The COMMERCIAL and FINANCIAL
CHRONICLE

SERVING THE FINANCIAL AND BUSINESS COMMUNITY FOR ONE HUNDRED AND THIRTY-ONE YEARS

Vol. 212 Number 7020 | New York, N. Y. 10007 Thursday, Aug 13, 1970 | In Two Sections—Section One | Price 75 Cents a Copy

Financial Distortions And Interest Rate Outlook

By DR. HENRY KAUFMAN*
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Forecast of a significant interest rate drop by year's end blames unprecedented financial developments for the belated money cost response to the economic slowdown. Until then, however, yield spreads are expected to continue attractive for individual bond investors. Analysis, and accompanying tabulation, of the demand for and supply of funds, points up likely marked changes this last half, especially in this third quarter. They include: a last external corporate financing fling reminiscent of the past two years' extraordinary level, making room for mortgage and municipal financing; another annual step-up in Treasury and Agency financing; monetary ease allowing a threefold bank credit expansion; and an enlarged institutional inflow of funds. Mr. Kaufman offers several suggestions to improve our financial system revolving around stabilization measures to generate and retain genuine savings, use of credit flow analysis in economic forecasts, and reponsible budget-fiscal procedures.

There are still some vexing and unresolved problems confronting us which deserve attention.

In the financial markets alone, three unusual developments have accompanied the economic slowdown of the past nine months. One is the persistence of an extraordinarily high level of interest rates. High-grade corporate bonds are currently yielding somewhat above 9 per cent as compared with 8.35 per cent in early October 1969 when economic activity started to slow down. Long-term Government and municipal bond yields are also higher now than they were nine months ago. After several quarters of previous economic recessions, long-term interest rates were substantially below the levels which prevailed when the recession started. While it is true that short-term interest rates are below their 1969 peaks, they are nevertheless still very high and the net decline to date is far less than the drop which occurred in previous business cycle contractions.

Henry Kaufman

Unexpected Credit Demands

A second unusual financial feature of the past nine months of business slowdown is the unexpected trends in the volume of various credit demands financed by the marketplace. This is especially noticeable in our long-term credit markets. Let me illustrate this by referring you to **Table 1,** which shows the net new volume of mortgage, corporate bond and municipal financing during the last three quarters of economic expansion in 1969 (namely, the first, second, and third quarters of that calendar year), and during the subsequent three quarters of business contraction as well as these financing trends around previous business cycle peaks.

— The net new volume of mortgage financing contracted net towards the close of the economic expansions in 1957, 1960, 1966 and 1969. Mortgage financing recovered sharply during the subsequent slowdown, except during the latest business decline. Net new mortgage financing, however, has confounded cyclical expectations, thus far, by continuing to fall.

— The net new volume of corporate bond flotations declined net during the business recession in 1957-58 and 1960-61. However, during the mini-recession in 1967, corporate bond flotations rose sharply, and a spectacular increase has occurred in these demands since the peak in economic activity last year.

— The net volume of municipal financing has increased significantly since the peak in economic activity in the third quarter of last year. However, a large part of the municipal financing thus far this year and in 1969 reflects a large volume of short-term tax-exempt notes, while long-term municipal bond financing continues to be moderate.

What Kind Of A "Crisis"?

A third aspect accompanying the current business recession, unprecedented in the postwar period, is the increasing talk of a "liquidity crisis." This is a glibly used phrase and does not describe the essence of the problem. There is no evidence suggesting a malfunctioning of the most important elements of our credit structure — namely, the money market and the market for high-grade bonds. A large volume of transactions including new issues and secondary market transactions continues to be consummated daily in Treasury obligations and in high-grade corporates and municipals.

Table 2 reveals that the net new volume of long-term market financing totaled an estimated $23.4 billion during the first half of 1970. This was just slightly below the first half record net long-term financing in the first half of 1969 and was above earlier comparable first half-years. Moreover, the total satisfied net credit demands were an estimated $29.4 billion during the first six months of 1970 and were also very substantial in historical perspective.

These total credit demands, however, were only

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SECURITIES IN REGISTRATION . . . A Report of Issues Filed With the SEC Appears in Section Two

The Security I Like Best

A continuous forum in which, each week a group of experts in the investment and advisory field from all sections of the country participate and give their reasons for favoring a particular security.

(This is under no circumstances to be construed as an offer to sell, or as solicitation of an offer to buy, any security referred to herein)

This Week's Forum Participants

Ducommun Corporation, Philip Savy, Brainard Judd & Co., Hartford, Conn.

Earl Scheib, Inc., Charles W. Moore, Analyst, Wm. C. Roney & Co., Detroit, Mich.

PHILIP SAVY
Brainard Judd & Co.
Hartford, Conn

Ducommun Corporation.

This 120 years old, California based, Corporation is a very attractive investment situation at this time for various reasons. One of them, paradoxically, is its low key past performance. We will see later why.

The **Ducommun Corp.** consists of four companies of which two are distributors and two are manufacturers.

(1) DUCOMMON METALS & SUPPLIES, a distributor, provides metal processing services through centers located in the Southland and in Hawaii. It also distributes alloys and stainless steels, various metals, tools and supplies, fasteners, grinding wheels, abrasives, soldering and brazing materials. A service center in Houston, Texas, and another soon to be opened in Tulsa, Oklahoma, boast the most modern material handling and advanced metals processing equipment in the industry. Similar equipment is being installed in all other service centers so as to offer the latest in shearing, flame cutting and sawing capabilities.

(2) KIERULFF ELECTRONICS INC. is the second largest distributor in the country of industrial electronic components. Kierulff now represents practically every major manufacturer in the field of semiconductors. Its sales coverage of the entire nation was virtually completed in 1969 with the acquisition of the Schley Electronics Corp. adding the New England, New Jersey and Maryland territories to the distribution nét. At the same time Kierulff is steadily strengthening the facilities that provide assistance and auxiliary services to its customers nationwide.

(3) SUPER-TEMP COMPANY, a manufacturer, develops and produces engineered materials. A leading product of this Company is the Reinforced Pyrolytic Graphite. The great demand for heat resisting materials, ranging from jet engines to nuclear reactors, provides an avid market for this Graphite, which, in the meantime, has found an immediate practical application in the pipe smokers' consumers world as a pipe materials. The "Pipe" in its fashionable colors, models, has been an instant success with American smokers and is being promoted by leading chain and department stores, such as Lord & Taylor, Abercrombie and Fitch and Neiman Marcus. Soon it will also be manufactured in England, under license, and be distributed all over Europe.

(4) EXPLOSIVE TECHNOLOGY CO. Develops and manufactures explosive components and systems for space vehicles and aircrafts. It has recently been selected as a subcontractor for the development of the pilot escape system for the F-14 airplane. The company also continues its development of controlled explosive energy applications for industrial use.

Ducommun Incorporated has made a few additional acquisitions in the last two years, mostly to enlarge and complement existing operations. Two of them, now merged into **DIGITCAL MACHINES INC.**, were **ARNOLD REBAR BENDER** (1968) and **LOGICTRON** (1969). They specialize in advanced digital control systems for equipment which cuts and bends steel reinforcing bars used in construction.

Finances and Outlook

One of the main problems for coporations at this time of high interest rates is their indebtedness. Many companies, during the latest boom period, went on a buying spree acquiring other companies or greatly expanding their own facilities and financing these operations with large amounts of debt obligations. Now, as these issues come to maturity, the borrowers find themselves forced to refund at much higher rates, thus cutting heavily into profits and often even going into the red.

Fortunately, the **Ducommun Corp.** had, long ago, set for itself a limit of 40 per cent ratio of debt to total Capital, but it never reached that limit. As a matter of fact the rate is now 28 per cent and does not constitute a problem. Proof of it is that, at the annual meeting held in May 1970, the President of the Company reiterated to the stockholders the Board's determination to continue the payment of $1.00 dividend as disbursed for over ten years in succession. As for the working capital position, all is well with a ratio of current assets to current liabilities of 2.5 to 1. Earnings were $1.17 per share in 1960, reached a peak of 2.81 in 1966 and then fell back to $1.60 in 1969. However, sales great uninterruptedly during the same 10 years from $62.5 million to $149.5 million.

This year, the figures of the first quarter indicate an improvement in both sales and earnings with the former at $38.2 millions against $36.3 in 1969 and the latter at 47 cents per share against 41 cents in 1969.

Potential

We said before the the **Ducommun** stock is interesting because of its past low key performance. What we mean by this is that this company does not seem to have ever achieved its potential profitability. Looking at the record of the last 10 years, we find that the highest return ever obtained was an unimpressive 2.71 per cent on sales with an average of under 2 per cent. In 1969 the return was a meaguer 1.74 per cent.

This means that no spectacular performance is required to obtain better results, for the mere rise to a more common level of return, say 3-4 per cent after taxes would raise per share earnings to better than $3.00 per share. The Management seems to be keenly aware of this fact, for, in their statements at the annual meeting last May, the emphasis was not on acquisitions but rather on improving the efficiency of the present businesses. Richard Simpson, Exec. V.P. stated ". .The emphasis in all four of our operating companies will be on the achievement of internal improvements for more effective operations. " Charles Ducommun, President, added "we will continue on a planned course to expand our present companies as we work to make them more profitable." It seems that these gentlemen mean what they say, for, the first three months of 1970 show sales up 5 per cent and earnings up 18 per cent.

Summary

Summarizing, we find in **Ducommun** a company with a record of steadiness and reliability second to none. A company that has unfailingly rewarded its shareholders for their confidence with an enviable record of dividends. A Company that can double its earnings by merely raising efficiency to a normal level The common stock of **Ducommun Corp.** sells in the OTC market, at a price well below book value, to yield better than 7 per cent. For the investor who looks for income and potential appreciation, this equity should be highly recommendable.

CHARLES W. MOORE
Analyst
Wm. C. Roney & Co.
Detroit, Mich.

Earl Scheib, Inc.

Earl Scheib, Inc. is the world's largest automobile painter, having painted over 6,000,000 cars since its founding in 1937. The company presently operates a nationwide chain of 160 shops in 123 cities. In the last five fiscal years ended April 30, sales increased from $9.92 million to $15.13 million, while earnings, aided by improved efficiencies, jumped to $1.71 per share from $0.27 or 44 per cent compounded annually. Shops increased from 107 to 160 during this period.

I believe that the company is on the verge of an acceleration in growth as a result of an increase in automobiles generally (there are presently more than 87,000,000 used cars on the road), particularly those in the 4 to 6 year-old class — Scheib's primary market; a step-up in shop openings, particularly in major population areas; improved site locations; better cost control; and the recent introduction of a high margin simulated vinyl top material. For fiscal 1971, I look for sales and earnings of $18.0 million and $2.05 per share, respectively, on 185 total shops. Selling at 10.7 times estimated earnings, I believe that the market has overlooked the excellent growth

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Managing Pension Portfolios To Meet Increasing Future Costs

By BENNETT S. KOPP*
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R.W. Pressprich & Co., Inc., New York City

Portfolio management expert provides a primer on funded, trusteed, defined benefit type of pension plans. Topics include determining; trends, costs, and methods of meeting those costs. Stressed, too, are investment objectives and portfolio structure designed to maximize the total return over the long run. Mr. Kopp explains when and why equities are not always the best way to realize maximum returns. He is a firm believer in segregating liabilities in order to match them with judiciously selected assets. Mr. Kopp is leery of intermediate bond maturities, and of undue diversification. The greatest risk is said to be meeting future costs of pension contributions. Mr. Kopp was the 1969-70 Chairman of the New York Society of Security Analysts' Portfolio Management Committee, as well as Editor of its Newsletter. In May, 1970 he was elected to the N.Y. Society's Board of Directors.

My basic premise is the simple proposition that we cannot manage a pension fund portfolio unless we understand what it is, what its various characteristics are, the nature and progression of funding, and the difference between plans. Like individuals, pensions have many things in common, but also important differences.

I am not talking about a profit sharing plan or a welfare plan. I am not talking about pay-as-you-go, or terminal funding pension arrangements. I am not talking about a money purchase pension plan.

I am talking about a funded, trusteed, defined benefit type of pension plan, the most usual arrangements. All my comments will apply to corporate plans, most to multi-employer plans and many to municipal plans.

Let's begin by defining what we're talking about. A pension plan is a set of "definitely determinable benefits" to be paid to retired workers who have fulfilled predetermined requirements. Such other benefits as death or disability may be included but are considered incidental to the primary retirement benefit. The plan may be contributory, and/or have vesting provisions. All these factors bear upon investment policy.

There are many federal rules and regulations regarding "qualified" pensions. Most are noted in Section 401 (a) of the Internal Revenue Code of 1954. They relate to requirements and procedures regarding establishment of a plan. None relate to the portfolio management yet. The trust instrument, however, may have investment restrictions regarding such things as balance and quality. The trustees may establish restrictions not specified in the instrument. State and municipal funds have many investment restrictions. This presentation, however, assumes complete freedom for portfolio managers in order to permit the fullest discussion.

The Benefit Pattern

When a plan is established the entire work force does not of course retire at once. There is usually a gradual increase as pensioners begin drawing benefits. As more workers retire, the benefit flow increases, with an offset as pensioners die. The trend of benefit payments usually rises for 40-50 years, at

B.S. Kopp

which time the number of retired employees may level off.

Most new hiring is for people under age 40-45. The effect of any increasing employee group is therefore usually delayed by 20-25 years. The leveling off of the benefit pattern may be delayed indefinitely. The actual dollars of pension benefits, the costs, will usually rise for the foreseeable future.

Many lists of background information are available to help determine how each plan may differ from the typical, or to determine what stage of existence it is at. The information needed includes such factors as the nature of the industry, stable or cyclical or expanding; the nature of the company, expanding, declining or stable; and, importantly, the age distribution of the work force and any abnormal "bulge" in this age distribution.

Actuarial Assumptions

At this point it's appropriate to talk about the pension actuary. The assumptions he makes and the cost methods he uses form the basis for the periodic actuarial reports. These reports are in effect the "blueprints" which should be the primary determinant of investment objectives and portfolio structure. The pension actuary considers all the preceding factors and many others in determining the benefit schedule for a particular plan.

Obviously, one of the most important assumptions the actuary must make is the estimate of how many current employees will live to

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THE COMMERCIAL and FINANCIAL CHRONICLE

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

Thursday, August 13, 1970

Every Thursday (general news and advertising issues) and every Monday (complete statistical issues — market quotation records, corporation news, bank clearings, state and city news, etc.) Other Offices: 135 South LaSalle St., Chicago 3, Ill., Phone (312) 782-0613; 216 South Mansfield, Los Angeles, Calif., Phone (213) 934-8149, Mr. John Neill, Mgr.

THURSDAY EDITION ONLY (52 issues per year)
In United States, U.S. Possessions and members of Pan American Union, $26.00 per year; in Dominion of Canada, $27.50 per year; other countries, $29.50 per year.

THE O-T-C MARKET CHRONICLE EDITION EVERY THURSDAY (52 ISSUES PER YEAR)
In United States, U.S. Possessions and members of Pan American Union, $20.00 per year; in Dominion of Canada, $23.50 per year; other countries $27.50 per year.

OTHER PUBLICATIONS
Bank and Quotation Record—Monthly $75.00 per year. (Foreign postage extra.)
Note—On account of the fluctuations in the rate of exchange, remittance for foreign subscriptions and advertisements must be made in New York funds.

Cyprus Mines Corporation

By IRA U. COBLEIGH, Economist

Our subject is a prosperous and adventurous natural resource company, world-wide in its operations, yet not dependent on the economics of any single metal, or on the political climate of any single country.

Copper was named from Kypros, the Greek word for Cyprus, the Eastern Mediterranean island that was the major source of copper in the ancient world. Late in the Bronze Age (around 1100 B.C.) the Trojan War was fought with both the Greeks and the Trojans using weapons of bronze, an alloy of tin and Cyprian copper. All of which supplies a slight background for the company chosen for review today, Cyprus Mines Corporation which has been mining and processing copper sulphide ores in Cyprus since 1914. Until 1950 this Division provided the company's sole source of operating income. Since then, as we shall document, Cyprus has quite outgrown the insular limitation suggested by its name, and has come to rank among the most solvent and successful global natural resource enterprises. It is a major producer of copper and iron ore; a leading producer in non-metallic minerals; and significant in sulphur, gold, silver, zinc, molybdenum and cement.

Copper

Since the company started out in copper and generated 38 per cent of earnings in 1969 from this metal, we will talk about copper first. In 1969 ores from four mines in the Cyprus Island Division produced copper contained in copper bearing products totaling 28 million pounds, up from 27 million turned out in 1968. The underground Mavrovouni mine was shut down in December 1969, with its minable reserves exhausted following operation for more than 36 years. Production will continue from three large open pit mines. Copper products are shipped to a European smelter under sales agreements based on London Metal Exchange prices, substantially higher in 1969 than in 1968. Sulphur pyrites, derived from copper mining, are sold to sulphuric acid manufacturing plants in Europe.

A $3 million pressure leach plant, completed in May 1968, and being expanded by 25 per cent, will permit recovery from mill tailings of about 7 million pounds of copper annually.

Arizona Properties

Pima Mining Company, a 50 per cent owned subsidiary (Utah Construction & Mining, and Union Oil each own 25 per cent) operates an open pit copper mine and concentractor facility located about 25 miles south of Tucson, Arizona. The property produces a concentrate containing about 28 per cent copper, smelted and refined in Western United States under long term contracts. In 1969 copper content of concentrates sold was 134 million pounds (up from 128 million in 1968) with by-product income from 638,000 ounces of silver, and 1,721,000 pounds of molybdenum in concentrate. Pima's dividends to CMC were $5,351,000 in 1969, compared to $3,567,000 in 1968.

Bruce Mine Division (wholly owned), located near Bagdad, Arizona, has an underground mine with high grade copper-zinc ore reserves and a 330 ton a day crushing plant. Production in 1969 was 6.4 million pounds of copper, and 16.9 million pounds of zinc in concentrate.

Iron Ore and Shipping

San Francisco based Marcona Corporation (46 per cent owned, with Utah Construction having an identical interest) has an integrated group of subsidiaries engaged principally in iron ore mining and benefication, iron ore marketing and ocean transportation of its own products and other bulk commodities. Marcona Mining Co., wholly owned, operates iron ore mines and benefication plants in Peru. Collateral facilities include a deep water port, a mine-to-mill conveyor system, housing, schools and a company built and maintained hospital in the town of San Juan. Marcona Mining produced 9,442,000 long tons of iron ore in 1969, up from 8,848,000 tons in 1968. About 80 per cent of Peruvian shipments went to Japan, with balance to South America, Europe and the United States. The company has enjoyed a satisfactory relationship with the Peruvian government and is negotiating an agreement for a $25 million expansion program.

A wholly owned subsidiary, San Juan Carriers, Ltd., operates one of the world's largest dry-cargo fleets consisting of 9 owned and approximately 28 chartered vessels. Eight of the owned vessels and one of the chartered ships can also carry oil. Marcona has perfected and patented a unique new process for loading bulk concentrates in a slurry, dewatering the cargo before departure, and unloading at destination by pipeline after restoring the water content (25 per cent). This system may achieve significant economies in iron ore transportation.

New iron ore projects under evaluation are in Southeastern Alaska, New Zealand, and on the West coast of India.

In 1969 the CMC equity in after-tax earnings of Marcona Corp. was $7,634,000 with $2,300,000 distributed in cash dividends ($1,840,000 in 1968).

Mount Goldsworthy

This 33-½ per cent owned joint venture with Utah Construction and Consolidated Gold Fields Australia, Ltd., now in its fifth year of operation, shipped 5,019,000 long tons of Australian iron ore in 1969. Total shipments go to Japanese steel mills and production schedules call for 6 million tons this year and reaching an 8 million ton annual rate in 1973. New deposits east of Mount Goldsworthy, extension of the existing 70-mile railway, and new crushing and processing plants are to be developed at a total estimated cost of about $70 million, financed principally by the company's own cash flow.

Lead-Zinc-Silver

An exciting new venture, Anvil Mining Corp. (60 per cent owned) with its Faro Mine facility in the Yukon, Canada, completed at a cost of $61 million, began production of lead and zinc concentrates in 1969. The mine and concentrator were designed for a capacity of 5500 tons of ore daily, yielding 130,000 tons of 69 per cent lead concentrate, and 240,000 tons of 52 per cent zinc concentrate per year with 2.4 million ounces of silver as a by-product. Anvil is expected to make a significant contribution to CMC earnings in 1970.

Non-Metallic Minerals

United Sierra Division (wholly owned) is a leading producer of talc, kaolin, ball clay and diatomite. Fourteeen production facilities are located in 9 states with headquarters and research center located near Trenton, N.J.; and a talc processing plant in Ghent, Belgium.

Mineral Exploration

CMC has a Mineral Exploration Department consisting of 25 geologists and administrators. The company spent $4. 2 million in exploration in 1969, concentrating in politically stable countries, using most modern geological, geochemical, geophysical techniques, including the use of airborne equipment; followed by drilling where and as indicated.

Manufactured Products

Rome Cable Division (wholly owned), headquartered at Rome, N.Y., manufactures insulated wire and cable products needed by electric utilities, industrial and mining operations, and the construction and electronics industry. Profit generation, unsatisfactory in 1969, is being improved this year under leadership of Michael J. St.John, the new president of Rome Cable, appointed in January 1970.

Hawaiian Cement Corp. (45,4 per cent owned) had record sales and profits in 1969, and a $5. 3 million expansion program has been authorized, more than doubling capacity to 2.5 millions per year.

The Broad View

Viewed in its totality, CMC is an adventurous, highly solvent and highly successful company, expanding its production from earth resources all over the world. The company's timber operations were disposed of in 1969, principally contributing to $3,036,000 (65 cents a share) in extraordinary income in that year. Including that non-recurring item, total net income reached $27,062,000 or $5.81 a share in 1969, highest in company history, and the 7th consecutive year of earnings' growth.

Working capital at the 1969 year end was $42 million, and book value was $37.93 for each of the 4,656,000 shares outstanding and listed NYSE. Dividend is $1.60 a share and might be increased.

The 1970 market range has been between 44-⅜ and 71-½ with current quotation around 57-½. The historic growth rate of this well and imaginatively managed company shows no sign of slowing down. For those investors seeking fundamentally strong and seasoned equities, combining rising earnings, dividends and net worth with inflation-resistent qualities, a serious look at CMC is suggested.

Penington Merged Into Burton, Dana

Penington, Colket & Co., Inc. has signed an agreement under which its Philadelphia, New York, Manhasset (N.Y.) and Point Pleasant Beach (N.J.) offices will be acquired by Burton, Dana, Westerlund, Inc., according to an announcement by Richard W. Taylor, president of Burton.

Penington's New York office and their Philadelphia headquarters will be combined with Burton's offices in those cities. Penington's branches in Manhasset and Point Pleasant Beach will augment Burton's branches in Washington (D.C.) Alexandria (Va.) and the recently opened Boston office. Burton headquarters will remain in New York City, 120 Broadway. Arthur Horton, former president of Penington, will become a vice president of Burton.

Mr. Horton summarized the reasons for the transaction stating, "Burton, Dana, Westerlund's brokerage activities, underwritings, financial consulting and economic and investment research capabilities are compatible with Penington's. Moreover, their back office, which has been built around several years of experience with IBM's System 360 Computer, is of particular interest to us."

Hoppin & Watson To Merge

Hoppin Bros. & Co. and T.L. Watson & Co. will merge effective August 15th and continue their investment business under the name of Hoppin, Watson & Co. Offices of the merged firm, which will be a member of the New York Stock Exchange, will be located at 55 Broad Street.

In Securities Business

SAN ANTONIO, TEX. — USAA Fund Management Company is conducting a securities business from offices at 4119 Broadway. Officers are Robert F. McDermott, chairman; Walter E. Brinker, president; George B. Ensley, vice president; and John W. Saunders, Jr., treasurer. Mr. Saunders formerly conducted his own investment business in San Antonio under the name of Saunders & Company.

Ludovici With Peter McDermott

A. Ludovici

Anthony Ludovici has become associated with Peter P. McDermott & Co., 42 Broadway, New York City, members of the New York Stock Exchange, as director of research. Mr. Ludovici was formerly for many years with Gude, Winmill & Co. Mr. Ludovici is a regular contributor to the **OTC Market Chronicle.**

Nomura In New Quarters

Nomura Securities International, Inc., the U.S. affiliate of The Nomura Securities Co. Ltd., Japan's leading investment and brokerage firm, has officially opened the doors to its new headquarter offices (16th floor) at 100 Wall Street, New York City.

It has been located at 61 Broadway since 1953 when Nomura first reopened its American offices.

The Nomura affiliate also has branches in Los Angeles and Honolulu.

Phone numbers at the new location are: (212) 269-2895 and 483-9350.

Two months ago Japan's Ministry of Finance opened the way for the "Big Four" Japanese securities firms to purchase American securities for their respective investment trust funds. It was indicated at the time that the Ministry would allow the Japanese investment trust industry to purchase foreign securities up $100 million for the time being.

Alger Co. To Be NYSE Member

Effective August 13th Fred Alger & Company Incorporated, 26 Broadway, New York City, will become members of the New York Stock Exchange. Officers of the firm are Frederick M. Alger III, president and chairman; Frank E. Pierce III, William Scheerer II, and William A.W. Stewart III, vice president; and George J. Boggio vice president, secretary and treasurer. Mr. Pierce will hold the firm's exchange membership.

Ellman Financial

COLUMBUS, OHIO — Ellman Financial & Service Corporation has been formed with offices at 48 East Gay Street to engage in a securities business. Edwin M. Ellman is president and treasurer of the firm.

TAX-EXEMPT BOND MARKET

By WILLIAM J. RILEY

The Tax-Exempt Bond Market held the major portion of its extraordinary rise in prices (lessening of yields) scored in the preceding week. Settling took place, here and there, in some names from recent top quotations. New issue bidding, however, continued to set a hot pace.

The week's feature, $100 million State of California, general obligation bonds brought two close bids on Tuesday, Aug. 11. The **Bank of America group** was the winner at 5.5613 per cent. The runner-up bid was 5.5741 per cent made by a syndicate managed by First National City Bank; Morgan Guaranty Trust Co.; United California Bank; Salomon Brothers and W.H. Morton & Co. Inc. The reoffering scale ranged from 4.20 per cent for the 1971 maturity to par for 5.80 per cent bonds due 1989. The final two maturities, 1989 and 1990 carried a 5 per cent coupon rate and were priced to yield 6.00 per cent.

This was the second issue of California State bonds since the maximum borrowing rate was raised from 5 per cent to 7 per cent last June. The previous sale was June 16th when the State sold $100 million bonds with a shorter maturity schedule, 1971 to 1985, at a net interest cost of 6.248 per cent.

90 Basis Point Drop

How far the market has improved over this two month period can be seen by comparing, for example, the 1984 maturity in the two offerings. In the June issue, the 1984 maturity with a 6½ per cent route rate was priced to yield 6.55 per cent. The same maturity in the present issue carried a coupon rate of 5.65 per cent and was priced at par to yield 5.65 per cent. This is 90 basis points lower yield, or the best part of one full percentage point in interest.

Tuesday's offering got off to a good start with a syndicate balance reported at the opening yesterday of $38,225,000. A second order period yesterday reduced the balance by another $3 million.

An issue of $20 million Florida State Board of Education, Revenue double-A rated bonds, were offered on Monday, Aug. 10, to a syndicate managed jointly by **Morgan Guaranty Trust Co.; Salomon Brothers** and **Weeden & Co.** at a net interest cost of 6.3935 per cent. The winning bid was a photo-finish over the First National City Bank group's bid of 6.3949 per cent. The bonds due 1971 to 2000 were reoffered from 4.30 per cent to 6.40 per cent. First day sales left about $13 million on the syndicate books. Another $1 million sold yesterday left about $12 million.

Alabama Bonds Half Sold

Another important issue of the week was the offering Tuesday, Aug. 11, of $35 million Alabama Highway Authority, Series T Revenue bonds, won by a syndicate managed by **Merrill Lynch, Pierce, Fenner & Smith Inc.**, and **Lehman Brothers**, on a bid of 6.2010 per cent. The bonds were reoffered from 4.50 per cent for the 1971 maturity to par for 6.40 per cent bonds due 1987 and 1988. The final maturity 1989, was designated at a 5 per cent coupon rate and priced to yield 6.60 per cent. The syndicate balance yesterday afternoon was $17.600.000. just about half sold.

Some easing in the secondary market was noted. The market had run up so sharply that some shaking down, here and there, was only normal.

Brokers reported that bidding for high grades, especially in the preferred 10 to 15 year range, stood up very well.

In order syndicate offerings, there was good movement over the weekly period. Such issues as New York City's, Pennsylvania and last week's Puerto Rico Aqueduct & Sewer Authority bonds showed continued sales.

Drop in C& F C's Yield Average

In its recent fast run-up in prices, the Tax-Exempt Bond Market ran counter to the overall bond market which backed off early this week with the onset of huge volume. Generally, the rise and fall of the several divisions of the Bond Market (Corporate, U.S. Government and Municipal) run parallel, Nevertheless, there are often intermediate movements where one segment may diverge. The recent special strength in Tax-Exempt Municipals came, apparently, from a large increase in the supply of funds in the hands of the banks, arising from Federal Reserve measures to ease money conditions following the Penn Central debacle in June.

At mid-week the Tax-Exempt Bond Market gives a mixed appearance. Our **Chronicle** Average shows an improvement of 25 basis points (lower yield-higher prices) since our Aug. 5 figure. This yield decline reflects largely the movement in that week and, more particularly, Wednesday's and Thursday's bullishness.

Technical factors are fairly favorable. Floating supply, as measured by the **Blue List** total, is moderate at $515 million including Housings. The 30-day visible supply, as compiled by the Daily **Bond Buyer**, is $619 million, a not burdensome figure.

STATE AND MUNICIPAL BONDS
(Approximate)

	%		Yield % (Asked)
Baltimore	6¼	1988	6.20
California	4.60	1988	6.40
Connecticut	6.10	1987	5.90
Detroit, Michigan	5.80	1989	7.40
Los Angeles, California			
Dept. of Water and Power	6.90	1989	6.30
Massachusetts	5½	1988	6.50
New York State	7	1986	5.90
New York City	6.90	1988	7.00
Public Housing Authority	6.00	1989	5.90
Philadelphia	7½	1988	7.40

Average: Aug 5—6.74%; Aug. 12—6.49%.

Chase Inv. Counsel Execs.

Russ Antonille

CHARLOTTESVILLE, VA. — Derwood S. Chase, Jr., President of Chase Investment Counsel Corp., 415 4th Street, N.E., has announced that Russ Antonille recently joined the firm as Assistant Vice President with responsibilities in the areas of administration, portfolio management and investment research. Chase Investment Counsel Corp. provides investment management on a fee basis for individual, trust and corporate clients in 16 states.

Mr. Antonille began his career as a Financial Analyst with the Securities and Exchange Commission, and later spent five years as a Portfolio Manager/Security Analyst with the Trust Department of Riggs National Bank (Washington, D.C.) where he was responsibile for 45 pension, profit-sharing and endowment fund accounts valued at $45 million.

In other management changes, Mr. Chase also announced that W. Standish Gaylord, who has been a Vice President and Director since 1966, has been elected Senior Vice President and Director. His responsibilities will continue to be devoted to investment research.

In addition, Robert Patterson, who joined Chase Investment Counsel Corp. in 1967 after an extensive investment career including the Presidency of his own New York Stock Exchange member firm, has been elected a Senior Vice President. He will continue as a Director and be associated with the firm on a part-time basis, Mr. Chase stated.

Investors Research

DENVER, COLO. — Investors Research Services Inc. is engaging in a securities business from offices at 835 East 18th Avenue. Officers are Charles F. Meyer, president; Ira Herenstein, vice president and assistant secretary and assistant treasurer; and Donald C. Devore, secretary-treasurer. Mr. Myer and Mr. Devore were formerly an officers of Financial Programs, Inc.

Howard Weill Branch

LAUREL, MISS. — Howard, Weill, Labouisse, Friedrich & Co. has opened a branch office in the Laurel Federal Savings & Loan Bulding with George A. Vincent registered representative in charge.

LARGER ISSUES SCHEDULED FOR SALE

August 13 (Thursday)			
Babylon, N.Y.	6,512,000	1971-1999	11:00 a.m.
Central Bucks School District, Pa.	2,200,000	1972-1991	7:30 p.m.
Cuyahoga County, Ohio	4,975,000	1972-1994	11:00 a.m.
Eunice, La.	1,970,000	1971-1990	1:30 p.m.
Huntington County, Penn.	1,150,000	1971-1980	11:00 a.m.
August 17 (Monday)			
Grand Rapids Ind. Sch. Dist No. 318, Minn.	2,025,000	1973-1983	4:00 p.m.
Poughkeepsie, N.Y.	4,600,000	1971-2001	3:00 p.m.
Red Wing, Minn.	1,020,000	1971-1985	7:30 p.m.
Southern State College, S.D	1,000,000	1973-2000	1:30 p.m.
August 18 (Tuesday)			
Boca Ratòn, Fla.	3,700,000	1971-1996	11:00 a.m.
Brockton, Mass.	3.550.000	1971-1990	11:00 a.m.
Concord, N.C.	1,500,000	1972-1995	----------
Eden Prairie Ind. Sch. Dist. $272, Minn.	$1,965,000	1973-1986	4:00 p.m.
Gallatin, Texas	1,000,000	1972-1990	11:00 a.m.
King County, Wash.	11,000,000	1972-2010	10:00 a.m.
Mecklenburg, County, N.C.	8,925,000	1972-1994	11:00 a.m.
Olney Jr. Coll. Dist., Illinois	1,465,000	1972-1977	1:00 p.m.
Oregon (State of)	55,000,000	. . . . . .	9:00 p.m.
Palmdale School Dist., Cal.	1,410,000	1973-1985	9:00 a.m.
Pennsylvania State Public School Bldg. Author.	21,440,000	1971-2009	Noon
San Francisco Airport Improvement Corp., Cal.	30,000,000	1971-2009	. . . . . .
American Airlines lease revenue bonds with syndicate managed by Blyth & Co., Inc., and Lazard Freres & Co.			
San Jacinto Jr. Coll., Dist., Tex.	2,000,000	1971-1990	7:30 p.m.
Somerset County, N.J.	3,770,000	1971-1990	Noon
August 19 (Wednesday)			
Connecticut (State of)	75,000,000	1971-1990	11:00 a.m.
Cucamonga County Water Dist., Cal.	1,347,704	. . . . . .	. . . . . .
Dade County Port Authority, Fla.	63,500,000	1975-1998	1:00 p.m.
Glens Falls City Sch. Dist., N.Y.	1,825,000	1970-1977	2:00 p.m.
Longboat Key, Fla.	1,710,000	1972-2007	Noon
Ohio Higher Education Facility Commission	1,500,000	1973-2007	11:00 a.m.
Roanoke, Va.	10,500,000	1971-1985	Noon
St. Paul, Minn.	20,500,000	1971-2000	10:00 a.m.
August 20 (thursday)			
Alabama, University of	5,500,000	1972-2000	11:00 a.m.
Cuyahoga County, Ohio	3,000,000	1971-1974	11:00 a.m.
Gainesville, Fla.	2,000,000	1972-1991	11:00 a.m.
Iron County, Mich.	1,600,000	1970-1994	7:00 p.m.
Lancaster County Sch. Dist., S.C.	1,000,000	1972-1985	. . . . .
New Hampshire, State of, Concord	24,460,000	1971-1980	11:00 .a.m
August 24 (Monday)			
Bellevue, Wash.	2,000,000	1972-1990	8:00 p.m.
Bridgman Public Sch. Dist., Mich.	1,400,000	1973-1980	8:00 p.m.
Brooklyn Center, Minn.	3,340,000	1971-1991	2:00 p.m.
Davis, Calif.	3,100,000	1972-1990	2:00 p.m.
Duluth, Minn.	2,270,000	1972-1985	2:00 p.m.
Wilson County, Tenn.	1,840,000	1971-1990	1:30 p.m.
August 25 (Tuesday)			
Braintree, Mass.	5,530,000	1971-1985	11'00 a.m.
Camden County, N.J.	5,252,000	1971-1990	2:00 p.m.
Charlotte County Special Tax School Dist., Fla.	4,225,000	1972-1990	2:00 p.m.
Jackson, Tenn.	2,000,000	1972-1990	11:00 a.m.
Jefferson Twsp. Sch. Dist.,N.J.	4,000,000	1972-1982	8:00 p.m.
Mobile, Ala.	4,500,000	1971-1990	11:00 a.m.
Norwalk, Conn.	4,000,000	1971-1990	11:00 a.m.
Oakland County, Mich.	17,955,000	1974-2003	11:00 a.m.
Santa Barbara Parking Dist., No. 2, Calif.	1,950,000	1972-1985	10:00 a.m.
Waunakee et al. Joint School Dist. No. 4, Wisc.	1,960,000	1972-1985	1:00 p.m.
Whitko Community Sch. Bldg. Corp., Ind.	3,480,000	1972-1986	2:00 p.m.
Wilbarger County Jr. Coll. Dist., Texas	1,500,000	1971-1990	7:30 p.m.
August 26 (Wednesday)			
Ashburnham-Westminister Reg. Sch.	1,200,000	1971-1980	11:00 a.m.
Berkeley Co. Sch. Dist., S.C.	1,000,000	1972-1985	Noon
Boone Road Utility Dist., Tex.	1,000,000	----------	10:00 a.m.
Hennepin Cnty Area Vocational-Technical Sch. Dist., Minn.	12,500,000	1972-1991	Noon
Indiana University, Bloomington, Ind.	5,500,000	1971-1976	11:00 a.m.
Maryland State Roads Commis.	4,665,000	1971-1985	11:00 p.m.
Nevada (State of)	2,740,000	1971-1980	3:30 p.m.
Ponderosa Forest Utility Dist., Tex.	2,100,000	----------	10:30 a.m.
Suffolk Co. Water Auth., N.Y.	6,000,000	2003-2006	Noon
August 27 (Thursday)			
St. Clair County, Mich.	1,215,000	1973-2000	4:00 p.m.
Spencer, W. Va.	1,013,000	1972-2009	2:00 p.m.

Socialist Damages Which Have To Be Repaired

By PAUL EINZIG

Tasks challenging the newly installed Conservative government, and suggested solutions, are put forward by our London expert. Redressing the negative gold-foreign exchange reserve, pressing on with the job of restructuring external liabilities from excessive short to long term debt, regaining control over wage inflation, and continuing the export surplus are stressed by Dr. Einzig. He alludes to such possible windfalls as faster wage inflation outside of, rather than in, England, and easy U.S.A. money policies as slim reeds of support to count on. The fact that the new government can restore investors' confidence, and encourage the international holding of sterling balances, makes Dr. Einzig optimistic—providing Labor causes no disturbing crisis.

LONDON, ENG. — It is as yet too early to form an opinion about the extent to which the Conservative Government will be able to repair the damage inflicted upon the British economy by six years of Socialist rule. Of course to a high degree it depends on world economic conditions. The damage caused by Socialist misrule was largely mitigated during the late sixties by the expansion of world trade. British trade could not help benefitting by it though whether it had its fair share of the potential benefit is quite another question. Given continued expansion of world trade, and in the absence of its degeneration into runaway world inflation, the odds would be in favor of a recovery of Britain's economic strength both in absolute terms and in relation to world trade as a whole.

Restructure Debt

One of the tasks of the new Government is to settle the external short-term debt inherited from its predecessor. Although that debt was reduced considerably during 1969-70, it is still sufficiently high to constitute a grave problem. It is in excess of the gold and foreign exchange reserves, in spite of the gradual increase of those reserves. This means that the new Government assumed office with a negative gold and foreign exchange reserve.

This state of affairs could be repaired partly through maintaining a high export surplus and partly through continuing the policy of encouraging long-term borrowing abroad adopted by the Labor Government. The size of the export surplus, and indeed its continued existence, depends largely on the extent to which the Government will be able to call a halt to the escalating rise in wages and prices. This can be influenced by Government policies, but only to a limited degree. It remains to be seen whether the new Government will be able to recover the control over wage inflation, control which was deliberately abandoned a year ago by the Labor Government in order to recover its popularity among the rank and file of its supporters.

To be able to do so it would have to adopt a tough line. There are indications that it intends to do so, but time and experience can only tell the extent to which it will dare to be tough. Also the reaction of the trade unions to the tough measure is anybody's guess. The trouble is that during the last year of Socialist rule the British working classes have become so utterly demoralized that the restoration of the right spirit amongst them will be an almost super-human task.

Of course the prospects of the British economy under the new Government depend also very largely on the extent to which wage inflation and the demoralization of working classes in other industrial countries can be brought under control. Britain's balance of payments surplus is largely due to wage inflation in the United States, in Italy, in Sweden, and to a less extent in other industrial countries. Should all or most of these countries succeed in bringing their wage inflations under control it would become much more difficult for Britain to maintain a surplus.

Removing Import Deposit Will Hurt

In any case the British balance of payments during the second half of 1970 will be affected unfavorably by the termination of the import deposits scheme. British industries have reduced their inventories of imported goods in anticipation of the change, so they will have to raise their inventories to normal levels in the not too distant future.

In the absence of a continued export surplus, the external short-term debt will have to be repaid, and a substantial net reserve will have to be created, largely with the aid of long-term borrowing abroad. At the time of writing the outlook for this does not appear to be very promising. Expectations that Germany would absorb large amounts of British bond issues are not very bright at the moment. Altogether the outlook for foreign issues is far from satisfactory, though a certain amount of Euro-bonds might be subscribed by holders of Euro-dollars, provided that Euro-dollar rates do not remain at prohibitive levels. If the United States Government should pursue a policy of easier money, so that American banks could repay large amounts of Euro-dollars they borrowed in London last year, ample funds would become available for British Euro-bond issues, all the more so as Japan is not likely to borrow on a very large scale.

A sphere in which the Conservative Government is likely to go a long way towards repairing the damage caused by its predecessor is in respect of its attitude towards business and investors. It is likely to reverse the Socialist Government's hostile fiscal and other policies. This would mean that Britain would be able to attract foreign direct investment in British industries. It would also mean that British business would be in a position to operate more profitably. A rise on the Stock Exchange would attract foreign funds into British portfolio investments.

In the absence of any disturbing crisis, sterling is likely to recover at least in part its former role in the sphere of international finance which would mean an increase in foreign holdings of sterling balances. The trend of the flow of short-term funds will depend of course on a wide variety of circumstances. But the fact that the present Government, unlike its predecessor, is likely to pursue the aim of encouraging the international use of sterling instead of deliberately discouraging it, should in itself go some way towards inducing non-residents of various types to maintain sterling balances.

The development of parallel money markets, especially of the market in sterling certificates of deposits, is far from complete; there is ample scope for expansion. Given interest differentials in favor of inward arbitrage, and assuming that forward sterling will remain favorable, these markets are likely to attract much short-term capital.

Allowing for all this, it is possible to view the prospects with a certain degree of guarded optimism, provided always that major strikes or unduly soft attitude towards trade unions will not spoil the picture.

COMING EVENTS IN THE INVESTMENT FIELD

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

Sept. 11-12, 1970 (Coeur d'Alene, Idaho)
Pacific Northwest Group of Investment Bankers Association meeting.

Sept. 21-25, 1970 (Copenhagen, Denmark)
International Bank for Reconstruction & Development annual meeting.

Sept. 27-29, 1970 (Pebble Beach, Calif.)
Investment Bankers Association Board of Governors meeting.

Sept. 30, 1970 (Denver, Colo.)
Rocky Mountain Group Investment Bankers Association meeting.

Oct. 1-2, 1970 (Birmingham,Ala.)
Alabama Security Dealers Association annual fall party.

Oct.7-9,1970(New Orleans, La.)
Tulane Tax Institute at the University Center.

Oct.11-14,1970(Miami Beach, Fla.)
American Bankers Association 96th Annual Convention.

Oct.14-16,1970 (San Antonio, Tex.)
Investment Bankers Association Sixth Municipal Conference at the Hilton Palacio del Rio Hotel.

Oct.14-16,1970(Southern Pines, N.C.)
Securities Dealers of the Carolinas annual meeting at the Mid Pines Club.

Oct.17-23,1970 (Honolulu, Hawaii)
National Security Traders Association 37th annual Convention at the Rainbow Towers, Hawaiian Village.

Dec.1-4,1970(Boca Raton,Fla.)
Investment Bankers Association of America 59th Annual Convention.

Dec.7-8,1970(New York City)
National Association of Mutual Savings Banks 24th annual midyear meeting at the Waldorf Astoria.

Todd, Hitchcock Join Chicago Corp.

CHICAGO, ILL. — Willson G. Todd and Gilbert R. Hitchcock have joined The Chicago Corporation, 208 South LaSalle Street, members of the New York and Midwest stock Exchanges as vice presidents, Milton S. Emrich, president, has announced. Both Messrs. Todd and Hitchcock were formerly vice presidents of Rodman & Renshaw.

Mr. Todd, a 40-year LaSalle Street veteran, had been with Rodman & Renshaw and its predecessor firm since 1953. He began his investment banking career with Shields & Co. and had been associated with Shearson, Hammill from 1941 to 1953.

Mr. Hitchcock had been associated with Rodman & Renshaw for ten years.

MUTUAL FUNDS

By JOSEPH C. POTTER

Harry Calls Ma Bell

Ronald K. Adams, Senior Vice-President (Sales) of the National Stock Series of National Securities & Research Corp., tells a story these days which he calls "Three Investment Choices." According to Ron, a $10,000 deposit at the start of 1950 in a savings and loan account would have produced by July 1 of this year an income of $7,526. Or, says Ron, you could have invested $10,000 of your money 20 years ago in American Telephone & Telegraph, which would at July 1, last, have grown to $19,671 and produced income of $16,685.

However, it is the third choice that is truly the first choice of Ron Adams: $10,000 in January of 1950 in National Stock would have grown some 20 years later to $27,347 and provided $20,900 in income.

Plainly, viewed by Ron Adams or any other investor, Ma Bell has been no bargain. Still, it has been a favorite of the mutual funds, although it has provided few capital gains.

Not to be deterred, shrewd Harry P. Schwarzmann, who operates Larchmont, N.Y.-based Capital Gains Research Bureau as a sort of watchdog of the funds, thinks there is money to be made playing with Ma Bell. Says he:

"At its present price of 45¾, 'T' is selling for less than 11 times expected earnings this year of $4.20 a share and yields 5.6 per cent from its $2.60 dividend."

Harry goes on to say that the fact Telephone is selling 40 per cent below its 1964 peak of 75 is hardly a good reason for getting excited about the stock now. What he does find exciting and compellingly attractive about Telephone is its "sadly beaten-up price-earnings multiple. . .a multiple that, in our judgment, doesn't begin to reflect the fact that just since 1960 its gross revenues have practically doubled (from $7.9 billion to $15.7 billion) while its net income after taxes soared a hefty 83 per cent (from $1.2 billion in 1960 to last year's record $2.2 billion).

"In that same period, it might be added, the company has increased its telephones in service from 61 million to 93 million and raised the book equity behind each share of stock from $28.16 to $42.84."

Harry Schwarzmann is intrigued by the price-earnings multiple of this premier investment issue, noting that it has ranged from a peak of 21.9 in 1961 down to 13.2 last year (yearly averages). Estimating 1970 earnings at $4.20 per share, the current multiple is a slender 10.9.

Attacking the subject with enthusiasm and arithmetic, Harry calculates that a price of 69 for Telephone is reasonable. He works it out this way: average price-earnings multiple of Telephone in the 40 years since the Great Crash has been 16.4. Apply that 40-year average to this year's expected earnings and you come up with a price of nearly 69.

Of course, he has his own ideas about how the stock should be bought. One of his ideas is purchase of a call for six months and another is through purchase of Telephone warrants. But, as he emphasizes: Whether you buy the stock itself, or use one of the two ideas. . .we think there's money to be made in A.T.&T. at 10.9 times earnings."

But then that's our Harry, who generally likes to do business with an old-established firm or industry. At times. R.J. Reynolds will turn him on and there will be a period when he'll give oxygen to the corpses in the steel group.

Still, if he can sell the mutual funds, which use Ma Bell as a good reason why you should buy their wares instead, he would gladden the hearts of investors, institutional and individual, who have been sitting with the stock for many years.

Trinity Securities

Trinity Securities Ltd. is engaging in a securities business from offices at 345 East 81st St., New York City. Michael D. Fleischer is president and treasurer of the firm. He was formerly with McDonnell & Co. Inc. and E.F. Hutton & Co., Inc.

THE MARKET AND YOU

By WALLACE STREETE

Everybody likes an optimist. So thank heaven for those brethren who readily reassure Wall Street's walking wounded that exciting investment opportunities are lying out there somewhere on the battlefield. Of course they are.

But one can't escape wondering if those opportunities mightn't be even better after tomorrow's skirmish at Broad and Wall or perhaps the day after or next week. Is IBM a bargain at 238 or GM a steal at 67?

Bonds Overshadow Equities

The market and those who make it continue to ponder how far down is down while, meantime, yield conscious investors sample the wares offered by sellers of senior securities. Equities are getting the Lifo (last in, first out) treatment by portfolio managers.

This stepchild status is well earned and figures to be long lived. Stock price action has been fertilizing ulcers for the past 20 months and much of the original woe is still around in varying degree.

Analysts speak of base-building and, indeed, for the past three weeks or so the Dow industrial index did appear to validate this hope. But hope alone won't do. The Street, and for that matter the nation, needs a push.

Nixon Acted Courageously

The President is obviously determined to keep federal spending at an acceptable level and this is a definite plus in the anti-inflation game plan.

His veto of the education and housing bills on the ground that they are almost $1 billion too generous with the taxpayer's money was an act of courage and statesmanship in the eyes of orthodox GOPers, while the less kind might consider it a well thought out political stroke.

If the Democrat-controlled Congress overrides the veto, they can be labeled "big spenders" in this Congressional election year. Nixon himself set the tone when he characterized the bills "a threat to every American pocketbook."

Inflation Warnings May Work

Also the much heralded "inflation alert" was sounded last week for the first time but nobody in management or labor ran for cover. However, it's too soon to rule out the possibility that some heavy sounds by the Administration won't be heard if the economic scene doesn't brighten this year. Moral suasion in a cynical environment is a chancy spin of the wheel but presidents have been known to get "lucky" when they had to.

And chairman Paul McCracken of the President's Council of Economic Advisers, it develops, has been discreetly exercising his jawbone among Detroit's motor moguls. Auto price hikes and wage negotiations were undoubtedly on the front burner, for if inflation is to be braked there's hardly a better place to start than the auto industry.

Any easing of monetary restrictions by the Federal Reserve via a discount rate reduction or lowering of bank reserve requirements would undoubtedly trigger a favorable market response. A sustained pumping up of the money supply would also be bullish although Arthur Burns has been even keeling it in this sensitive area.

Vietnam Is The Key

But the biggest jolt will come from lessening of international tensions and cessation of hostilities in Vietnam. The euphoria of peace and realization of the enormous "dividends" to most segments of U.S. business would almost certainly be enough to rocket the Dow above 1,000.

The dollar cost of the American commitment in Vietnam has zoomed, according to Budget Bureau figures, from $100 million in fiscal 1965 to $28.8 billion in fiscal 1969. The total for fiscal 1970 was apparently about $23 billion, but official estimates have been discontinued.

"Peace Dividend" Discounted

In an analysis of the "peace dividend," the National Industrial Conference Board takes the view that to assume that the entire $23 billion would be available "would be mistaken."

First, according to the NICB, there is the "ratchet effect" of every war wherein defense spending decreases after the shooting stops but is likely to remain above the pre-war spending level.

Second, the survey notes, a sizeable part of the potential peace dividend is already being absorbed. And third, additional U.S. resources would be spent in the reconstruction of war-torn Vietnam.

At most, NICB estimates, two-thirds of the dividend will be available for domestic benefits which include improved government programs, budget balance or tax reductions.

Beneficiaries of "Dividend"

About half of this civilian dividend will have been used by the end of the current fiscal year, mainly to help finance increases in health, welfare and income security programs at a time when tax income to the Treasury is sluggish thanks to lower corporate profits and more unemployed and when large budget deficits must be avoided to curb inflation.

What's left of the dividend is likely to bring "substantial" relief to the depressed housing sector, the analysis notes.

Among industries which should benefit from termination of the war are food and consumer nondurables; health and welfare oriented companies and the construction industry and its suppliers.

The most severely affected by the cutback in war-related defense expenditures probably will include ordnance and aircraft; instruments and electrical apparatus; nonferrous metals and, to a lesser extent, transportation and related services.

(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.)

Short Selling Is More Common Than Generally Realized

By RICHARD D. DONCHIAN, C.F.A.
Director of Commodity Research
Hayden, Stone Inc., New York City

Unbeknownst to many, short selling is as common an every day experience as buying magazine subscriptions or contracting for a house for future delivery. Nevertheless, even the bulk of investors shy away from selling stocks and commodities short. Mr. Donchian explains the similarities found in various kinds of short selling; compares them to equities and commodities; and, in turn, the latter to each other. The Wall Street research expert points out that short sales in stocks carry a stigma because of several limitations affecting them from which commodities are free. Moreover, the use of a stop-buy order limits the amount of any possible loss.

These observations are written because short selling, when done at the right time and with the exercise of proper precautions, can be a valuable money-making tool. Many otherwise intelligent investors will buy stocks (or commodities) readily, but are scared to death of the idea of selling short. People tend to fear whatever they do not understand; and most people either do not completely understand short selling, or at best are somewhat vague about it.

Richard Donchian

A simple definition of a short sale is "The sale, at a fixed price, of anything (goods or services) which you agree to deliver at a later date." The time of future delivery in a short sale may be either fixed or (in the case of stocks) indefinite. In most instances you do not now have what you sell short and promise to deliver. In the case of goods, or stocks, or commodities, you plan to buy or otherwise acquire them later on in order to make delivery; in the case of services, you claim to be able and willing to deliver as promised. Outside of the stock market and the commodity markets, short selling is a commonplace occurrence in the lives of all of us. Following are a few random examples:

Commonplace Unawareness Of Short Selling

1. When you subscribe to your favorite magazine, at let us say $5 per year, the publisher of the magazine is making a short sale to you. If his production and operating costs go up more than he expected during the year, he may lose money; if his costs should happen to decline, however, he makes more than he expected.

2. When you see a suit you like at Macy's or any other store, for $50 or any other fixed price, but the store does not have your size, and you give them an order for one, they are selling short a suit to you.

3. When the Post Office sells you a stamp, it is selling its services short. Later, when you put the stamp on a letter and mail the letter, the Post Office Department makes good its promise when it delivers the letter for you.

4. When a building contractor agrees to build a house for $20,000, he is selling short a house which does not exist. He may plan on its costing $15,000 so that he can make $5,000, but if instead it costs him $23,000, he loses $3,000.

5. A school teacher who signs a contract to teach for two years for $8,000 per year is selling her ability and services short. In an inflationary period when the price of food and clothes and other living costs is rising rapidly, she loses part of her fair wage due to having sold her services short, but during a deflationary period, when living costs are dropping and salaries of others are being reduced, she is protected by her contract and makes an added profit from her short sale.

6. When a stranger on the street sells you the Brooklyn Bridge for $100, he is making a short sale which he probably would not be able to deliver. If you could force him to make delivery, as in the case of legitimate contracts, he might be ruined financially in his attempt to get possession of the Brooklyn Bridge to turn over title to you.

7. One of the earliest recorded instances of a short sale can be found in the Bible when Esau, for a mess of pottage, sold short to his brother the inheritance which he had not yet received.

With short sales so numerous in every day life, it seems hard to explain the prejudice and lack of knowledge most people have when it comes to selling stocks or commodities short. Some of the prejudice stems from the generally optimistic nature of American citizens. They want and expect stocks to go up, so they do not like to think about the possibility of profit from a decline. Also, short selling is frowned upon as being trading as opposed to investing, and most stock owners, even though they may do quite a bit of trading, like to think of themselves as investors.

Stop — Buy Order

Theoretically, the risk of selling a stock short at $30 per share is greater than the risk of buying it at the same price, because if it goes up, the sky is the limit and conceivably you could lose a lot more than $30 per share. In practice, however, as opposed to theory, you can limit the risk on any stock or commodity short sale by entering a stop buy order at a predetermined distance above the short sale price. For example, if you sell a stock short at $40 per share, you can enter a stop buy order, good-till-cancelled, at $43 and thereby limit your loss to approximately 10 per cent ($3 per share plus commission and taxes). Actually, it is considerably less risky to carry a short position in a stock, or commodity, protected by a carefully placed good-till-cancelled stop buy order, than it is to own investment stocks outright which are not protected with stop sell orders.

In the stock market, when you make a short sale, for example, of 100 shares of General Motors at $80 per share, you do not own the General Motors but the man who buys 100 shares does not know this and expects you to make delivery within five days. You, or your broker acting as your agent, must, therefore, borrow 100 General Motors. Most listed stocks are available in adequate supply for borrowing and delivery against short sales, but the quantity of stock which is available for borrowing does limit the size of the short position to a fraction of the outstanding shares in any company. Occasionally, when the supply becomes scarce, you may pay a small daily premium for borrowing. While you are short of a stock, you pay the amount of any dividend on the ex-dividend date; this amount is charged to your account as an extra cost. The other costs of short selling are the regular brokerage commissions, and taxes, Federal and State. When you sell 100 General Motors short at $80 you get a credit on your account of $8,000 and you owe 100 shares of General Motors. With present margin requirements of 65 per cent you can carry this position for $5,200. In contrast to the interest charge which you pay on a debit balance of $2,800 when you **buy** $8,000 worth of stock putting up $5,200, you do not pay any interest on short sale balances. When you sell 100 General Motors short at 80, let us assume you enter a stop buy order at 84. If it goes there you lose 4 points or $400 plus commissions and taxes. If it goes down, however, and you buy back at 60 you make $2,000 less commissions and taxes.

SEC Limitation

Short sales of stocks have an added limitation. They can be made only on a rising price change. Under present Securities & Exchange Commission rules you cannot sell 100 General Motors short at 80 if the last preceding sale at any other price was 80⅛ or higher, but only if the last previous sale at any other price was 79⅞ or lower.

In selling commodities short there are fewer restrictions. Since commodity futures stipulate deferred delivery anyway, and do not require delivery within 5 days, no borrowing is either required or possible. Sales long or short can be made, on stop or otherwise, without any requirement that the sale price be above any previous sale. Also, in selling commodities short, there are no dividends to pay, no Federal and State taxes to pay, commission rates are lower, and margin requirements are much lower.

The Historic Trends

While there are times when the short sale of commodities and/or stocks is very profitable, such times historically have been the exception rather than the rule. The long term, or secular, trend of prices in the United States has been consistently upward, subject to severe interrupting declines such as took place in 1929-1932 and in 1937-1941; 1962; 1965-1966 and 1968 to this year. In recent years this long term upward trend has been further supported by the inflationary fiscal deficit spending policies of the government. Moreover, a review of financial history shows that about two-thirds of the time, or perhaps slightly more, prices of stocks and living-cost commodities have been in a rising trend, while prices have been declining less than one third of the time. Consequently, the buyer of stocks or commodities fares better than the short seller most of the time. Also, when you examine the arithmetic of percentages, you discover that if a stock or commodity keeps fluctuating up and down between limits of say 50 and 200, the man who buys $100 worth at the bottom and sells out at the top makes $300 (less expenses) or almost 300 per cent while the man who sells short $100 worth at the top and buys back at the bottom makes only $75 (less expenses) or less than 75 per cent.

Profits Go To The Swift

On the other side of the fence, the short seller can often make his profit quickly. Since the periods of market advances account for more than two thirds of the time, it follows that the declines when they do come are swift, so that the flexible thinking investor, or speculator, who is neither a chronic bull (optimist) nor chronic bear (pessimist) but who can switch to the short side as the trend turns down and switch back again to the buy side as the market bottoms out and turns up again, can preserve and enhance his capital far more effectively than the man who holds his stocks through thick and thin.

No discussion of short selling can be considered comprehensive unless it outlines a few additional reasons why short sales are not more popular.

Commodity Straddles

1. From the tax angle, the U.S. Bureau of Internal Revenue has ruled that the profit on a short sale of stocks, or commodities, is always taxed as **short term** capital gain, even when the short position is held for six months or longer. It is impossible, therefore, to create long term gains by selling short. Inasmuch as important investment interests are constantly seeking **long term** capital gains, they tend to avoid the short side. In this connection it seems pertinent to note that short term capital gains can definitely be postponed from one tax year to the next by means of commodity straddles. Also, short term capital gains from stock or commodities can be converted, with a little care and luck, into long term capital gains by means of similar low-cost, low-risk commodity straddle positions.

2. Short selling of stocks, but not commodities, has been discouraged intentionally by Government, banking and other important business interests — for a very good sociological reason. At all times there has to be an owner for every issued and outstanding share of any stock. Therefore, when anyone wants to sell short he must find an **additional buyer** over and beyond those who own the outstanding shares. If a financial attitude were encouraged where as many people wanted to hold short positions as hold shares for investment, the economy would fall apart; there would be no one left **to own** the stocks. In commodities, however, the situation is far different. Since commodity futures (like magazine subscriptions) do not yet exist in deliverable form, it holds that for every commodity futures contract (or magazine subscription) bought by anyone, there **must be** a commodity futures contract (or magazine subscription) sold short by someone else. Consequently, short selling of commodity futures (or magazine subscriptions) is more likely to be regarded as normal and proper.

3. Short sales of stocks, as contrasted to short sales of commodity futures, are unpopular for another reason. Declining prices of stocks do not benefit anyone, except perhaps the short seller himself when he is right. Instinctively, people disapprove of the few who profit from the misfortunes of the many. Short selling of commodity futures, on the other hand, carries no such stigma. When commodity prices decline, the farmer or producer may suffer but to a like extent the consumer (a large and important element of all society) benefits. Therefore, the short seller of commodities, when he is right, is taking advantage of a situation which also helps others; he is not, like the short seller of stocks, a villainous reprobate trying to squeeze profits from a situation in which most everyone else is losing.

Why Short Sales Are Bullish

Contrary to a widespread public fallacy, **short selling does not cause prices to go down.** If the market position of stocks or commodities is strong, based on supply-demand and fundamental factors, short sales have no effect other than to let the seller in for a loss. If the market position is already weak, the decline takes place anyway and short sales have no effect except to create future buying power when the short seller decides to close out (in Wall Street language "cover") his short commitment. At times, when the market position is weakening or vulnerable, short sales tend to **hasten** the downward correction which would take place sooner or later anyway. It should be kept in mind that every short sale in stocks, and well over 95 per cent of the short sales in commodity futures, are closed out by a subsequent purchase. This means that short sales today establish buying power in the form of purchases which can be expected later.

Serves As A Corrective

Basically, short selling has at least three beneficial effects on prices: (1) It tends to slow up rises which are getting ahead of values. (2) It creates a reserve of extra buying power which helps cushion declines and (3) It helps foster broader, more continuous markets, providing a higher degree of liquidity for investors (in stocks) and trade interests (in commodities) who want to buy or sell.

As we have tried to explain, short selling is a normal and necessary part of many every day business transactions. Whether he is an investor or a speculator, every truly informed and capable money manager realizes that "trees do not grow to the skies," that prices inevitably decline a good part of the time. The trader in stock or commodities who ignores short sale opportunities and trades only on the long side is handicapped unnecessarily somewhat like a man who tries to walk on only one leg or to run a car with one or more missing cylinders.

Conclusion

In conclusion, we believe it is a sensible idea when the trend is downward, to take advantage of the price readjustment periods by selling short stocks or commodities, preferably protecting every short position by entering an open stop buy order at a level slightly above your sale price to limit the extent of possible loss.

N.J. Bell Deb. Offering

NEWARK, N.J. — Ralph J. Marano, vice president and comptroller, New Jersey Bell Telephone Company, looks on as Thomas J. Stanton, Jr., president, First Jersey National Bank, signs the final agreement for the record breaking $100 million New Jersey Bell debenture issue. The largest issue in the company's history, the debentures will also carry a record 9.24 per cent interest. First Jersey National Bank will act as trustee.

C.B. Payne Co. Formed

OKLAHOMA CITY, OKLA. — Charles B. Payne & Co. has been formed with offices in the Plaza Court Building to engage in a securities business. Officers are Charles B. Payne, president; William W. Lawrence, executive vice president; Millard C. Kratz, Jr., vice president; and Curtis G. Newman, secretary-treasurer. Mr. Payne was formerly with Merrill Lynch, Pierce, Fenner & Smith Incorporated. Messrs. Lawrence and Kratz were with Stifel, Nicolaus & Company, Incorporated.

Shortal Joins Gulf & Western

Appointment of Robert G. Shortal as manager of corporate public relations for Gulf-Western Industries, Inc., one Gulf & Western Plaza, New York has been announced by Gilbert A. Robinson, vice president, communications.

In his new post, Mr. Shortal will be responsible for public relations programs for G-W.

Prior to joining G-W, he was with the news and information department of RCA Corporation for seven years, most recently as manager of news services. From 1959 to 1963 he was manager of news and publications for Cities Service Oil Corporation.

He previously was with United Press International from 1947 to 1959, the last four years as assistant financial editor.

A native of Lyndhurst, N.J., Mr. Shortal graduated from New York University with a B.S. degree in Journalism in 1951. A member and past president of the New York Financial Writers' Association, he also is a member of Sigma Delta Chi and Alpha Kappa Psi.

BANK AND INSURANCE STOCKS
THIS WEEK: BANK STOCKS

Yield Spreads And The Outlook For Bank Stock Earnings

The prime rate is currently at the 8 per cent level. This differential relative to the discount rate of 6½ per cent is favorable for bank stocks. However, the Federal Reserve Bank has not permitted borrowings to exceed the all-time level of $1.2 billion; therefore, banks must continue to look to other sources to increase deposits.

Bank credit proxy, which includes all deposits and cash, plus Euro-dollar borrowings, has risen sharply recently. This is attributed to a sudden growth in Certificates of Deposit. In June the Federal Reserve Board permitted banks to pay a maximum of 8 per cent on C.D.'s. At that time, C.D.'s amounted to $12.4 billion. They are currently approaching the level of $18 billion. The bulk of this money is not necessarily loaned at 8 per cent; if such were the case banks would be losing money. On the other hand, Euro-dollar borrowings for New York City banks — where the bulk of them are held — are down from approximately $10 billion to $7.3 billion, with a recent rate of 8¼ per cent; therefore, banks are losing money on these deposits.

As to investments, Treasury bills are currently yielding 6.9 per cent versus a high in the past 18 months of 8¼ per cent. Municipal notes currently yield 4.30 per cent versus a high of 6¼ per cent over this 18 month period. In other words, investments are not as profitable.

To date, bank stocks have outperformed many indices for the year. For example, based on Moody's Index of 21 bank stocks, these prices are down approximately 6 per cent for the year; whereas the Dow Jones Industrial Index has declined 9 per cent. Certain wholesale banks, however, have countered the lower trend for most bank stocks.

Earnings, on the other hand, have been favorable; however, the trend in earnings is at a lesser rate of increase. For example, 40 major commercial banks showed earnings increases of 12 per cent in the first quarter and 4½ per cent in the second quarter. This produces an average increase of 8 per cent for the year. Many analysts are carrying estimates of increases for the year at a slightly lower level than 8 per cent.

Another factor influencing bank earnings, particularly those on the West Coast, is the rise in the passbook savings rate from 4 per cent to 4½ per cent. This, along with a diminished mortgage activity and a slowing in building, does not permit West Coast banks to employ funds into the normal residential mortgage channel.

Although bank earnings were considered to be under great pressure in 1969 due to Euro-dollar rates approaching 12 per cent, they fared better in terms of earnings increases over the preceding year. Many people who consider the inflation battle won are looking for a turn in the bond market and corresponding reaction in the money-sensitive stocks, i.e., utilities, insurance companies and banks. The recent figures on personal income and prices do not indicate that this battle is over. In addition, corporations are trying desperately to restore liquidity, which is evidenced through a heavy bond calendar. It is true that some of this money raised by corporations will go to repay bank loans; however, this practice has not as yet swelled the money supply appreciably, and corporate financing for the first half of this year exceeded any other full year in the history of the country.

Bank stocks are reasonably priced in certain non-growth areas, such as Detroit and Philadelphia, and also on the West Coast. In view of the basic narrowing of yield spreads and lack of substantial growth in money supply, it does not appear that there should be any multiple revision on bank stocks. The accompanying estimates of earnings for the second half of 1970 versus a year ago, compiled by Kidder, Peabody and Company, basically shows somewhat improved earnings, but do not in the opinion of the writer take into account the fact that New York banks are still under the pressure of narrow yield spreads.

	1970 Versus 1969 (%) 1st Half	2nd Half (E)	Year (Est.)	2nd Half vs. (%) First Half 1970(E)	1969
9 N.Y. Banks	4.5	13.2	8.6	6.2	-1.3
8 West Coast Banks	1.5	(1.3)	(0.1)	10.4	13.8
8 Midwest Banks	12.1	6.5	9.1	0.9	6.3
6 Eastern Banks	9.0	9.0	8.8	1.8	2.1
9 Southern Banks	12.7	12.0	12.2	2.6	3.8
40 Banks	**7.9**	**8.0**	**7.8**	**4.5**	**4.9**

Thomson Adds 14 Offices

The acquisition of 14 Blair & Co., Inc., offices by Thomson & McKinnon Auchincloss Inc. became effective Aug. 10, William E. Ferguson, Thomson president, announced.

The offices being transferred include the following 10 western branches which Blair acquired from Schwabacher & Co. in March, 1969; San Francisco, Los Angeles, Oakland, Sacramento, Santa Barbara, Fresno, San Jose and Palo Alto, Cal.; Salt Lake City, Utah and Boise, Idaho.

The other four offices are in Chattanooga, Tenn. and Chicago, Atlanta and West Palm Beach.

Mr. Ferguson said that the last three offices will be consolidated with the present Thomson offices in those cities. When these consolidations are completed, the investment firm will have 66 offices.

The acquisition gives the firm a nation-wide organization for the first time in its 85-year history. In addition to being a major retail securities house, the firm is engaged in corporate finance and underwriting, institutional sales, commodities, municipal bonds, mutual funds and financial planning services.

An agreement in principle for the acquisition was announced July 7.

NYU Courses In Investment

Pension-fund investing and investment return are among new areas to be covered by the several courses, seminars and special programs in investment and securities available to executives and management through the New York University School of Continuing Education's Division of Business and Management this fall.

The first, "Management of Funds: A Seminar in Pension Fund Investment," will meet 5:45-7:45 P.M. Mondays for six sessions beginning Sept. 28. Special guest lecturers will include Joseph Miles of Lionel D. Edie and Co., Inc.; William Dreher of A.S. Hansen, Inc., and Dr. Frances Stone of Merrill Lynch, Pierce, Fenner & Smith, Inc., who will discuss the major problems of the fund manager.

"Return on Investment: A Criterion for Improved Financial Decision-Making," will meet 6:15-8:30 P.M. Thursdays, in six sessions starting Sept. 24. The course is geared to executives and departmental managers in finance, marketing, production and research development and will be led by Walter Constantine, adjunct assistant professor of management and assistant to the controller of Uniroyal, Inc.

The Registered Representative Training Program, now in its second year, will meet 1 to 5 P.M. Monday - Friday for nine weeks beginning Sept. 22. The faculty is drawn from Wall Street. Enrollment is limited, with progress reports made periodically for each student's firm.

"Mergers and Acquisitions: New Approaches to Growth and Profitability," a regular feature of the Executive Program Series of the Division of Business and Management, will meet 6:30-8:30 P.M. Tuesdays in five sessions beginning Sept. 29. The instructor will be David F. Linowes, adjunct professor of management, author of "Management Growth Through Acquisitions," and a partner of Laventhol, Krekstein, Horwath & Horwath.

A course just for women, "Securities and Investing: An Introduction to the Securities Market and Portfolio Management," meets 10:45 A.M. -12:30 P.M. Wednesdays in midtown Manhattan, beginning Sept. 23. It will be taught by Dr. Frances Stone, research analyst with Merrill Lynch, Pierce, Fenner & Smith, Inc., and adjunct assistant professor of finance in the Division.

Evening courses for both men and women available this fall include "Securities and Investing: An Introduction to the Market and to the Management of an Investment Portfolio," "Security Analysis for the Investor," and "Forecasting and the Nature of Stock Price Fluctuations: The Technical Approach," Most classes start the week of Sept. 22.

Further information about investment courses is available from Morrey A. Forman, Division of Business and Management, NYU School of Continuing Education, Suite 2A, One Fifth Avenue, New York, N.Y. 10003, telephone (212) 598-2105, or 598,2101.

PUBLIC UTILITY SECURITIES

By John D. O'Keefe.

Allegheny Power System

This holding company operates a system of electric utilities in a highly industrial area with a population of approximately 2.5 million. The fully integrated system includes the Monongahela Power Company, the Potomac Edison Company and West Penn Power Company. The parent owns all of the outstanding capital stock of Allegheny Power Service Corporation. Although nearby large cities such as Pittsburgh, Baltimore and Washington, D.C. are not served by the System operating companies, Allegheny Power has felt the impact of economic growth stimulated by these population, marketing and transportation centers. The combined Baltimore- Washington areas constitute the nation's sixth largest consumer market. As the urban center continues to expand, the surrounding rural areas are becoming urbanized.

Southwestern Pennsylvania is the region most influenced by Pittsburgh, and enjoys a well established economy with a strong investment in plant and equipment. According to Company sources, capital investment in this area from manufacturing industries rose from a little over $200 million annually in 1962 to more than $500 million in 1969.

Nevertheless, residential sales growth for the System has oupaced industrial expansion. Of total revenues, the portion derived from residential and commercial customers has been slowly increasing while that from industrial customers has decreased. The following table illustrates this point:

Construction - Financing

In order to meet expected load growth, total generating capacity will be increased to about 6,400 mw by the end of 1975 from 3,847 mw at 1969 year-end. A 540-mw generating unit at Hatfield's Ferry Station in Pennsylvania has been completed and two more similar units are under construction at the same site. Three more units of 650 mw each are being planned for West Virginia, and the Company is participating in the East Central Nuclear Group, which is studying the development of a fast breeder nuclear reactor. This year's construction expenditures will amount to approximately $143 million, followed by budgeted outlays of $193 million for next year. Allegheny will meet a portion of this year's requirements through subsidiary issues of bonds and preferred stock, the rest from funds provided by operations and snort term borrowings. Management plans to spend approximately $500 million through the end of 1972 to increase plant. Also, the capitalization ratio of common equity will probably be raised to 35 per cent from about 31 per cent within a few years in order to provide better coverage for bond interest.

Rates - Regulation

The System operating companies are subject to regulation by the commissions in their respective states, and in Ohio, by certain municipalities. All three of the major subsidiaries are preparing rate increase applications for filing late this year or early in 1971. Management feels that rate structures need improvement to meet the requirements of higher operating and construction costs.

Tax savings from the investment tax credit are amortized over the life of the related plant. The benefit of the use of accelerated depreciation is flowed-through to income. Currently, interest is charged to construction at a 7½ per cent rate.

Earnings - Dividends

Allegheny Power System earnings for common shares were $1.90 in 1969 compared to $1.79 for the previous year. For 12-month period ended June 1970, earnings of $1.95 versus $1.93 were recorded. The current indicated dividend rate of $1.32 annually provides a higher than average yield, with the common stock selling at about $19 per share. The pay-out ratio has averaged 68 per cent to 70 per cent of common earnings. It is likely that management will retain this policy.

Allegheny Power common stock is listed on the New York Stock Exchange.

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

Percentage of Total Electric Revenues

Year	Residential %	Commercial %	Industrial %	Other %
1969.	41.4	18.0	37.4	3.2
1968.	41.5	17.7	37.4	3.4
1967.	41.4	17.5	37.6	3.5
1966.	40.3	17.4	38.0	4.3
1965.	40.3	17.6	38.5	3.6

Average residential use per customer for 1969 was 6,129 kwh, an 8 per cent rise over the previous year. Allegheny Power's residential usage is slightly below the national average for electric utilities.

STANY Bowling Season To Open

The Security Traders Association of New York has announced that the fall 1970 bowling season will start on Monday September 14th at Mid-City Lanes in the Port Authority Bus Terminal, New York City.

All STANY members and associate members who are interested should contact Howard H. Slater at Gold, Weissman & Frankel Inc., or Martin S. Hecht as M.S. Wien & Co., Inc.

There will be a meeting of all team captains at the office of Gold, Weissman & Frankel at 4 p.m. September 2nd.

THE STATE OF TRADE AND INDUSTRY

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

First & Old Colony See Consumer Spending Displacing Business And Government As Key To Upturn. Chase Manhattan Econometric Model Predicts Business Spending Faltering Below 5% As Inflationary Psychology Plummets

Personal expenditures dominated the gains in gross national product, broadest measure of our economic performance, in both the second quarter compared with the first and this year's first half compared with the preceding six months, says The First National Bank of Boston in the August issue of its **New England Letter**.

The Bank says, with continuing narrow changes in prospect in the government and investment sectors, the consumer is looked to as the principal factor in the expected upturn during the second half and on into 1971.

What will develop revolves around two alternatives: One, are we likely to get any strong surge in purchases of durable goods and housing in particular? If so, this would spark output and employment and, later, stimulate investment in plant and equipment. Or, two, will the pattern of buying in goods and services continue on the sluggish side and tend to prolong the burdensome gap between our growing productive capacity and its rate of utilization?

Notwithstanding the pressures of business contraction and inflation upon incomes, savings have been relatively strong. First & Old Colony suspect this is due to the fears induced by these pressures and, in part, to the record returns available to savers, as a result of extremely high credit demand. Personal saving was a record $52 billion in the past quarter, or 7.6 per cent of disposable income. The first half average amount was more than one fifth higher than any of the past three years.

A recent spur to purchasing power is the midyear complete expiration of the surtax and the fact that growing numbers of workers are completing their social security deduction. On balance, income trends and savings flows serve as plus factors in appraising consumer spending prospects.

The Boston bank also points out that financial assets, levels of debt, and capacity for expansion have a bearing on consumer actions. Financial asset holdings of individuals at the end of 1969 totaled more than $1.8 trillion. This was somewhat below the previous year-end, primarily due to the decrease in market value of corporate stocks. Currency, deposit-type assets, and fixed income securities, however, rose about as much as in the preceding year. The increase in liabilities in 1969 was actually smaller than in 1968.

Despite the unfavorable debt burden and paper losses on securities holdings, asset holdings and the capacity to assume new instalment debt with greater ease now appear according to First & Old Colony to backstop more liberal buying. This is particularly so since liquidity of individuals improved in the year ending in mid-1970. Public holdings of selected liquid assets rose about 3 per cent or more than $21 billion, with four tenths of this in United States securities maturing within one year and about one fourth in currency and demand deposits.

Chase Manhattan Says Inflationary Psychology Is 'Substantially Demolished'

Another important clue to the economy's direction is cited by a New York bank.

According to the Chase Manhattan Bank, N.A., "The events of the past few months have substantially demolished the psychology that lay behind the inflationary boom of the late 1960's."

Moreover, the bank says in the August issue of its bi-monthly economic report **Business in Brief**, "the next period of business expansion need not have the same inflationary impact as in the past few years."

As a basis for this hope, the bank sees "clear signs today that productivity is again improving, perhaps quite rapidly. "Until recently," the report notes, "there had been no significant improvement in efficiency since 1968. Thus every increase in wages produced higher prices or lower profits — usually both."

"Surveys early this year showed that business expected sharply increased sales and profits in 1970," the bank points out. Business planned to increase its investment in new plants and equipment by more than 10 per cent this year.

"But as profits and volume fell," Chase reports, "these plans have been progressively reduced." Even though the latest official survey indicates that investment will be up by only 7.8 per cent this year, an econometric model developed by Chase Manhattan indicates that this increase may actually be considerably less than 5 per cent.

By the second quarter of 1970, a downturn in business was evident, the bank notes.

"Recognition of the fact of recession," the bank points out, "has produced a response that represents a major step toward price stability." It was inevitable that costs would get somewhat out of hand during almost nine years of expanding business. "But by the second quarter of this year," the banks adds, "with profits and volume clearly declining, business began to tighten operations and to cut costs. Efficiency should improve.

"It is this improvement in efficiency," the bank says, "that, in normal times, allows both wages and profits to increase without significant increases in prices." In concluding, the Bank cautions that it still may take some time yet to purge inflation and return to truly non-inflationary growth.

Bank Clearings Rise 15.4% Above 1969 Week

According to data compiled by Dun & Bradstreet, Inc., bank clearings for the week ending August 5 were $92,879,910,000 compared to $80,496,544,000 the same week in 1969.

Since clearings for the week ended June 29 amounted to $90,262,724,000, week to week gain amounted to 2.8 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 August 5
(000 omitted)

	1970	1969	%
New York	$67,252,671	$53,180,334	+26.5
Chicago	2,144,929	2,215,900	-3.2
Philadelphia	1,813,000	2,035,000	-10.9
Boston	2,000,271	2,692,695	-25.7
San Francisco	*3,122,000	3,327,537	.....

*Estimated.

Steel Production Rises 1.2% From Previous Level

According to the American Iron and Steel Institute, steel production for the week ending August 8 amounted to 2,436,000 compared to the prior week's 2,406,000 tons for a week-to-week 1.2 per cent increase. The index of production (1957-59 equals 100) was 130.8 and 129.2 respectively. Output in the 1969 week was 2,565,000 tons 137.7 representing a 5.0 per cent decrease from the year-ago week.

Cumulative output to date this year totals 81,636,000 and 3.9 per cent below 84,974,000 tons created in the same 1969 period. The respective indexes are 139.4 versus 145.1.

District	**Index of Production for Week Ending Aug. 8	Aug. 1
Northeast Coast	129	127
Buffalo	106	103
Pittsburgh	109	109
Youngstown	112	103
Cleveland	145	143
Detroit	164	164
Chicago	142	148
Cincinnati	161	141
St. Louis	120	115
Southern	161	153
Western	138	142
Total Industry	130.8	129.2

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

Why Business Slowdown Does Not Prod Steel Firms

Most manufacturers are not selling any harder, even though business has slowed down, than they were when the economy was buoyant, **Industry Week** reported.

They're being held back by the money pinch, lack of sales know-how, and inertia, the Cleveland magazine said. Many companies simply cannot afford to give special considerations, services, terms, or prices, or to hire additional salesmen. Corporate profits fell sharply in the first quarter, and second quarter earnings reports are showing a further deterioration, leaving companies less able to make economic concessions for orders.

Many of today's salesmen only know boom time order taking. They lack the skills needed when selling is hard, **Industry Week** pointed out.

Between companies and salesmen not rising to their full potential this disinclination to fight for orders has made some marketing men critical of their managements.

Some companies, though, have improved or stepped up their sales efforts. More calls are being made accompanied by sales managers.

Shipping departments are speeding deliveries and development departments that are sending researchers into customers' plants to help solve problems. Sales training is being stepped up, contacts by salesmen are becoming more direct, and golf and lunches are being dropped to trim expenses.

Any heavy usage of steel will have to be preceded with order placement for the material because user inventories are low. Some large users of steel sheets, for example, have inventories for only eight days of usage compared with a normal supply of 20 days.

The reduced rate of demand for steel is pushing down the price of steel scrap, a raw material for steelmaking. **Industry Week's** price composite on No. 1 heavy melting steelmaking scrap declined for the fourth consecutive week, edging down to $40 a gross ton from the preceding week's $40.25.

Steel's Last Half 1970 May Resemble 1967

From here on, the year may be a replay of 1967 for the steel industry, according to **Iron Age magazine.**

Similarities noted were:

—The auto industry is currently in the midst of labor negotiations with steel labor talks coming up next year.

— The economy is again starting to recover from a recession.

— Steel users are again starting to talk about beefing up steel inventories as a hedge against a possible strike.

Some mills are starting to take advantage of the summer slowdown to build up their own stocks of semi-finished steel for the expected rush later in the year.

The export boom blunted the recession for domestic mills in the first half of the year. Now export business is slowing. And, while the summer lull is still in progress, the economic slowdown is only now catching up with capital spending and heavy steel products.

Iron Age noted that all of this has tended to obscure a fairly decisive upturn in the consumer end of the economy and steel business. For the past month or so, retail sales have shown gains over a year ago.

With automotive orders starting to show up in the official tabulations, mill bookings have recovered some of the ground lost in early July. August and September steel orders from one auto company are the best of the year. Another auto company expects all-out on production in September.

Even if one automaker is struck September 1, the mills will probably continue to process automotive steel for some time before cutting back their own operations.

Nevertheless, the steel industry has not fully recovered, nor is it expected to for at least a few months.

August is expected to be the year's low month for shipments. A five per cent gain is indicated for September and October should see a further increase.

However, because of increasing imports and decreasing exports, demand will remain below first-half averages.

Iron Age pointed out that mills shipped an average of about 8 million tons a month in the first six months of the year. But this is expected to slip to about an average of 7.5 millions tons a month for the second half.

Cumulative Rail Freight 0.9% Above 1969 Level

Freight traffic on the nation's railroads in the week ended August 1 totaled an estimated 14.1 billion revenue ton-miles, 4.9 per cent below the corresponding week last year, the Association of American Railroads reported.

Cumulative volume for the first 31 weeks of 1970 was an estimated 453 billion revenue ton-miles, 0.9 per cent above the total for the corresponding period last year.

Loadings in the week ended August 1 totaled 518,089 cars, 0.5 per cent below the preceding week, and 7.7 per cent below the corresponding week last year.

Seventeen of the 21 commodity groups showed decreases from the corresponding week last year, with coal off 16 per cent because of wildcat strikes in a number of mines. Loadings of metals and products were down 12 per cent, and motor vehicles and equipment were off 17.3 per cent.

Piggyback revenue freight loadings in the week ended July 25 totaled 23,664 cars, 6.5 per cent below the comparable week last year, and 38,647 trailers or containers, down 8.3 per cent from 1969. Cumulative volume for the first 30 weeks of 1970 is 733,843 cars, 4 per cent below the 1969 total, and 1,221,747 trailers or containers, down 2.5 per cent compared to last year.

In addition to freight, 3,414 cars carrying 4,869 trailers or containers of mail and express traffic were handled piggyback. Cumulative figures for the first 30 weeks of 1970 are 101,836 cars, down 4.4 per cent from the 1969 total, and 159,031 trailers or containers, up 5.9 per cent over 1969.

Truck Tonnage Down 11.0% From 1969 Week

Intercity truck tonnage in the week ended August 1 was 11.0 per cent below the volume in the corresponding week of 1969, the American Trucking Associations announced. Truck tonnage was 0.1 per cent below that of the previous week of this year.

New Lumber Orders 8.2% Below 1969 Week

New orders for the latest week ending August 1 were 8.2 per cent below the year-ago week. They were, also, 20.2 per cent below the preceding week of this year.

Lumber production in the week under review turned out 16.5 per cent less board feet than the 198,005,000 board feet cut in the year-ago week. Shipments were down 3.3 per cent from the year-ago week.

Production, however, at 165,247,000 was 19.5 per cent below the previous week. The following lumber associations' returns are in thousands of dollars for the week ending:

	Aug. 1 1970	July 25 1970	Aug. 2 1969
Production	165,247	205,308	198,005
Shipments	178,630	200,567	184,887
Orders	167,480	210,006	182,535

New High For Electric Output

Last week's electric energy dipped from the prior week, but rose 7.2 per cent more than last year's weekly level.

In the week ending August 8, electric output aggregated 32,300 million kilowatt hours according to data compiled by the Edison Electric Institute, which is the industry's trade association. Output of 33,311 million kilowatts in the week ending Aug. 1 was an all time high. The latest week came to 32,300 million kilowatts compared to 30,130 last year's week.

In the 52 weeks ending August 8 cumulative output was estimated at 1,493,631 million kilowatt hours or 7.7 per cent gain over the year-ago period.

Upturn In Business Failures In Latest Week

Commercial and industrial failures, recovering partially from the prior week's downturn, rose to 233 in the week ended August 6 from 209 a week earlier, reports Dun & Bradstreet, Inc. While not reaching the two-year high set in the July 23rd week, business casualties continued to run substantially above the year-ago level of 161 in the similar week.

Wholesale Commodity Index Slims For Second Successive Week

Slowing for the second week in a row, Dun & Bradstreet's Wholesale Commodity Price Index dipped 0.2 per cent to 286.40 on Monday August 10 from the previous week's 286.95. The index also slid 1.2 per cent behind the 289.71 of a month-ago, but ran 5.9 per cent ahead of the 270.35 of the comparable date last year.

Hogs, rye, steers, silver declined.

On the up side, however, corn rose following reports of heavy damage to crops by hurricane Celia, of possible spread of leaf blight, and the belief in a possible reduction of USDA July production estimates. Wheat prices moved upwards in response to easing foreign supply and quotations for oats followed these two grains. The cost of tin rose as major producers asserted that prices for tin mill products, which require a high number of man-hours for production, have lagged behind the costs of other steel mill products for years. Lard and sugar pricings also picked up.

Consumer Buying Remains Sluggish

Slowness persisted in purchases at retail stores in the week ended Wednesday, Aug. 5, according to spot reports collected by Dun & Bradstreet, Inc. Shoppers were deterred from stepping up their buying by extremely hot and humid weather in the East and Mid West, a hurricane in the Southwest. The tag end of clearances drew customers for summer sportswear. Too, air conditioners and fans sold at a brisk clip and promotion priced furniture moved well in several areas. Somewhat livelier demand for new cars was attributed to the possibility of strike by industry workers.

Department Store and Retail Sales

Department store sales in the week ending August 1, according to the Bureau of Census, was 4 per cent above those of last year's week. The cumulative total of the year to date increased 6 per cent from the 1969 period and in the last four weeks advanced 4 per cent.

A broader set of data covering total retail store sales unadjusted for price difference or for seasonal variation shows they were 5 per cent above the year-ago week. The four most recent weeks showed an increase of 6 per cent and sales of nondurable goods were 7 per cent larger than a year ago, with durable goods store sales 5 per cent above a year ago.

Rizzo Joins Burton, Dana

John A. Rizzo

WASHINGTON, D.C. — John A. Rizzo has been named resident vice president of the Washington, D.C. office of Burton, Dana, Westerlund, Inc., 1001 Connecticut Avenue, N.W., members of the New York Stock Exchange.

A native of Boston, Massachusetts, Mr. Rizzo has been in Washington since 1951, and in the securities industry since 1959. Prior to joining Burton, Dana, Westerlund, he had been second vice president and branch manager for Hayden, Stone Inc. in Washington, D.C. Mr. Rizzo had been with that firm since 1964.

Burton, Dana, Westerlund also announced plans to relocate its Washington, D.C. office on or about October 1, 1970. The firm has been in Washington since 1952, and in business since 1881.

Burton Dana Branch

SUMMIT, N.J. — Burton, Dana, Westerlund, Inc. has opened an office at 412 Morris Avenue with Irving N. Maxfield registered representative in charge. Mr. Maxfield was formerly with Winslow, Cohu & Stetson.

Form Dreyfus Fund Marine MGMT

A new jointly owned company which will offer the investment management experience of The Dreyfus Corporation and the fiduciary skills of the Marine Midland Banks for large institutional accounts has been announced by the two parents. Its name is Dreyfus-Marine Midland Management Corp. The investment advisory services of Dreyfus-Marine Midland will be offered principally to pension, profit-sharing, foundation and endowment account customers at the eleven Marine Midland banks.

Officers and Directors of the new management company are:

Chairman: Crocker Nevin, Chairman & President of Marine Midland Grace Trust Company of New York

Vice Chairman: Howard Stein, President of The Dreyfus Corporation

President and Director: Richard A.M. C. Johnson, Vice President of the Dreyfus Corporation

Executive Vice President and Director: Robert J.A. Irwin, Jr., Senior Vice President of Marine Midland Banks, Inc.

Vice President: Leonad M. Wagley, Former Vice President Corporate Securities in charge of investments, State Farm Insurance Companies

Directors: Sol M. Linowitz, Senior Partner, Law firm of Coudert Brothers, Washington, D.C., former Chairman of the Board of Xerox Corporation and former U.S. Ambassador to the Organization of American States: Harold M. Williams, Dean of the Graduate School of Business Administration, University of California, Los Angeles and former Chairman of the Board of Norton Simon, Inc.; and

Director: Gerald B. Zornow, President and Chairman of the Executive Committe, Eastman Kodak Company Dreyfus-Marine Midland Management Corp., is believed to be the first investment adviser to be jointly owned by an investment management company and a bank holding company. It has registered with the Securities and Exchange Commission as an investment adviser under the Investment Advisers Act of 1940.

Norfleet Joins Dickson Powell

CHARLOTTE, N.C. — R.S. Dickson, Powell, Kistler & Crawford American Building, has announced that J.K. Norfleet has joined the firm as Partner-in-Charge of Branch Operations.

Mr. Norfleet, former President of First Securities Corporation of North Carolina, also becomes a member of the Executive Committee, according to R.J. Powell, Jr., Executive Partner of the firm.

Mr. Norfleet was Vice-President of Harris, Upham & Co. and its resident manager in Winston-Salem prior to becoming President of First Securities in Durham. He and his family will move to Charlotte in the near future.

The firm maintains offices throughout North and South Carolina, New York City and Atlanta. Memberships are held on the New York, American and Philadelphia-Baltimore Stock Exchanges.

Nugent Receives Honorary Degree

Cardinal Cooke (right) and Joseph C. Nugent.

Joseph C. Nugent, managing partner of the stock exchange firm Mabon, Nugent & Company, has been awarded an honorary Doctorate of Humane Letters from Marymount Manhattan College.

In making the degree citation, Colette Mahoney, President of the college, called attention to the roles Mr. Nugent played in launching some of the school's successful special programs in Urban Studies, in education of teachers of the mentally retarded, in the Urban Community Leadership Program for the city's educationally and culturally disadvantaged and in initiating the Malcolm-King Harlem Community Extension College. Mr. Nugent has been chairman of the college's Board of Trustees for the past three years.

Mr. Nugent is a member of the Banking Board of New York State, a position to which he was appointed by Governor Nelson A. Rockefeller in 1967. He chairs Cardinal Terence Cook's Financial Committee of the Laity and is Vice-President of the Catholic Youth Organization.

Spingarn & Co. Formed in NYC

Spingarn & Co., Inc., members of the New York Stock Exchange, has been formed with offices at 501 Seventh Avenue, New York City, to conduct a securities business. Officers are Howard S. Spingarn, exchange member, president; James L. Spingarn, vice president and treasurer; and Eugene F. Golding, vice president and secretary. James L. Spingarn and Howard Spingarn were formerly partrsn spingarn, Heine & Co.

Jones Opens Branch

CORVALLIS, OREG. — Edward D. Jones & Co. has opened a branch office at 558 Southwest Adams with Dale D. Meyer registered representative in charge.

Financial Distortions And Interest Rate Outlook

Continued from Page 1

partially financed in the traditional way, i.e., through our financial institutions. Important non-bank financial institutions continued to experience disintermediation. The tight monetary policy earlier this year limited sharply the availability of bank funds. Bank credit, including loan transfers to subsidiaries and bank holding companies, increased less than $1 billion in the first half of the year as compared with $5 billion and $7 billion in the same periods in 1969 and 1968, respectively. High market rates, however, encouraged individual investors to purchase directly a record $11.5 billion of fixed income securities.

Momentum Caused Distortions

The demand for credit did not abate quickly as interest rates increased. To some, the cost of money was a small price to pay to secure tomorrow's comforts, profits or markets. Thus, the balance sheets of some borrowers, including those of individuals, business and local governments, became heavily encumbered.

— Some lenders and borrowers have relied more on the acquisition of liabilities as a source of liquidity than on the holdings of liquid assets.

— The quest for performance resulted in some relaxation of credit standards. Equity inducements became an added inducement to the extension of credit. For example, early this spring there were about $12.4 billion of outstanding publicly offered convertible bonds listed in **Moody's Manual.** Most of these were marketed since the mid-1960's. Only $1.4 billion or 12 per cent of these issues have a credit rating of A and above, while $9.3 billion or 75 per cent having ratings of Ba or less.

— Non-bank financial institutions gradually allocated an increasing percentage of their net new funds for equity investments.

— The seemingly assured future encouraged aggressive portfolio management in order to achieve high short-term performance. In this endeavor, the initial success of some portfolio managers encouraged others.

— The demands on the credit markets were enlarged by the substantial needs of the Federal Government. While part of these requirements were designed to aid housing they have not increased the supply of savings, and it is therefore debatable that they aided housing to the full extent of the issues marketed by the agencies. Consequently, the competition for funds was additionally intensified, thereby raising the level of interest rates.

Unfortunately, the imbalances in our economy and financial markets have caused some hardships, penalties and losses. This is why it is important to prevent them from reoccurring. Fortunately, we will pass through this period with the important sectors of our credit markets remaining viable and intact. The events of recent months have set in motion a series of reactions in the financial markets which within time will improve their functioning and stability.

Belated Correctives

— The "go-go" era in portfolio management is rapidly coming to a close. As a result, more funds should become available for traditional investments such as fixed income securities. Individual investors have already expressed their increasing preference for high quality investments through their massive direct purchase of corporate bonds, municipals, U.S. Governments and Federal agencies.

— I suspect that many financial institutions are in the process of reviewing their lending and investing practices with the objective of improving credit quality. If so, this would be the first time in the post-World War II period that many financial institutions have not become significantly more willing lenders as credit policy has eased. Previously, the upgrading of credit quality has taken place as credit conditions have tightened and not when they are in the process of easing.

— The widening yield spread between highly rated and lower rated bonds clearly reflects the new preference for high quality credits. For example, for one pair of seasoned industrial bond issues — one Aaa and the other Ba — the yield spread, which has remained consistently in the 250 to 270 basis point range throughout most of this year, in June jumped into the 375 to 400 basis point range. In similar fashion, the yield spreads between two recently issued industrials, one issue rated Aaa and the other rated A, has widened from 75 basis points in April to almost 120 basis points in late June.

— A most important development concerns the impact of declining stock prices and corporate profits as well as the new emphasis on marginal liquidity problems on business decisions. The financing of such transactions as mergers and stock market requirements is nearly at a standstill. In addition, the combination of tight money and the falloff in internal cash generation is most likely forcing many corporations to sharply curtail their capital outlays for the balance of the year and into 1971 beyond present survey estimates. This will gradually reduce the external financing needs of business and therefore free our credit markets to finance more of our housing and local government needs.

During 1969 and 1970, the external financing requirements of business corporations will have averaged about $37 billion annually or 43% of all credit demands as compared with $12 billion or 21 per cent in 1963. This is why the demands of other borrowers were curtailed in the last few years and were unhampered in 1963. An abatement of this massive volume of business financing in the months ahead should gradually help to reduce the strains in the bond market, lower interest rates, and redirect savings flows into other sectors.

Demand for Funds

My detailed estimates of the net credit flows for the second half of this calendar year are shown in Table 3. I estimate that the net volume of private mortgage financing will total nearly $12 billion or twice as large as during the first half but for the year as a whole will still be well below that of earlier years (see Table 4).

For reasons stated earlier, the net volume of corporate bond flotations should gradually moderate, totalling nearly $6.6 billion in the second half, still moderately large but down substantially from $12 billion in the first half.

Municipal bond offerings will accelerate somewhat in the latter part of this year. The expected improved availability of bank funds will probably allow municipalities to do more long-term and less short-term financing.

A dramatic slowdown now appears to be in process in commercial paper financing, which should continue for the remainder of the year. The limited liberalization of Regulation Q will enable banks to issue CDs and to lessen their dependence on the issuance of paper through their holding companies. The funding of corporate liabilities and the hesitance of some short-term investors in committing funds to this market should also limit commercial paper financing. To some extent, these developments will probably hold up the demand for both short-term and medium-term bank loans.

In contrast, the market financing demands of our Federal Government, including the requirements of the U.S. Treasury and the various Federal agencies, will be very large. As shown in Table 3, I have estimated these combined demands at $14.8 billion net, $3.2 billion larger than in the comparable period last year, and $2.1 billion higher than in the second half of 1968. Admittedly, about $8 billion or so represents the seasonal shortfall of Treasury tax collections but the remainder represents non-seasonal needs and thus pre-empts considerable money from other sectors of the credit market such as housing and state and local Governments.

Supply of Money

On the supply side, the flow of funds into financial institutions should improve over the very weak inflow of the first half. In particular, the easing in monetary policy will most likely expand the availability of new bank funds by an estimated $25 billion, surpassing substantially the increase in bank credit for the previous twelve months by about threefold.

Nevertheless, in the second half of this year, individual investors will probably continue to make substantial direct purchases in fixed income securities, although not as large as in the first half. Currently, the yield on high-grade bonds is substantially above deposit

TABLE 1

Quarterly Pattern of Selected Credit Demands
Around Business Cycle Peaks
(S.A. Annual Rates, $ Billions)

	2 Qtrs. Before	1 Qtr. Before	Peak Qtr.	1 Qtr. After	2 Qtrs. After	3 Qtrs. After
Net New Volume of Mortgages						
1957-58 (Peak: III Q 1957)	11.0	9.5	10.7	10.5	11.5	14.1
1960-61 (Peak: II Q 1960)	15.6	15.9	13.7	15.3	14.3	17.0
1966-67 (Peak: IV Q 1966)	20.1	15.1	12.8	15.5	18.1	23.4
1969-70 (Peak: III Q 1969)	26.4	24.6	20.1	16.7	15.9	15.0E
Net New Volume of Corporate & Foreign Bonds						
1957-58 (Peak: III Q 1957)	7.9	7.0	7.7	7.3	10.0	5.6
1960-61 (Peak: II Q 1960)	5.2	5.5	4.3	6.0	6.5	4.1
1966-67 (Peak: IV Q 1966)	11.3	11.6	8.7	16.7	15.0	20.6
1969-70 (Peak: III Q 1969)	17.4	15.7	14.2	12.4	16.8	27.5E
Net New Volume of Municipal Securities						
1957-58 (Peak: III Q 1957)	3.9	4.6	4.1	5.1	5.7	5.5
1960-61 (Peak: II Q 1960)	4.7	5.2	5.2	5.6	4.9	5.2
1966-67 (Peak: IV Q 1966)	7.7	4.1	4.6	7.2	8.3	6.1
1969-70 (Peak: III Q 1969)	10.2	9.8	6.7	7.1	8.8	10.0E

SOURCE: Federal Reserve Board of Governors "Flow-of-Funds," except 1970 estimates.

TABLE 2

First Half Calendar Year, Supply and Demand for Credit
($ Billions)

	1965	1966	1967	1968	1969	1970E
Net Investment Demand						
Mortgages, Publicly Held*	12.1	10.6	7.4	10.3	12.0	6.0
Corporate Bonds	4.1	6.1	7.2	6.5	7.5	12.0
State and Local Securities	3.2	3.8	5.4	5.0	4.8	5.0
Foreign Bonds	0.6	0.5	0.5	0.4	0.5	0.4
Subtotal - Long-Term	20.0	21.0	20.5	22.2	24.8	23.4
Net Other Demand						
Other Loans	12.4	11.8	2.0	8.6	14.7	- 2.0
Open Market Paper	1.0	1.7	3.4	2.2	5.9	9.0
Publicly Held Treasury Debt	- 5.7	- 7.2	-12.5	- 3.3	-13.7	- 5.5
Publicly Held Federal Agency Debt	2.3	5.1	- 1.6	2.1	3.7	4.5
Total Net Demand for Credit	30.0	32.4	11.8	31.8	35.4	29.4
Net Supply (a)						
Mutual Savings Banks	1.9	1.1	2.6	1.7	1.6	1.2
Savings & Loan Associations	4.8	3.4	2.7	5.4	6.2	2.5
Life Insurance Companies	3.4	3.6	3.3	3.0	2.7	2.4
Fire & Casualty Ins. Companies	0.3	0.6	0.3	0.8	0.4	0.8
Private Non-Insured Pension Funds	1.3	0.8	0.2	0.6	0.0	0.7
State & Local Retirement Funds	1.5	1.4	1.5	1.7	2.0	2.2
Open-End Mutual Funds	0.2	0.6	- 0.4	0.8	1.1	1.0
Total Non-Bank Investing Institutions	13.4	11.5	10.2	14.0	14.0	10.8
Commercial Banks	10.0	9.4	11.6	6.9	5.1(b)	0.5(b)
Finance Companies	3.0	2.1	- 0.2	2.8	4.0	1.8
Business Corporations	- 1.7	0.1	- 2.5	4.0	4.8	3.5
State & Local Governments	2.6	2.4	0.4	1.1	2.0	1.9
Foreigners	- 0.9	- 1.3	0.5	- 1.9	- 1.0	- 0.6
Subtotal	26.4	24.2	20.0	26.9	28.9	17.9
Residual: Individuals & Misc.	3.6	8.2	- 8.2	4.9	6.5	11.5
Total Net Supply of Credit	30.0	32.4	11.8	31.8	35.4	29.4
*Memo on Net New Mortgages						
Privately Financed	12.1	10.6	7.4	10.3	12.0	6.0
Financed by Federal Agencies	0.3	2.0	0.9	2.2	1.7	3.8
Total	12.4	12.6	8.3	12.5	13.7	9.8

(a) Excludes funds for equities, cash and miscellaneous other demands not listed above.
(b) Includes loan transfers. July 1970

rates. While I expect market interest rates to drop significantly by the end of the year, this yield spread will still be attractive enough in the interim for individual investors to channel funds directly into bonds.

My credit flow analysis for the balance of this year is in no way meant to suggest that the credit markets will be entirely free from occasional additional credit insolvencies. There may well be additional stringencies for marginal credits. This kind of problem cannot be quantitatively isolated from aggregate credit flow statistics.

In conclusion, I should like to make a few modest proposals for your consideration which, if adopted, would help to enhance the well-being of our financial system.

Proposals

First, there should be a broader recognition among policymakers that each year we generate a limited, although large, volume of genuine new savings, which finances the demands for credit and thereby economic activity of all sorts. Enlarging the demands for credit does not generate a corresponding increase in the supply of savings unless national stabilization measures are adopted to generate the additional funds.

Second, in this connection, it would be extremely helpful if official economic forecasts would be supported by detailed credit flow estimates showing the credit demands to be generated by the economic projections for the period ahead and how these demands will be financed. If this kind of discipline had been applied during the past five years, the financial counterpart to the economic projections would have frequently revealed that the economic projections were not financeable without escalating interest rates sharply, without an inflationary increase in money supply and without the emergence of other distortions in the credit markets. Legislators should be told in detail whether or not economic prospects will fall within the resource capability of our financial system.

Third, we should improve our knowledge of the impact of the Federal Government on the economy and the credit markets. The budget should encompass all of the Federally sponsored programs which are now excluded, but still makes demands on the economy and the credit markets. This is not to say that the programs outside the budget are not deserving but by including them the priorities of the Federal Government will be well defined and ranked. Indeed, an all-encompassing budget procedure would not only clearly show the priorities of the Government but would be a start towards intermediate and long-range budgeting, which is an important prerequesite for effective fiscal stabilization policies.

Fourth, budgetary surveillance should be improved. It should become much more of a joint effort between the executive and the legislative branch. The trends in receipts and expenditures should be monitored and analyzed more frequently than takes place presently through the official annual and mid-year budget reviews. This year in particular the inadequacy of the current procedures contributed to additional stresses in the credit markets. In January, the annual budget review projected a budget surplus for both fiscal 1970 and 1971. These projections were steadfastly adhered to until May when both projections were abruptly revised into deficits.

Fifth, the various governmental agencies should be urged to develop meaningful statistics on the quality of our credit structure. Admittedly, this is a very difficult task, but a good beginning can be made by merely improving the current statistical series, which are incomplete and poorly benchmarked. It is unfortunate that while we have gone through a period in which there has been a deterioration in credit quality, we know little about the borrowers, including individuals, business and local governments which are at the credit margin.

Our prime credit markets will survive the current turmoil. However, the abuse of our credit markets must stop if the strength of our financial structure is to be preserved, if the financing of our social objectives are to be achieved, and if a broadly based and sustainable economic expansion is to follow the current economic slowdown.

*Statement by Dr. Kaufman to the Joint Economic Committee of the Congress of the United States, Washington, D.C., July 9, 1970.

The Puerto Rico Aqueduct and Sewer Authority has sold $20,000,000 revenue bonds at an interest cost of 6.5987 per cent to Salomon Brothers, Eastman Dillon, Union Securities & Co. and Bear Stearns & Co. Shown at the sale, seated left to right: Francis Bowen, Senior Vice President of the Government Development Bank for Puerto Rico; Angel M. Martin, Secretary of the Treasury of Puerto Rico; and Wilfredo Vivoni Santoni, Executive Director of the Authority. Standing left to right: John Ward, Vice President of the Bank; Gregory Lambo of Salomon Brothers and Jose D'Oliver, Director for Finance of the Authority.

TABLE 3

Second Half Calendar Year, Summary of Supply and Demand for Credit
(Net Increase, $ Billions)

	1965	1966	1967	1968	1969	1970E
Net Investment Demand						
Mortgages, Publicly Held*	12.5	7.6	12.8	13.5	9.8	11.6
Corporate Bonds	4.0	5.0	8.8	7.5	6.3	6.6
State and Local Securities	4.2	1.9	4.1	5.8	3.4	5.4
Foreign Bonds	0.6	0.4	0.7	1.0	0.5	0.8
Subtotal - Long-Term	21.3	14.9	26.4	27.8	20.0	24.4
Net Other Demand						
Other Loans	12.8	2.5	8.7	17.4	10.4	12.5
Open Market Paper	- 0.3	2.7	0.5	1.9	6.2	1.2
Publicly Held Treasury Debt	3.3	5.3	15.9	9.4	7.2	11.6
Publicly Held Federal Agency Debt	0.6	- 0.3	5.3	3.3	4.4	3.2
Total Net Demand for Credit	37.7	25.1	56.8	59.8	48.2	52.9
Net Supply (a)						
Mutual Savings Banks	1.7	1.4	2.4	2.4	0.7	2.6
Savings & Loan Associations	4.6	1.3	6.4	4.7	3.6	4.9
Life Insurance Companies	3.3	2.7	3.1	3.0	1.8	2.4
Fire & Casualty Ins. Companies	0.7	0.9	1.0	1.1	1.2	1.9
Private Non-Insured Pension Funds	0.8	1.1	0.6	0.7	1.0	0.4
State & Local Retirement Funds	1.3	1.4	1.5	1.9	1.6	1.7
Open-End Mutual Funds	0.5	0.9	- 0.1	0.1	- 0.2	- 0.4
Total Non-Bank Investing Institutions	12.9	9.7	14.9	13.9	9.7	13.5
Commercial Banks	17.9	7.8	25.0	32.0	8.2	25.3
Finance Companies	2.0	0.2	0.8	2.5	3.7	1.7
Business Corporations	1.1	1.7	0.5	2.7	4.1	0.0
State & Local Governments	- 0.7	- 0.1	- 0.7	- 1.0	2.7	0.9
Foreigners	0.9	- 0.2	1.5	2.4	2.8	1.4
Subtotal	34.1	19.1	42.0	52.5	31.2	42.8
Residual: Individuals & Misc.	3.6	6.0	14.8	7.3	17.0	10.1
Total Net Supply of Credit	37.7	25.1	56.8	59.8	48.2	52.9
*Memo on Net New Mortgages						
Privately Financed	12.5	7.6	12.8	13.5	9.8	11.6
Financed by Federal Agencies	0.7	1.4	1.7	1.3	3.6	2.2
Total	13.2	9.0	14.5	14.8	13.4	13.8

(a) Excludes funds for equities, cash and miscellaneous other demands not listed above.
(b) Includes loan transfers.

July 1970

TABLE 4

Full Calendar Year, Supply and Demand for Credit
(Annual Net Increases, $ Billions)

	1965	1966	1967	1968	1969	1970E
Net Investment Demand						
Mortgages, Publicly Held*	24.6	18.2	20.2	23.8	21.8	17.6
Corporate Bonds	8.1	11.1	16.0	14.0	13.8	18.6
State and Local Securities	7.4	5.7	9.5	10.8	8.2	10.4
Foreign Bonds	1.2	0.9	1.2	1.4	1.0	1.2
Subtotal - Long-Term	41.3	35.9	46.9	50.0	44.8	47.8
Net Other Demand						
Other Loans	25.2	14.3	10.7	26.0	25.1	10.5
Open Market Paper	0.7	4.4	3.9	4.1	12.1	10.2
Publicly Held Treasury Debt	- 2.4	- 1.9	3.4	6.1	- 6.5	6.1
Publicly Held Federal Agency Debt	2.9	4.8	3.7	5.4	8.1	7.7
Total Net Demand for Credit	67.7	57.5	68.6	91.6	83.6	82.3
Net Supply (a)						
Mutual Savings Banks	3.6	2.5	5.0	4.1	2.3	3.8
Savings & Loan Associations	9.4	4.7	9.1	10.1	9.8	7.4
Life Insurance Companies	6.7	6.3	6.4	6.0	4.5	4.8
Fire & Casualty Ins. Companies	1.0	1.5	1.3	1.9	1.6	2.7
Private Non-Insured Pension Funds	2.1	1.9	0.8	1.3	1.0	1.1
State & Local Retirement Funds	2.8	2.8	3.0	3.6	3.6	3.9
Open-End Mutual Funds	0.7	1.5	- 0.5	0.9	0.9	0.6
Total Non-Bank Investing Institutions	26.3	21.2	25.1	27.9	23.7	24.3
Commercial Banks	27.9	17.2	36.6	38.9	13.3(b)	25.8(b)
Finance Companies	5.0	2.3	0.6	5.3	7.7	3.5
Business Corporations	- 0.6	1.8	- 2.0	6.7	8.9	3.5
State & Local Governments	1.9	2.3	- 0.3	0.1	4.7	2.8
Foreigners	0.0	- 1.5	2.0	0.5	1.8	0.8
Subtotal	60.5	43.3	62.0	79.4	60.1	60.7
Residual: Individuals & Misc.	7.2	14.2	6.6	12.2	23.5	21.6
Total Net Supply of Credit	67.7	57.5	68.6	91.6	83.6	82.3
*Memo on Net New Mortgages						
Privately Financed	24.6	18.2	20.2	23.8	21.8	17.6
Financed by Federal Agencies	1.0	3.4	2.6	3.5	5.3	6.0
Total	25.6	21.6	22.8	27.3	27.1	23.6

(a) Excludes funds for equities, cash and miscellaneous other demands not listed above.
(b) Includes loan transfers.

July 1970

Managing Pension Portfolios To Meet Increasing Future Costs

Continued from Page 3

retirement. For this he may use the 1937 standard annuity table or, more likely, the 1951 Group Annuity Table. A five year set-back for females is ordinarily used for obvious reasons. The turnover rate, how many employees will leave before retirement and get no benefits, or partial benefits, if vested, must be estimated. The actuary uses an experience and service table for this. If pay is a determinant of benefits, as it ordinarily is in corporate plans, the future trend of pay probably will be estimated. It is difficult to do this very accurately. Where disability benefits are provided, assumptions must be made for such disabilities. Experience tables are available for this. Finally, it is necessary to estimate how long eligible retirees will survive.

The preceding assumptions result in estimates of amounts and progression of future benefits, in effect a benefit graph for current employees. To extend that projection it is necessary that the benefits to be paid to future workers be estimated. It is not at all easy to be accurate here.

Actuarial Cost Methods

After benefit trends and costs have been determined, the method of paying for these costs must be determined. Over the life of the plan such payments should result in contributions "equivalent" to a benefit graph. In other words, we are assuming that investment earnings plus contributions to the pension fund will result in an amount equal to benefit payments and any expenses.

It is important to bear in mind at this point that inherent in advance funding is the concept that the contribution flow will be in excess of benefit payments for many years, regardless of the actuarial cost method used. If superior investment performance can be achieved, total cash flow may exceed benefit payments for an additional time period.

There are many actuarial cost methods in use, usually categorized as either accrued benefit cost methods or projected benefit cost methods. All projected benefit cost methods begin with the estimate of the sum of money "equivalent" to benefits to be paid to all eligible current employees or retirees. To calculate this amount, all the previously noted actuarial assumptions are needed, along with specific data on such factors as salary and service. This amount is known as the "present value of future benefits", an extremely important concept.

The limits of this paper permit a detailed discussion of just one actuarial cost method, one which is frequently used, the entry age normal method. Using this method, after the present value of future benefits is computed, it is necessary to determine a "normal cost". This is the level annual payment over the total work life of an employee needed to fully fund the pension which will be paid him. Therefore, the normal cost for the plan is the total of all the individual normal costs.

So far, however, we have not provided for the employee with years of past service when the plan began. It is necessary to make up for all the missing payments not made on his behalf.

The contribution flow must contain two components, the present value of future normal costs, where we pay the normal cost each year for each active employee, and a supplemental cost, or in effect a past service liability, to be paid over a period of years, typically 20 to 30.

A diagram of this entry age normal method might show cash flow much higher than benefit payments for 25 years, as both normal cost and supplemental cost is paid, with a sharp drop in contributions as supplemental cost is extinguished. At this point, benefit payments might be much greater than employer contributions. The fund by then is hopefully getting substantial investment earnings from a large investment portfolio, in addition to the contributions.

It is extremely important to remember that different cost and contribution figures and patterns should greatly modify investment strategy and portfolio structure. This is true whether we're talking about different pension funds or the same fund at different points in time.

Possible Investment Objectives

The next thing I want to discuss is how to determine the appropriate investment objectives and portfolio structure. Before specifying methods, however, a brief reference to some of the possible objectives and their probable desirability should be made.

Since most pension funds are relatively young, liquidity is not likely to be necessary. Pension or other payments should be well covered by incoming contributions, and certainly by contributions plus investment income.

At some point, funds which are contributory, or which may have lump-sum death or disability benefits, or an annual bulge in age distribution may need liquidity. This would, as I have suggested, be an atypical situation. I think that my comments on liquidity generally apply to stability of principal. The objective is unlikely to deserve a very high priority.

Inasmuch as an income dollar is every bit as valuable to a pension fund as a capital gains dollar, there may be times when income emphasis is quite desirable. For instance, over the past 18 months one might have done much better by pursuing income, rather than capital gains. Income continuity or stability of income, is often desirable as a means to "cushion" the actuarial assumption on interest return.

Figures on asset allocation and on allocation of new money suggest a growing emphasis on capital gain. This is and should be an important investment objective for most pensions at most times.

I cannot emphasize too strongly that the most important thing is to maximize the total return over the long term. The total return includes income, plus realized, and unrealized gains, always considering the constraints which may prevail on the degree of risk that can be taken to achieve this maximum return. It is not within the purview of this discussion to suggest how to realize maximum return except to say that the experience of the past 18 months suggests that equities may not always be the best way.

The greatest risk to the corporation, with respect to pensions may be its future ability to meet the increasing costs of pension contributions; "performance" is indeed important. The possible impact of successful performance can be illustrated by pointing out that a 1 per cent increase in total return may permit a 25 per cent reduction in contributions over an extended period of time.

Determining Investment Objectives And Asset Allocation

I think that for the most part the determinants of investment objectives and asset allocation are similar. For that reason I will discuss the "how to" of investment objective and asset allocation, or as some choose to call it, portfolio balance, together.

Most writers or speakers on the subject say this should be related to the specific needs and objectives of a fund and/or the economic or investment environment. I think that is absolutely true, but that it doesn't answer the question nearly sufficiently.

The first step in determining investment objectives and portfolio balance for a pension fund is to examine the benefit and contribution schedules. This will in effect give you an income statement. In the early years of a plan where contributions invariably are well in excess of benefit payments the pursuit of maximum capital gain by a high equity ratio, perhaps 100 per cent equity or equity reserve, may be appropriate.

For any pension plan, at a time when contributions plus investment income are well in excess of payouts, a high equity ratio may be appropriate.

For a more mature plan where benefit payments may about equal contributions plus investment income, stability of principal or income, or maximum income, may be the most appropriate objective. In such a case a higher percentage of fixed income instruments would most likely be called for.

In addition to the previous criteria, an actuarial balance sheet could provide guide lines for investment objectives and portfolio balance. While it is not perfect, it is a big improvement over intuition.

Matching Assets to Liabilities

Using this approach liabilities might be segregated in the following way:

Begin with the present value of benefits due retired employees within the next year. Ordinarily this should be offset by a highly conservative asset such as Treasury Bills.

Next, the present value of benefits due retired employees which are payable beyond the next year. This perhaps should be offset by a somewhat less conservative asset.

Another category might be for employees about to retire in the near future, say 2 to 5 years, whether they are active or not, whose benefits may be fully or nearly fully vested.

Beyond that, a category for other employees with vested benefits should be set up.

Benefits which may be accrued but are not vested are the final liability item.

Clearly the succeeding liability categories I have mentioned suggest lessening degrees of urgency, and therefore the possibility of increasing degrees to risk to be employed in any offsetting assets. The relationship of any of the liabilities, and that of total liabilities, to total assets must of course be considered. Both relationships quite obviously could be important determinants of strategy with regard to investment objectives and portfolio balance.

I do not mean to suggest that these approaches to investment objectives and portfolio balance offer a panacea. I do think that they represent logical, precise considerations which would provide much more workable guidelines than the mere statement about matching objectives and balance to specific needs.

Liquid Reserves

Let me turn now to the specific implementation of the strategies which may be decided upon the basis of the factors I've mentioned. The limitations of this paper prevent anything but a very brief discussion of these specifics. I'm assuming that I don't have to define what liquidity means, what call protection means, what a growth stock is and the difficulties of selection.

If it has been determined that liquid reserved are desirable, whether for emergency needs, which I have suggested is unlikely, or for buying reserve purposes, which is quite likely right now, several options are open.

Smaller pension funds, particularly in the multi-employer area, might utilize a number of savings accounts. They could have the effect of making increased mortgage money available thereby creating work for people in the construction area.

The U.S. Treasury short term group, Bills, Notes and Bonds maturing within the next 3 or so years should be prime vehicles for the liquid reserve. It's a good idea, of course, to check the yield differentials prevailing within the group at a given time.

If the yield advantage of Agency issues is significant, they may be preferable for the reserve. One should, however, be careful about the liquidity of some of the Agencies.

Demand notes are used quite a lot by the banks for pension reserves. I think they're perfectly acceptable if the yield advantage over alternative choices is meaningful.

Selection of Bonds

When the decision has been made as to what portion of the assets should be allocated to bonds, a number of factors should be considered with regard to those bonds.

The first thing to decide is whether new bond money should go into new of distributed issues. Unless you've decided on Governments, if the pension fund is large, the choice will probably be made for you; A position too large for the secondary market will have to go the new issue route.

A smaller pension fund, where the full position will be, say 100 bonds, the secondary market offers plenty of choices. The choice of maturities is obviously better, as is the choice of such other factors as quality and call protection. If a valid comparison can be made, I think it's a good idea to check the yield differential with new issues as well as with others in the secondary market.

Quality is certainly a factor which should be considered. In many cases the trust instrument or the board of trustees have restricted the choice, for instance specifying that only A or better bonds be selected.

The highest quality issues, or course, are Treasuries. They've been declining as a per cent of pension portfolios for many years now as commercial paper is often used on the short end and corporate bonds on the long end.

I think it makes sense that corporates are much more prevalent than Treasuries in pension portfolios. The yield advantage has been significant, and that nth degree of protection just isn't necessary for pension funds.

To the extent that there is latitude, the yield spreads between various grades of corporates should be checked. The variation over a period of time can be quite substantial. In other words, there are times when the yield advantage to lower grades is substantial and times when it is not. In recent years the basis point differential hasn't been great so it's generally been better to buy high quality corporates.

Maturity considerations are, of course, of the utmost importance in the bond sector. I think the first thing to determine is whether a flexible schedule will be followed or whether a staggered schedule will be followed. The former approach, concentrating maturities in line with the clients needs or the market outlook is the more professional procedure and the one which I think should ordinarily be followed.

Frowns on Intermediates

To the extent possible I think bonds in a pension fund should be either short or long. Intermediate maturities don't accomplish very much.

Short maturities, or course, provide the principal stability for the liquid reserve in case that's wanted for any of the reasons we talked about before. Of course, there has to be good quality and marketability as well, as I'm sure you all realize.

On the other hand, the long bonds provide the potential for continuity of income. This continuity may be desirable to support, to provide a cushion for the actuarial interest assumption.

Staggering, or spacing maturities evenly has a certain attraction for pensions because the cash flow usually takes place at regular intervals, sometimes yearly, sometimes quarterly, and in the multi-employer plans, often monthly. This method obviously is defensive in nature since changes are almost automatic and are gradual and there is constant liquidity because there are always some short maturities. As I've suggested, however, I think we as professionals owe it to our clients to make the judgments inherent in the flexible approach rather than taking the easy way out with the staggered approach.

With interest rates at such high levels, call protection clearly assumes more importance than usual. In a pension fund, call protection is particularly important where long bonds may have been bought to support an actuarial assumption, to insure that the potential continuity is realized for at least a certain specified time period. I'd rather, for instance, buy an industrial with 10 year call protection than a utility with 5, even though I have to give us basis points.

Selection of Common Stocks

Let's look at the common stock sector of a pension fund portfolio. Bear in mind that on the basis of the benefit schedule and the actuarial cost method used a determination has been made regarding appropriate investment objectives and portfolio balance. Within that framework, just as we did with bonds, there are a number of things we should look at with regard to stocks.

The question of whether we expect the stocks to serve a defensive or aggressive function is a good starting point. For instance, in a mature pension plan, which might be quite conservatively structured, the income from common stocks may be intended to supplement the basic bond income in meeting the actuarial interest assumption. The goal for appreciation might be just enough to offset the loss of buying power from inflation - which perhaps these days might not be so easy.

With most pension funds the common stocks are expected to serve an aggressive function, as I suppose they are with most funds of any kind. In this case, we are more and more likely to be dealing with an equity oriented fund, perhaps nearly 100 per cent equity or equity reserve. Current income may be a minor consideration, assuming of course that the actuary is including other than current income in his assumptions. Here we're looking for maximum total return to ease the contribution burden or increase the benefits derived from a given contribution flow, depending upon which side of the barginaing table one sits.

I think it follows logically that most of the decisions regarding common stocks derive from the considerations I've just mentioned. For instance the extent to which growth stocks are employed, aside from market considerations, depends in a large part upon the previous factors. The same is true with respect to income stocks or defensive stocks.

The final factor I want to consider, regarding common stocks, is diversification. Once upon a time diversification was considered the hallmark of portfolio management, in recent years it seems to have gone out of style. It's true, however, that most pension funds, like most individual portfolios, have entirely too many holdings.

The proper degree of diversification for a pension fund, like that of any kind, must depend upon the objectives and strategy of the particular fund. In the mature fund where the investment objective may be stability of principal and income, and the common stock sector may have a defensive function, a widely diversified portfolio in terms of both issues and industries may be appropriate.

For most pension funds, however, diversification is probably too broad and is frustrating outstanding performance. Some large pension funds have one to two-hundred names. If it has been determined that the investment objective and portfolio structure should emphasize maximum return, it's hard to see justification for more than 50 names, except in a handful of the most mammoth funds.

Pension Trends

I'd like to conclude by mentioning some trends in pension plans and their significance to the investment management of the plans.

Contributory plans, those where the employee pays part of the cost, are declining. Early retirement benefits are being liberalized and the qualifications for such benefits are being eased. Death and disability benefits are included more frequently. The liberalization of vesting provisions is a very pronounced trend. Finally, normal retirement benefits are being increased by devices such as changing career average formulas to those based upon final pay.

I think that what is clear and what is important is that all of the trends I've mentioned point to increasing pension costs. As the burden of ever increasing costs becomes more pronounced, maximum portfolio performance - but always within the framework of the constraints upon a particular fund - is likely to become more and more important.

* An address by Mr. Kopp before the New York Society of Security Analysts, June 9, 1970.

Schroder Naess Appoints Two

Schroder Naess & Thomas, New York City, the investment counsel division of Schroder's Incorporated, has announced the appointment of Sidney M. Leveson and the promotion of Allen C. Post to Assistant Secretaries of the firm.

Mr. Leveson joined Schroder Naess in May; he was previously a Senior Economist with Weis, Voisin, Cannon, Inc.

A portfolio manager, Mr. Post has been with Schroder Naess for two years. He previously was an investment administrator with the Bankers Trust Company.

M.L. O'Shea Co. Formed

SAN FRANCISCO, CALIF. — M.L. O'Shea & Co., Inc. has been formed with offices at 235 Montgomery Street to conduct a securities business. Martin L. O'Shea is president and treasurer. He was formerly with Birr, Wilson & Co., Inc. and First California Company Inc.

Chemical Bank Promotes Moore

W. Robert Moore

Chemical Bank of New York has named W. Robert Moore senior vice president, Electronics Division.

Mr. Moore, who joined the Bank in 1958, has received increasing responsibility in the areas of methods and standards and check operations.

For a number of years he was in charge of the Methods and Standards Department, with a subsequent broadening of his responsibilities to include General Services. For several years he was in charge of the Bank's Check Operations Group, and in May of 1967, he assumed responsibility for the Electronics Division which includes Operations Research and Central Data Processing.

Sheller-Globe Acquisition

Chester Devenow, President of Sheller-Globe Corporation, Toledo, Ohio, announced August 10 that the company has entered into an agreement to acquire all the outstanding shares of Brentwood, Inc., Elkhart, Indiana, in exchange for Sheller-Globe common shares.

Brentwood is the manufacturer of Continental Travel Trailers and operates two plants, located in Elkhart and Hamburg, Pennsylvania. Brentwood will be operated as a wholly owned subsidiary headed by Mr. R.B. Dutton, who will remain as President of Brentwood.

Mr. Devenow described the acquisition as another step in expansion of the Company's position in the growing recreational vehicle market, in which Sheller-Globe's wholly owned subsidiary, Superior Coach Corporation, manufactures and markets the Superior Motor Home. Mr. Devenow said that the closing date for the acquisition of Brentwood would be on or about August 31, 1970.

Kemper, Barrett & Co. Formed In New York

Kemper, Barrett & Co., Inc. has been formed with offices at 150 Broadway, New York City, to engage in a securities business. Officers are Richard T. Barrett, president and treasurer, and Harold O. Kemper, executive vice president and secretary. Mr. Barrett was formerly an officer of Dirks Bros., Ltd., with which Mr. Kemper was also associated.

SECURITY SALESMAN'S CORNER

By JOHN DUTTON

"If anyone wanted to see me for the rest of this week, he would either have to squeeze in a Saturday morning appointment, or wait until next week." That's what one of my friends who sells mutual funds and tax exempt bonds for a regional exchange member firm answered when I asked, "How's business?" This man is doing so well it is almost unconscionable for me to write about it when there is so much gloom and pessimism in the securities business.

First And Last A Salesman

The answer to his success can be found in his sales ability plus his enthusiastic work habits. He is so completely sold on what he is doing that he enjoys it better than anything else. He likes people, he enjoys meeting new friends, he is not tied down to any routine except the one he sets for himself. He does not complicate his mind with statistics and heavy overdoses of specifics. He sells a CONCEPT. He told me, "I tried that "beating the market" game myself for a while. I also thought I could pick the winners for my customers. I found out that it wasn't for me. I am too much of a fundamentalist." When I asked him what he meant by that he said, "Nuts, I don't think anyone can make any money short term trading with the kind of punitive tax laws we now have in this country. The whole thing doesn't add up for the young family man, or the fellow in the higher bracket. Where does he end up after he makes a profit if it is short term? He pays his high commissions to buy and sell; then the State of New York takes its cut when he pays their transfer tax; next he get's hit with Uncle Sam's big bite at income tax time; and eventually he loses a bundle in the event the whole thing backfires. The most he can charge off is $1,000 a year versus income. The rest has to be held back versus profits he may never make and doesn't have. That's not the kind of a deal I can sell to anyone."

He Believes It

When I asked him what he does like, he replied, "That's easy. I am only interested in where my customers hope to be financially ten, fifteen, or twenty years from now if they are under fifty years of age. I sell them contractual plans and good solid mutual funds which have a record that stands up before the phony performance nonsense took over Wall Street's gullibles."

I asked him how he handled the controversial front-end load on contractuals. His answer was, "that's nonsense." It costs money to sell them. People have cash values in the contractuals I sell. One of the first things I do is take a blue pencil and make a ring around the charge. I show them the cost. I contrast the cash values available in the first two years with many life insurance contracts that provide hardly any, or no, cash value at all for the first two years the policy is in effect. That's no problem. If you pay $4000 for a new car and drive it around the block that ride costs you $1,000. I tell them that too. It is the truth, isn't it? Everything has a sales cost. I couldn't afford to call attention to the many benefits of regular dollar averaging in a supervised group of diversified common stocks to people if my services were not paid. Once these facts are aired, there is no problem at all."

When I think of all the security salesmen who apologized, and ducked the issue when the matter of acquisition cost came up, either among professionals in the industry, or the bureaus, I think this man makes sense.

Show Them and Tell Them

Salesmanship is the key to my friend's production. He told me about a doctor who was making a lot of money. He knew he could interest him in an oil drilling fund. But he couldn't get an appointment. Finally, he called the nurse and made an appointment presumably as a new patient. When he was ushered in and met him face to face, he said he asked him, "Doctor, I have one question I'd like to ask you, may I do so?" The doctor said he would try to answer. "How much is your time worth an hour?" The doctor grinned and said that was a little unusual but he made a guess. "O.K.," replied this salesman,

"Here's a twenty dollar bill, for the next fifteen minutes of your time. I have an idea that may be worth thousands to you and I want to tell you about it. After the fifteen minutes is up, if you want to continue, it's on you, how about it.?"

The doctor listened. He bought a $20,000 oil drilling fund and he told the salesman he had about $70,000 in treasury notes. The salesman then put the same twenty dollar bill back on the desk with a ten beside it and he said, "Doc, we are back at the beginning. One more question. "If you had your choice, which one would you pick up?" "Why the twenty, of course," replied the salesman, "You'd pick up the ten. Isn't that just what you are doing with those Treasury notes.

Here you are in the 54 per cent tax bracket and you are limping along with a net return of about 3½ per cent AFTER TAXES, when you could get 7 per cent on this diversified tax exempt bond fund." He closed that too on the next call.

Gimmick salesmanship? Yes. But it was done in a pleasant and convincing way. This man is sold on what he is offering because he has a sound, logical premise on which he is building his business. That is why he can ask questions like these and people react favorably.

This salesman is also so sold on his job that he has found the key to happiness and career satisfaction. When I asked him, "How come you simplify your sales presentation to such an extent that you seem to just hit the bullseye?" "There is no other way to do it that works as well," he replied. "I haven't got the time to spend two hours hemming and hawing about statements, balance sheets, resistance areas, and what the analysts are saying and also blubbering about non-essentials.

I have one job to do. That is find out if older people need more income from a sound investment; high bracket people can use tax exempt funds or oil drilling funds; and if the younger ones can save $100 a month (or less) for the future. Then I show them the best way I know to do"

OUR REPORTER ON GOVERNMENTS

By JOHN T. CHIPPENDALE

The refunding and new money raising issues of the Government are fitting well into the pattern of things in the short and intermediate areas of the market. The monetary authorities appear to have given the Treasury at least the usual, if not more than the usual aid, in its market offerings. The fact that the money and capital markets have been in plateau yield areas has not been unfavorable as far as this recent operation of the Treasury was concerned. Accordingly, the cost to the Government was less than was true of earlier financing. For example, the cost was about 25 basis points below the May level.

Nevertheless, Government obligations with 7½ per cent and 7¾ per cent coupon rates are still worthwhile income obligations for investors.

Demand For Credit Remains Heavy

As we go along into the vacation season, the need for money both short-term and long-term credit shows very few signs of abating, since new issues coming into the market are still sizeable. Moreover, the Government will be competing for the available funds throughout the year. The August maturities have been provided for and the Treasury offered holders of the maturing obligations issues that were competitive with conditions prevailing in the money and capital markets. The attrition, or turnins of the August maturities, amounting to 20 per cent was not unexpected because of the still very high interest rates available elsewhere and tight credit conditions. Allotments of only 9½ per cent for the 7½ per cent due 2/15/72 had a solvency fear tinge to it.

In any event, the refunding and new money raising securities of the recent operation of the Treasury should have attraction for investors who are interested in income and the best quality obligations available in this or any other market. It should be remembered, also, that Government obligations are still pacesetters in more ways than one, even though there are times when they may not be as competitive as they should be with other quality fixed income securities. There still are highly rated non-Federal bonds of industrial and public utility concerns that provide larger returns than Treasury issues and investors have been and still are buyers of these obligations instead of Governments.

More Treasury Financing Ahead

There is not likely to be any change in this kind of buying as long as there is that 4¼ per cent coupon limitation on Government bonds. However, the seven year Treasury note is being used more and more by investors as a permanent part of the program for the investment of funds.

The fact that the Government has another maturity operation in the Fall and sizeable amounts of new money to raise means that money market maturities should be appearing from time to time. This should tend to slow a bit the decline in interest rates, unless the monetary authorities decide the economy should have a bit of reflation in the form of greater availability of credit which would hasten the decline of interest rates.

Monetary Policy Working

It appears as though the recent decrease in interest rates has more to it than being just a shot in the dark because available data and the pronouncements by those in responsible places appear to be saying that the peak in interest rates has been seen.

A fluctuating or pulsating course for the cost of borrowing is to be expected, but the overall trend of interest rates should be down. This should not be an unexpected development since we have been in the inflation for quite a long time now and the measures that have been followed by the monetary authorities will work eventually.

It appears as though we are entering, if not already in that "eventually period," which will bring about lower costs of borrowing, less restrictive credit and the ending of the great bull market for the buyers of fixed income obligations.

Samuel Weinberg

Samuel Weinberg

Samuel Weinberg, founder and past president of the investment securities firm of Weinberg, Grossman & Co., New York City died at Booth Memorial Hospital (Queens, N.Y.) August 7 after a long series of illnesses. He was 68 years of age.

Mr. Weinberg began his career with the financial advertising agency, Rudolph Guenther, Inc., later known as Albert Frank-Guenther Law, Inc. In 1923, he joined Chatham & Phoenix National Bank and later entered the investment business with Neergard, Miller & Co. In 1944, Mr. Weinberg founded the firm of Weinberg, Grossman & Co. He is a past president of the New York Security Dealers Association serving from 1960 until 1965.

He is survived by his widow, the former Celia Bernstein, and a daughter, Mrs. Rosalind Grossman of Forest Hills, L.I.

Complete FHA Offering

Assistant Secretary of Agriculture Dr. Thomas K. Cowden (center) accepts check from Emil J. Pattberg, Jr., (left,seated) chairman of The First Boston Corporation, in payment of some $300-million of insured notes which the Farmers Home Administration sold today to a nationwide underwriting group. Other representatives of the managing underwriters participating in the agreement are: William E. Simon (right, seated), partner of Salomon Brothers; and standing, John F. Connor (left) executive vice president, A.G. Becker & Co. Incorporated, and Samuel Revits, senior vice president, Merrill Lynch, Pierce, Fenner & Smith Incorporated.

Southwestern Bell Telephone Debentures Sold

Morgan Stanley & Co. Inc., New York; Halsey, Stuart & Co. Inc., Chicago; and White, Weld & Co., New York, as managers of the underwriting group, announce the public offering of $150,000,000 of Southwestern Bell Telephone Co. 8¾ per cent debentures due Aug. 1, 2007, at 100½ per cent plus accrued interest, to yield approximately 8.70 per cent.

The debentures are redeemable on and after Aug. 1, 1975 at prices ranging from 107.80 per cent to 100 per cent for those redeemed on and after Aug. 1, 2002.

Proceeds from the sale of the debentures will be used to reduce advances from the American Telephone & Telegraph Co., the parent company, and notes payable.

The company furnishes communications services, mainly local and toll telephone service in Arkansas, Kansas, Missouri, Oklahoma and Texas and in a small portion of Illinois in the vicinity of St. Louis. On March 31, 1970 the company had approximately 10,148,000 telephones in service.

New Roney Branch

PETOSKEY, MICH. — Wm. C. Roney & Co. has opened a branch office at 408 Petoskey Street, under the management of Claude G. Porter.

Kingsley Boye Admits Corroon

Kingsley, Boye & Southwood, 115 Broadway, New York City, members of the New York Stock Exchange, has admitted George A. Corroon Jr. to partnership in their firm. Both were partners in Corroon & Co. which is being dissolved.

HT&L Equities

HONOLULU, HAWAII — H T & L Equities, Inc. has been formed with offices at 1504 Kapiolani Boulevard to engage in a securities business. Officers are Kenneth J. Little, president; Kenneth H. Wells, vice president; and Herbert L. Nowack, secretary and treasurer.

NEW ISSUE PRICES

THE CHRONICLE has computed the following list of most companies, excluding "Reg. A" underwriting, that have gone public since January 1, 1970. Data includes original offering price and August 12, 1970 opening price.

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

			Aug. 11 Bid Price
Cousins Mtge & Equity Invests.	Aug 11	20	20
Merrill Lynch, Pierce, Fenner & Smith Inc.; The Robinson-Humphrey Co. Inc. 2,125,000 shs.			
Jetco Electronics Industries Inc	Aug 4	5	a.....
Quinn & Co.,Inc., 150,000 shs.			
M&T Mtge Investors (units)	Aug 4	11	10¾
Stone & Webster Securities Corp., 750,000 units			
Omni Research Inc	Jun 18	4	4¼
Feldman Salkin Welch & Winer, 100,000 shs.			
Tranquilaire Mental Health Svcs	Aug 10	5	6½
Arnold, Wilkens & Co., Inc. 200,000 shs.			

			Aug. 11 Bid Price
ABTO, Inc.	Jan 30	12½	3
ANW, Inc.	Jan 29	3	1¼
Ajay Enterprises	Jan 27	10	6⅝
Algorex Data Corp	Apr 16	6	5
Allied Genl Inc	Feb 26	2½	2
Allied Security Inc	Apr 14	5¾	4¾
Alloy Metal Products, Inc.	Mar 31	8¼	3½
American Nat'l Enterprises, Inc.	Jan 22	14¼	6¼
American Regitel	Feb 10	10	7
Arlen Shopping Centers, Inc.	Feb 26	12½	5⅝
Associated Computer Services Inc	Apr 1	4	3½
Associated Leisure Enterprises	Jul 20	2	2⅝
Automated Environmental Systems	Apr 2	15	4¾
Automatic Switch Co	Apr 28	25	+26⅜
Babcock Industries	Feb 10	13	7
Bagprint Ltd	Jan 30	4	1¾
Baird-Case Funeral Homes, Inc.	Jun 11	6	4½
Barstan Electronics Corp.	May 4	5	4½
Behring Corp.	Feb 26	16½	8
Beneficial Standard Mtge Investors (units)	Jul.17	20	19¼
Berg Enterprises	Mar 19	9	4
Best Products Co.	Mar 4	10	6⅞
Booz, Allen & Hamilton, Inc.	Jan 13	24	14¼
Braewood Development Corp.	Feb 3	8	2¾
Brenner Industries	Feb 20	12	10⅞
Brian-Lloyd Co.	Feb 24	6	1¾
Brink's Inc.	Feb 20	30	24¾
Brookline Instrument Co., Inc.	Feb 17	7	4⅜
Brothers Two Intl.	Jan 15	5	1⅜
Building & Land Technology Corp	Apr 17	6½	8½
Bldg Systems Inc	Jul 23	7	6⅜
Burke Security, Inc.	Jan 6	8	5½
C.H.B. Foods Inc.	Feb 11	7½	4½
Capital Equip. Leasing (units)	Apr 5	5	4¼
Cayman Corp (com)	Apr 30	.....	3
Centaur Mini Computer Devices Inc	Feb 3	5	¾
Child World, Inc.	Mar 31	12¾	7½
Clean Air Controls, Inc.	Mar 19	2	3⅞
Clute Intl Corp	Jan 27	5	3
Cochrane Furniture Co., Inc	Jan 13	8	3¾
Coherent Radiation	May 19	10¾	15½
Coit Int'l Inc	Apr 7	13½	21½
Colonial Penn Group, Inc.	Apr 23	34	37
Colony Kitchens Inc	Feb 12	10	6
Com Corp Inc	Jan 20	1	6⅛
Compudat Scientific Systems Inc	Jan 23	5	½
Compugraphic Corp	Mar 19	13	12½
Compuscan Inc	Mar 24	10	6½
Computer Congenerics Corp	Jan 15	3	1¾
Computer Databanks, Inc.	Jan 15	2	1½
Computer Graphics	Jan 5	8	¾
Computer Knowledge Corp	Jan 13	6	4¼
Computer Microtechnology Inc	Jan 16	7	3⅛
Computer Terminal Systems, Inc.	Feb 17	4	1¾
Computing Efficiency, Inc.	Apr 9	15	5⅛
Condecor Inc	Mar 5	10	4⅞
Consulta-Search	Jan 22	5	1¾
Continental Leasing Co.	Jul 30	4½	4¼
Copy Data Systems	Jan 16	3	⅞
Core Labs Inc	Feb 19	11½	8
Creative Cine-Tel	Jan 6	5	1¼
Cryon Optics Inc	Apr 9	4	5½
Custom Computer Systems, Inc.	Mar 19	4	1⅞
Cutty's Inc	May 15	6	3½
Cybertek, Inc.	Jan 15	12	5
Dana Labs., Inc.	Mar 24	15½	7⅜
Data Display Systems Inc	Apr 2	7	6⅛
Data Instruments	Feb 19	10	3¼
Datamedia Computer Service	Jan 23	5	1
Dekalb Ag Research	Mar 3	26½	24
Dialog Computing	Jan 22	15	3⅜
Diamond M Drilling Co.	Apr 2	10	4½
Diplomat Electronics Corp	Jan 5	8	2¼
Display Sciences	Jan 22	6	4
Donaldson, Lufkin & Jenrette Inc	Apr 9	15	7¼
Double X Ranch	Jan 20	8	2½
Dynarad, Inc	Mar 30	5	2¼
ECC Corp	Mar 16	7½	6
ESL, Inc.	Jul 21	6	5¾
Ecology Development Corp	Jan 8	7	3¼
Educational Technology, Inc.	Apr 14	6½	1¼
Eldorado Electrodate Corp.	Jul 30	5½	2⅛
Electromagnetic Sciences Inc	Mar 20	3½	1½
EnviroMed Corp	Jun 16	9	12
Environmental Pollution Research	Jul 9	5	10½
Environmental Systems Int'l Inc.	Jul 1	5½	7¼
Eurofina, Ltd.	Jul 22	6	a....
Fabric Wholesalers, Inc.	Apr 14	11	9¾
Family Dollars Stores, Inc	Jan 20	14½	11
Fanfare Film Productions, Inc.	Mar 31	6	3¼
Fingerhut Corp	Mar 10	18½	7⅝
First Pennsylvania Mtge Trust (units)	Jul 22	20	20¼
Fluidic Industries	Mar 9	10	2¾
Garcia Corp	Jan 7	22½	12½
Gen'l Care Corp	Feb 19	12	2⅞
Ginn (M.S.) & Co	Jan 12	5	3¼
Goodrich Investors Group	Apr 7	11	7
Gourdine Systems	Jan 21	6	1¾
Granning & Treece Financial Corp	Feb 5	5	2¼
Guardsmark Inc	Jan 8	8	15
Herzing Institutes	Jan 26	10¼	7⅞
Hoffman Rosner	Apr 9	11	7½
House of Ronnie	Mar 30	7½	5⅝
Hytek Int'l Corp.	Apr 29	7	5⅛
Immuno-Science	Mar 17	7¾	3½
Inforex, Inc.	Jul 21	17½	23
Intermedia Systems Corp	Jan 21	6	1
Int'l Foodservice Systems Inc.	Feb 11	14	11
Jaco Electronics	Mar 17	7½	2
Kapok Tree Inns	Jun 18	7	7¾
Kettell (John D)	Mar 13	6	1
Key Learning Systems, Inc.	Apr 9	7½	2½
Keydata Corp	Apr 7	11	7½
Kiddie Care Corp	Apr 1	7	1⅛
Kiddie Products	Jan 14	10	6½
Killearn Properties, Inc.	Mar 20	8	5¼
Kirshner Entertainment Corp	Mar 12	10	4¼
Lamp Fashion Inc	Jan 5	4	1½
Lawnlite Co.	Mar 25	6½	2⅜
Lawson Products,	Apr 22	12½	9½
Learning Aids Group, Inc.	Apr 2	5	1⅝
Lee-Jeffreys Inc	Mar 25	5	3½
Lehman (T.H.) & Co., Inc. (units)	June 24	3	3⅜
Loctite Corp	Feb 25	26	24
Magnum Communications Corp.	Feb 25	3	3⅜
Marketing Resources & Applications	Jan 22	7	3⅝
Medical Systems Inc..	Aug 3	1	a....
Medical Testing Systems	Jul 24	10	9¾
Metalcrafters Specialties Inc	Apr 15	6	2½
Metropolitan Pathology Lab	Mar 4	6	6¼
Microfilm Systems	Apr 28	3¾	3½
Monfort of Colorado, Inc.	Jan 22	16	6
Napco Graphic Arts, Inc.	Mar 19	7	3⅜
Nat'l Compactor & Technology Systems, Inc.	May 7	5	3¼
Nat'l CSS Inc	Jan. 8		6¼
Nayadic Sciences	Jan 15	7½	3¼
Nelson Resources	Jan 27	6	2⅜
Nova Industries Inc	Feb 5	2½	1½
Nucleonic Products	Apr 6	5	2½
Octagon Industries	Jan 27	8	1½
Offshore Logistics	Feb 4	13½	11⅝
Ohio Sealy Mattress Mfg. Co	Feb 25	8¾	5½
On-Site Energy Systems Corp	Mar 2	10	2
Opticomp Data Management Corp	Apr 13	5	1
Orion Research Inc	Jan 20	8¼	2⅛
Oshman's Sporting Goods, Inc.	Apr 2	10	5⅛
Oxford Pendaflex	Feb 10	13	8½
Pacific Eng. & Production Co. of Nevada	Feb 5	2¼	3
Pacific Leisure Enterprises Inc	Jan 16	9	3½
Peerless Mfg Co	Feb 26	11½	9½
Penn Metal Fabricators, Inc.	Feb 5	1.15	3
Pharmacare, Inc.	Jun 5		6
Plasmine Corp	Jan 22	5	4
Rahal Communications Corp	Jan 21	12¾	5⅞
Raycomm Industs.	May 15	5	4
Raypak Inc	Mar 4	9	2¾
Recreation Leisure Land Corp	Jan 29	11¾	3½
Regency for Men	Mar 13	4	3½
Resdel Engineering Corp.	Mar 31	13¾	4⅛
R&R Associates,	May 11	5	2½
Ring Around Products, Inc	Apr 28	3½	3⅛
Rolamite Inc	Feb 11	10	3¼
Ross Aviation Inc	Mar 4	3½	1⅛
Royal Coach, Inc	Feb 11	10	3
Royalpar Industries, Inc.	Jan 14	5	4¾
Rupp Industries Inc	Apr 1	15	9¾
San Bar Electronics Corp	Mar 5	6	4¾
Scientific Software	Jan 28	12	2⅛
Scrubaire Inc.	Jan 26	2.50	2
Seaco Computer-Display Inc	Mar 10	10	6½
Sentinel Leasing Inc	Apr 10	5	2¼
Shenandoah Oil	Jan 13	16¾	11¾
Shoe World Inc	Feb 26	4	1¼
Shur-Gro Indust.	Apr 8	3⅛	1½
Sim-Kar Lighting Fixture Co Inc	Jan 27	8	3¾
Soverign American Arts Corp	Jan 16	6	5½
Spectran Inc	Jun 12	4½	3½
Spring Valley Foods, Inc.	Feb 5	14	3⅛
Standard Security Life Ins. Co. of New York	Aug 4	9	9⅛
Stirling Homex Corp	Feb 19	16½	15¼
Stuart McGuire Co.	Apr 9	12½	7
Sunmade Electric	Mar 3	9½	4¾
Sweater Bee By Banff, Ltd.	Jan 30	6¼	1¾
Sysco Corp	Mar 3	17½	13½
Systematics Genl Corp	Apr 10	6	2½
Technical Communications Corp	Mar 19	5	3½
Teddy's The House of Sea Food, Inc.	Feb 3	10	1½
Tele-Communications, Inc	Feb 5	16	8¾
TeleVision Communications Corp	Jan 15	17	6⅛
Teradyne Inc	Apr 3	25	16½
Tilco, Inc.	June 9	8	6⅜
Time Industries	Feb 3	8½	6⅛
Topper Corp	June 3	5	3⅞
Unagusta Mfg Corp	Jan 22	10½	1
United Companies Life Ins. Co.	Jan 27	19	2
Turbodyne Corp.	July 1	18	•21⅞
Ultra Dynamics Corp (units)	Jul 17	2½	2
Unagusta Mfg Corp	Jan 22	10½	1¼
United Companies Life Ins. Co.	Jan 27	19	18¼
United Record & Tape Industs. Inc	Jul 10	5	4⅛
United Technology Labs., Inc	Jan 15	12½	4¾
Universal Tax Systems, Inc	Feb 27	3	¾
Wachovia Realty Investments	Feb 3	20	18⅞
Wagner Mining Equipment Inc	Apr 2	13	15½
Waxie Maxie Quality Music Co.	May 1	3	2⅝
Wells Fargo Mtge Investors	Jun 30	20	17½
Western Union Comptr Utilites	Mar 17	12	2¾
Windy's National Franchise System	Jan 23	2½	½
World Computer	Feb 19	5½	3⅛

*Now listed NYSE
+Now listed ASE
x-sold ex-dividend

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
AMERICAN IRON AND STEEL INSTITUTE:					
Steel ingots and castings (thous.net tons)	Aug. 8	2,436,000	2,406,000	2,568,000	2,565,000
Index of production based on average weekly production for 1957-1959	Aug. 8	130.8	129.2	137.8	137.7
AMERICAN PETROLEUM INSTITUTE (00's Omitted):					
Crude oil and condensate output-daily average (bbls. of 42 gallons each)	July 31	9,349	9,344	9,483	9,288
Crude runs to stills-daily average (bbls)	July 31	11,077	10,983	10,966	11,052
Gasoline output (bbls.)	July 31	41,169	40,498	41,939	40,193
Kerosene output (bbls.)	July 31	4,854	4,004	3,985	4,432
Distillate fuel oil output (bbls.)	July 31	16,824	17,096	16,261	16,777
Residual fuel oil output (bbls.)	July 31	4,308	4,209	3,702	4,271
Stocks at refineries, bulk terminals, in transit in pipe lines					
Finished gasoline (bbls.)	July 31	201,369	201,985	211,351	187,975
Kerosene (bbls.)	July 31	21,276	21,229	21,848	19,154
Distillate fuel oil (bbls.)	July 31	161,012	154,079	135,263	156,106
Residual fuel oil (bbls.)	July 31	48,784	48,721	47,484	62,598
Unfinished oils (bbls.)	July 31	107,623	107,351	109,182	102,415
ASSOCIATION OF AMERICAN RAILROADS:					
Revenue freight loaded (number of cars)	Aug. 1	518,089	520,645	493,747	561,335
Revenue freight received from connections (no. of cars)	Aug. 1	378,433	386,246	404,282	415,154
COAL OUTPUT (U.S. BUREAU OF MINES):					
Bituminous coal and lignite (thous. tons)	Aug. 1	9,955,000	10,140,000	6,570,000	11,485,000
Pennsylvania anthracite (tons)	Aug. 1	168,000	160,000	67,000	213,000
NEW CONSTRUCTION PLANNING (000's Omitted):					
Total advance planning	Aug. 6	$1,244,300	$1,094,700	$856,800	$1,011,800
Private	Aug. 6	572,800	418,768	391,200	568,300
Public	Aug. 6	671,500	675,872	465,600	443,500
State and Municipal	Aug. 6	602,700	632,672	399,300	438,600
Federal	Aug. 6	68,700	43,212	66,300	4,900
RETAIL STORES, DEPT. OF COMMERCE: (Millions of dollars, unadjusted)	Aug. 1	7,000	6,916	6,902	6,649
EDISON ELECTRIC INSTITUTE: Electric output (inc.000kwh.)	Aug. 8	32,300,000	33,311,000	30,245,000	30,130,000
FAILURES (Commercial and Industrial) DUN & BRADSTREET, INC.	Aug. 6	233	209	228	161
IRON AGE COMPOSITE PRICES:					
Finished steel (per lb.)	Aug. 6	7.813c	7.813c	7.813c	7.125c
Pig iron (per gross ton)	Aug. 6	$68.10	$68.10	$68.10	$65.10
Scrap steel (per gross ton)	Aug. 6	$39.33	$39.83	$41.17	$32.17
METAL PRICES ("METALS WEEK" Data):					
Electrolytic Copper:					
US Producer delivered	Aug. 7	60.1c	60.1c	60.1c	N. A.
London Equiv. f.o.b. Atlantic Seaboard	Aug. 7	57.373c	59.447c	59.839c	N. A.
Lead (New York)	Aug. 7	15.000c	15.500c	15.500c	15.500c
Lead (St. Louis)	Aug. 7	14.800c	15.300c	15.300c	15.300c
Zinc (delivered)	Aug. 7	16.000c	16.000c	16.000c	15.000c
Zinc (East St. Louis)	Aug. 7	15.500c	15.500c	15.500c	14.500c
Aluminum (primary pig 99.5%)	Aug. 7	29.000c	29.000c	29.000c	27.000c
Tin straits (New York)	Aug. 7	170.000c	164.000c	154.250c	167.000c
MOODY'S BOND PRICES (Daily Averages):					
Average Corporate	Aug. 11	49.81	49.57	48.75	59.00
Aaa	Aug. 11	53.74	53.08	51.09	62.05
Aa	Aug. 11	51.22	50.85	50.05	60.18
A	Aug. 11	49.10	48.99	48.24	58.39
Baa	Aug. 11	45.78	45.84	45.99	55.67
Railroad Group	Aug. 11	47.01	47.18	47.45	57.49
Public Utilities Group	Aug. 11	49.28	49.16	47.73	58.85
Industrial Group	Aug. 11	51.72	51.09	50.30	59.55

		Latest Week	Previous Week	4-Weeks Ago	Year Ago
MOODY's BOND YIELD (Daily Averages):					
U. S. Government Short Term Bonds	Aug. 11	NA	7.60	6.57	7.15
Average Corporate	Aug. 11	8.71	8.75	8.89	7.36
Aaa	Aug. 11	8.09	8.19	8.50	6.98
Aa	Aug. 11	8.48	8.54	8.67	7.21
A	Aug. 11	8.83	8.85	8.98	7.44
Baa	Aug. 11	9.43	9.42	9.39	7.81
Railroad Group	Aug. 11	9.20	9.17	9.12	7.56
Public Utilities Group	Aug. 11	8.80	8.82	9.07	7.38
Industrial Group	Aug. 11	8.40	8.50	8.63	7.29
MOODY's COMMODITY INDEX	Aug. 11	405.9	406.0	410.9	401.9
NATIONAL PAPERBOARD ASSOCIATION:					
Orders received (tons)	Aug. 1	457,300	451,100	485,600	478,100
Production (tons)	Aug. 1	494,900	484,800	455,900	520,300
Unfilled orders (tons) at end of period	Aug. 1	730,400	723,200	687,900	1,043,900
OIL PAINT AND DRUG PRICE INDEX 1959 AVERAGE equals 100	Aug. 7	107.07	107.09	107.12	106.16
ROUND-LOT TRANSACTIONS ON THE N.Y.S.E. FOR ACCOUNT OF MEMBERS, EXCEPT ODD-LOT DEALERS:					
Transactions of specialists in stocks in which registered:					
Total purchases	July 17	7,266,440	7,592,480	7,374,060	7,459,860
Short sales	July 17	2,022,600	1,873,150	2,285,820	1,828,460
Other sales	July 17	5,329,630	5,626,040	5,411,980	6,281,040
Total sales	July 17	7,352,230	7,499,190	7,697,800	8,109,500
Transactions of Floor Traders:					
Total purchases	July 17	239,600	267,500	245,300	234,900
Short sales	July 17	48,100	56,300	75,400	47,200
Other sales	July 17	168,500	158,200	174,900	189,500
Total sales	July 17	216,600	214,500	250,300	236,700
Other transactions:					
Total purchases	July 17	3,447,207	5,622,689	4,025,164	3,226,656
Short sales	July 17	767,160	723,380	837,180	562,220
Other sales	July 17	3,094,182	3,038,510	2,445,871	3,070,818
Total sales	July 17	3,861,342	3,761,890	3,283,051	3,633,038
Total round-lot transactions for account of members:					
Total purchases	July 17	10,953,247	13,482,669	11,644,524	10,921,416
Short sales	July 17	2,837,860	2,652,830	3,198,400	2,437,880
Other sales	July 17	8,592,312	8,822,750	8,032,751	9,541,358
Total sales	July 17	11,430,172	11,475,580	11,231,151	11,979,238
STOCK TRANSACTIONS FOR ODD LOT ACCOUNTS OF ODD LOT DEALERS ON THE N.Y.S.E.					
Odd-lot sales by dealers (customers' chases):					
Number of shares	July 17	1,471,611	1,689,102	1,551,940	2,421,505
Dollar value	July 17	$47,726,730	$53,007,957	$52,875,057	$102,833,155
Odd-lot purchases by dealers (customers' sales):					
Number of orders (customers' total sales)	July 17	1,427,759	1,490,025	1,343,651	1,798,117
Customers' short sales	July 17	54,564	88,658	26,318	39,048
Customers' other sales	July 17	1,373,195	1,401,367	1,317,333	1,759,069
Dollar value	July 17	$50,123,427	$53,475,029	$49,436,407	$82,412,717
Round-lot sales by dealers:					
Total sales (shares)	July 17	546,640	524,040	436,560	575,080
Short sales	July 17	NA	NA	NA	NA
Other sales	July 17	546,640	524,040	436,560	575,080
Total Round-lot purchases by dealers (shares)	July 17	609,440	731,380	684,170	1,134,510
TOTAL REPORTED VOLUME OF ROUND LOT SALES ON THE N.Y.S.E. (SHARES):					
Short sales	July 17	4,414,540	4,880,230	4,599,790	4,122,060
Other sales	July 17	45,339,160	48,901,300	43,370,860	44,804,150
Total sales	July 17	49,753,700	53,781,530	47,970,650	48,926,210

Farmers Home Administration Notes Offered

An offering of 300 blocks of approximately $1 million each of notes insured by the Farmers Home Administration, a Department of Agriculture credit agency, is being made by an underwriting group headed by First Boston Corp., in association with Salomon Brothers, New York; A.G. Becker & Co. Inc., Chicago; and Merrill Lynch, Pierce, Fenner & Smith Inc., New York. The blocks of notes, carrying an interest rate of 8⅝ per cent, are being offered at par plus accrued interest, if any, from Aug. 20, 1970; they will have a maturity of 15 years pursuant to a repurchase commitment by the agency.

Under a block sale instrument introduced last January by the Farmers Home Administration the offering will consist of 300 blocks of notes. Each block will contain about 75 single notes with a total principal balance of approximately $1 million.

An insurance contract covering each block of notes invokes the full faith and credit of the United States Government.

The promissory notes included in the agency's blocks represent loans for housing in rural towns and countryside, family farm ownership, and rural community facilities such as water and waste disposal systems. The block sales approach through underwriters complements direct ordering of single notes from the agency's finance office in St. Louis, Mo.

The notes covered by the sale will be held by a custodian designated by the underwriters; investors are thus relieved of physically receiving, handling and accounting for each note purchased. Also, the investors benefit from automatic reinvestment of annual installments of principal into additional notes.

Schroder Naess Names Two V.P.'s

Schroder Naess & Thomas, the investment counsel division of Schroder's Incorporated, have announced that Mark Webber Harriman and R. Robins Rich had been promoted to Vice President. Both previously had been assistant Vice Presidents in the firm's Baltimore office.

Mr. Harriman joined Schroder Naess ten years ago after having been a registered representative with W.E. Hutton & Co.

Mr. Rich joined the firm in 1961.

New Pressman Branch

BOSTON, MASS. — Pressman, Frolich & Frost, Inc. has acquired the former office of Charles Plohn & Co. at 1 Central Plaza. The new office will be under the management of Albert Cohen.

Pacific Coast R.E. Exchange

SAN FRANCISCO, CALIF. — A major clearing house for the real estate industry, The Pacific Coast Real Estate Exchange, has been formed to help in creating a more active and accessible market for the trading of large blocks of land and major investment properties in Northern California.

Through the Pacific Coast Real Estate Exchange, real estate brokers, large property owning corporations, utilities, railroads, and institutions will list their property inventories in a computer data bank which compiles, categorizes, searches, analyzes, ranks and reports on the major share of California non-residential real estate currently available. By mid-June, PCREE officers expect that the Exchange will be operating in 15 cities to bring buyers and sellers together in an open market for more than $1 billion worth of Northern California real estate.

According to PCREE President Gerald J. Jackson, five major property types will be listed on the Exchange: industrial; commercial; income investment; agricultural; and raw land. He stated that the average price of each property will exceed $350,000. Jackson reported that in addition, PCREE will offer its members information on major properties for lease.

Headquartered at 140 Sansome Street in San Francisco, PCREE uses a Control Data 6600 computer to provide members with a random access listing, search, and retrieval information system covering Northern California properties from Fresno north to the Oregon border. A special agricultural section covers farm lands in Northern California, including the entire San Joaquin Valley. Exchange members or other firms throughout the U.S. searching for information on property for sale or lease in Northern California will submit their requests to a PCREE headquarters property specialist. In developing background information on a given property, Control Data's 6600 computer will perform mathematical computations at a rate of 3 million per second to analyze a multitude of individual features, constraints, and restrictions, and will print out the best five properties which meet a buyer's or seller's specific requirements.

PCREE President Jackson noted that no fee is charged until a potential match is found. He said that member fees for search only are set at $2.00 per search. Upon completion of a sale or exchange of property, the charge to members who have property listed with PCREE is ¼ of 1 per cent of the sale price or exchange basis plus $500.

Mr. Jackson said that an important additional service to PCREE members is an in-depth financial analysis of investment properties. He reported that this incorporates the fields of land economics, financing, tax law, and computer sciences. Upon request, PCREE enumerates in detail the cash flow, tax and equity, and value and rate of return information for the property under consideration.

Joins London Banking Firm

The London banking firm of J. Henry Schroder Wagg & Co. Limited has announced that Sir Henry Fisher, British jurist, will join its board of directors as of September 15.

Sir Henry Fisher, a judge of the High Court of Justice, Queens Bench Division, since 1962, is 52 years old and is the son of a former Archbishop of Canterbury. He will undertake the general duties of a full-time director and will specialize in corporate finance and corporate advisory activities. He has had extensive experience in commercial work in his practice at the Bar.

Sir Henry Fisher was educated at Marlborough and Christ Church, Oxford. During the war he served in the Leicestershire regiment and on the headquarters staff of the 14th Army where he attained the rank of Lieutenant Colonel. He is a Fellow of All Souls and a former chairman of the General Council of the Bar. He served on the Law Reform Committee and is a trustee of the Pilgrim Trust.

P.H.Cody Opens

Paul H. Cody is engaging in a securities business from offices at 8 East 54th Street, New York City.

DEALER-BROKER INVESTMENT LITERATURE AND RECOMMENDATIONS

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

Agricultural Industry — review — Piper, Jaffray & Hopwood, Incorporated, 115 South Seventh Street, Minneapolis, Minn., 55402. Also available are analyses of **Deluxe Check Printers, Inc.** and **Farmhand, Inc.**

Bond Market —review—Salomon Brothers, 1 New York Plaza, New York, N.Y. 10004

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

Central Banking in the U.S. and Abroad —discussion — W. E. Hutton & Co., 14 Wall Street, New York, N.Y. 10005.

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

Electric Power in Canada and the Electric Utilities — study with individual reports on **Calgary Power, Canadian Utilities, Ltd., Great Lakes Power Corp., Ltd., Newfoundland Light & Power Co., Ltd.,** and **Nova Scotia Light & Power Co., Ltd.** Richardson Securities of Canada, One Lombard Place, Winnipeg 2, Man., Canada.

Fixed Income Securities — survey — with list of selected issues — Evans & Co. Incorporated, 300 Park Avenue, New York, N.Y.10022.

Investing for Yield and Capital Appreciation — report on "straight" **BONDS** and **Convertible Bonds** — Frederick & Company, Inc., Cudahy Tower, Milwaukee, Wis. 53201.

Market Outlook —discussion in current issue of "Tabell's Market Letter" — Delafield, Harvey, Tabell, 909 State Road, Princeton, N.J.08540.

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

Residential Building Industry — analysis with individual comments on **Emhart Corp., Fedders Corp., Forest City Enterprises, Robertshaw Controls, Thomas Industries,** and **Weil-McLain** —Goodbody & Co., 55 Broad Street, New York, N.Y. 10004.

Selected Stocks — issues which appear interesting for various investment objectives — Roberts, Scott & Co., Inc., First National Bank Building, San Diego, Calif. 92112.

The Summer Market — review — Harris, Upham & Co., Incorporated, 120 Broadway, New York, N.Y. 10005. Also available is a report on **Hercules Inc.**

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Aluminum Company of America — analysis — C.B. Richard, Ellis & Co., 5 Hanover Square, New York, N.Y. 10004. Also available is a report on **Sperry Rand.**

Arkansas Louisiana Gas — report — Shearson, Hammill & Co., Incorporated, 14 Wall Street, New York, N.Y.10005. Also available are reports on **Associated Baby Services, Beckman Instruments, Eastman Kodak Co., Melville Shoe Corp., Overnite Transportation, Overseas Shipholding Group,** and **Sundstrand Corp.**

Chilton Corp. — analysis — Schneider, Bernet & Hickman, Inc., First National Bank Building, Dallas, Texas 75202.

Den-Tal-Ez, Inc. — report — The Marshall Company, Inc., 111 East Wisconsin Avenue, Milwaukee, Wis. 53202.

Diebold Inc. — analysis — McDonald & Company, Central National Bank Building, Cleveland, Ohio 44114. Also available are reports on **Reliance Electric Co.** and **Fisher Foods.**

Dresser Industries — comments — Walston & Co., Inc., 74 Wall Street, New York, N.Y.10005. Also available are comments on **Lone Star Gas** and **Philip Morris.**

Ethyl Corp. — report — Scott & Stringfellow, P.O. Box 1575, Richmond, Va. 23213. Also available are comments on **Brenco, General Medical Corp.,** and **Spacerays, Inc.**

First Union Inc. — review — Rowland & Co., 720 Olive Street, St. Louis, Mo. 63101.

General Electric — comments — Hoppin Bros. & Co., 55 Broad Street, New York, N.Y. 10004. Also available are comments on **General Motors, International Paper, Ingersoll Rand, Phillips Petroleum, Masonite, Petrolane, R.J. Reynolds Industries,** and a review of the **Market.**

General Signal — report — Weis, Voisin & Co., Inc., 111 Broadway, New York, N.Y. 10006. Also available is a report on **Pittston Co.**

Gerber Products Co. — analysis — Watling, Lerchen & Co., Forst Building, Detroit, Mich. 48226.

Magic Chef Inc. — report — The Robinson-Humphrey Company, Inc., 2 Peachtree Street, N.W., Atlanta, Ga. 30303. Also available are reports on **Delta Air Lines, McLean Trucking Co., Atlanta Gas Light Co., Cummings & Co., Genuine Parts Co.,** and **Atlantic Steel Co.**

Nationwide Corporation — analysis — The First Columbus Corporation, 58 East Gay Street, Columbus, Ohio 43215.

Union Pacific Corp. — report — H.O. Peet & Co., Inc., 10th & Baltimore, Kansas City, Mo. 64105.

Edwards Hanly Expands Dept.

A.S. Maiss

Edwards & Hanly, 2 Broadway, New York City, members of the New York Stock Exchange has begun a major expansion of its institutional sales and research department, it has been announced by Bert G. Edwards, managing partner.

Named to head the augmented institutional sales department was Alan S. Maiss. Mr. Maiss, a member of the department since March 1969, began his association with E&H in 1967 as a registered representative in the New York offices.

Debentures Sold By Shell Oil Co.

An underwriting group managed by Morgan Stanley & Co. Inc., New York, announces the offering of $150,000,000 of Shell Oil Co. 8½ per cent debentures due 2000, at 99¾ per cent plus accrued interest, to yield 8.52 per cent.

The debentures are not redeemable other than for the sinking fund prior to Sept. 1, 1980 with moneys borrowed at an annual interest rate of less than 8.52 per cent. Otherwise, they are redeemable at optional redemption prices declining from 108.25 per cent for those redeemed prior to Sept. 1, 1971 to 100 per cent for those redeemed on and after Sept. 1, 1995, and for the sinking fund at 100 per cent together in each case with accrued interest. The debentures are entitled to a sinking fund beginning in 1976 calculated to retire 80 per cent of the issue prior to maturity.

Proceeds to the company from the sale of the debentures will be added to general funds and will be available, together with internally generated funds, for general corporate purposes, including capital expenditures. Capital expenditures for 1970 are expected to be approximately equal to 1969's spending of $629 million. For the first six months of 1970 capital expenditures amounted to approximately $284 million.

The company is affiliated with the Royal Dutch/Shell Group of companies. It is an integrated oil enterprise operating principally in the United States. It is engaged in the exploration for, and development and production of, crude oil and natural gas, the purchase, transportation, refining and marketing of petroleum and its products, and the manufacturing and marketing of chemicals. In addition, it recently began exploring for crude oil and natural gas in Canada pursuant to joining venture agreements with Shell Canada Ltd.

The Security I Like Best

Continued from Page 2

potential and defensive nature of this fine company.

A closer look at Earl Scheib's business reveals that of the company's 160 shops, only three are franchised. The company prefers to own their own shops and therefore, no additional franchises are planned. All of the shops offer a paint job for a standard price of $29.95 in any one of 27 Standard colors, however, the company has recently offered a paint job for $39.95 in any one of 27 "Glamor" colors. All paint jobs carry a written guarantee, which covers fading for a five-year period. The company manufactures its own "Diamond Gloss" automotive paints and certain other materials utilized in its business. Earl Scheib also performs light body and fender repair work, which last year accounted for approximately 27 per cent of sales and earnings. Management estimates that the average cost per customer is approximately $40.

The company has recently introduced a simulated vinyl top material at a price of $19.95 over and above the normal paint job price of $29.95. Similar vinyl tops run between $40-$50. Costs relating to this product are relatively minimal, therefore margins are substantial. At the present time, no outside advertising is being employed to promote this product, yet over 7 per cent of customers are now requesting such tops. Management plans to aggressively advertise simulated vinyl tops, which should improve the company's profitability.

As previously mentioned, Earl Scheib now operates 160 shops nationwide. Plans call for the opening of at least 25 new shops this year. The acceleration in shop openings is part of management's master program to double the company's size and sales over a period of four years. As most of the company's locations are leased, financing anticipated growth should not be a problem. The new shops will primarily be concentrated in the Southern, Southwestern and Western areas, where good weather conditions keep paint volume high all year long. New shops total about 7,500 sq. ft. and average between $90,000-$100,000 gross sales in the first year. New shops are profitable within 60 days after opening. Most openings are scheduled for late winter in order to catch the good spring, summer and fall trade. The company is continually training personnel at most existing locations in order to staff new shops with experienced crews.

In recent years, management has made a major effort to improve the screening of new sites. The results of their efforts is indicated by the fact that shops closed dropped from 28 in fiscal 1965 to one last year. We believe that this speaks well for management's continuing efforts to improve the overall profitability of the firm.

Earl Scheib is extremely strong financially. On April 30, 1970 current assets of $4.7 million exceeded current liabilities of $1.7 million by $3.0 million, a current ratio of 2.8:1. Of total current assets, $3.7 million was in cash or equivalent. The company has no long-term debt and return on stockholders' equity was 23.2 per cent last year. There are 858,380 shares outstanding. The stock is listed on the American Stock Exchange (ESH) and is presently selling at about 22, down 20 per cent from its high. The company pays a dividend of $0.64 per share (2.9 per cent yield) and I anticipate a stock split, possibly 3-for-2 within the near future.

Montgomery Scott Div. Formed

Montgomery, Scott & Co., members of the New York Stock Exchange, have announced the formation of its Delafield, Harvey, Tabell division with offices at 909 State Road Princeton, N.J. Affiliated with the new division are Maturin L. Delafield, Ashton Harvey, Anthony W. Tabell, George V. Coe III, George C. Crane and Robert J. Simpkins, Jr.

Mr. Delafield was formerly a partner in Delafield & Delafield in charge of the investment advisory department. Mr. Tabell was senior vice president in charge of technical research for Walston & Co., Inc.

DIVIDEND NOTICES

WASHINGTON AND YOU

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

WASHINGTON, D.C. — The first of periodic "Inflation Alert" study reports by President Nixon's Council of Economic Advisers spotlights nine basic economic points. The text and the charts total 137 pages.

The report that went to the White House was signed by Chairman Paul W. McCracken and Associate Councilmen Hendrik S. Houthakker and Herbert Stein. It describes the course of inflation in the United States, starting in 1956, but spotlights the years since 1965 and most particularly on the developments of 1970.

It concentrates on the ways in which the rising and falling tides of inflationary pressures work through the price and wage system. Chairman McCracken at the outset expressed the hope the report will contribute to an understanding of what is happening today. The Nation's leadership is engaged in an effort to end the exceptionally long inflation. Therefore, never before perhaps have price statistics been watched so closely for clues to the probable course of the current inflation.

The President's Council of Economic Advisers contends that unless the fires of inflation are seen in some historical perspective, the daily economic news breaking out of Washington, New York and other places, can be misleading, "pointing to trends that do not exist and obscuring the basic developments." It is important, they said, that the American people should understand what is going on, because they are participants in the process. They make decisions, as workers, businessmen, consumers, and citizens, and their attitudes to the process condition what can happen.

"In this kind of review presented in this report," the Presidential Advisers asserted, "there is a danger of failing to see the forest for the trees. The finer the detail with which price behavior is examined the greater the danger that 'explanation' becomes decomposed into a series of statements like this: 'The price of eggs rose because extreme heat kept chickens from laying.' But of course there are times of extreme heat in periods of no inflation, and while the heat may explain something, the sum total of such explanations is far short of an explanation of inflation."

The report is directed to the National Commission on Productivity. The Commission includes management, labor and government officals.

Initial Findings

Thus far this year segments of the economy that made a particularly heavy contribution to the rise in the wholesale price level have been metals and metal products, fuels and power, pulp, paper and allied products, and non-metallic mineral products, said the President's advisers.

Some areas of marked importance for price-cost developments in recent weeks discussed in the report are the wage and price developments in the trucking industry, the cigarette industry, the rubber industry, and in electric power.

Prices of industrial fuels have advanced with exceptional rapidity in 1969 and especially during the first half of 1970. President Nixon a few days ago warned of a possible acute fuel shortage this winter. He called in the Domestic Council to seek solutions to the potential problems. Chairman McCracken of the Council of Economic Advisers was named chairman of a special committee to make an expeditious study of the problem and make recommendations.

Why Coal Prices Increased

The foremost increase in the price of fuels has been for bituminous coal which rose at the rate of 18 per cent in the first half of 1969, and leaped to a 56 per cent rate in the first of this year. There have been several reasons for this big increase. Although the Council did not say so in the report, part of the big increase is directly traceable to Congress, plus the anti-pollution demands of Federal, State and local regulations for the burning of low-sulphur coal by utilities and industrial plants.

Last year Congress under emotional pressures rushed through the Federal Coal Mine Health and Safety Act, designed to eradicate coal mine hazards. This called for much additional new equipment in a hurry, and required the Bureau of Mines to hire many more inspectors, among other things. The regulations were so swift and stringent that many small mines had to close down. The increasingly stringent pollution regulations are also responsible for closing some mines that had no reserves of low-sulfur coal.

Labor unions came in for discussion in the report and some of the statements were pertinent. Output per man declined an annual rate of 2.5 per cent during the first quarter of 1970, while unit labor costs increased to an annual rate of 9.6 per cent. In the second quarter, however, a 3.1 per cent productivity increase offset much of the increase in compensation per man-hour, and unit labor cost rose to an annual rate of 1.9 per cent.

Wage Increases Cited

Wage increases negotiated under major collective bargaining agreements have not slowed down in the first half of 1970. First year wage changes under collective bargaining agreements negotiated during this period averaged 13.4 per cent.

Recent high wage settlements in the construction industry have attracted considerable attention, and rightfully so. Increases in construction in 1969 and the first half of 1970 were about twice the increases in manufacturing, according to the Presidential Economic Advisers. The nonresidential construction segment is characterized by higher wages, higher skill requirements, a higher degree of unionization, and strong power to require unionized construction.

"Since the residential segment is estimated to be only about 20 per cent unionized, opportunities for restricting entry are relatively limited," said Chairman McCracken and his Associates. "Nonresidential on the other hand, is about two-thirds unionized, and relatively high wages in the unionized sectors of the construction labor market are a sympton of their ability to limit entry."

A study of wages for union and nonunion construction workers in 1965 showed that union hourly wages averaged 52 per cent higher than nonunion wages. Findings by the Bureau of Census indicate that yearly earnings of construction craftsmen were 67 per cent higher for union than nonunion workers, and about three times as high for union as for nonunion construction laborers.

Cost of Services Mount

In making observations on selected price and wage developments, the Presidential Advisers said there has been a sharp increase in the earnings of self-employed professional, technical and kindred workers. Although no mention was made of medical, dental or even plumbing services, anyone who has had medical or dental services lately can quickly tell you that the services have increased substantially since 1965. Plumbers in some cities are now making $10 to $20 an hour, depending on the job.

Another important increase appears to be in progress, said the report released by the White House. Thus far wholesale electric rates have moved up slowly, but numerous utilities have announced rate increases because of the rising costs of fuel and labor. They have applied to regulatory authorities to raise rates.

TVA Boosts Power Rates

Only recently the Tennessee Valley Authority (TVA), the wholly-owned Government corporation, announced an average price increase of electric power at wholesale at 23 per cent. TVA is the Nation's largest generator of electricity. The recent price increase announcement was the fourth increase in the last few years for this agency.

In addition to higher fuel costs and the shortage of coal and natural gas, a contributing factor of higher electric rates is the high cost of borrowing money. Chairman McCracken said the rate on Aaa bonds has gone up 21.5 per cent in a year. Most power companies, it was explained, have to borrow heavily for expansion and to refinance past borrowings. The capital costs, which are significant, in this industry, are up noticeably.

The reasons for higher prices for rubber products was explained in the report. During April and May of this year, collective bargaining agreements were negotiated with 5 rubber companies covering approximately 70,000 workers. These called for average annual increase of 7 to 8 per cent in hourly compensation for a three-year period.

The total value of shipments of fabricated rubber and plastic products in 1969 was about $16.6 billion, including $4.6 billion of tires and tubes and $11.9 billion of rubber footwear. Prices of tires and tubes for passenger cars for the replacement market were raised about 5 per cent by most producers the past two months.

The average retail price of a pack of cigarettes has been raised from 3 to 4 cents the past 12 months. This does not include a previous hike that grew out of a June 1969 increase in manufacturer's prices. The average consumer spends about 1.9 cents of our every dollar on cigarettes.

Various states and some Municipalities have increased cigarette tax the past year. Of the total increase, about one-quarter goes to the manufacturers, about half to States and municipalities and the remaining quarter to distributors and retailers.

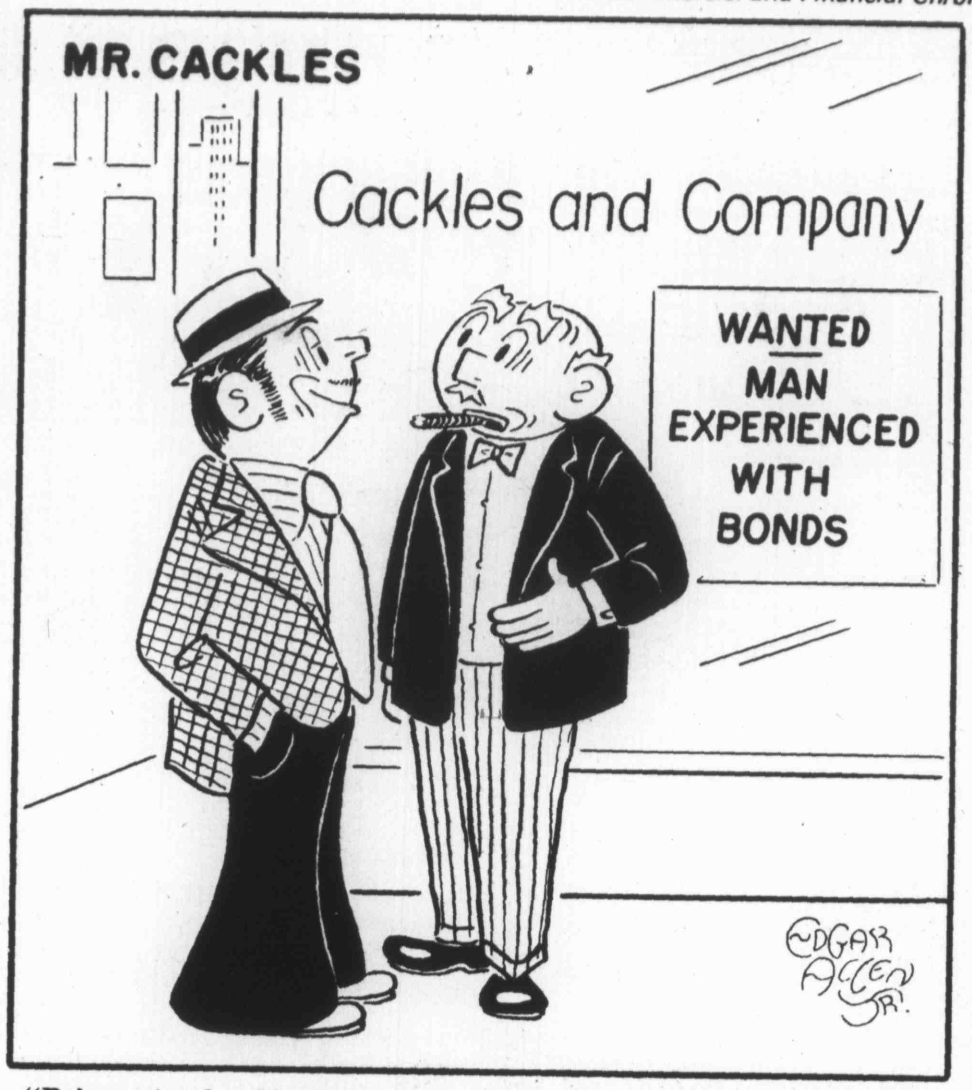
Truckers to Offset New Wage Agreement

Transportation costs have likewise figured in the inflationary conditions of this country. In July, employers and employees in the trucking industry reached final agreement on a 39-month package of wage and fringe benefits covering approximately 450,000 workers. The settlement raised wages and fringe benefits by about 12 per cent per year.

It is too early to tell how much of a rate increase the trucking companies are going to levy on the shipment of goods. Obviously rates will be increased, and they will be passed on to the consumer who really pays the freight.

The Nation's total annual bill for haulage by "for hire" trucks is estimated at about $16.5 billion. A 5 per cent increase in haulage rates would increase the freight bills by more than $800,000,000 a year.

(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.)



"Being out on bond isn't exactly the kind of experience we had in mind."

Bruce Mills Now With

CLAYTON, MO. — Stix & Co., Inc., members of the New York Stock Exchange, have announced that they have acquired the Clayton, Missouri office of R.G. Mills & Co. and will operate it as a branch of Stix & Co. The office will be under the management of Bruce Mills, formerly vice president in charge of sales for R.G. Mills & Co., Inc.