Because of the very heavy new money offerings of long-term corporate securities, the upward pressure on yields is intense. The bull market for the buyers of income and yield shows no signs of abating soon.

## COMING EVENTS IN THE INVESTMENT FIELD

### Oct. 29, 1970 (New York City)

St. John's University College of Business Administration Conference on "Inflation — What's Ahead?" at the Hotel Commodore.

### Nov. 4-7, 1970 (Cleveland, Ohio)

National Association of Investment Clubs Annual Convention Nov. 5-7 at the Sheraton Cleveland and "How to Invest Show" co-sponsored by the Association and Cleveland Plain Dealer Nov. 4-7 at the Cleveland Convention Center.

### Nov. 20, 1970 (Montreal, Canada)

Montreal Bond Traders Association 43rd Annual Dinner at the Windsor Hotel.

### Nov. 20, 1970 (New York City)

New York Financial Writers Association "Financial Follies of 1970" in the Imperial Ballroom, Americana Hotel.

### Dec. 1-2, 1970 (San Juan, Puerto Rico)

Seminar on Advanced Financial Techniques for Business Growth in Puerto Rico at the Puerto Rico Sheraton.

## R.A. Sena with W. D. Gradison

CINCINNATI, OHIO — Richard A. Sena and Troy Kaichen have become associated with W.D. Gradison & Co., Dixie Terminal Building, members of the New York and Cincinnati Stock Exchanges. Mr. Sena was formerly in the institutional sales department of Hayden Stone Incorporated.

## THE STATE OF TRADE

Continued from Page 19

### Cooler Weather gives Impetus To Consumer Purchases

Propelled by cool temperatures and brisk winds, buying at retail stores spurted ahead in the week ended Wednesday October 21, according to spot reports collected by Dun & Bradstreet, Inc. Shoppers crowded stores on the weekend and for the first time this fall substantial headway was made in women's outerwear. Too, children's clothing sold well for the second successive week. Demand for men's wear remained spotty except in the Mid West and Southwest where solid gains were noted. In home goods, television, hardware and housewares accounted for the liveliest activity. The principal downpull in volume came from softness in auto purchases.

### Department Store and Retail Sales

Department store sales in the week ending October 17, according to the Bureau of Census, was 5 per cent above those of last year's week. The cumulative total of the year to date increased 5 per cent from the 1969 period and in the last four weeks increased 5 per cent.

A broader set of data covering total retail store sales unadjusted for price difference or for seasonal variation shows they were 2 per cent above the year-ago week. The four most recent weeks showed an increase of 2 per cent and sales of nondurable goods were 7 per cent larger than a year ago, with durable goods store sales 8 per cent below a year ago.

## Broadway-Hale Stores Offers Preferred Stock

The public offering of 900,000 shares of Broadway-Hale Stores, Inc. \$2 convertible preferred stock, par \$5, at a price of \$35.50 per share is announced by Blyth & Co., Inc., New York, manager of the underwriting group.

The preferred stock is convertible, unless previously redeemed, into common stock at the conversion ratio (subject to adjustment in certain events) of 1.125 shares of common stock for each share of the preferred. The preferred shares are redeemable on and after April 1, 1976 at redemption prices starting at \$47 per share and declining thereafter by 50 cents annually to \$45 per share in 1980, plus accrued dividends. The preferred stock is of the same series as the \$2 convertible preferred already listed on the New York Stock Exchange.

Net proceeds from the financing will be used to retire short-term debt, incurred in part in connection with the company's expansion program.

Broadway-Hale Stores, with executive offices in Los Angeles, is engaged primarily in the operation of department stores.

## BANK AND INSURANCE STOCKS THIS WEEK INSURANCE STOCKS

### Nine Months Fire and Casualty Insurance

### Underwriting Results; Florida and Massachusetts Auto Rates in Litigation

Losses incurred from major catastrophes are expected to be an important factor in underwriting results to be reported for the third quarter by the nation's leading writers of fire and casualty insurance coverages. The American Insurance Association is estimating that losses caused by Hurricane Celia in August will exceed \$310 million, while the damage resulting from brush fires in California in September will exceed \$25 million. Among companies that have reported their estimated losses from Celia are the following figures: Connecticut General—\$11 million, Continental Corp.—\$20 million, State Farm Fire and Casualty—\$9 million, Travelers—\$9.5 million, American General—\$5.1 million, Kemperco—\$1.9 million. In several cases these figures are substantially higher than those initially estimated.

Losses from Celia were directly responsible for the decline in earnings from \$11.8 million to \$6 million (\$.28 per share) at Continental Corp. Connecticut General's Aetna Insurance Company reported a nine-month loss of \$4.6 million on a statutory basis compared with a \$4.2 million profit during the first three quarters of 1969. The adverse results of these two leading underwriters may be typical of the industry for the period.

Two large specialty companies which have successfully bucked the adverse underwriting trends during the period are State Farm Mutual and Kemperco. The former, the largest automobile insurance underwriter in the country, indicated that profits in July and August more than offset the loss incurred during the first six months of the year. Management cited improved operations in automobile underwriting as the major reason in the favorable turnaround in profits. The company has been more selective in its acceptance of new policyholders as reflected in a 14 per cent decline in premium volume in this area despite rate increases. Similarly, Kemperco's improved results, at least through August, were due entirely in improved earnings in its American Motorists Insurance Company subsidiary.

\*\*\*\*\*

A circuit court judge in Florida has ruled that a law recently passed by the state legislature to place a 120-day moratorium on automobile rate increases is unconstitutional. Judge Hugh M. Taylor recently ruled that the law did not grant equal protection to insurers under state and Federal constitutions. The state's Attorney General has indicated that the decision would be appealed to the state's Supreme Court.

The ruling resulted from a suit by Hartford Fire Insurance Company, a subsidiary of International Telephone and

Telegraph Corporation. Since the ruling only affected the plaintiff, other insurance companies must file similar actions.

Meanwhile, Massachusetts motorists are still wondering whether or not automobile insurance will be available to them in any form next year. Eight major companies, which write 40 per cent of the automobile policies in the state, have indicated that they will refuse to issue new policies under the new "no-fault" insurance plan unless the 15 per cent rate reductions for property damage and physical damage coverages for 1971, which are a part of the new law, are invalidated. The industry has indicated that it would reluctantly go along with the 15 per cent rate reduction on the compulsory bodily injury coverages which are effected directly by the new "no-fault" plan. However, it balks at the across-the-board 15 per cent cuts which are expected to be announced shortly by state insurance commissioner C. Eugene Farnam in accordance with the new law to be effective on January 1.

No ruling by the Supreme Judicial Court is expected prior to the November 3 elections. The industry claims it must have a decision by November 10 in order to adequately handle renewals. If the industry loses its several court cases on the matter and goes through with its threat to stop writing insurance in the state, Governor Sargent indicated that he would pledge the state's credit to obtain funds for the state itself to move into the automobile insurance business.

The latter step would be regarded as unfortunate from several angles. Most observers wish that the matter could be settled in such a manner that the revolutionary new "no-fault" plan, first in the country, could be given an adequate testing.

## Common Sold By Financial Congeneric Corp.

The initial public offering of 60,000 shares of Financial Congeneric Corp. common stock at \$5 per share is announced by Frank, Goldman & Drake, Inc., East Orange, N.J.

Proceeds are to be used for working capital.

Financial Congeneric, of Los Angeles, is engaged in the writing of life, health and accident insurance.

## Kemper Incorporates

DAYTON, OHIO — John A. Kemper & Co. Incorporated has been formed with offices in the Hulman Building. Officers are John A. Kemper, Jr., president, Phillip A. Littell, treasurer; and Anne H. Kemper, secretary. All were formerly partners in John A. Kemper & Co.

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45 Milk Street, Boston 02109

# Don't Count on a Housing Boom Prior to 1975

Continued from Page 10

the point where there are now less than two non-institutionalized adults aged 20 and over for each household and occupied dwelling unit.

## College School Populace

Another factor to consider is the tendency for young people to remain in school longer and to demand less ordinary housing than was formerly the case. The median age at which males and females get married and become significant demanders of new housing units has been trending upward for more than a decade. If the present administration is not successful at quickly reversing the rising rate of unemployment, many young people will be left with little choice but to remain at home, stay in school, or double up with friends and/or in-laws.

Undoubling is not the only suspicious aspect to the demand projections in the Second Annual Report on Housing. One can also question whether the number of vacant dwelling units will increase from 6,240 thousand units in March, 1969, to 9,920 thousand units in March, 1978; and increase of almost 60 per cent in nine years. The number of vacant dwelling units declined from March, 1968, to March, 1969, and is still equal to more than ten per cent of all occupied units.

## Farm Families

One factor which will tend to reduce the number of vacant dwelling units even further in the years is an inevitable slow-down in the rate at which family farms are consolidated. If farm consolidation continued at the 120 thousand rate of the post war period we would left without any farms in another 25 years. Preliminary figures indicate that the reduction in the farm population in 1969 amounted to less than a quarter of the reduction in the farm population for any other post war year containing a peak in business activity.

A reduction in the number of farm consolidations will tend to offset other factors which might increase the number of vacancies, such as an increase in second homes. As of April, 1967, there were only 1,547 second homes in the United States for about 58,845 thousand households. In the Second Annual Report it is assumed that the number of second homes will increase by 1,245 thousand units in the ten year period from 1969-78, an increase of about 80 percent in comparison to the number of second homes in 1967.

Our main reason for suspecting that this estimate may be high is a rapid increase in campers and pull trailers. The production of travel trailers, which are not counted as mobile homes, has mushroomed from 40 thousand units in 1960 to more than 158 thousand units in 1968. With most of the privately held lots on choice beach and lake frontage already developed or selling at exceedingly high prices, it would not be surprising if the majority of people in the market for a vacation home elected to buy a road type unit rather than be restricted to a fixed accommodation in a remote or otherwise inferior location.

Another reason for

suspecting that there may be very little increase in the number of vacant housing units in the next five years is the high cost of residential construction. With most of the new, single family dwelling units of a conventional type selling at a price in excess of \$25,000—a price which most young people cannot afford to pay—it simply does not make sense to abandon old houses in areas with expanding job opportunities until they are clearly dilapidated or should be demolished to make room for other construction.

From April, 1960, through March, 1969, approximately 4,800 thousand dwelling units in all states of repair were apparently lost from the housing supply. This is an average of 539 thousand units disappearing each year. (2) Since there were only about seven or eight years in the history of our country prior to 1946 when the number of non farm residential housing starts significantly exceeded 540 thousand units—most of these years were in the period 1922-28—it does not seem likely that the disappearance rate for old units will rise sharply in the next few years.

One factor which could lead to a decline in the number of disappearances is a substantial reduction in the number of dwelling units considered dilapidated by the U.S. Census. The Housing Supplement to the Current Population Survey reports that there were only about 1,803 thousand dilapidated housing units in August, 1968. This is 1,100 thousand fewer dilapidated units than were reported in 1960.

A smaller net migration of households from declining rural communities to areas with expanding employment and a lesser number of large scale race riots would also reduce the demolition rate for the present housing stock as could more effective opposition to massive urban renewal projects and to the completion of limited access highways that have been routed through low income housing neighborhoods.

Mobile homes do have a shorter life expectancy than conventional housing and this could lead to an accelerated growth in replacement demand but not for several years since most of the growth in the mobile home industry has occurred in the last six or seven years.

## Assumptions

For the sake of conservatism let us assume: (a) that the net additional households being formed in the next five years will equal the U.S. Census' lower projection of 1,160 thousand units per year; (b) that the number of vacant dwelling units will remain about the same, on the average, as in 1968; and that disappearances of housing units will average 540 thousand units or about the same as from 1960-68. This would imply an average total demand for new dwelling units, including shipments of mobile homes, equal to 1,700 thousand units per year, which is 300 thousand fewer units than were started in fiscal 1969.

If our analysis is correct, residential construction could remain in the doldrums for some time and not achieve a new

record until after 1975 when the replacement of mobile homes can be expected to become a more significant part of the total housing demand.

## Birth Rate

The analysis to this point has been touched in terms of housing units. An even more pessimistic picture emerges in connection with the demand for building materials if we consider the average size of the housing units that are likely to be produced in the decade ahead. Live births in the United States averaged about 4.25 million from 1957-61. After the introduction of birth control pills the number of births trended downward to the point where less than 3.5 million children were born in 1968. Since the sharp decline occurred at a time when the marriage rate was increasing, one is almost forced to conclude that young people have decided to raise fewer children than their parents. This should reduce the demand for large houses and increase the demand for apartments and small factory built houses which young people can afford to finance.

## Smaller Housing Units

The trend toward smaller dwelling units has, in fact, been underway for some time. In 1959 builders started 1,234 thousand one family houses; by 1969 one family housing starts of the conventional type had fallen by more than one-third to 809 thousand units. Structures which were started for two or more families, in the meantime, had increased from 283 thousand units in 1959 to 654 thousand units in 1969 and the latter figure does not include the 400 thousand mobile homes which were shipped in the 1969. If the trend toward smaller dwelling units continues, it may be possible for the United States to eventually surpass the record 2 million housing starts, including mobile homes, for fiscal 1969 and at the same time employ significantly fewer real resources in the housing and building material industry.

## Not a Bright Star

The prospect for a rapid increase in the number of job opportunities in residential construction, in other words, is not very bright. This in turn could have a deleterious feedback effect on the economy as a whole since residential construction has generally been regarded by most economists as one of the few bright spots in an otherwise stagnant economy.

There may be a silver lining, however, in having already developed sufficient capacity to satisfy the housing needs of the baby boom. A smaller volume of residential construction than has been anticipated makes it easier to accommodate metropolitan growth without an excessive burden being placed on our environmental resources. It seems likely, moreover, that mortgage rates, which rose to historic highs in the first half of 1970, will continue to decline, making it easier and less expensive to finance a new home.

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1. Estimates of urban dwelling units started before 1929 are based on an index compiled by David Blank and published in

## Investment Bankers Ass'n 59th Annual Convention

The 1970 Annual Convention of the Investment Bankers Association will be held in Boca Raton, Florida beginning on Tuesday, December 1, and ending on Friday, December 4. National Committee meetings will be held all day Tuesday, December 1. The registration desk will open Tuesday morning. The Boca Raton Hotel and Club will be the convention hotel and all business sessions will be held there.

The opening session of the convention on Wednesday morning will be addressed by President Andrew J. Melton, Jr., Smith, Barney & Co., Incorporated, New York.

A panel discussion on the economic outlook will be presented at the Wednesday session. At the Thursday session there will be a panel discussion on institutional investing. In addition, prominent speakers will address the delegation each day.

Wednesday evening will be "Syndicate Night" at the General Reception. Representatives of major syndicate management organizations will be present.

The closing session on Friday morning will be addressed by incoming President Wheelock Whitney, Dain, Kalman & Quail, Inc., Minneapolis. The new vice presidents and governors will then be installed in office.

There will be a luncheon meeting of the current Board of Governors on Wednesday and of the incoming Board on Friday.

## Regular Ticket

The Board of Governors, will submit to the convention the Regular Ticket for 1970-71 as follows:

**President:** Wheelock Whitney, Dain, Kalman & Quail, Inc., Minneapolis.

**First Vice President:** Philip D. Baker, White, Weld & Co. New York.

The following have been recommended for election by the Board of Governors as Vice Presidents:

George deB. Bell (Administration), Drexel Harman Ripley, Inc., Philadelphia; Alger B. Chapman, Jr. (Government Relations), Shearson, Hammill & Co., Inc., New York; New York; Charles S. Garland, Jr. (Education), Alex. Brown & Sons, Baltimore; Robert C. Hill (District Activities), Bateman Eichler, Hill Richards, Inc., Los Angeles; Robert A. Malin (Corporation Finance), Blyth & Co., Inc., New York; Frank P. Smeal (Municipal Finance) Morgan Guaranty Trust Company of New York, New York.

## Convention Registration

The registration fee for the convention is \$200 for husband and wife or \$100 for a man without wife. It will apply to each man and woman registered for the convention with the exception of certain replacements permitted and with the exception of Past Presidents of the Association and their wives.

**Historical Statistics of the United States; Colonial Times to 1957, p.383.**

2. This estimate is taken from the Second Annual Report on National Housing Goals.



Andrew J. Melton, Jr.

Checks covering registration fees should be made payable to the Association and forwarded to its office in Washington with the enclosed form.

No registrations or reservations will be accepted after November 20, 1970.

All reservations for rooms must be made through the Association's office. Confirmation of reservations will be made as promptly as possible, but due to the time required for processing them there will necessarily be some delay.

Due to limited facilities at the Boca Raton Hotel and Club, some attending the convention may have to be accommodated at a motel in the vicinity of the Hotel.

A limited number of early arrivals can be accommodated a few days prior to the opening of the convention, and a limited number of reservations can be continued for a few days following the convention. It will not be necessary for those concerned to make separate reservations for the pre-convention or post-convention period provided they indicate their arrival and departure plans on the room reservation and registration form. It may, however, be necessary for them to change rooms at the opening or close of the convention.

## Entertainment

Those planning to entertain at the convention should note that there will be a general reception for all those present at the convention each evening from Tuesday through Thursday. No private entertainment will be scheduled which will detract from the general reception. Consequently, no entertainment will be permitted in public rooms nor will bartenders and waiters be furnished for entertainment in guest rooms and suites between 6:00 and 8:00 P.M.

Reservations for meals will not be required. Arrangements for large tables or other special situations should be made in advance at the headwaiter's office. It will be open from 9:00 A.M. to 4:00 P.M. each day from Tuesday through Friday.

Dinner parties may be given in private dining rooms to the extent that such space is available. The starting time of such parties, however, may not be earlier than 7:45 P.M. Arrangements for such activities should be made directly with the Hotel.

## The Conglomerate Insurance Take-Over Has Been Harmful

Continued from Page 11

industry as a whole. Turning to the data, we observe a 5.4 increase in combined ratio for Great American, a 3.3 deterioration for Fireman's Fund Companies, and a 5.9 increase for Home; the one very large insurer whose combined ratio improved during the period following acquisition was Reliance—and its gain was only 0.2.

To continue, what the data suggest is that acquiring non-insurers appear to have been unsuccessful in improving the profitability, of major insurers, particularly insurers with premium volume exceeding \$100 million annually. In effect, fears in the industry that underwriting performance of acquired insurers would deteriorate following acquisition by non-insurers are given reinforcement by early data of what is occurring.

While net premiums written in the case of acquired insurers following acquisition increased at a faster rate than true for the industry as a whole, question exists whether the acquired insurers, in the process of accomplishing their rapid rate of increase, breached the bounds of safety. This matter can be

tested: the ratio between net premiums written and policyholders' surplus offers a measure of the amount of business an insurer can safely write. The higher the ratio (premiums written divided by policyholders' surplus), the greater the premium volume of the company relative to the surplus; and, conversely, the lower the ratio, the greater the ability of the company to write new business. Given this pertinence of the ratio as a measure of the utilization of the underwriting capacity of an insurer, insurance scholars commonly, rule-of-thumb fashion, endorse a one-to-one ratio for fire insurers (i.e., a minimum of one dollar of policyholders' surplus for each dollar of premiums written) and a two-to-one ratio for casualty insurers and for surety business (i.e., a minimum of one dollar of policyholders' surplus for each two dollars of premiums written).

Data in Table 3 show, in the case of insurance companies acquired in 1968, the ratios of net premiums written to policyholders' surplus following acquisition. While this ratio for all property-liability companies increased from 1.36 in 1967 to 1.44 in 1969, the comparable ratio for

acquired property-liability insurers rose more dramatically — from 1.43 in 1967 to 1.67 in 1969. Of the twelve acquired insurers, three experienced ratio increases between 1967 and 1969 exceeding 0.50.

The foregoing evidence strongly supports the assessment—subscribed to by this ratio—that acquired property-liability insurers went the limit apropos the bounds of safety, or beyond, in their expansion of premium writings. Given this assessment, the situation can be regarded as an undesirable trend associated with the conglomerate movement in the insurance industry.

### Conclusions

A general proposition suggested by the foregoing is that major insurers, whenever they have "surplus surplus," are likely to invite attention as attractive merger targets. This can be explained on two main bases. First, "surplus surplus" can be paid as liquidating dividends, in which event acquired insurers provide a media to pools of capital. Second, substantial resources (in whatever form) held by insurers can serve as a source of credit for an acquiring non-insurer.

Relative to the conglomerate acquisition of major property-

liability insurers during 1968, two principal observations appear noteworthy.

(1) The evidence is that the combined ratio for acquired insurers deteriorated following acquisition — with such evidence particularly strong for insurers having over \$100 million in annual premium volume.

(2) Acquired insurers increased their net premium writings at a faster rate

following acquisition than characteristic of the industry as a whole — but there is strong reason to hold that the expansion in their case was at the expense of safety.

Given all of the foregoing, a considered assessment of the conglomerate movement in its impact upon the insurance industry must be critical: the conglomerate movement has not been beneficial for the insurance industry.

**TABLE 2**  
Changes in the Combined Ratios for Companies Acquired  
In 1968-69 Following Their Acquisition

Insurance Company	Ratio 1967	Ratio in 1969	In Ratio from 1967 to 1969
Argonaut	88.4	87.3	-0.9
American Credit(1)	84.3	70.1	-14.2
Calvert Fire(1)	87.6	107.8	+20.2
Fireman's Fund Cos.	98.5	101.8	+3.3
Great American	102.1	107.5	+5.4
Great Central	103.6	97.0	-6.6
Gulf	101.3	102.9	+1.6
Home	99.2	105.1	+5.9
Pan American	97.0	99.7	+2.7
Providence Washington	105.1	109.5	+4.4
Reliance	102.7	102.5	-0.2
United Insurance Co. of America	93.3	94.3	+1.0
<b>Average for acquired insurance companies</b>	<b>97.0</b>	<b>98.8</b>	<b>+1.8</b>
All property-liability companies(2)	98.9	101.2	+2.3

Source: Best's Aggregates & Averages, Property-Liability, 1967 to 1970 manual in galley form for acquired companies.

(1) A subsidiary of Commercial Credit, which is a financial holding company with several insurance subsidiaries.

(2) Loss ratio for 1969 for the industry estimated.

**TABLE 3**  
Changes in the Ratios of Net Premiums Written to Policyholders'  
Surplus for Insurance Companies Acquired in 1968-69  
Following Their Acquisition

Insurance Company	Ratio in 1967	Ratio in 1969	Absolute Change in Ratio from 1967 to 1969
Argonaut Insurance	3.89	3.75	-0.14
American Credit Indemnity(1)	0.31	0.30	-0.01
Calvert Fire(1)	0.48	0.53	+0.05
Fireman's Fund American Cos.	1.25	1.01	-0.24
Great American Holding Corp.	0.86	2.74	+1.88
Great Central Insurance	3.43	3.21	-0.22
Gulf Insurance	0.78	1.43	+0.65
Home Insurance	1.38	2.36	+0.98
Pan American Insurance	0.99	1.01	+0.02
Providence Washington	1.87	1.74	-0.13
Reliance Insurance	0.90	1.15	+0.25
United Ins. Co. of America	1.04	0.88	+0.16
<b>Aver. for Acquired Ins. Cos.</b>	<b>1.43</b>	<b>1.67</b>	<b>+0.24</b>
All property-liability cos.	1.36	1.44	+0.08

Source: Best's Aggregates & Averages, Property-Liability, 1967 and 1970, manual in galley form for selected companies.

(1) A subsidiary of Commercial Credit, which is a financial holding company with several insurance subsidiaries.

**TABLE 1**  
Changes in Net Premiums Written for Insurance Companies  
Acquired in 1968-69 Following Their Acquisition(1)

Insurance Company	Net Premiums Written in 1967	Net Premiums Written in 1969	Change from 1967 to 1969 Percent
Argonaut Insurance	\$ 55,258,000	\$ 82,919,000	+50
American Credit Indemnity(2)	7,050,000	8,113,000	+15
Calvert Fire(2)	22,630,000	21,974,000	-3
Fireman's Fund American Cos.	280,079,000	365,862,000	+31
Great American Holding Corp.	244,787,000	266,398,000	+9
Great Central Insurance	16,318,000	24,316,000	+49
Gulf Insurance	54,748,000	73,840,000	+35
Home Insurance	456,415,000	552,579,000	+21
Pan American Insurance	2,695,000	3,649,000	+35
Providence Washington Insurance	32,088,000	29,756,000	-7
Reliance Insurance	207,807,000	210,046,000	+1
United Insurance Co. of America	75,554,000	78,170,000	+4
<b>TOTALS</b>	<b>\$1,455,429,000</b>	<b>\$1,741,937,000</b>	<b>+20</b>
All property-liability cos.(3)	\$23.8 billion	\$27.3 billion	+14

Source: Best's Aggregates & Averages, Property-Liability, 1967 and 1970 manual in galley form for acquired companies.

(1) Figures are to the closest thousand.

(2) A subsidiary of Commercial Credit, which is a financial holding company with several insurance subsidiaries.

(3) Net premiums written for 1969 estimated; percentage change in net premiums written from 1967 to 1969 also estimated.

## Portland General Electric Offers Bonds, Preferred

The public offering of \$20,000,000 of 9% per cent first mortgage bonds due Nov. 1, 2000, and 100,000 shares of 9.76 per cent cumulative preferred stock, par \$100, of Portland General Electric Co. is announced by Blyth & Co., Inc., New York, manager of the two underwriting groups.

The bonds are being offered at 99.50 per cent and accrued interest, to yield 9.93 per cent; and the preferred stock at \$100 per share, plus accrued.

The new preferred stock represents the initial offering of preferred by the company.

The bonds are not redeemable prior to Nov. 1, 1975 with funds borrowed at an annual interest cost to the company of less than the interest rate on the new

bonds. Otherwise, the bonds are redeemable at the option of the company at regular redemption prices ranging from 109.38 per cent beginning Nov. 1, 1970, declining annually thereafter to par on and after Nov. 1, 1999, plus accrued interest. The bonds will also be redeemable at the special redemption price of 100 per cent of the principal amount, plus accrued interest.

The cumulative preferred stock is redeemable at the option of the company at \$110 per share prior to Nov. 1, 1980; at \$107 per share thereafter through Nov. 1, 1983; at \$104 per share thereafter through Nov. 1, 1986; and thereafter at \$101 per share, plus accrued dividends. No redemptions of the preferred stock may be made, however, prior to Nov. 1, 1980, by the issuance of indebtedness having an interest rate or of additional shares of capital stock having a fixed dividend rate of less than the rate of the preferred stock.

Net proceeds to the company

from the sales of the securities will be used to reimburse in part the company's general funds for past construction expenditures. From its general funds the company will repay \$7,700,000 of short-term bank loans and \$20,750,000 of commercial paper expected to be outstanding at the time of such sales, which obligations were incurred in connection with the company's construction program.

Portland General Electric is an electric utility operating in the state of Oregon.

## GNMA--Federal Home Loan Mortgage Bond Issue Sold

Federal Home Loan Mortgage Corp.'s \$140,000,000 offering of 8.60 per cent mortgage-backed bonds due Nov. 27, 1995, was quickly oversubscribed after reaching the market at par accrued interest through

underwriters led by Morgan Stanley & Co. Inc., New York.

The securities were offered in minimum blocks of \$25,000, and orders for them came mainly from institutional investors, underwriters said.

The issue is part of a \$315 million package being offered by the corporation. The remaining \$175 million of two-year bonds will be offered on Oct. 30.

The Federal Home Loan Bank Board created the concern to raise mortgage money through the sale of bonds that are backed by pools of Federal Housing Administration and Veterans Administration mortgages. The bonds are also guaranteed by the Government National Mortgage Association, a corporation in the Department of Housing & Urban Development.

Other managers of the underwriting syndicate included Salomon Brothers; First National City Bank; Lehman Brothers; and Merrill Lynch, Pierce, Fenner & Smith Inc., New York.

## Donald Dwyer Opens Own Co.

CHICAGO, ILL. — Donald R. Dwyer has formed D.R. Dwyer & Co., over-the-counter market specialists, with offices at 134 South LaSalle Street. Mr. Dwyer, the president of the new firm, was formerly with A.G. Becker & Co., Incorporated and the Illinois Company. He is secretary of the National Security Traders Association and is a past president of the Security Traders Association of Chicago.

Also associated with the firm is Peter Cortilet, formerly with A.G. Becker & Co.

## McKee Denver Branch

DENVER, CLO. — C.S. McKee & Company Incorporated has opened a branch office in the Lincoln Tower Building with Dale D. DeVries registered representative in charge.

# Indications of Current Business Activity

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

	Latest Week	Previous Week	4-Weeks Ago	Year Ago
<b>AMERICAN IRON AND STEEL INSTITUTE:</b>				
Steel ingots and castings (thous.net tons)	Oct. 24 2,397,000	2,403,000	2,466,000	2,796,000
Index of production based on average weekly production for 1957-1959	Oct. 24 128.7	129.0	132.4	150.1
<b>AMERICAN PETROLEUM INSTITUTE (00's Omitted):</b>				
Crude oil and condensate output-daily average (bbls. of 42 gallons each)	Oct. 16 9,922	10,076	9,879	9,251
Crude runs to stills-daily average (bbls.)	Oct. 16 10,914	10,621	10,928	10,813
Gasoline output (bbls.)	Oct. 16 39,463	40,234	41,039	39,499
Kerosene output (bbls.)	Oct. 16 3,968	4,238	4,194	4,347
Distillate fuel oil output (bbls.)	Oct. 16 17,936	16,902	16,894	16,007
Residual fuel oil output (bbls.)	Oct. 16 4,350	4,428	4,694	4,390
Stocks at refineries, bulk terminals, in transit in pipe lines				
Finished gasoline (bbls.)	Oct. 16 196,413	197,290	194,219	192,110
Kerosene (bbls.)	Oct. 16 21,882	22,383	23,164	21,126
Distillate fuel oil (bbls.)	Oct. 16 208,157	205,200	196,266	202,766
Residual fuel oil (bbls.)	Oct. 16 53,486	53,724	50,352	65,644
Unfinished oils (bbls.)	Oct. 16 99,406	99,589	103,643	98,819
<b>ASSOCIATION OF AMERICAN RAILROADS:</b>				
Revenue freight loaded (number of cars)	Oct. 17 544,935	549,823	549,546	583,046
Revenue freight received from connections (no. of cars)	Oct. 17 408,131	410,296	400,399	446,323
<b>COAL OUTPUT (U.S. BUREAU OF MINES):</b>				
Bituminous coal and lignite (thous. tons)	Oct. 17 12,240,000	12,585,000	12,510,000	11,565,000
Pennsylvania anthracite (tons)	Oct. 17 192,000	197,000	231,000	265,000
<b>NEW CONSTRUCTION PLANNING (000's Omitted):</b>				
Total advance planning	Oct. 22 \$1,934,900	\$1,345,600	\$1,213,900	\$2,060,600
Private	Oct. 22 360,928	372,688	411,232	637,500
Public	Oct. 22 1,573,972	972,912	802,668	1,423,100
State and Municipal	Oct. 22 425,956	952,600	787,328	399,100
Federal	Oct. 22 1,148,047	21,670	15,272	1,024,000
<b>RETAIL STORES, DEPT. OF COMMERCE:</b>				
(Millions of dollars, unadjusted)	Oct. 17 6,965	6,961	6,973	6,846
<b>EDISON ELECTRIC INSTITUTE:</b>				
Electric output (inc.000kwh.)	Oct. 24 27,454,000	27,577,000	31,075,000	26,900,000
<b>FAILURES (Commercial and Industrial)</b>				
DUN & BRADSTREET, INC.	Oct. 22 213	214	212	173
<b>IRON AGE COMPOSITE PRICES:</b>				
Finished steel (per lb.)	Oct. 22 7.813c	7.813c	7.813c	7.292c
Pig iron (per gross ton)	Oct. 22 \$73.60	\$73.60	\$73.60	\$65.10
Scrap steel (per gross ton)	Oct. 22 \$39.83	\$40.50	\$42.50	\$33.83
<b>METAL PRICES ("METALS WEEK" Data):</b>				
<b>Electrolytic Copper:</b>				
US Producer delivered	Oct. 23 57.8c	60.1c	60.1c	N. A.
London Equiv. f.o.b.	Oct. 23 49.678c	49.806c	53.907c	N. A.
Atlantic Seaboard	Oct. 23 14.500c	14.500c	14.500c	15.500c
Lead (New York)	Oct. 23 14.300c	14.300c	14.300c	15.300c
Lead (St. Louis)	Oct. 23 15.500c	15.500c	15.500c	16.000c
Zinc (delivered)	Oct. 23 15.000c	15.000c	15.000c	15.500c
Zinc (East St. Louis)	Oct. 23 29.000c	29.000c	29.000c	28.000c
Aluminum (primary pig 99.5%)	Oct. 23 174.500c	172.500c	174.750c	167.750c
Tin straits (New York)				
<b>MOODY'S BOND PRICES (Daily Averages):</b>				
Average Corporate	Oct. 27 50.24	50.36	50.30	56.60
Aaa	Oct. 27 53.88	54.15	54.01	59.86
Aa	Oct. 27 51.59	51.34	51.28	57.71
A	Oct. 27 49.53	49.99	49.75	56.03
Baa	Oct. 27 46.31	46.37	46.53	53.14
Railroad Group	Oct. 27 47.90	47.68	47.96	55.67
Public Utilities Group	Oct. 27 49.52	49.81	49.57	57.53
Industrial Group	Oct. 27 51.97	52.17	51.97	57.64
<b>MOODY'S BOND YIELD (Daily Averages):</b>				
U. S. Government Short Term Bonds	Oct. 27 7.06	7.12	7.09	7.35
Average Corporate	Oct. 27 8.64	8.62	8.63	7.68
Aaa	Oct. 27 8.07	8.03	8.05	7.25
Aa	Oct. 27 8.42	8.46	8.47	7.53
A	Oct. 27 8.74	8.68	8.72	7.76
Baa	Oct. 27 9.33	9.32	9.29	8.18
Railroad Group	Oct. 27 9.04	9.08	9.03	7.81
Public Utilities Group	Oct. 27 8.76	8.71	8.75	7.83
Industrial Group	Oct. 27 8.36	8.33	8.36	7.54
<b>MOODY'S COMMODITY INDEX</b>				
Oct. 27 393.2	395.8	413.1	411.3	
<b>NATIONAL PAPERBOARD ASSOCIATION:</b>				
Orders received (tons)	Oct. 17 503,600	504,800	475,500	520,900
Production (tons)	Oct. 17 476,200	492,600	475,000	528,200
Unfilled orders (tons) at end of period	Oct. 17 751,600	746,400	729,200	996,000
<b>OIL PAINT AND DRUG PRICE INDEX</b>				
1958 AVERAGE equals 100	Oct. 23 107.13	107.24	106.98	106.14
<b>ROUND-LOT TRANSACTIONS ON THE N.Y.S.E. FOR ACCOUNT OF MEMBERS, EXCEPT ODD-LOT DEALERS:</b>				
Transactions of specialists in stocks in which registered:	Oct. 2 10,860,950	11,551,920	8,722,980	7,918,870
Total purchases	Oct. 2 3,390,840	3,879,230	2,374,980	2,130,610
Short sales	Oct. 2 7,183,600	8,251,770	6,370,780	6,204,260
Other sales	Oct. 2 10,574,440	12,131,000	8,745,760	8,334,870
Total sales				
Transactions of Floor Traders:	Oct. 2 485,700	488,100	380,000	240,200
Total purchases	Oct. 2 181,800	169,700	94,400	51,900
Short sales	Oct. 2 297,900	342,600	277,400	249,800
Other sales	Oct. 2 479,700	512,300	371,800	301,700
Total sales				
Other transactions:	Oct. 2 7,184,300	6,753,095	4,767,660	3,729,427
Total purchases	Oct. 2 1,285,040	1,541,870	863,160	741,130
Short sales	Oct. 2 5,365,071	5,632,304	3,693,189	3,540,871
Other sales	Oct. 2 6,650,111	7,174,174	4,556,349	4,282,001
Total sales				
Total round-lot transactions for account of members:	Oct. 2 18,530,950	18,793,115	13,870,640	11,888,497
Total purchases	Oct. 2 4,857,680	5,590,800	3,332,540	2,923,640
Short sales	Oct. 2 12,846,571	14,226,674	10,341,369	9,994,931
Other sales	Oct. 2 17,704,251	19,817,474	13,673,909	12,918,571
Total sales				
<b>STOCK TRANSACTIONS FOR ODD LOT ACCOUNTS OF ODD LOT DEALERS ON THE N.Y.S.E.</b>				
Odd-lot sales by dealers (customers' shares):	Oct. 2 1,518,646	1,612,910	1,415,697	2,067,057
Number of shares	Oct. 2 521,618,403	555,179,145	446,193,204	486,217,759
Dollar value				
Odd-lot purchases by dealers (customers' sales):	Oct. 2 2,132,774	2,298,174	1,842,671	1,998,729
Number of orders (customers' total sales)	Oct. 2 17,724	27,404	29,761	26,843
Customers' short sales	Oct. 2 2,115,050	2,270,770	1,812,910	1,971,886
Customers' other sales	Oct. 2 17,704,251	19,817,474	13,673,909	12,918,571
Dollar value	Oct. 2 \$79,266,532	\$84,107,353	\$65,770,587	\$88,297,711
Round-lot sales by dealers:				
Total sales (shares)	Oct. 2 1,018,230	1,131,250	887,930	794,940
Short sales	Oct. 2 -----	-----	-----	-----
Other sales	Oct. 2 1,018,230	1,131,250	887,930	794,940
Total Round-lot purchases by dealers (shares)	Oct. 2 420,630	426,800	465,570	774,320
<b>TOTAL REPORTED VOLUME OF ROUND LOT SALES ON THE N.Y.S.E. (SHARES):</b>				
Short sales	Oct. 2 6,100,000	7,210,320	4,914,430	3,868,890
Other sales	Oct. 2 66,145,040	76,212,130	55,477,330	48,397,780
Total sales	Oct. 2 72,245,040	83,422,450	60,391,760	52,266,670

## Debenture Issue Sold By Northern Natural Gas

The public offering of \$60,000,000 of Northern Natural Gas Co. 9½ per cent sinking fund debentures due Nov. 1, 1990, at par plus accrued interest is announced by Blyth & Co., Inc., New York; manager of the underwriting group.

Net proceeds from the sale of the debentures and from the sale of 634,760 shares of common stock to holders of record Oct. 21, 1970 will be used by the company to repay short-term borrowings, incurred in connection with the 1970 expansion program of the company and its subsidiaries.

An annual sinking fund of \$3,000,000 in the years 1973 through 1984, and \$4,000,000 in 1985 through 1989 is calculated to retire 93 per cent of the issue prior to maturity. For sinking fund purposes the debentures will be redeemable at par plus accrued interest. The regular redemption price will be 109.50 per cent through Oct. 31, 1971, the premium over par declining ratably in each year thereafter to par in the last year.

The debentures, however, are not redeemable prior to Nov. 1, 1975 with funds borrowed at an annual interest cost the company of less than 9.50 per cent.

Northern Natural Gas is engaged primarily in the transmission, distribution and sale of natural gas. The company and its subsidiaries also are engaged in the extraction, transportation and sale of liquefied petroleum gas, natural gasoline and helium and in the production and sale of petrochemicals and related products.

## Mountain States Telephone Sells Debenture Issue

Morgan Stanley & Co. Inc., First Boston Corp.; and Lehman Brothers, New York; as managers of the underwriting group, announce the public offering of \$150,000,000 of Mountain States Telephone & Telegraph Co. 9 per cent debentures due Nov. 1, 2010, at par plus accrued interest.

The debentures are redeemable on and after Nov. 1, 1975, at the option of the company, upon 30 days notice at prices ranging from 107.71 per cent to 100 per cent for those redeemed on and after Nov. 1, 2005.

Proceeds from the offering will be used to reduce advances from AT&T, the parent company.

The company furnishes communications service, mainly local and toll telephone service in Arizona, Colorado, Montana, New Mexico, Utah and Wyoming, Idaho south of the Salmon River and El Paso County, Texas. Its subsidiary, Malheur Home Telephone Co., furnishes such services in Malheur County, Ore.

## Pan American World Airways Issue Offered

The public offering of \$81,550,000 of Pan American World Airways, Inc. 11¼ per cent guaranteed loan certificates due Oct. 29, 1986, is being made at par plus accrued interest by a nationwide investment banking group managed by Lehman Brothers, New York.

Proceeds from the sale will provide long-term financing for a portion of the purchase price of five Boeing 747 aircraft.

Organized in 1927, Pan Am has been engaged principally in commercial air transport operations. It continues to be the principal United States airline engaged in foreign and overseas air transportation of persons, property and mail.

## Africa U.S.A. Common Offered

The initial public offering of 150,000 shares of Africa U.S.A. Inc. common stock at \$10 per share is announced by Resch-Cassin & Co., Inc., New York.

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

Africa U.S.A., of Fillmore, Calif., is engaged in breeding and training wild animals for use in motion pictures and television films.

## Putney with Foster Dykema

BOSTON, MASS. — Foster Dykema Cabot & Co. Incorporated, 53 State Street, Investment Managers and Investment Bankers, have announced that Charles M. Putney has joined the firm as a Vice President in Investment Management.

Mr. Putney has been active in the securities industry for over twenty years, holding analytical and investment management positions with the Old Colony Trust Co. and Eaton & Howard, Inc.

## Preferred Sold By Pacific Gas & Electric Co.

The public offering of 706,960 shares of Pacific Gas & Electric Co. 9.28 per cent redeemable first preferred stock is being made at \$25.60 per share through an underwriting group managed by Blyth & Co., Inc., New York, and Dean Witter & Co. Inc., San Francisco.

The preferred shares are entitled to cumulative dividends, and are redeemable at \$28.00 a share prior to Nov. 1, 1980; thereafter at \$27.25 a share to Nov. 1, 1983; thereafter at \$26.50 a share to Nov. 1, 1986 and thereafter at \$25.85 a share, plus accrued dividends in each case. However, no redemption may be made prior to Nov. 1, 1975, through refunding at an effective cost of money to the company of less than 9.28 per cent per annum.

Application will be made for listing the shares on the American and Pacific Coast Stock Exchanges.

Net proceeds from this offering will be applied to the retirement and refunding of the company's 3 per cent first and refunding mortgage bonds, Series J, due Dec. 1, 1970, in the principal amount of \$17,67,000.

The company is an operating public utility, supplying electric and natural gas service throughout most of northern and central California.



# WASHINGTON AND YOU

BEHIND-THE SCENES INTERPRETATIONS  
FROM THE NATION'S CAPITAL

WASHINGTON, D.C. — The political fat is in the fire and burning. President Nixon, Vice President Spiro T. Agnew and one thousand other Big Wheels and Little Wheels have been out on the hustings in the closing days of the "off year" elections.

This year's elections will have a marked bearing on the big Presidential Election year in 1972. It is obvious that the 1972 Republican presidential ticket will be Mr. Nixon and Mr. Agnew. It appears that Senator Edmund S. Muskie of Maine will be a strong contender for the Democratic presidential nomination. Furthermore, Mr. Muskie is assertedly confident he can be elected President.

**There has been some wild speculation cropping up in Washington and a few scattered other places that President Nixon may dump Mr. Agnew in 1972. However, that is a figment of the imagination on somebody's part.**

The chairman of the Republican National Committee, Rogers C.B. Morton, told a cheering partisan Maryland crowd a few nights ago, that he will not only re-nominate Mr. Agnew in 1972 (as he did in Miami in 1968), but "in 1976 I intend to nominate him for the presidency."

Some Washington pundits and editorialists are insisting that President Nixon and Vice President Agnew are menacing their political future in no uncertain way by throwing themselves into the governorship and congressional campaigns. Not a few observers are assertedly confident that they are taking a big gamble.

## GOP Will Not Gain Control Of Congress

This is doubtful. To some it appears they have much to gain and little to lose. It has been traditional that the Party in the White House will lose Congressional seats in off-election years. This may prove to be true next Tuesday. As it has been pointed out here before, the Republican Party needs seven seats in the Senate and 30 House seats to control things. In the Senate, Vice President Agnew could break a tie for the Republicans.

**It does not appear favorable at all that the Elephant Party will pick up sufficient seats in either branch of Congress to get control. It appears the GOP is going to lose a few governorships.**

Some veteran observers in Washington maintain, and perhaps correctly so, that unless the Republicans roll up substantial Senate seat gains this year, the odds will be against the GOP to win a majority of the seats in 1972. Some nine of the 14 Democratic Senators up for election this year come from just about solid Democratic states.

The Republicans may lose three or four House seats in the

South Tuesday, but this does not mean the present constituents are displeased with their incumbents. Two incumbent House members are giving up their fairly safe seats to run for the governorships in their states, and two others are engaged in high risks in running statewide for the Senate where the odds for winning are higher.

President Nixon has been barnstorming in more than 16 states. Among them were Connecticut, Vermont, New Jersey, Pennsylvania, Wisconsin, Ohio, North Dakota, Missouri, Tennessee, Indiana, North Carolina, Florida, Texas, Illinois, Minnesota, and he is concluding his tour in his native California where he will cast his vote on Tuesday.

## O'Brien's Emotional Reaction

Democratic National Chairman Lawrence F. O'Brien is striking back at the Republican Party. The lieutenant under the late President John F. Kennedy made a speech at the National Press Club in Washington a few days ago and, at one point, almost broke down with emotion. After charging that the Republican Party is conducting a deliberate campaign of "politics of fear," the former Postmaster General vigorously denied suggestions that the Democratic Party condones violence and extremism.

**"There are not words to express my resentment at such suggestions," said Mr. O'Brien after referring to the assassinations of President Kennedy and Senator Robert F. Kennedy.**

Washington observers are now insisting that the White House has given its tacit support to James L. Buckley, the candidate of the Conservative Party in New York for the Senate over Liberal Republican Senator Charles E. Goodell. Nevertheless, the "experts" appear to be generally predicting that Senator Goodell will emerge the winner in the three-cornered contest; however at least one poll is giving Mr. Buckley the lead.

## Tough Fight for Sen. Murphy

In California where Democratic Representative John V. Tunney, 36, is seeking to capture the seat of Senator George Murphy, 68, the incumbent, knowledgeable politicians continue to say the race seems "too close to call." President Nixon's campaigning in the closing days and hours of the campaign could swing it over for the former actor. "If Nixon and Ronald Reagan can't put him (Murphy) over, then no one can," a campaign lieutenant of the Senator was quoted as saying.

## Key Senate Contests

A survey by Congressional Quarterly says 10 states will determine the fate of the Republican hopes for controlling

## MR. CACKLES



"I wonder if the Weather Bureau, when computing wind velocity, adds in the candidates' speeches?"

the Senate. These States, where the races are regarded as extremely close, in addition to California, include Florida, Indiana, New Mexico, North Dakota, Ohio, Tennessee, Texas, Utah and Vermont. With the exception of California and Vermont, these states are now in Democratic hands.

**The survey by the Congressional Quarterly showed that Republican candidates are clear favorites in only seven of the 35 Senate races being contested. "Add the 33 GOP seats not up this year and the total is 40," said the Quarterly. "Only a clean sweep of the toss-ups would give the Republicans control."**

The nationwide survey bore out in part some previous prognostications by some qualified Democrats and Republicans alike. The Congress, as currently constituted, includes 243 Democrats in the House of Representatives and 187 Republicans. All five vacant seats will be filled. The Congressional Quarterly survey showed Democrats leading in 233 House races, and Republicans leading in 176. "If the two parties break even in the contests that are too close to call, the Democratic party would hold a 246-189 edge after the returns are in," said the CQ report.

## Outlook for Governorship Races

Continuing, the report said: "The major Democratic gains may come in the gubernatorial races, where the accident of timing gives Democrats a break. Twenty-four of the 35 governorships up this year are currently held by Republicans, so Democrats have little to lose.

**"... Democrats now lead in 11 statehouse races, Republicans in 10. Fourteen are still too close to call. The 10 contests likely to go Republican, combined with eight GOP governorships up for election this year give the Republican party a base of 18 statehouses. If GOP candidates carry seven of the 14 gubernatorial toss-ups, the**

**Republicans would emerge in November with governorships in 25 states, a decline of seven from the present 32 Republican seats."**

Speaker of the House John W. McCormack, Democrat of Massachusetts, is retiring, and thus is not up for re-election. However, all the other Democratic leaders of the House and Senate are as certain as anything in politics can be to win new terms.

## Congressional Leaders Sure Winners

House Majority Leader Carl Albert of Oklahoma, who is expected to succeed Mr. McCormack as Speaker of the House, and House Democratic Whip Hale Boggs of Louisiana, will be elected to new terms. Representative Boggs will seek to be elevated to the No. 2 leadership position in the House to succeed Majority Leader Albert. He faces several prospective opponents for this post.

**Senate Majority Leader Mike Mansfield of Montana is expected to win hands down over Republican Harold E. Wallace, a sportings goods store owner and swim coach at University of Montana. Senator Edward M. Kennedy of Massachusetts, the assistant Senate Majority Leader, likewise is expected to win a new six-year term without difficulty.**

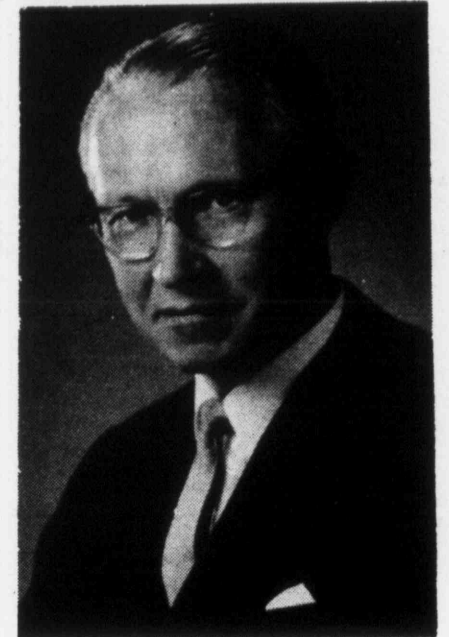
**Of course, the Democrats must win the House and Senate and thus gain control of the respective branches if the present leaders continue in majority leadership positions in the next Congress starting in January.**

Minority Party Leaders, Hugh Scott, senator from Pennsylvania, and Gerald Ford, representative from Michigan, are expected to return to Washington with new terms.

In all probability the elections will bring a few surprises, and upsets. They nearly always do.

(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).

## Jarvis Joins Walston & Co.



N.L. Jarvis

N. Leonard Jarvis, former senior vice president of Hayden, Stone Incorporated, has joined Walston & Co., Inc., 74 Wall Street, New York City, members of the New York Stock Exchange, as a vice president in the firm's institutional department, it has been announced by Howard Curd, vice president and national institutional sales manager.

Mr. Jarvis, author of the best-selling "A Woman's Guide to Wall Street," has been in the investment business since 1922 when he began his career on the floor of the New York Stock Exchange. From 1927 to 1936 he lectured on finance at the New York Institute of Finance and prior to 1944, when he joined Hayden, Stone, Mr. Jarvis was manager of the research departments of several banking and financial institutions. At Hayden, Stone he became a partner of the firm in 1951 and a senior vice president in 1962. He was head of the research department from 1944 to 1951.

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