EXECUTIVE OFFICE OF THE PRESIDENT
NATIONAL RESOURCES PLANNING BOARD
WASHINGTON, D. C.

February 18, 1943.

Honorable Marriner S. Eccles,
Chairman, Board of Governors of the
Federal Reserve System,
Washington, D.C.

My dear Mr. Eccles:

I enclose herewith copy of a letter addressed to Honorable James F. Byrnes, under date of February 10, by one W. J. Duggan of St. Louis, Missouri. I do not know Mr. Duggan, but he has written several times expressing his views. Of course, it is not within the functions of our Board to deal with the subject which Mr. Byrnes is dealing with, but I should be very slow to accept Mr. Duggan's views. I would like to know from you whether, in your opinion, they warrant serious consideration at this time.

Of course, I am aware that the nations of the world can not be said to be on a gold basis. If I correctly understand the situation, we come nearer to being on a gold basis than any other country, and that the gold which we have and which one or two other nations have, will have to be so used and so distributed as to make it possible for the international world to come back to a gold basis. Relations between our respective Boards are such that we would naturally appreciate any suggestions which your Board has to make in this matter.

Kindly return Mr. Duggan's letter with your reply, though of course you are at liberty to make copies of it.

In this connection, I am taking the liberty of also enclosing a letter from Messrs. Scudder, Stevens & Clark of New York, Investment Counsel. I have employed them for a number of years in my capacity as Chairman of the Executive Committee of the Board of Regents of the Smithsonian Institution which has considerable funds to keep invested. As Chairman of this Committee for twenty years, I have taken an important part in looking after the investments, and the letter which I enclose indicates the policies that we have followed. While I realize that you may not care to pass upon this subject, I will, of course, value any comments you may make. I realize also that a good many people would say the success with this fund in the last twenty years has been more a matter of good luck than of wisdom.

Very sincerely yours,

Frederic A. Delano

Fredric A. Delano
Chairman

Enclosures

SCUDDER, STEVENS & CLARK
ONE WALL STREET
NEW YORK

COPY

February 16, 1943

Frederic A. Delano, Esq.,
7019 - North Interior Building
Washington, D. C.

Dear Mr. Delano:

The purpose of this letter is to summarize our present investment policy and the reasoning on which it is based.

Early in 1942 we concluded that the war was sufficiently a fact-in-being and its impact economically and psychologically had become crystallised to a degree where it was in large part reflected in security market prices. Moreover, the stocks of many companies were selling at levels which would return a fair yield even under rather drab estimates of future earnings. Such purchasing as was done at that time was based on those premises and we were prepared to increase initial commitments at lower prices should opportunity arise. It was a case of buying into immediate trouble at a price, in the belief that the trouble was of limited duration, i.e., with an eye to the hope of eventual recovery.

Events of late 1942, namely, improved war news, the favorable trend toward a more balanced political situation, and a better tax bill than expected, reduced the widespread fear of military reverses and punitive government policies toward capital, with the result that markets rose sharply from their lows. Buying done then involved less courage in accepting immediate trouble but had less protection from low prices than in the spring and required a great deal of selective discrimination.

Today, with still more favorable war news behind us, with increasing evidence of a better political balance, and with still higher stock prices, an investor must make very concrete decisions as to the balance of weight to give to various forces. He must weigh the relative importance of the still varying fortunes of war,

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ONE WALL STREET
NEW YORK

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problems of industrial conversion at the close of hostilities, opportunities in postwar deferred demand for consumers' goods here and all types of goods abroad, and the hazards of severe competition resulting from expanded capacity and rapidly changing technology. It is foolish to presume that any one can forecast the timing and extent of such forces, much less their intricate interactions and their net effect on security prices. Yet investment decisions must be made and, to be useful, they must be made long in advance of events.

To meet this problem we have formulated during the past months a set of assumptions to serve as a guide in developing an investment policy relative to the longer term. Although these assumptions are subject to constant challenge and modification, they may be stated at present as follows:

We assume not only that the capitalistic system will continue in the United States subject to many modifications but that business and corporations will gain in public favor. We assume this will take practical form in prompt reduction of excess profits taxation at the end of the war, less punitive action on the part of legislators toward business, and a better balanced administration of the labor, anti-trust, and other regulative laws.

We assume that production will stay at a high level for the duration of the war and a satisfactory level for at least two years thereafter. We assume the letdown caused by re-conversion of industry to peacetime operations will be brief and not severe.

We assume that commodity prices will be higher before they are lower and that they will stabilize after the war at a level at least as high as the present (102 B.L.S.). Raw material prices are likely to be lower but fabricated goods are likely to be higher than at present. This matter of price changes involves the whole subject popularly known as "inflation." We continue to think that the Government will exercise its control powers adequately to keep price increases orderly and moderate for the duration. We admit the possibility that popular pressure may cause relaxation of these controls before production is ready to meet postwar demand for many civilian goods. A resulting sharp rise of prices should be shortlived and followed by an equally sharp reaction. We assume the real measure of an enduring "inflation" of prices after the war will be higher costs of production inherent in higher wages and taxes.

We assume that money rates will not tighten materially in the first two or three years after the war, although there may be a moderate trend upward.

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We assume that the war in Europe will be completed within two years and that this will permit considerable revival of civilian activities. We have no assumption about the war in the Pacific and do not see how to make one until the course of events in the main theatre of war is clearer.

We assume Lend-Lease will continue in large volume for at least two years after the close of hostilities in Europe.

We assume the psychology of approaching peace is favorable to common stocks.

In the field of foreign trade and foreign relations beyond the duration of Lend-Lease we have no assumptions. The extent to which the United States will be internationally-minded is so much of a political and psychological question that we do not know how to appraise it. Whether the world will enjoy a golden era of trade and reconstruction in which we shall participate or whether we shall freeze ourselves out of the benefits of such activity and will once more be looked upon as a Shylock is beyond our ability to guess.

Fortunately the probability of temporary continuance of Lend-Lease at the end of hostilities and of a two or three-year period of activity based on domestic rehabilitation is sufficiently great to supply a practical basis for investment policy provided certain industries are avoided. In any event we place the balance of weight on the favorable forces which indicates a policy of continuing to hold the volume of risk securities authorized in our accounts at present.

As to the content of portfolios, we prefer to own for the most part either those industries which are suffering from the war but are almost certain to prosper thereafter,such as merchandising, or industries which will do reasonably well for the duration and have an assured place in the immediate postwar years, such as motors and chemicals. We question the advisability of owning in quantity industries with long term readjustment problems after the war, such as non-ferrous metals and machine tools, even though their present earnings are good and market prices appear low. Limited exceptions may be justified.

One concluding point: in dealing with the course of stock prices it is necessary to take into account not only the probable trend of earnings and dividends but also the extent to which these have already influenced the price level. Apparent discrepancies between these two factors are usually attributed to psychology. From the outbreak of war in late 1939 to last spring, rising profits were accompanied by declining stock prices. Since last spring the reverse condition, namely, declining earnings and rising prices, has existed. We expect this to continue at least until the "outbreak" of peace, subject to temporary interruptions caused by less favorable war news or other adverse developments which could put the damper on recent favorable price action of stock prices generally and more particularly of those stocks primarily attractive because of postwar prospects. We have taken these factors into consideration in reaching our decisions on proportions and selection.

Very truly yours,

D.L.Richardson/mks
Copies enclosed

Copy to N. W. Dorsey, Esq.
Copy to Dr. C. G. Abbot