

Investing for 1964 to 1969

by LANCASTER M. GREENE

HISTORY records a trend of currency erosion and money reorganization dating back to Hammurabi, King of Babylonia, in 2200 BC. It seems that popular pressures for higher wages have always been met by a new increase in money supply and debase-ment of the currency.

The new U. S. President, though not schooled in London's socialist School of Economics, is obviously committed to continuance of his predecessor's program, based on the theory that we do not know how to spend our own money so the government will take it away from us in taxes and spend it for us. Only a small amount trickles back in community, welfare and social security benefits eagerly sought by voters.

A long look ahead indicates therefore that one's savings should be largely in common shares where there is a reasonable possibility of growth in income as the only basis for expanding capital. But how does one pick shares for long term investing? As I have stressed in previous reports, the first safeguard is to limit investments to the 1300 managements which qualify for listings on the New York Stock Exchange. This range is extensive enough in type and quality of industries to suit almost anyone's objective.

Fortunately we made a smooth transition to a new leader in the White House, which helped to underline our relative stability in the world market. Capital investment is important if we are to prosper at home and compete abroad. Some of the industrial surveys indicate a rise of 8 to 11 per cent in equipment, rather than in bricks and mortar. I mentioned the Cincinnati

Milling Machine Company three years ago as an international leader in the manufacture of machine tools — the tools with which production tools are made. October was the best industry month for orders since 1956. Modernizing programs have been put back on the shelf year after year but contracts for them are now being let. Indications are good thus far for 1964, as it takes 6 to 18 months to deliver the larger tools.

A surge of new families and births resulting from the postwar baby boom seems likely in 1964 and up to 1967. If we can maintain a rising standard of living this will strain our industrial capacity, and we have not had a capital goods boom since 1956-7. In the light of new technology much plant equipment is now obsolete and inefficient.

Our steel, chemical and aluminum over-capacity may prove unreal, and the well prepared management may pay rewarding dividend increases to investors who acquire them in 1964. Alcoa and Union Carbide are two leaders to watch here.

With the I.C.C. approving the merger of the Atlantic Coast Line and Seaboard Airline, and the C&O-B&O railroads, the climate appears to be improving for the better earning rails. The latest anti-featherbedding recommendations are a hopeful step toward efficient competitive service. This was tested when 2000 employees of the Florida East Coast Railroad went on strike and the management hired 700 new employees who are keeping the service running adequately.

One of the handicaps in transportation has been the empty back haul of

rail cars and trucks. I called attention five years ago to the development of trailers-on-flat-cars, known as piggy-backing, promoted by U.S. Freight, and I expect its margins to improve each year as they fill up cars for return trips.

Production in our other popular means of transport, the motor car, is growing steadily. As better traffic patterns are developed — 7 million car-sales years are normally anticipated, and 8 and 9 million car years seem only a few years off. Economists are looking ahead to 26 million car years by the end of this century. The solution to our traffic problems however will be very difficult without the important land value taxation reform so necessary to overcoming urban sprawl.

Last year I mentioned General Motors at \$58 as relatively the more attractive giant than American Telephone at \$120. General Motors still yields over 5 per cent at \$76 on a dividend rise to \$4. American Telephone share paying \$4 in 1964 returns about 2.8 per cent at \$138. While telephone earnings per share are about the same as General Motors, they will be diluted by the necessary sale of new shares in 1964 to raise about \$1.2 billion toward new equipment and to back up a much larger loan.

The most successful company in building commercial transports for world passengers and cargo is Boeing. Its management appears likely to gain the majority of its income from such improved equipment as the new 727, a remarkably comfortable riding and landing plane that will bring modern jet service to hundreds of smaller airports which could never take a jet before. Boeing has sold over 42 per cent of the world's jet transports and may well maintain or improve this record.

The airlines have survived six years of difficult times and low earnings, yet some of them have long term growth

trends. The biggest of these in the U.S. is the well managed United Airlines which will fly forty of Boeing's newest 727 jets.

The motion of the world is powered by oil, which does not recognize national boundaries but flows wherever it is needed and can be paid for. The two most ubiquitous companies are Standard Oil of New Jersey and Royal Dutch — both with excellent managements.

Often people want to know how to get in and out of the market. Despite all the well publicized systems for doing this, and the enthusiasm for switching into stocks that are currently going up, no formulas have proved consistently successful in the four decades of my experience in Wall Street. The patient holders have inevitably achieved superior results, especially when they have tried to invest only with managements they could envision as being firmly established for a lifetime. I always stress that changes should be made only for specific reasons, a principal one would be of course evidence of any deterioration in management.

If you are wondering how to protect your capital in a restless economy keep a cash reserve in the savings bank sufficient for one or two years' expenses. When you invest, if you assure yourself in advance of the quality of any management whose shares you buy, you will be in a fairly safe position to profit as one of the nation's 18 million investors. A marginal number of these — about 15 per cent — will, according to estimates, be the frightened sellers during the coming year, and also the most enthusiastic buyers. The calmer 85 per cent will observe and act with more deliberation. The patience required for success and the discipline with which you meet the questions that arise, will make you feel you have earned the gains I hope you achieve.