

# How to Increase Savings

by LANCASTER M. GREENE

THIS question faces the young, as well as the old and retired. Recently a friend gave me a book called, *How to Become the Richest Man in Babylon*. First, said this rich man, you must have the character to save 10 percent of all the sums which go through your hands. Then you must invest these savings in such a way that they will earn and increase. Though it sounds very simple, it still baffles 99 percent of the human race. To save, and then to increase their talents so that more may be entrusted to them, is beyond their powers of self discipline.

Recently the newspapers carried an account of the richest man in Italy. His recipe is simple. He saved 25 percent of all sums he handled and invested them plus 25 percent of the increase. It works.

My concern is that invested savings increase substantially per year on an average, even if there are setbacks some years.

Franz Oppenheimer, great German economist, in a classic entitled *The State* discussed this by implication when he described the economic versus the political means. Referring to Maeterlinck's "Life of the Bees," he told how bees normally produce honey slowly and painfully from the nectar of flowers. This Oppenheimer called the "economic means."

Occasionally a hive learns to steal honey from another hive. This, the "political means," is so much faster that these bees can never thereafter be induced to go back to the slower method of extracting honey from blossom nectar. Such hives must be destroyed by the alert beekeeper.

Spenders predominate, and they insist that money should depreciate each year so that borrowers can more easily repay loans, and so that labor union

leaders may deliver wage increases each year to keep them in power. This is the history of man and his money for 4,000 years.

Is it possible to beat the slow "economic means" of saving and investing with managements of character for what I call the "miracle of growth?"

In the 1920's one customer of mine was a wealthy jeweler. He had beaten the game at the start of World War I. He heard, on vacation in the Adirondacks, that war had broken out. Taking a train to New York he sold everything—his house and his entire inventory of jewels. Six months later he was able to repurchase similar assets at 25 percent of his sale prices, as the squeeze of war made money difficult to obtain. He had a million dollars when values of his assets rose again.

He went back to the slow process of buying and selling jewels and investing his capital for income but dreaming of the fast touch again.

In 1926 a broker told him to stop investing and sell short stocks he did not own but which the broker could borrow to sell for him. In three months he had made three million dollars. He told me he would never invest again, but would just wait to take advantage of patient savers. Each big upswing in the market found him selling short—but each time the stocks kept on rising and he covered at a loss. Finally, by August 1929, his entire four millions had gone down the drain. He was bankrupt.

By the 1930's our country had come to the end of growth—it had become a "mature economy," according to the Administration's economists. Building capital by investing had come to an end, they said. What rubbish, as we look at that widely accepted belief of the 1930's.

In 1941, following Pearl Harbor, stocks collapsed. Our nation's survival appeared in jeopardy. By 1946 the war was over. Washington economists told us we would have as many as 15 percent unemployed.

In 1950 to 1953 the excess profits' tax made it useless to own common stocks, we were told. Again in 1957 a severe depression was forecast. In 1962 stocks collapsed. Through all these difficult times when our problems appeared insurmountable, our economy grew vigorously. Well managed U.S. companies grew—some remarkably.

Shareholders who held through all these threatened disasters have done well. Fortunes have been made—not by buying and selling, but through patient holding—confident that well chosen, capable management would find ways to meet changing conditions in our economy successfully.

Today we have Vietnam, high cost money, the precarious British pound, and our balance of payments deficit—to worry us. Are these problems new? No. They were present early in 1966 when share prices were rising to 1000. However, share prices have dropped 26 percent in the meantime. As problems are obvious to all, they come closer to some kind of solution, or at least to an amelioration. Yet lower stock prices frighten people into selling stocks they should be buying.

Investors should be studying the most capable management teams and becoming share participants. Instead they are wringing their hands and waiting for a time when there are no problems, or at least until other people bring about a rise in stock prices.

There are a few companies worth buying today. One is an aerospace business with a 37-year record of growth. It is earning \$6.25 per share. Next year we anticipate more than \$7 per share on its more than a billion dollars in sales. It sells at only  $7\frac{1}{2}$  times next year's probable earnings.

A heavy industry concern which is leading the world in machine tools will earn more than \$4 per share in 1966 and probably \$4.50 or more in 1967. It is selling at less than 8 times earnings of next year. Who believes business will be less competitive or labor less demanding? With these pressures the machines which dramatically increase labor's ability to produce will be in greater demand.

Another company is the dominant supplier of jet aircraft to the airlines of the entire world. It should earn \$4.50 per share in 1966 and will probably earn \$5.25 next year. That any company could catch up to it in the future seems doubtful, almost impossible.

Here is a chemical and metals company earning \$3 a share with \$3.70 likely for next year. It sells at 12 times next year's earnings. Sales estimates of a billion dollars make this an important concern, and a 15 to 20 percent increase per year seems possible to management.

Should you wait for a setback in stock prices, or is it more sensible to risk its dipping a few points while you own it?

Another company has annual sales exceeding a billion dollars in chemicals and rubber tires. It will earn \$3.30 this year and probably \$4 in 1967. It sells at 10 times 1967 prospects. All automobiles on the road require tire replacements about every 20,000 miles of use. Replacement tire sales are more profitable than original equipment sales, so why worry that new auto sales are currently lower than a year ago? You will find that a company's greatest resource is brains plus character of management. If you invest in the most capable minds in management and rule out all but managements of highest integrity, my past 43 years devoted to the investment business convince me that your capital and income will multiply over the coming years.