

# Stock Selectivity for Savings

by LANCASTER M. GREENE

**I**NFLATION in the United States has been gradual and, so far, controlled. The dollar has come down from 100 in buying power when I started in Wall Street in 1923 to about 23 cents today. Bond investment has shrunk from occupancy of a large section of the Exchange floor to a small room where trading is done from card files.

Stock investing has changed from a turnover of 112 per cent in 1929 to 14 per cent in 1964. The trading volume for 1963 and 1964 finally reached that of 1929, but only because the total shares listed rose from a billion shares in 1929 to 8 billion in 1963 and 9 billion in 1964. People hold shares because they hope the earnings (not paid as dividends but reinvested well) will bring rising dividends and market value, and also they dislike paying taxes on their gains.

Investing with able managements has demonstrated that the best defense against inflation is careful selection of shares in companies who can adjust despite government hindrances, and profit at good margins. Strength and character in company management are the hallmarks of leadership, and fortunately our country is still producing business leaders whose integrity remains unquestioned. This gives promise that 1965 will not let us down, even though it presents serious investment questions.

Year after year, even during the depression of 1929 to 1942, the cooperation and concentration of company managements, using their skill and high principles, has helped to keep our country afloat in very difficult conditions. General Motors did come down from \$80 in 1928 to \$7 in that depression, but it is now worth many times the 1929 high. Others too went through times of trial or setback and

then earned enough to multiply savings astronomically — for example, DuPont and IBM. Some of course, baffled by new problems, did not come back.

I am aware that I have repeated myself in these annual reports but I am encouraged to find that companies I considered exceptional continue to justify anticipation of continued growth. Only occasionally does a management change warrant our taking profits to invest in one whose progress seems more predictable.

The airlines constantly expand as more people enjoy jet travel initiated by Boeing. We recommended Boeing first at \$18 in 1948. Split six for one, this equals \$2.95 a share on the stock now selling at \$68. Dividends have gone from \$1 to \$12.20. We now look forward to what this management can achieve by 1967 and 1970. Boeing's world-wide dominance in airline equipment and technical superiority is not likely to be successfully challenged in the next decade or two. The largest U.S. carrier, United Airlines, has learned how to utilize the jets, as has Northwest Airlines. Further increases in travel and freight shipments will benefit these lines and also the principal equipment supplier, Boeing.

General Motors is still forging ahead in its many fields, especially in the production of motor cars. Thanks to its superior management it remains an attractive investment for high income and growth potential. Last year we recommended the sale of 100 shares of A.T.&T. to buy 200 shares of General Motors at \$60. Those who made the exchange have \$4.45 income for each share instead of \$2 — a substantial difference in ability to beat the decline in dollar value.

For many years we have commented on piggy-back freight loadings which



make the U.S. Freight Company a gradually progressing firm. Their driving force in forwarding freight, by trailer on flat cars and containers on the ocean, has continued unabated.

Also for a long time I have stressed the advances made by the Cincinnati Milling Company, developers of "tools to make all other tools." The case for a single line appliance maker is superbly upheld by the management of Maytag, noted for washing machines and dryers. Its competitors wish they could equal Maytag's favorable earnings on the volume they sell. Capital goods investment is growing, and the manufacture of machine tools continues to produce new and better numerical controls for cutting and forming metal and zinc. Cincinnati Milling is one of two leaders in this automation by electronics. The other, General Electric, famous for its appliances and heavy utility equipment, continues to distinguish itself.

The patience and fortitude to turn a "tail-end Charlie" into a top competitor are sometimes hidden for a time—but to discover the upturn and anticipate it is part of the reward enjoyed by the vast partnership of common stock holders. Although it was only fourth in tire production a few years ago, U.S. Rubber is one of those emerging companies that is showing a vigorous growth in chemical business. Under brilliant management, this huge complex has undergone discipline for four years and the improvement is already evident.

The National Distillers' chairman is another outstanding executive who has been striving to build his firm into a great chemical and metals company for a frustrating twelve years. The metals division made remarkable progress last year and when "all its

ducks are in a row" this concern may justify its striving for growth.

What factors are important in selecting stock for investment? Evidence of a long record of dividend payments and listing on the New York Stock Exchange are essential. For maximum safety the investor should further verify his judgment by having a professional counselor appraise the company's growth. When these conditions have been thoroughly satisfied, those who saved enough money for investment in the face of the discouraging tax forecast of 1965, should find shareholding risks less than those of holding cash.

Because of inflation many have looked with interest to gold stocks. But the only time in a century when these shares could be held profitably for more than one change in the price of gold was during the period after 1929 when the wages of miners declined for years. Then in 1933 gold was increased in price from \$20 to \$35 an ounce by the New Deal, on the mistaken theory that this would solve all problems. It didn't even raise the price level—it only set the stage for inflation much later.

Let us take heart from the fact that although the nation's economy has been interfered with repeatedly, often threatening to collapse, some managements have shown the ingenuity to grow. Our traditional freedom encourages scientific research and new inventions result in new employment possibilities. There is a great need for social and spiritual leaders whose philosophies of freedom have a sound economic base in the necessary reform of tax reduction. And the most important reform of all is land value taxation, because it offers the greatest stimulus to development for all people in every branch of industry.

~ ~ ~

**Organization is the ability to bring all available knowledge and all available energy to bear upon particular problems in hand at the precise time when needed.**  
— Herbert Spencer