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Investment Policy For Tomorrow

BY

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TOUCHING the pocketbook nerve describes the nature of free markets, whether for meat, vegetables or stocks. The news of what people vote for daily filters back to growers, who change from lean beef to well marbled fat, or from fat pigs in the U.S. to lean ones for Canadian bacon. Some vegetables are popular for a time, then new ones take their place. When electronic and science stocks became wonders in the marketplace, certificates of electronic and science companies were printed like mad, and money flowed into competition. This dropped the high fliers such as Texas Instruments, Ampex and Transitron to fractions of their popular heights.

When a confident young man became President of the United States, the market for anything called a growth stock found exuberant and careless buyers. The Bay of Pigs disaster shook the confidence of the business community, but the administration still said it would "get the economy moving." In April 1962 the President said the steel companies could not raise



prices to try to pass on wage increases. Then business confidence was badly shaken in its hopes of making a profit to justify investment.

The sensitive market watched business men for any recession in business, and prepared for the worst by falling sharply. But everyone was able to prepare for it so the recession disappeared into some vague future time.

The administration has been trying to regain confidence among business men and has proposed tax cuts to increase the area of choice in the hope that business men will make capital investments in new equipment. A long awaited relaxation in treasury restriction on depreciation started to encourage investment in labor aiding machinery. A cut in corporate taxes

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would be five times as good for the economy as a consumer tax cut, which would be a mere shot in the arm.

The vast majority of buyers invest to hold for long term income and increase in value. Even they are given furiously to think, however, when we have a violent downswing. The Monthly Investment Plan buyers are a rather thrilled minority during a downswing, thinking this will help their average cost.

The speculators for the short, quick profit, often lose, but help make a market so that long term investors can shift their positions, or for example, so a widow can sell enough to pay estate expenses. These fast dollar speculators exaggerate any swing; they make money fast at times and lose it fast when we have a loss of confidence. Instead of trying to outguess the market, investment buyers should estimate the character and skill of management.

What does all this do for capitalism? It makes it easy to attract investment to new ideas at times, bringing great increases in competitive production and lowering the profits of the innovators. Then the ablest managed emerge and grow as the less able decline, are merged into the strong, or just disappear. Remember the many auto companies and the myriad radio companies of the 20's and how few they became?

Right now it is hard to sell the new and untried concerns. People want growth as much as ever, but they want a proven record of management, earning power and a good dividend record. The hordes of new stock salesmen have been decimated. Those who stuck it out are working hard to make a living, remembering that another time will come when customers call so fast they can't make calls themselves. Some clients will settle for 5 per cent (or better) income, others who are more

sophisticated will settle for 3 per cent or less, if the company growth record indicates future promise.

Among the blue chip managements General Motors at 58 paid \$3 for 1962 and may well pay \$3 to \$4 dividends for the next five years. Some speculators say it has too many shares to move rapidly. Investors are happy with the income and less concerned with rapid movement. No other blue chip yields as much, unless it be one of the railroad managements. Speculators have taken American Telephone up to a price where its yield is 3 per cent, for example, hoping for a modest increase.

Southern Railway has grown through the tough rail years and it yields about 5 per cent. Norfolk and Western earnings started to grow when they gave up prejudice against diesels, and it yields 5 per cent on the \$5.50 it paid in 1962 and more on its indicated \$6.25 for 1963 if the extra remains the same with the increased quarterly.

In aerospace it has usually paid to invest in a top quality management after it has declined on being a runner-up on a major contract. Boeing is down to a 5.4 per cent income, with the knowledge that 1963 will have lower earnings and that 1964 earnings should rise sharply due to major deliveries of commercial jets, around \$500,000,000, with much higher margins of profit than are allowed on the government work.

Grumman, a small aerospace quality management, has just won two major contracts which should double its sales and earnings within three years. Earnings might rise further for the long life of these contracts. Investors are willing to accept $3\frac{1}{4}$ per cent yield in the hope of higher dividends later. In looking for growth stocks it is often said that you have to count on seven years "from test tube to tank car."

U. S. Freight has the management

who have promoted piggy-back trailers on flatcars. It has built piggy-back patiently with the railroads and the Interstate Commerce Commission for the past seven years. Piggy-back accounts for between $2\frac{1}{2}$ and 3 per cent of U. S. carloadings and is far more profitable than boxcar loadings. It should be up to 10 per cent of all rail income in another two or three years. This is a saving grace for rails as the diesel power was for about fifteen years, but U.S. Freight is the biggest single beneficiary as a worldwide freight forwarder. Individual investors are willing to buy U.S. Freight at 38 to yield 3 per cent, hoping for continued growth.

The June 1960 House & Home issue on Land* and the September 1962 Reader's Digest article on "How to Stop Land Speculation,"** influenced investors as well as the SEC to reexamine the policies and bookkeeping of real estate investment companies. Management of good buildings may find encouragement in such studies, as land speculation companies are exposed through unfavorable articles on real estate syndication and trust practises. If taxes were shifted to land values the building trades would greatly benefit because everyone would "get into the

act," whereas now only the restricted few can use urban renewal laws.

On the New York Stock Exchange, where only quality concerns can now secure listing, there are nevertheless 1200 different companies listed. Bonds are considered a poor hedge against inflation and are bought mostly by institutions. Government bonds and treasury notes are promises that the government will pay you back out of your own taxes, and since they have always been paid in money worth far less than they were bought with, they are not popular with individual investors. The bond section of the New York Stock Exchange has steadily shrunk in the forty years I have been in Wall Street, to a small room where bonds are traded from card files. I have mentioned here a few common stocks which I hope may stimulate study as to how savings may be multiplied by long term investment in a market with plenty of government interference but still about the freest in the world.

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Red-letter days to mark on your calendar are July 3-7 for the nineteenth annual conference of the Henry George School at the University of Toronto. Watch for further details in future issues of HGN.

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