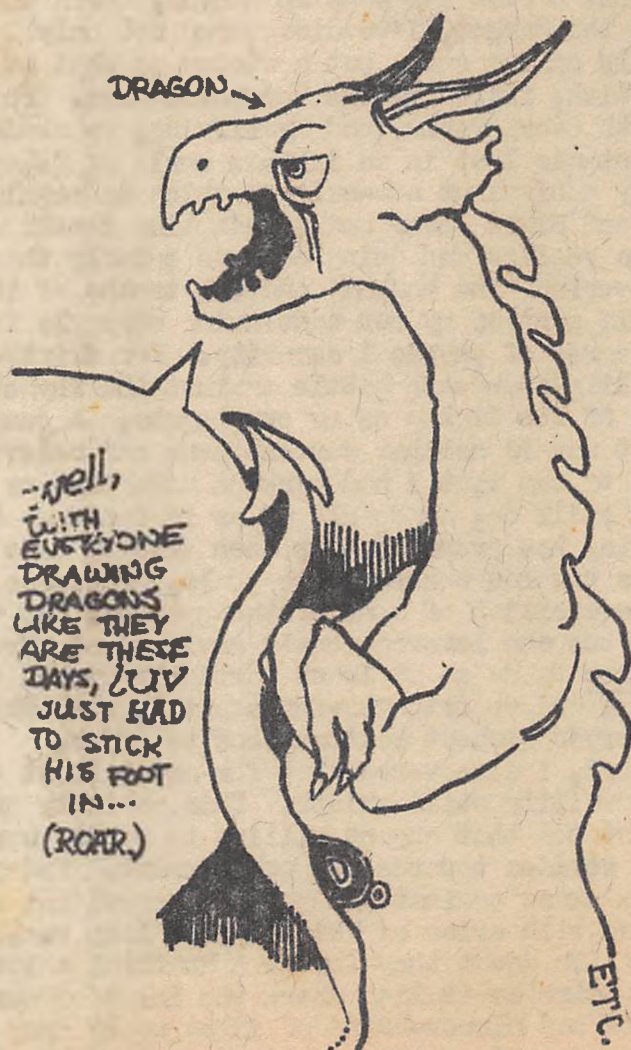


# Die Schmetterling

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## DIE SCHMETTERLING IN WALL STREET

The following fanzine and dissertation may be very, very boring to many, and maybe even offensive to the ultra-pure-of-heart who see anything to do with business and the economy and Wall Street as propaganda for Godless Capitalism or whatever the hate catchwords may be these days. But I am still going to devote the next dozen and a half pages or so to that phenomenon of the Capitalist business system, Wall Street, the Stock Market, or just The Market, The Big Boards and how they operate, and if possible, why. All of this is being lifted from what I have experienced, read or observed and in many ways constitutes a very strange outlook on what is essentially a structure with two faces. It is called The Big Boards sometimes, meaning the New York Stock Exchange, the granddaddy of them all, and its small brother, the American Stock Exchange. These two also have a coterie of hangers-on of regional Exchanges which tend to deal extensively in local issues (i.e., the Detroit Exchange for example deal a great deal in Detroit Edison, General Motors, Ford, Chrysler, Parke-Davis Pharmaceutical, Fruehauf, Burroughs Computer, etc.). And we have that vast body of Over-The-Counter stocks, stocks which either through small size or choice, is not listed on either of the two Big Boards. We also have the two Canadian Big Boards, Toronto and Montreal, and the foreign exchanges like Tokyo, London, Paris, Rome, etc. Besides all these regular stock exchanges we also have things like Bonds, Treasury Notes, Commodities, Mutual Funds and a host of other financial garbits open to those who can pay the fees.

At this point it might be wise to explain that I have only been indulging myself in The Market for some 10 months. From the initial decision to put some money into The Market, I've discovered not only a means of accumulating money and possibly making some, but a window on what in a large part makes all the economies tick, including the Communist ones. To most of us "Business" is somehow both overpowering and mystifying, an abode of fat-back exploiters or cold accountants lost in an inhuman world of debentures and outlays. But it is a strangely ambivalent sub-culture which is keenly aware of such struggles as pollution and Black Power and is adapting itself more to today's realities than most people realize and doing so more quickly than our own legislatures.

Discovering "The Market" and the truths of it as opposed to popular legends, is in itself part of my own continuing struggle for identity, emotional peace and some degree of physical security. For thirty-two years I have been involved in a true life-and-death battle against the Thyger, Thyger, Burning Bright, In The Forest Of The Night of my own psyche. A jungle was created there, and how it got that way is neither current news nor relevant to the situation today. Suffice it to say that I had perhaps more than my fair share of neuroses and quirks and still do, as do all of us in fandon. As a certain degree of personal understanding has grown, I have been able to more effectively channel more of my energies towards constructive goals, of course. One of those goals has become the acquisition of some of the options, the "Gilded Hammers" of life with which one can leverage one's environment more fully and more effectively. I have chosen to do so at least partially by the acquisition of a great deal more capital and opportunity-for-capital, with which to obtain more of what this, history's richest culture, has to offer.

In short, I discovered that for me at least the so-called "American Dream" of upward nobility still exists. This nobility or Dream is the theory of living which states that anyone willing to really work for any goal can at least make great strides towards its achievement. Today some idiots misuse the Dream as an ukase against the poor and emotional rejects and intellectual impoverished with cries of "kicking the lazy s.o.b.'s off the Welfare rolls", of course. (No doubt they favour a "natural solution" and a return to the era of lassize faire capitalism where the inept of our world could starve to death.) The opposite and mirror-brand of idiot would deny the theory of nobility and destroy the apparatus because since our world is imperfect, Q.E.D., we should utterly destroy the culture where such inequalities exist.



Pardon me if I say a plague on both their houses. The one would deny a person the fruits of their labour (and if you don't think it's hard sweating out a major drop in one of your stocks isn't labour you have an unpleasant surprise in store for you). And the other would waste our one great untapped reservoir of ability, our people, and return us to a way of life which is impossible to maintain in our overcrowded world.

At any rate both the theory and practice of upward mobility still does exist, though badly crippled by well-intentioned socialisms, overpopulation, and my previously-mentioned trend towards a technocratic "Player Piano" eliteism. In fact it is into this technological elite where today's greatest paths of upward mobility lie, for all its faults.

One of the other upward paths today is, as it has been for some centuries in this country, that of the independent or semi-independent businessman. The Dream of every man owning his own business, however humble. It is in this field that the Black entrepreneur is now moving. And as he does so, he becomes not only part of the System that so many Black and white deem undesirable, but he gains a leverage upon the system itself to force itself to go his way.

Today the avenues still exist, though neither so wide open nor the same kinds as our grandfathers enjoyed (or suffered under). Today one out of every four new businesses begun each year fail that first year or two, and that figure has been the norm (barring the Depression and very good times, which tend to distort the averages) for much of this century. But it is this group of small businesses which must be depended upon to provide the jobs and dignity upon which the future must rest. Not the mega-corporations, but the small people still living the Dream of upward mobility, of the small man getting ahead. God help us if joining the technological elite becomes the only viable upward alternative to Mack Reynold's State & Church.

But the small operator first must need to gain in some fashion the money, or equivalent, to open his own economic ecological niche. Not so long ago the telly had a featurette story on a young stockbroker and his wife who opted out of New York City and its urban rat-race to move to Sullivan County, New York State and raise cattle. All well and good, but in order to advance his personal dream of being his own man in a clean environment, he first had to acquire the loot or credit to start this farm. TANSTAAFL. There Ain't No Such Thing As A Free Lunch. Again the news media declined to tie in cause and effect. That he could opt for a cattle farm in Sullivan County because he had the option of doing so and did. This option had to be first painfully accumulated and garnered, then he could apply it. In much the same way the Federal Government is now engaged in the business of making student loans and small business loans and housing loans and other financing devices. All of these are methods of letting a greater percentage of the people receive the benefits of option via a few short cuts.

And for all its faults, this is one of the beauties of our society. That we can have all the immense problems of overpopulation and still be free enough to let this population choose its own paths.

I've chosen my path. And that path is so very hazy at the end for quite a few good reasons. I do not know what I shall be like at the end, but I intend to have the means, the options, with which I shall seek my own destiny. Mayhaps this is the greatest freedom....to be able to go to Hell in your own handbucket and do so because you want to and not because you have to.

Like the man in chains in Dr. Zhivago, I can at least shout at my gaolers that I am Free!

God Speed and Peace.

#### THE MARKET

Someone once said that Wall Street was nothing but a giant betting house and all the chips were called stocks and Bonds. From the brokers themselves and most investors you hear the pontifical line that this is an investment in America, a part of the Free Enterprise System, etc., and various other asymmetrical labels. It's raison d'ente is simply enough to raise money to start businesses or re-finance already established concerns.



In an odd sort of way all of these definitions are correct and I'll explain why. In the first instance, stocks and bonds are a form of chips in a giant glittering gambling casino euphemistically termed Wall Street, and since it daily has a volume of from 8 million shares to 14 million shares with a paper trading value of from 50 millions of dollars to half a billion dollars, it certainly makes anything Howard Hughes has bought at Las Vegas seen like small potatoes. And in this giant Casino you puts down your money on X-Stock(Chips) and hope that your number comes up with a profit symbol on it with the next spin of the wheel. In short it is a money game. And as with any other form of gambling, you must be willing to take a loss as well as a profit, for there is nothing guaranteed in this Casino any more than there is at the Golden Nugget. One slight recompense is that even if you don't make a profit you have a good chance of breaking even and even if you lose, it need not be for very much, percentagewise. This is why when and if you go to a real Broker, he will advise on a "balanced" portfolio or at least some big sturdy mega-Corporation.

But also like real gambling, if you pick a winning number, the profits can be enormous.

The second view, that espoused by the financial community itself is perhaps the most familiar one and which is in its own way a fantasy tale. For you see, though X-shares of common stock in, say, Ford Motors, is exactly equivalent to X-votes, or control of the company, the price you pay for that stock need have little or anything to do with how well the company is doing or how healthy financially it is. In The Market, people....big Smart Financial Investors included....are willing to pay as much for a stock as they anticipate that it will be worth. If they think it is going to be worth lots more next week, they'll pay a lot for it now and think nothing of it. If on the other hand they think it's going to do badly, they'll drop what they have now and shy away from buying any more. The company itself may roll along, financially sound and solvent and its profits may go up or down or remain steady. But the Market tends to be a panicky beast in the aggregate, and following the lead of the "Wise Money" is for the small investor probably one of the surest paths to financial disaster. For it does no good for you to know that Moneybags McJoe has bought 10,000 shares of Miracle Widgets at \$35 a share and so you buy 100 shares of it at \$36 1/2 a share since ol' Moneybags McJoe is a shrewd investor and everything he buys makes money for him. And if the same day you bought at 36 1/2 ol' Moneybags McJoe sold out his 10,000 shares at a profit and the stock quickly plummets down to \$22 a share after that..... Well then, ol' Moneybags can hardly be blamed for your mistake.

And that is the essential point of the professional speculators and money managers. They tend to move fantastically fast, in one day and out the next and make their killings in a revolving-door atmosphere. Their God is "Action" the movement up and down of a stock on a short-term basis. And anyone small who tries to go through the revolving door when they're all stampeding out can get his throat cut.

Yet it does serve a valid functional purpose, the Market does, and the Market exists as it does because of that useful function.

In the first place, there is an old saying in business to the effect that one should not Go Broke...Go Public. Going Public is when a business starts up or when an older one which has grown and expanded, issues stock in the company for a certain set price. To buy 120 new machines, Widget Manufacturing Co. needs close to \$70 million. It can either raise that money through a long-term loan and pay it back out of earnings (the usual practice of what is known as family or closed corporations). Or they can issue 350,000 shares of Widget at a sales price of \$200 a share. This will raise \$70 million bucks. This has the effect, however, of passing control of the company into the hands of the stockholders. The solution is for the present owners themselves to purchase enough shares to retain control. If there is something like, say, 14 million shares floating around in The Market, control is often represented by simply a very sizable chunk like 4 or 5 million shares. (Takeovers by other companies most often occur when some mega-company decides to gobble up Widget and buys enough shares to seize control. Then they put in their own



people and within a short space of time General Bullmoose Corporation happily announced that Widget Manufacturing has become part of the growing family of General Bullmoose moneyrakers, etc., etc.

In fact one of the surest ways to a fortune in the Market is to find some outfit that is going to be bought out like this, buy stock in it, and then count your profits as General Bullmoose (or whatever) boosts the price of that stock to dizzying heights in its bid for control. For the Market after all works on a "As Much As The Market Will Bear" principle of price control. If the supply of a stock is short and the demand is high, you soon see prices go up \$1, \$2, \$3, \$4 a day a share. If no one wants to buy, the price has to go down in order to get a buyer.

If the Market generally is going up, everyone gets euphoric and is willing to pay more, working on the principle that they can sell it for a profit tomorrow. If the Market is on the skids, gloom prevails and no matter how good a company may be, it's action may be downward. In other words, the company situation tomorrow may not have changed in any iota, in fact it may be doing better. But if no one believes this, or more pointedly if there is no expectation that the day after it will go up in price, the stock will drop. Which puts gray hairs in the temples of many an executive officer. For when a company's stock is worth less than it used to be worth on the Market, the stockholders soon develop a taste for blood....anybody's blood....and there is no telling who might be designated goat of the year.

Not to mention that usually the companies hold large blocs of their own stock and if this stock is worth  $\frac{1}{2}$  of what it did earlier that year, they have a paper loss of sometimes sizable amounts and losses become very tricky things to explain to stockholders, as Chrysler Corporation exec's discovered the last of April, for instance. If ever there was a crowd resembling more the ancient Romans yelling for the Emperor to bring the lions and the Christians together for supper, than civilized stockholders, it was that Annual Meeting. A very educational experience, I am told....

But at any rate, all the companies now that are Public, went that way to gain Capital (i.e., money). Let's go back to Widget, our hypothetical company. It's stock is now Public, and since it is not a really big Corp., it is an Over-The-Counter stock.

You see, stocks on the New York Stock Exchange are not born there, they came to it from someplace else. Oftimes the issuing company has grown enough so that it could move from the American to the NYSE. And it got to the AnEx generally speaking from the O-T-C, or Over-The-Counter markets.

The OTC Markets are scattered all over the nation and to buy stock in an OTC company, your Broker contacts a specialist (usually working for the same Brokerage House) who contacts another specialist who buys and sells that particular OTC stock (as well as numerous others), usually the closest one to the issuing office of your brokerage. This man is kept in touch with what other specialists are selling (ask) and buying (bid) that stock at. The big boards generally are a quarter of a point (.25¢ a share) apart in their offers, and when you see or hear a quote for, say \$14 $\frac{1}{4}$  a share, it was most recently asked and bid at an eighth of a point (.12¢) above and below that \$14 $\frac{1}{4}$ , respectively. In the OTC Market, it is not at all uncommon for the difference between the bid and the asking price to be as much as three-quarters of a point (.75¢ a share) apart. In any case, what you buy a stock at represents the best deal your brokerage house could get for you. In selling you likewise get the best he can get for you. If you're buying or selling in blocs of thousands of shares, of course, you can call the tune a hell of a lot better than at 100 shares or some odd lot. But if you had that sort of money you wouldn't be bothering to read this anyways, you'd already have a good idea of how the Market works.

But at any rate, the prices are established by what anyone is willing to pay for that particular stock. Which is why the psychological aura around any particular stock or the market on any particular day is so very important. The more it is believed that "your" stock is a money-maker, the higher they will bid. If they think it's a dog.... Well, too bad.



But this ability to sell shares of a company is of great benefit to the company if it needs to raise more money. (And every company worth its salt anymore is expanding its operations, which means the purchase of new machines, new factories or operations, more personnel, more materials, etc., etc. And thanks to the present tax structure it is well-nigh impossible for any company to obtain really large millions of dollars by "saving" its own money. The only recourse is borrowing, in some way.) Say that Widget has established itself on the OTC for some time and having become a multi-million-a-year business, it has graduated to the American Exchange as soon as it was able to do so. Its stock originally sold for say \$10 a share (it decided to issue 7 million shares at \$10 apiece raise their necessary expansion capital.) It is now being quoted at \$18 a share and was up to \$29 in late '68. But then that was a very good year (Widget didn't have any competitors then but it does now, in its specialized field) and the Stock Market was drunk as hell and the prices on just about everything was inflated then. But anyways, it is quoted at \$18 a share right now. Last year wasn't too bad, but the board of directors sees trouble ahead. Competition has moved in on "their" market and Widget needs to expand into other similar fields in order to continue to grow....and survive. It could voluntarily seek a merger with some outfit of not-too-disparate size which is already in a field they wish to move into, in fact it might even be a major customer or vendor (supplier) or even a competitor. Widget shops around a bit and doesn't particularly go into a state of ecstasy over the possibilities it sees. It is approached by a big Mega-Corporation seeking to move into Widget's field, maybe again being a major customer or vendor. But the board of directors wishes to keep its freedom at the moment, and small branches of big corporations tend to get lost in the periodic shuffles. The same reason, only more so, is why they turn down a similar offer from a conglomerate. (A conglomerate basically is a company whose business is expanding by acquiring other smaller companies. Once acquired (purchase, merger, stock exchange or whatever) the conglomerate revamps the small outfit. It pours money in, or tightens up its way of doing things to a more profitable methodology, or just obtains business for it that it couldn't acquire before. Once the small outfit is on its feet (theoretically....if it doesn't recover the conglomerate has no compunctions about selling out of a losing struggle) the conglomerate has a number of options. It can sell, usually at a good profit since the once-ailing company is now healthy or about to get that way. It can keep it and enjoy the profits. Or it can just simply use it to trade to some other outfit for some division or factory that fits in well with some money-maker or project the conglomerate has. Say after the conglomerate buys Widget out, it revamps it internally, tightens the ship up a great deal. But unless it pours in another 70 millions, it won't be able to realize any really big profits. So it trades off Widget to General Bullmoose in trade for General Bullmoose's aluminum fabricating division which happens to fit in well with the conglomerate's big-money-making aluminum siding and other products division.)

But say that Widget turned down the offer from Aggregated Conglomerates, or whatever. As stated someone small like Widget could be bought out by a mega-corporation if they are willing to pay out the necessary capital to buy a controlling portion of Widget's stock. If. At the moment they're not, but Widget does have an occasional twinge of worry about the problem.

With all this merging procedures which have come to nought, Widget still needs money to expand. They can borrow it....but at a minimum of 8% per year or more than likely worst since practically no one can get a Bank's prime rate. So \$70 millions for Widget would run them 9 $\frac{1}{2}$ % a year at best, say, and on a 2-year note or so that would run them close to \$140 millions. If there is any alternative to that, they'll take it.

Fortunately there are several alternatives still available to Widget, and it is here that the Market becomes something worthwhile in the economy.

The first alternative is to issue more common stock in the company. This has the advantage that the issuing company can sell it at very close to



whatever the going Market price happens to be. Simply issuing new stock tends to "water down" the stock in value. If a stock in which there are 7 million shares outstanding happens to be selling at \$18, obviously issuing 7 million new shares would mean a loss of  $\frac{1}{2}$ , or \$9. By doing things like this many companies pay a "type" of equivalent of dividend to their stockholders instead of real money. This is called a stock split or stock dividend, usually less than a simple doubling of the present stock available. If a stock is worth a great deal, say over \$100, the company might split, double, treble or whatever, it's stock in order to both broaden its base of ownership (and help fend off takeovers) but if the company itself owns a large slice of its own stock, it suddenly has a large segment of stock with which it can negotiate in any future possible mergers of its own. Most mergers, you see usually involve money, stock exchanging, options of various sorts to the directors and any of a hundred little pie-sweeteners.

Widget, however, decides to register 7 million new shares of itself with the SEC...Securities Exchange Commission....which is the watchdog of "The Street". After the registration is approved, it offers, say, 4 millions of these shares to various brokerage houses as underwriters. They agree to sell these shares to the public and the price they sell them for is usually a small increment under the going Market price. The result of this is that Widget obtains \$68 million for its 4 million shares and it can use the loot to expand. And since that \$68 has been directly absorbed into Widget to work with, the result usually is no change in the quoted Market price of the stock.

If, however, Widget has been having troubles, it might have to sell 5 or 6 million of those new 7 million shares in order to raise \$68 million or anything close to it. And the result will definitely be a drop in the stock price which will in turn create some marked blood-thirst at the next stockholders meeting, not to mention the fact that by reducing the stock price and watering it so it increases the likelihood that a takeover bid might occur someday.

Another similar system of money-raising is to issue what is known as Preferred Stock. Generally speaking Common stock is the only stock which has voting powers (and is therefore the one to watch for takeover moves). But Preferred does not have any voting powers and is thus a "safe" stock to any management. The value of Preferred comes in that when it comes to write out those dividend checks, the Preferred Stock comes first over Common. Generally speaking there are a thousand formulas by which Preferred becomes just exactly that. Some Preferred stocks get paid at a certain percentage....a definite % of profits (net earnings) is earmarked for Preferred maybe, or a percentage of dollars actually to be paid out in dividends (a company after all need not pay out any of its profits as dividends, though they usually do if they can). Sometimes it is a set amount that is paid in addition to the standard dividend. Say it is a \$2.40 Preferred, and in that case the \$2.40 means the Preferred holder gets \$2.40 plus whatever happens to be the dividend that year.

And if it happens to be a slack year, the Preferred gets paid at least something even if they have to pay the Common no dividend at all. Even in stock dividends generally the Preferred will get a bigger slice.

Regardless of the specific formula, however, Preferred stock gets paid off first and better if there is any profits or dividends at all.

Most companies have a Preferred stock, sometimes two or three types, all with varying formulas for payment. But only a few have enough of it so that it makes either of the Big Boards (NYSE or AmEx). Most of these Preferred stocks are part of the Reward System by which a company repays its executive staffs in a manner by which they have to pay at worst a minimal income tax.....unlike cash bonuses. As such generally there are only a few thousands of shares of Preferred around and thus hard enough to obtain as to make it not much worth the bother.

Naturally Widget would peddle a few millions of Preferred in much the same fashion by which it would peddle its common, with the added advantage



that generally Preferred issuances do not "water" the value of a Common by very much at all. Unless there is enough issued to where it would vastly distort the profit and dividend picture to where the Common is perpetually the poor relation who gets no crumbs off the table at all.

A third alternative are Corporate Bonds. In effect this is another form of loan, only at vastly better rates than the corporation could get through any of the commercial lending institutions. At the moment the money market is so squeakingly soft (or hard, if you want to think of it that way) that Corporate Bonds are offering 8% to 8½% and up to the public. Obviously no Corporation would pay those sort of rates to the public or anyone else if they could get better rates elsewhere. Since the Prime Rate of Interest has been theoretically lowered by all the major financial institutions from 8½% to 8%, there is a certain thought percolating through my mind that obviously the so-called Prime Rate must not be obtainable even by billion-dollar corporations if they would not be selling Bonds at 8½%. Which means that the present "easing" of credit by the Nixon administration is in most ways a farce presented to the public in order to build confidence in Nixon & Co.

The basic trouble with Bonds (and any of their little brothers like debentures and income warrants and such) is that they have to pay them off at set rates and times irregardless of whether they're making a profit or not. In fact, it is the regularity with which bonds are paid off which gave rise to the image of the millionaire "clipping his coupons"....that is presenting his Bond coupons to the issuing company for the due payments of capital plus interest. As per the series of deadlines set up in the Bond itself.

Quite obviously then a Bond is issued only a certain limited set of circumstances. The company must need working capital badly enough. They must be unwilling or unable to issue new stock, practically all major companies have already issued stock for this purpose in the past and certain saturation levels can be quite quickly reached beyond which a company ventures only at its most dire peril). And it must obviously have tried to get a "good" rate and terms from a commercial lending institution and been offered unacceptable ones.

Once the decision has been made that it must borrow a large amount of capital (i.e., what they call long-term capitalization, or debt), a very large amount, it then begins the process of casting about for the best possible % and terms that any underwriters or group thereof can offer them. Atlantic-Richfield Oil, for instance just recently sold 150 million in 30-year Debentures at 8 and 5-8ths % interest and it read like a listing of the big brokerage houses.... Merrill Lynch, Pierce, Fenner & Smith. Paine, Webber, Jackson & Curtis. Dillon, Read & Co. Kidder, Peabody & Co. Hornblower & Weeks-Hemphill, Noyes. Salomon Brothers & Hutzler.

Remember these names....I'll tell you later on why they and people like them should be the ones for a small operator like yourself to deal with.

Debentures, however, are just another form of Bond, as are Income Warrants and Mortgage Notes and such things. The terms are different according to the type of loan they're getting and obviously something like a Mortgage Note gives you the right to seize some of their physical assets if they don't pay up. All Bonds and such tend to be very tightly-drawn legal documents and as such they invariably get any monies the issuing company makes long before any Common or Preferred Stockholders get a chance at any of it. In other words, the loans....Bonds, Debentures, whatever you call them....get paid off first. Then comes the Preferred stocks if any and the Common.

Only the fact that many Bonds are 20-year or 30-year promissory notes keep them from attracting all the available money around. In other words, a Bond holder is first of all betting that interest rates will not rise any more, or at least less swiftly than inflation would allow. And second that the issuing outfit will stay in business....and healthy...long enough to pay them off. In case you don't know it, you can acquire oddities from collectors today of such things as Essex Motor Co. 30-year notes and Debentures of USCan Co. The fact that the MCentral and Chrysler and USSteel have been good bets do not mean that seemingly solid companies today cannot go down the drain. I might remind you of the old homily about the biggest buggy-whip maker in the nation and where they are today.



Which is exactly why you can't afford to ever buy some stock and quite literally forget it. As a science-fiction fan, you of all people must be aware of the impact of technological advances upon an ultra-specialized outfit, not to mention the impact of managerial changes. The public is a fickle beast in its buying habits and no one today can safely bet that what is "In" today will still be "In" tomorrow.

Fortunately most companies today are aware of just exactly that problem and "diversification" is the magic word at any level of business. In search of a viable diversification we have Ford Motor making computer subassemblies through its Philco division. We have Lever Bros., the soap people selling margarine under the trade name of Imperial. We have Liggett & Meyers, the cigarette people, selling Alpo dog food. And many, many more.

Essentially diversification means a hedge against public fickleness, and an attempt to broaden its base of operations and profit. One-product companies (like Polaroid and Xerox) may do fine for a while. But eventually patents run out, circumstances change, a seeming stranglehold on a market suddenly develops into an armlock on corporate capital as competition rushes in or public needs switch to some alternative. Some day....

As you get into the Market, if you do, you will find that there are also such things as Type A and Type B stocks in some companies. Stock A usually means that dividends, if any, are paid in cash. Stock Type B, both by the same issuing company, by the way, pays its dividends entirely in stock. The old advantage of Type B lay in something called the Capital Gains Law.

This law states that if you hold any stock for 6 months and then sell it for a profit, you only have to pay income taxes on half that income. The law has been changed somewhat in the recent reform package, but its effect on the little investor is very nearly nil. It does set a limit of \$1000 on profit which gets the  $\frac{1}{2}$  tax break and the percentage that you can take out after that diminishes rapidly after that. It also closed down the especial tax advantage of Type B stock. The advantage there was that stock dividends were treated as stock which had been held as long as the original stock. Which meant that a big investor could get new stock and sell it immediately and only have to pay income taxes on half of it, whereas dividends are totally taxable income.

This has now been changed and in a definite schedule the advantages of Type B stocks will have disappeared in three years or so.

That's another point of Market-playing, of course. The Government is always watching and money made through the Market is reported religiously by the Brokerage houses upon dire penalties, so you've got to expect to pay tax on any and all profits. Federal, State and local municipal income taxes. There is the point though that any losses can be taken out of your taxable income too, but hopefully we can avoid that problem.

So, when buying stocks, if you have any questions about the actual terms of any particular stock or Bond, feel free to question him as to what it means to you in terms of dollars and cents, risk, probable appreciation (i.e., what is it's chances of becoming worth more) and such things. Which brings us to the next point. How do you buy....

#### YOUR FRIENDLY NEIGHBORHOOD STOCK PIMP

Though the term is definitely unflattering, you should remember when dealing with any brokerage concern that they are in business to sell and buy stocks. Their individual brokers therefore come under the hammer of their bosses seeking "action" and the anvil of their desire to do Right by their customers, or perspective or otherwise. It is perhaps a tribute to most of them that they at least try to look out for their customer's best interests. But you should never abdicate your decision making position to him, nor begin to believe that since he is a "professional" he is somehow going to judge so very much better than you are.

But when you go to one, he'll tell you of things like prudence and the earnings of a company and such, but one thing that you should probably always have in your mind. That thing is inflation.



Despite the recent debacles in the Stock Market, one thing is quite clear to even the passing observer. When talking of recent dips in the Dow-Jones Stock Price Index, Standard & Poor's and such things they refer back to "classic" lows...of five, seven, nine years ago.

In other words, with the Market having suffered a near-catastrophic reaction to the ridiculous speculative fever of late '68 and early '69, the prices have dipped on the whole only to levels of less than a decade ago. At most.

Yet even these lows are higher by far than classic "Highs" of the mid Eisenhower Years and nearly three times what they were in the late '30's not to think of what they were in '33. Taken over such a wide range something quite pointed leaps at you. Despite Highs and Lows, the average prices of Stocks have almost exactly paced the progress of Inflation in our country. When they talk of how many times General Motors, say, has increased in value since 1947, only part of that growth was actual. Much of it was also simple inflation artificially boosting prices, earnings, dividends, values. By owning something which thus keeps up with (if not outpaces) Inflation, you have in your hands a viable personal hedge against Inflation.

For it really wouldn't matter to you then if bread costs \$30 instead of .30¢ a loaf. What stock used to pay .30¢ a year will then be paying \$30, all other things being equal and if the company only grows at the rate of inflation. In fact I might go so far as to say that intelligent use of Stocks is probably the only method of savings which not only matches inflation but has a good chance of beating it. Money put into US Savings Bonds (besides helping finance the War) only pays 3.75 or so in eight years worth. Even the regular savings accounts are paying 5% to 5½% these days. But even they are not matching the corrosive effect of inflation on the dollar (and this corrosion will not cease until the Government itself ceases financing of The War via deficit financing....which is why the present Nixon tight money policy is not halting or even slowing down inflation).

Corporate Bonds issued years ago at 3½ and 4½ are now selling at fantastic discounts, sometimes as low as .60¢ on the dollar of face value, simply because inflationary erosion has robbed them of that much true value. One reason now why Corporations are willing to pay the fantastic rates of 8½% for thirty years on a Corporate Bond is (other than the farcical nature of the so-called Prime Rate) the fact that they are betting that inflation will continue at such a true rate that these so-called Blue Chip promissory notes will become easier and easier to pay off in the years ahead. That's right. The Corporations are betting that Nixon will not succeed in his inflationary battle. And that is because the Corporations are seeing ever more clearly that the only way to halt the inflationary spiral right now (short of ending The War immediately and balancing the Federal Budget) is to impose effective wage & price controls. The effect would probably be political suicide for Nixon and as Mr. Richard Milhaus sees himself as Saviour to the Masses, he sees a "need" for him to be re-elected in '72.

Oddly enough most major businessmen and a hell of a lot of the little ones as well see price & wage controls as a desirable alternative to the present disastrous spiral. Publicly they still cast labour as the chief villain of inflation (as the official labor organs view business as the only villain in the tragedy of inflation), but privately, in their "own" magazines and sometimes in the major ones like TIME (though without their names being used) they admit to the reality of the situation.

Namely that they are both villains but the great Villain of the show is the continuing Federal inflationary budgetary program, and the major cause of that being The War. It may strike some militants as surprising (especially in view of the falacious doctrine that businessmen like Wars because they make lots of money....they don't necessarily in either case) but outside of Remington and Lockheed and a few totally-defense-oriented outfits, no one wants to see this War continued.

Before, you see, our Wars lasted only a few years. We were able to pay for them easily enough of what we made then, what we had accumulated before it started, and what we made immediately after.



But this is the first war we have waged in which the real and actual expense of the War has been brought home to every businessman in the Street and off it. Namely, that Wars are paid for out of Real Gross National Product. We waste, in other words, what we have made, are making, and will make. And the waste is paid for directly through present taxes and future taxes. This War, also by lasting so long has brought this future bit home to every corporation trying to maintain its profit margins in the face of ever-increasing Federal squeezing.

TANSTAAFL with a vengeance. There Ain't No Such Thing As A Free Lunch. This is being written a few days after Cambodia....Nixon's War....and this realization of the Real effects of a War is so obvious that the Stock Market, having reached a point of recovery, immediately went into another tailspin.

There was every indication that after a year of steadily dropping values on The Market, that things were getting better. Housing start-ups were up, steel orders were edging up, retail was finally beginning to recover, and all stocks had been "washed out" to something more healthily approximating their true worth in relation to their earnings. The prime rate was down a smidgin and employment in Detroit at least was coming back up by a hair. Everything was beginning to look rosy, and Thursday the Big Boards bounced in one of their strongest rallies in a year or two. In other words, all the Market needed to start it back up again, even if gradually was for it to start up again and that spark had occurred. On the same day Nixon declared Cambodia and the next day the Market started sinking again.

There is every indication now that it will not stop much above a Dow-Jones point of 680, if there. The high last year was 950 or so and the present reading is about 730.

And they said in '68 that Nixon would be good for business....

But the Market dipping like this is a marvellous opportunity for many. Many really prime Blue-Chip companies like Ford and Parke-Davis Pharmaceutical are down due to one problem or another coupled with the general downward plunge of the Market which does have a tendency to turn any weaknesses into falls and drooping profits into panics. In much the same way an upward, or Bull, Market tends to reinforce any positive signs in a company and quickly inflate the going price for that company's stock.

But this present recession....the first entirely man-made recession in history....has produced bad earnings for any outfit dealing even indirectly with sales to the public. Which includes most any outfit you name. The only segments that don't are defense contractors and the like....those who get their profits from the public till. And people who export more than they import. Unfortunately for them a public hue and cry has slashed many defense boondoggles and outfits like Lockheed which waxed fat on War profits are now trying to get outright money gifts of millions of dollars from the Pentagon to bail them out of their fiscal irresponsibility. Right now everyone with a stake in defense or aerospace is being squeezed and the first things to flow are their profits. This naturally reinforces any recessionary pressures already at work. And things aren't doing so good in the foreign markets, either. Storm signals are flashing over Italy and others of the Common Market area and even Japan's phenomenal rate of growth isn't quite so perky as it was for the past decade. Only Britain, having been through her own two-three years of economic blood-sweat & tears, is able to see the sun peeking out once in a while. Even though they had to get things so bad in Britain first that anything would be bound to be an improvement. Austerity can do things for an economy but I doubt if Nixon has the guts to enforce such an austerity program long enough and hard enough to wring out the fat in our enormous industrial complex. It would not be political....

Even if a price-wage control of some sort were put in, it would not immediately stop inflation. But long after inflation did stop, such controls would continue to deflate the outrageous growth rate of the dollar. Nixon is trying to do much the same thing by continuing Johnson's tight money policy. There is more than a little something outre about a government which in



its official pronouncements slaps the wrists of business and labor for spending too much and borrowing too much and mortgaging their future earnings so grossly and then continues to spend 30 billions a year in almost completely unregulated defense spending and pay that 30 billions by mortgaging future tax revenues. This is on the War itself. It has been spending nearly that much per year in other defense spending. And if the next stage of ABM and the next one and the next get in, defense spending may total nearly 110 billions a year for the rest of the decade without even considering what inflation will do to that figure.

In other pronouncements the administration has also made it known that it considers a "small" increase in unemployment a very small price to pay in the battle against inflation. Nixon is quite right in stating that this is but a byproduct of Nixon's real target, gross corporate profits and spending and excessive labor demands. Well, he's certainly sliced corporate profits and reduced their bank borrowing, but at the present rate new issues of stocks and Bonds to pay for capital expenses may go to \$150 billions in this year at the present rate. (Corporations are betting....obviously....that it will be cheaper for them to borrow now, even at usurious rates to finance expansion now....because inflation will mean they'll have to spend a smaller percentage of their earnings in the future to pay off these debts.) And while unemployment, especially amongst the minorities has risen dramatically, it seems not to have slowed down the demands for those still employed for bigger and bigger wages. Construction unions in recent negotiations have been getting \$2.00 to \$1.90 an hour more (over two to three years) out of their present contract settlements. And much of the Teamster troubles are due to dissatisfaction over 12% wage increases.

In other words, the Government cries "For Shame!" at the companies and the Unions for their "greed" while displaying an obvious and insatiable greed in its own dealings. Don't do what I do, do what I say.....

But I digress....

In any event the Market has reached very nearly its lowest point for what may well be the next ten years. In such a Market just about anybody has a perfect opportunity to indulge in that classic dictum of buying low and...if you're willing to wait a while....selling high.

For this brings me to the next point concerning you, the small investor.

It is all very well for the big financial wizards, the gun-slingers (portfolio managers) of the Mutual Funds to whip in and out of the Market day to day. Their pace is astonishingly fast in their dealings, but usually because they have to be fast. Financial "wunderkind" of one year are apt to be someone else's junior accountants if they are not able to consistently make money for their bosses. What is more, these "wunderkind" have to keep abreast of entire fields of industry....steel, aviation, pharmaceuticals, oils, utilities, retail, food processing, auto, you name it. They have to mentally "feel" vast numbers of stocks, their managers, their fiscal policies, their debts, their profits margins, their growth structures, their possible innovations or downturns, competition, changes in Federal or local laws and regulations, scientific breakthroughs, you name it.....

You on the other hand, have only to keep track of two, six, a dozen stocks. You can pick them at will, maybe outfits you've worked for and were impressed by. Local outfits, Big Name Mega-Corporations, you name it.

But I get ahead of myself. Later on I'll try to help you in making any purchase decisions and will stick my neck out about "my" stocks.

That is for later though. First let's look at the actual procedure of buying stocks.

#### MONEY FOR FUN AND PROFIT

You have selected a stock and are prepared to wait for a long pull to realize any true profits. You have the money available and if you draw it out, it will not put you into any disastrous area where losing time because sickness or accident would spell catastrophe. Now to buy it....



You have been studying up on "your" company and think that there is a very good chance that it will go up, if not immediately (remember that the Market is very depressed right now and will take a good year or more to really recover to a more balanced area of prices). So you maybe ask around if you know anyone in stocks for their account executive. (No one is a stock broker these days....they're all account executives....a rose by any other name....) Barring that you can pick a name at random from the Yellow Pages and here comes a bit of advice.

Not all brokerage Houses are alike, you understand. You may try phoning a few and you might find that some of them are at best reluctant to do business with an odd-lotter such as yourself. (Most stock shares are physically issued as 100-share notes and 100 shares are therefore considered an "even" lot of shares. Any fraction lower than that....5 or 10 or 50 shares....is considered an Odd Lot.) They demand that you maintain accounts in amounts of thousands of dollars before they'll bother with you. Goldman Sachs demands a \$50,000 minimum for instance. Of course for these large accounts these outfits are willing to do a lot for you. They can provide you with very personal advice and in-depth research on this or that company that you're interested in. They have the means and motivation to give their few select customers a great deal more service than you as an odd-lotter could expect. The one kicker to all this of course is that all that research can help you go just as wrong as the odd-lotter who uses a blindfold and a pin to pick "his" stock.

On the other hand we have the large mega-brokerages. The largest are the following; pretty much in order. Merrill, Lynch, Pierce, Fenner & Smith. Paine, Webber, Jackson & Curtis. Reynolds & Co. Hornblower & Weeks. Kidder & Peabody. These are the companies you will probably have to do business with in any event. They not only do business with the small trader, the odd lotter, but they thrive on it. There is an alternative, of course, to the mega-brokerage. That is some purely local concern which will take your trade. In many ways a purely local concern would be your best bet, especially if you are interested in mostly local-based concerns (most small traders are.) They usually have an extensive file on local outfits and are quick to advise other local corporations.

Fortunately or unfortunately most outfits that take small traders are pretty much alike in service and back-up information. They cannot give you the hand-groomed attention a big account gets....they cannot afford to do so. Nonetheless most "account executives" are accessible, friendly, courteous and as I said at least tries to steer you into areas he actually does consider to be prudent investments. He'll send on news of "your" company if you'll remind him periodically and does try to be a real broker for you. But don't forget that every one of most of these "account executives" has to handle 400 to 1000 "portfolios" or customers and he simply cannot keep track of everyone no matter how hard he tries.

To contact someone you can look up the address of some Brokerage House and drop by sometime between 9-5 (usual hours though some quit at 4) and ask for a Broker, someone to handle your "portfolio". The girl at the desk simply picks whoever is next in line, phones him, and presto, you now have a personal Account Executive. (You may have to share him with at least a few hundred others but you'll be surprised at the facility with which the average broker, junior or otherwise, comes to cue in your name and voice and the stocks you have bought together into one package.)

He (or she....many are women and in no way less of a Broker or person) will take you, maybe if you have your wife with you, both of you back to the cubicle such a junior broker has. He will willingly talk with you, patiently explain terms and problems and options and prices and ratios and what not, and will not hard-sell you. In fact he will probably not even mention actually buying anything unless you do so first. With the aid of a few books he will be able to quote recent profits, earnings, dividends, stock prices recently and year-ago lows or highs, their probable future, on any stocks you might be interested in. You might know about the company per se than he does, but he knows where to look to find out the dollars and cents facts. If you do not have any outfits for "your" stocks he might suggest various blue-chip



companies or utilities or some sort of "hedged" outfit. That is, some corporation most likely to weather any economic ups and downs with the least wear and tear....but also liable to have only small ups in stock prices. In other words what he actually recommends is a savings account stock where you have little risk...and usually little profit.

By the way, you can also order your, 10 shares of Boston Edison say, via the phone. You can pay by mail, receive your dividends by mail, do everything via phone and the post office and never see your Broker....ever. Even there he or she will explain to you in plain English just what an odd-lot is, how price is established, how they buy and sell it, when the money has to be in their hands and even some information on taxes if you request it. Once again he will not pressure you to buy, but will inform you of probable cost of X-shares in Universal Widget or whatever. He will tell what part of that will be the Brokerage Fee, and when according to Securities Exchange Commission rules they must have the money for the stock purchased in your name. So you order your 10 shares and within a few days at the outside both a notification will come to you telling you that they've purchased 10 shares of "your" Corporation at such-and-such a price, plus Brokerage commission of such-and-such an amount and the total price. In a separate letter they will send the actual Bill for that stock, and will once again mention the date by which payment is required. You mail the money and you are owner of 10 shares of a Corporation.

Now when dealing in less than 100-share lots....that is in Odd-Lots, as I've said they're called....you have to pay what is termed an odd-lot commission. That is because your brokerage outfit has to deal with what is termed an Odd-Lot Specialist. This is a chap who buys and sells in small lots, or buys in full lots and sells again in small chunks. Sometimes it may take a bit longer to purchase your small chunk of stock simply because this Specialist may simply wait until he is offered an odd-lot for sale before he buys your odd lot of stock.

At the moment this Odd-Lot commission amounts to a flat \$6 plus a 1% or 2% commission to your brokerage for handling the transaction. If your, say 20 shares of National Steel, cost you \$780 for the actual price of stock purchase, your actual cost will be that \$780, plus \$6, plus something like \$15.50 for the brokerage house. In comparison purchasing a full lot of 100 shares of something else might cost you less in actual brokerage costs. Don't forget after all that you must consider these brokerage costs in both sale and purchase, both in figuring any possible profit and in your tax returns. Obviously if your stock has gone up \$6 a share and you sell and it's an odd lot of 10 and you paid \$600 for it, your actual profit tends to be closer to \$30 rather than \$60, if that.

But say you buy 100 shares of Whittaker Corporation which is presently selling for about 9 $\frac{1}{4}$ . Actual cost of shares is \$925 plus a simple % for the brokerage house and you will probably wind up paying just \$16-\$17 or so if that much. You see that purchasing odd-lots you can be nickle-and-dined to death. Yet it is obviously far far better to purchase an odd lot of something that goes up than a full lot of something that just lies there or even worse goes downward.

For essentially the better stocks have already been bid up to high figures. It does not take much to spot a company that is earning lots of money and is likely to earn lots more. And the professional people, the small traders, everybody becomes aware of this "hot" stock. Which is why I must sadly state that many of the finest stocks....the so-called Blue Chips of the Market are already highly and dearly priced. Even in a badly depressed Market like the present one the really Primeo Corporations are likely to be still wearing gilt-edged price tags on them. This is quite simply because they have weathered this storm as they have others....by maintaining good profits, steady growth and adroit managerial expertise. When I make a few recommendations at the end of this fanzine I'll list a few of these Blue Chip giants that are selling for fairly high figures but will probably recover quickly in the near future. As well as my own speculative favourites.



After all, these big Financial Wheels have available to them the very same data that you do and very probably a great deal more. They have charts and computers and various technical aids and they are habitually looking out for growth and potential growth stocks (i.e., stocks which will appreciate swiftly and greatly in price). They look at the earnings and the field the company is in. They look at their accounting procedures and their management team and their rate of growth and expansion, and diversification if any.

And they've all "discovered" the companies which are already successes or assured successes. And the prices for these solid favourites are correspondingly high. The only real bargains occur in bad times like the present when earnings are temporarily depressed and in the very speculative stocks. In these speculative companies the password is what they may do someday and not what they actually have in hand.

IBM was once a small outfit traded Over-The-Counter back shortly after the Second World War. Xerox once sold at a few dollars in the same place. As well as Polaroid, Memorex and Kentucky Fried Chicken. Practically all the "glamour" stocks were O-T-C once and even if they are depressed today they are still selling at many times what they once did. A \$2,000 investment in IBM in 1946 would be worth over 320,000\$ today. This sort of explosion in value is almost unheard of, but it has created the legend of the poor but wise speculator who outguessed the "wise" Big Money men.

Yet the risk is high in the speculative stocks. We hear of IBM, but who today recalls Strathmore or one of that host of kaput firms....except perhaps some poor soul who held on to "his" stock until the bitter end.

This is something else that you should be aware of. Once you have put some of your money into any particular stock it can very easily become an object more of Faith than of capital. It is your Company after that and very often a small holder tends to identify quite deeply with His Stock. He will hold on to a drooping stock long after he should have bailed out simply because it has somehow become part of him. It would be like renouncing a son to let go....

Yet this personal involvement is also a source of great satisfaction and tends to make you alert about many facets of the economy that you had previously thought much too esoteric and involved for someone like you. As your knowledge of the economy and the dictates it follows increases you find that your own personal horizons do broaden. You learn to tell what real mistakes the Government is making, or in what fields it should move into or soon will. You begin to grasp the very real problems that surround "simple" things like pollution and minority employment and war profiteering and pure research. And the more you learn, the more you understand why some problems are still unresolved and where others are being resolved despite inertia and lethargy. Simplistic solutions no longer appeal quite so easily to you anymore because you come to see more clearly the interlocking chains of cause and effect in the economy both here and abroad.

In short it can provide you with the incentive to discover in true depth what the Hell is going on today beyond the Nixon speeches and the militants and the War. Maybe it's old-fashioned but I also still happen to believe that knowledge....Truth if you will....is beautiful and desirable in its own end. I may be one hell of a lousy example, but at least I'd like very much to be....some day....the Compleat Renaissance Man. The Man who conversant in the Arts, the Sciences, in politics and Love and finance and history and Philosophy and Math and all the Humanities and the Hard Sciences. Sociology, Mechanics, Physical Arts, Bio-Chemistry, Medicine, Astronomy, Ballistics, Music, Vintage Wines, Computer Processing, Carpentry, Courtesy, Dance, War, Theatrics, Theology, Agriculture, Aviation....

Do not at any time underestimate the siren call which The Street can instill in your tender ears.

But let us say that you've bought your little bit of stock and after a while its growth has ceased....at least for a while. Or you get scared that the next momentary "bounce" in Your stock will see it continue to go down, rather than turning around and going up for another point or two. Or you find that something nasty has occurred to Your company and decide to bail out.



The process of selling is likewise simplicity itself and can be put into motion merely by phoning your "account executive" and telling him that you've decided to flog your little nest egg, or at least part of it. He immediately....after making quite sure you want to sell and that this particular stock is the one you're selling....picks up his phone and is in contact with The Boards...or the Over-The-Counter markets, as the case may be. On the floor of the Exchange your brokerage house puts in a sell order and the floor man who is the specialist in that group of stocks picks up the buy, or sell, order and moves to execute it. If it is 100 shares or more he goes to the kiosk where that stock is traded and lets it be known that he has X-shares of, say USSteel, for sale. Or is interested in purchasing X-shares of USSteel. He is usually given a number of slightly similar bids (if he is selling) or offers (if he is buying) and naturally picks the best possible one. Sometimes in a thin stock (in which there are only a few million or less shares all told) or on a very slow day he might have to wait quite some time before he gets a buyer or seller and then might have to turn down that offer.

Whether or not you know it, you can state a Bid price and the Floor Man is forced to accept nothing more to buy and nothing less when selling. Sometimes you can get away with this, there is usually enough fluctuation daily in the price of a "thick" stock so that a pre-emptive bid that is  $\frac{1}{4}$  of a point different from the last quoted price can succeed. But many times you can also wind up "chasing the market". If "your" stock is going through a rise in price a pre-emptive bid can see you wishing you had bought "at market" back when it was a point or two lower rather than trying to shave an eighth or a quarter of a point.

If you are selling an odd-lot of stock your Floor Man has to turn to the Odd-Lot specialist who deals in the group of which "your" stock is a member. This Odd-Lotter is then able to either sell the correct number of shares directly (or buy directly) or act as middleman with another broker or brokers who can fulfill your order and gets his cut that way. Sometimes he will break down a full lot in order to satisfy a number of odd-lot purchases or he will perform the opposite task of uniting a few odd-lots into a full lot if the floor man cannot find anyone with the proper number of ordered shares.

There is also a regular Specialist, by the way, who is there to act as a buffer between excessive buy or sell orders on any particular stock in his group and very often prevents any really wild erratic swings from occurring merely because someone is selling a large unit of a stock at a moment when there are no buyers or not enough to cover the sudden swell of sales. He accepts the stock from the seller (or the order from the buyer) and painstakingly proceeds to buy or dump as the buyers and sellers appear. He does not directly buy or sell for himself but acts as buyer and seller in turn in order to regularize the Market for the benefit of all concerned. Many times if there is some irregularity going on, this man is the one who gets the dirty job of closing up shop in that particular stock until the Exchange has made an investigation. Similarly the floor Specialist has the authority to suspend trading in some particular stock when there is a really massive churn of sell orders. Remember that when some tidbit of bad news occurs the professional Money men hear of it usually first. They phone their brokerage men in a panic and before you know it some twenty or thirty individuals are all converging on the floor Specialist all trying to sell some two or five hundred thousand shares at a whack....dumping them before they burn holes in their pockets and their bank accounts....heading for the exits in a panic, as it were. Before he is clubbed to death with this massive influx of Sell orders, the poor Specialist has the authority to temporarily suspend trading in any particular stock for an indefinite period. Sometimes for an hour or two until he can personally round up buyers or for days, during which he painstakingly tries to let the suddenly unpopular stock flow back into the Market without spilling panic into other areas. The Market is such a very emotional beast that this is a very real danger and the Specialist and many other SEC (Securities Exchange Commission) safeguards are designed specifically to prevent unnatural catastrophes from plaguing the Market.



There are other safeguards in the Market that the SEC has put there, some of which you are probably unaware of.

For one thing, the Great Crash of '29 was at least partially brought on by wide-spread Margin purchasing. By this I mean that perhaps 1000 shares of a particular stock might be purchased....but only maybe as little as 10% of that purchase price would actually flow into the Market. In short a great many people were speculating that their stock would increase in value, they could sell and get out without having had to put up more than a small percentage of the actual purchase price. The faults are obvious. When the bubble eventually burst the inflated stock prices were revealed as hollow shams and everyone still in at the time got their throats cut. Nowadays not only does the small trader have to pay up in cash, but he has to pay up within five trading days (i.e., days during which the Market is in business) of the date of purchase. And if you do buy and sell on Margin there are definite limits to how much of the purchase can be on Margin (usually only 20% at most and then only if you have several hundreds of thousands of dollars already purchased in the Market). And even then many stocks cannot be purchased on Margin, by Exchange fiat. Most of what is inaccurately termed Margin purchasing is actually Loans where already purchased stock shares are given over as collateral on that Loan. In good times you might be able to get 80% of quoted value on some decent Blue Chip. In bad times you might not be able to get 20% of face value on the bluest of Blue Chips, though. It is at present a Bad Times period and the old proverbial fishy eye is given any stocks handed in as collateral these days. Oddly enough it is during the so-called "Good" times when the prices are badly inflated that stocks become a bad risk as collateral and it is in "Bad" times when they are selling for massive discounts that they more truly approach a conservative price level. Yet such is the nature of Banking thinking that they operate thusly....

Other safeguards are more esoteric and deal mainly with what is termed Full Disclosure and Full Registration. This means that any change in the stock held by the officers of a Corporation must be reported, as well as changes in stock options, stock held by the corporation itself, changes in terms under which warrants and Bonds may be exercised or turned in, etc., must be publicly reported. Also all new issuances of stock, warrants, Bonds and such must be registered with the SEC. Changes in ownership, control, officers, holdings and such are similarly reported.

Other safeguards concern such things as broker and Floor man practices and dealings and though too esoteric for this fanzine, are regulations to try to prevent Brokers and Floor men using their privileged positions as direct Stock buyers and sellers to feather their own nests at the expense of their customers. This still happens once in a while....after all, where there are laws someone will break them. Some just get their wrists slapped in one way or another. And sometimes we see Respected Pillars Of The Community on their way to Atlanta Penitentiary for some fancy finagling at which they got caught.

Another safeguard you hear about fairly often is suits against various companies for monopolistic tactics or practices or price fixing or some sort of no-no of that ilk. By law any company or group of companies cannot conspire to fix prices for sale or purchase, or regulate production via some "gentleman's agreement". These laws began back in the Teddy Roosevelt Trust-Busting days and have gradually altered and expanded over the years to cover such things as competitors merging together or being bought up by a big well-financed corporation (which might not be In The Public Interest). It can also cry Foul! if it considers any merger or purchase agreements unfair to the stockholders of either company, unfair to the consumer, or unfair to the economic community. It can force a big company to stop trying to force small fry out or limit them to a economic or geographic corner. These laws cover how any expansions or mergers were financed, Mafia or foreign connections, the fine print in their contracts, bankruptcy disputes, patent infringement, any of a thousand and twenty-three conditions. Basically they were designed to prevent certain inevitably Sharp Operators from either milking companies for private profits or using them as political weapons or economic combines to unnaturally milk the public.



That crooks continue to operate and gray-area infractions occur is more a comment on man's ability to finagle their way through any man-made set of laws rather than any comment on the nature or intent of such laws.

Speaking of Margins, there are certain rules which have to be followed before you can purchase stock on Margin, of course. Margin specifically means that you as an individual can buy X-shares of stock and the brokerage firm itself can and will put up the remaining 20% or whatever. Just the other day the Fed...the Federal Reserve Board....allowed the margin requirements to go down to 35%. This means that if you buy \$2000 worth of stock, \$700 of it can be on loan, or Margin.

I specifically mentioned \$2000 because that is the minimum amount of stock which can be purchased on Margin and allow the Margin rules to be applied. That is, the minimum purchase before your brokerage can loan you that 35% of the face price of that stock. Naturally the Brokerage is only loaning you that money....and at present charges 8% per annum on it. They can get away with loaning money out at less than prime rate because it is not really cash-on-the-barrelhead they are loaning out. They retain the stock itself....which has usually be simply shuffled around within their own holdings of stocks or from that of some other brokerage....and usually just loan the stock itself minus the Margin to itself or to some other brokerage house with which they deal. If you're interested in how this works, I can either explain it in person or suggest you contact your broker yourself. But take it from me that they have a perfectly legitimate means of each brokerage trusting the other to cover each other's Margin accounts and thus need not actually shell out any more actual money themselves than absolutely necessary.

Now the way the Margin works is that the value of that stock can drop or go up, the brokerage really doesn't much care. It has to go down all the way to 35% of face value (or the old 20%) before the Brokerage house puts in what they call a T-Call; for Treasury Call, on the Margined stock. When the Margins are thus called, the margin buyer either has to cough up some more money so that the Margin is less, or allow them to sell to retain their 35% (or 20%). Actually they couldn't care less whether your stock goes up or down, excepting that if you make money you'll probably 99 $\frac{1}{2}$ % of the time immediately go right back with that loot and put some more of it into the stock Market. Which means more Brokerage Commissions and more money for them. And by the way, though a Brokerage Commission might amount to 2 $\frac{1}{2}$ % of total cost at times (and the percentage goes down rapidly the bigger your purchase becomes....thus encouraging the big investor-aka-gambler), the profit margin for most Brokerage firms is not at all spectacular. Generally there has to be a turnover in the Marketplace of 11 millions of share per trading day for most brokerage firms to break even. Anything less and they run generally into the red and you start hearing noises about raising Brokerage Commissions and cutting-pruning some of the workforce, etc. (Like you have been hearing for some time now.) That this is not just Brokerage House propaganda to justify their "outrageous" commissions is proven by a quick glance at the profit and loss figures of the big or affluent Brokerage Houses....generally speaking those with House "Flags" above their portals on The Street and the company crest on their silverware in the Board Dining Room, etc. In a good year like 1968-9 they make money. In a slow year like '70 thus far where at least half of the open Market trading days have seen less than 11 million shares a day traded, you will perceive the edifying spectacle of half a dozen or a dozen small Brokerage firms closing up shop on The Market and going back to selling Insurance and Mutual Funds and being lawyers, etc.

Those concerns based upon the small trader are hit very hard, of course, as buyer confidence wanes and New Money tends to dry up. Those picky firms who generally get much of their business from large Institutions (like Union Pension Funds, Mutual Funds, Banks, Insurance Companies, Finance Companies, University Endowment Funds, Non-Profit Charitable Funds, etc.) find that the Big Boys tend to "safeguard" much of their position by putting much of their assets in financial and industrial "paper" (or short-term loans), bank notes and other purely money hedges. In other words they sold out much of their stock last year or earlier and have not put any of it back in the Market.



The result of this massive outflow of money from The Market with no corresponding inflow is obvious. There are more sellers than buyers, thus helping spiral prices down even further.

There have been at least a few comments by wise money men about this state of affairs and the consensus of opinion seems to be that the Funds and Institutional Investors these days are a swing-weight to any momentum within the Market....and therefore somewhat unhealthy. For these money men who are running the Funds and Foundations and such are all tuned to vagaries within the Market. When some stock is a "good" one, they all tend to jump in together...and thus quickly and ridiculously inflate the price of any given "hot" stock. (Simple Math, me lad. When there are 20 million shares of an outfit outstanding and 10% is held by the directors of the company, 10% by the company itself, and another 25% held by Moms and Dads who have no intention of selling whether it runs high or low, you obviously only have something like 10 million shares to play with in actuality. Take one out of every two Mutual Funds each buying 10,000 shares and you have an easy 4 million additional shares tied up as well. Throw in the Institutions and Pension Funds and Endowment Funds and Foundations and it rapidly becomes clear that as little as 3 million shares out of 20 are all that is available. And if this is considered a "Hot" stock..... The results are obvious. As is the result when the Funds and "Wise Money" professionals decide to do a little Profit Taking and sell their stock and reap the profit. A few large block sales and everyone is running for the exits and the man trampled into a greasy red stain on the Exchange Floor is the Little Investor who didn't realize in time that it was now Sell Time rather than Buy Time.) Besides inflating a price overly much through their desire for "action", they also tend to vastly deflate a stock and keep it that way. The conglomerates are a perfect example of this sort of Fund Psychology.

Quite a number of the conglomerated companies were going through a period of fantastic growth last year and the year before that, at least partially because of wild speculation on the Market by the Funds and other Big Money. As their stock was highly touted, they could continue to grow at a fantastic rate for the simple reason that they were buying up all these small outfits through exchanges of stock. And if they could get a 15-million-a-year business for a few hundred thousand shares of stock, obviously the conglomerate was coming out ahead on the deal.

But the Nixon Recession occurred and stock prices plummeted. Once on the downgrade the conglomerates found themselves unable to make good deals (or any sort of deal at all) with stock that was falling in price. Unable to grow in their accustomed manner...by acquisition....their earnings turned flat or even downhill and the Funds once more stampeded like a herd of cattle in their mad dash for the exits. Now there is probably not 10,000 shares of conglomerates altogether still in the portfolios of the Mutual Funds and even less in the other Institutional-type portfolios.

In the buying spree the Funds were guilty of over-valuing the conglomerates because they were growing so fast. Now that some of the conglomerates (particularly the Ling-Teneco-Vought complexes and Litton) are in serious financial difficulties the Funds are black-listing the entire field of conglomerates. And this despite the fact that as a whole the conglomerates have only (as a whole average) only dropped 8% in total revenues against an 11% drop in industry in general. Forced to survive on what they already had, at least some of the conglomerates (USI, Republic Corp., Colt, AMK) have managed to begin "turning-around" their divisions into profitable units. Forced upon hard times others have at best managed a dispirited showing, unable to grasp the hard practicalities of reshaping a small unprofitable unit into a viable profit-maker through technical and financial services available to a large industrial corporation. (Gulf & Western, Northwestern Industries, for ex.) Some (like Avco, Phillips and North American Rockwell) seem to be learning the lessons of real nitty-gritty management after a long purge. But all of these companies remain relatively unique, mostly depending on the sort of management they have. But they are all blacklisted and no one will touch them now and will probably stay that way for 1-2 years to come.



In other words the Funds are tending to magnify all the bad points of the present Market system without bringing any new good points with them. As one chap pointed out, Funds make their purchases in large lots...and for 10,000 shares at a whack the brokerage houses don't make a third or a quarter if those 10,000 shares had been bought at odd-lots, 100-share lots and slightly bigger "small investor" trades. In fact it is the small investor who is letting the professional money men play with their money, it is the stabilizing small investor who is tending to stay away from the wildly swinging Market that the Funds are at least partially responsible for and thus leaving the Market even more at the mercies to the ruthless pros. Which is exactly why the SEC is saying No and dragging its feet over Brokerage attempts to raise the Brokerage commission on the small and odd-lot investor and lower it for the Institutional Investor at the same time.

But I'll talk some more on Mutual Funds later on.

It might be wise at the moment to go through a few more generally unfamiliar terms that you might encounter in The Market.

#### ENGLISH SPOKEE HERE....SOMETIMES

**SHORT:** This is a very risky proposition but one in which many types seem to like to indulge in. What it is, a person contracts to replace a stock's value. He "borrows" this stock from someone else (usually a brokerage) and agrees to pay the true owner the present market price, the price it is when he "buys" it. If the stock goes up and does so within the previously agreed-upon length of time that the Short Buyer signed for, why then he sells the stock, pays the original owner the amount due him in the Short agreement and pockets the difference. This is a zingy way of making money....so long as the stock goes up. If it goes down our Short buyer can either buy it himself and hope for an eventual rise, or more usually he sells at a loss, pays the difference between the sale and the agreed-upon Short price out of his own pocket and if he's still game, goes out and tries to find a stock he can Short and make money on instead of losing it. In a Bear, or down-wards market like the present one, Short-traders tend to become very rare beasts approaching the dodo at times....and for the same reasons. But in a Bull or upwards Market you tend to see large figures under the "Short" categories in the Wall Street Journal or your paper's financial pages.

**TURN-AROUND:** A turn-around position is basically one where a company is able to reverse a previous trend. Usually this means an upturn but it can also mean a sudden loss, a la Brunswick once their automatic pin-setters had saturated the market and suddenly no one was buying any anymore. Sometimes this is simply management taking a firmer hand in things, sometimes it is external (more people, or the Government, wants more Widgets, ergo more Widgets are sold), sometimes it is a new plant or store whose cost has been depressing Earnings-Profit for some time and is now able to help make money.

**PRICE-EARNINGS RATIO:** Sometimes known as the P-E, Earnings Ration, or any number of abbreviations. This is a strictly mathematical method of determining whether the price of a stock is vastly over-priced, under-priced or average. It is perhaps significant that during the past some 40 years and despite some severe ups and downs in the national economy, the P-E Ratio between stocks and earnings has remained on the whole between 9 and 12 throughout. You determine the P-E Ratio in the following way: You take the last year's earnings and mathematically figure a multiple of that earnings figure which approximates the present sales price of that particular stock. For instance, a company earning \$1.20 a year per share and whose stock is selling for \$12 a share is obviously selling at 10 PE. In various stock magazines and reports you will see similar numbers used constantly. "At 9 X P.E. this stock is a very good buy", etc., etc.



There are, however, a few kickers in that sort of precise mathematical determination of a company's stock values. The first and major one is that a low P.E. Ratio doesn't necessarily mean a good value. If the company is going downhill that "cheap" P.E. and price for the stock is a deceptive trap to ensnare your money. In effect a P.E. chart can only determine what the company has done before. It not only can't tell you that the outfit is due for some very rough times, it also is unable to tell you that this particular outfit is a Turnaround or explosive "Growth" stock. This is the whole problem with "Chartists" (people who rely on charts to tell them how a particular stock is going to react by plotting its ups and downs in the past... ..which make beautiful wall decorations and cannot be relied upon to perform any other useful function...by themselves.) and their precise ilk. They can prove the outfit has been making money but not whether it will continue to do so in the future. This is also the major fault with conservative types like Brokers as a group...they tend to rely too much on the past (much like the US Navy insists on preparing continually to fight WWII over again). Not only do they tend to ignore the big money makers if any, but a big safe conservative company is subject to pressures you wouldn't believe possible. Not only are they generally tightly unionized, but they are the first and primary targets of any and all local, state and Federal punitive actions, simply they are big and make such tempting targets. Nowadays it is also the big companies which are under increasing fire from the anti-War groups and the Pollution legislation which is sure to become a national fact. Also many big outfits tend to be cyclical...that is, everyone buys their product for a while and then everyone having bought one, they cease buying that product. Q.E.D., the big outfit is geared up to supply a high demand and suddenly there isn't even a small demand. The auto manufacturers are classic examples of this, but practically any and every industrial concern is cyclical to some extent or another.

**PHASE-OUT:** A polite term a company uses when what they mean is that one of its divisions is a dog, and since no one was willing to buy it off their hands, they're simply closing it down and absorbing the usually rather nasty loss involved. Which brings us to:

**TAX-CREDIT:** This is a legal device by which a company can postpone a loss, when figuring tax payments, for a number of years into the future. Say that AMK Corp. had to phase-out a small steel rolling plant in Kentucky in 1967. Instead of writing that loss in one unpleasant chunk they could write it off in three or five installments. If '67 was a bad year anyways, this helps make their earnings picture look fractionally better for that year since some of the loss is postponed. But its real advantages show up if in the next three years, say, they make really substantial profits-earnings. They can deduct that installment of the loss out of their gross-earnings (before taxes) and actually shave a small percentile of taxes off their otherwise substantial tax payments. At least it works out that way. Some outfits...like most land developers, financial companies, mobile home builders and other "volatile" issues of recent times have been using something similar to make their immediate earnings pictures look very rosy indeed, whilst postponing the evil day of reckoning when they have to start declaring their losses as real losses and not as temporary fluctuations in their ledgers. This warping of "standard accounting practices" is exactly what makes some land and home-builder issues such rotten risks right now....no one knows really whether they're making money or losing it and sometimes the outfits themselves might have only a hazy idea they've become so accustomed to putting off the reckoning days.

**CAPITALIZATION:** A euphemism for debt. Naturally there is long-term and short term. Most short-term is what is known as "Financial Paper". One-year or six-month or 2-year loans, usually at a % somewhat above the so-called Prime Rate.



D-J, or DOW-JONES: The Dow-Jones group has a selected list of so-called "Average" stocks, each of them representative of not only their fields (rails, rubber, drugs, airlines, autos, etc.) but of the total Market picture as a whole. By a complicated multiplication they come up with an aggregate value figure which is in some hundreds of "points". Back in the thirties that D-J was somewhere around 90-100 and in March of 1969 had reached of near to a high of 960 and various types were euphorically talking about breaking the Dow-Jones 1000. Fortunately or unfortunately as how you view it, a Market phenomenon occurred. After some months of increasing pressure from the Federal Reserve Bank, the Market was floating around in its wildly erratic highs and everyone suddenly started looking around at everyone else and quietly asked each other: "Ye Gods! What in God's name are we all doing?" Quietly tiptoeing to the exits in a great streaming horde everyone started deserting the Market by selling like mad. Unfortunately for the "wise money", the Market bottomed out by late May and went sideways...that is the D-J didn't vary much....for some months. It hit a rebound high in October when everyone was thinking Nixon was going to do something dramatic to end the war in Vietnam and started sliding downwards again from that point, not to stop significantly until March. It bounced back up again for nearly a month and has now been falling downhill for another month. It was acting like it had reached a really true bottom when Cambodia erupted and the Market has been swinging wildly since then. My only prediction is that when the D-J is this volatile...ie., when it moves up and down in such violent bursts....it is going to swing violently up or down within 12 more days-(it is Monday, May 11th). If it goes down, it won't bottom out much before 680 and will then probably establish a true bottom between 680 and 700. If it does not go down in that time, the Market will gradually become a great deal less volatile and the true bottom will have been established above 700. Despite Cambodia, I might add. There will not be any great dramatic climbs back to high levels for the rest of this year, but it will then go up to a D-J of about 780-800 on a steady basis. (By the way, I'm violating all the basic rules of a good stock or Wall Street tout by being so definite and exact. Most of them, like any good gypsy fortune teller, try to be as vague as possible.)

By the way, anyone who thinks that Wall Street and the Rich are automatically in favour of Nixon's War or any of the present military adventurism we're engaged in, does not realize that this present stock market drop is the first entirely man-made recession in history. It was forced on the government as its alternative to ceasing to spend so many billions in SEAsia. In other words, official governmental policy is to make the business and economic sectors pay for governmental fiscal irresponsibility. In the process some hundreds of billions of dollars have been lost in the Market (on paper at least) and not all of it by small investors by any means. Corporations by the thousands have had to bear onerous loan % rates in order to survive, many thousands small outfits have been dying off, the rich have been hit by the recession policy as well. Granted this is taking cake from the rich and taking bread from the poor (high unemployment is considered a small price to pay for monetary balancing, the head of the Federal Reserve Bank says....it's too bad we can't make him go and look for a job to feed himself and the family). The rich still don't like to have their cake taken away. In a declining economy, what is more, the stockholders of a company are not at all adverse to "retiring" big shot executives years earlier than they had once hoped for. And as earnings decline more executive heads will roll, from 5th Asst. Vice-Presidents in charge of paper clips to Chairmen of the Board.

No, Wall Street is far from happy with things the way they are now. But their biggest fear right now is that Tricky Dicky will throw away all these desperately-won and painfully-acquired monetary balances 'round about election time in an effort to get everybody jobs or promises of jobs and maybe a nice Republican victory this fall throughout the nation. In short, that Nixon will have given us all the pains and tragedies of a tough fiscal policy and we will then have gained nothing for them.



In which case we can expect a true "natural" recession with some very sharp teeth in it to occur in three to five years after the fall elections. For what this recession is supposed to be trying to do is not to slow down inflation (the goal spoon-fed to the masses who don't comprehend fiscal futures and the ramifications of an integrated cyclical economy), but to dampen the economy enough now so that we won't have a big bubble in a few more years that will burst and let everyone down very, very hard indeed. If the government starts throwing away its gains to win votes, I don't know about you but July, 1973 and onwards I'm going to have all my money tied up in Federal Deposit Insurance Corporation-Insured bank deposits and try like hell not to have any outstanding debts....

By the way, there is also something called:

**LAG-TIME:** This is the ~~six-month-or-so~~ period of time between when something happens to the Market and it begins happening to the economy in general. For instance the Market went through its minor Gottdam-erung in March-May 1969. In December of 1969 the economy as a whole started skidding downhill, with Seattle, Washington and Detroit being the worst cities to be worst hit. The Market has continued to go downhill as a whole since then and so I do not feel that there will be any improvement this side of 1971. When the Market does bottom out and start painfully upwards, you can then start counting your months and begin hoping for a general job improvement over the nation again.

**PROFIT-TAKING:** Stocks (or at least some) have been high priced and some souls, small traders or Fund managers or both, decide to sell now and take what profit they have. Ergo, Profit-Taking. This is mainly done by the swinging-door type traders, the speculators, in one day and out the next and not exactly my kind of cup of tea.

**GROWTH STOCK:** One which you think or hope will raise in quoted price on one of the Markets. Also one which has done just that. Sometimes used to describe a stock which has all the juicy possibilities of becoming a very, very good money earning stock and therefore high-priced stock. In 1969 Growth Stocks were all the rage. Now there just about aren't any atall, atall....

**NET CAPITAL LOSS:** That's what happens when you buy at one price and sell at a lower one. You can legally take up to \$1,000 of a loss out the first year's taxable income and space the rest (if any) out over a few years more.

**BOOK VALUE:** This is when you total up all the physical assets and marketable or liquid intangible assets (sometimes even the name of a company is worth something in money) and divide that total figure by the number of outstanding shares. Usually this is far less than Market value since the business an outfit is doing is it's most important asset. Oh yes, you deduct debts from that assets value before figuring true Book.

**BOILER ROOM:** A high-pressure outfit out to sell you stocks of dubious value. Ignore them unless you like being stung.

**YIELD:** In Bonds the rate of % interest paid per annum on the original loaned amount. In stock terms, the % of the company's stock's worth that is being paid out as dividends. A small yield is sometimes a very good sign, coupled with other things like moderate debt, that the outfit is tight-fistedly holding on to its profits and using them for internal expansion. These sort of outfits usually don't have very big dividend checks, but they tend to look very sweet over the long run in Market prices because they're on such a solid financial base. As a matter of fact the money is to made in the Market on stock value increases, not a few dimes per share paid out in dividends.



**WARRANT:** Basically a promissory note, usually designated in the Market notes as "wt". The company issues these things and promises to sell X-shares of their common stock (or sometimes even preferred) at a set price. If, say, Pacific Gas promised in a warrant to sell 1 $\frac{1}{2}$  shares of common at \$11 and the common is presently selling at \$19, the Warrant is obviously a very good buy indeed. If it is instead selling at \$6, you have got a dog on your hands because you can buy the common at less than Warrant price in the open market itself.

**CONVERTIBLE:** A very popular type of loan note these days. Many Bonds and their numerous kin of debentures, etc., have got in effect these little warrants tucked into them as part of the promissory note. Again, as with the pure Warrant, what the price of the common stock is can raise or lower the worth, or price, of a convertible note of any sort.

**COMMODITIES:** Some call it a form of Market activity. I call it unadorned crap-shooting. Basically you put up some money to buy Commodity Futures. The supplier, the original supplier or grower that is, is guaranteed a set price in advance of what his product will be worth. Say you buy Spring Barley or May Maine Potatoes. The grower can now be sure he has got at least that much money for his crop in advance (and he is under contract then to produce X-bushes of produce by the way even if he in turn has to buy it from someone else....you're guaranteed as well that the produce is going to be there). And now you wait and watch the commodity Markets. Say that there is a serious Barley and Potato blight. If there is quite a bit of it, there won't be many potatoes floating around, or very much Barley either. That means you should be able to sell your commodities for a good deal more than you paid for them. Similarly when the crop is too ruddy good, your produce is worth a ruddy sight less than you paid for it. The crap-shooting comes from the fact that the buyers determine the final price and shortages withstanding, they decide in what I think is sheet out-and-out price-fixing, what they will pay. Ergo, heads they win, tails you lose, and it's all perfectly legal.

The Commodity Market has an entirely different "touch" to it and my most heartfelt condolences to anyone who decides to try the Commodities. They tend to make the stock market on a really bad day look good by comparison....and a good deal less volatile.

Metals are also listed in the Commodities and again go under much the same rules. Heads you win, tails they lose....if you're the buyer or supplier. Most Metal prices are determined by the going price on the open London Metals Exchange, especially copper.

**GLAMOUR:** The little midgets that became giants in the Market. IBM, XEROX, Burroughs, Polaroid, Fairchild Camera, Texas Instruments, Memorex, Avon Cosmetics, etc. Once selling for a few dollars and now worth fortunes (or at least once worth fortunes.... At present the big high-priced glammers are undergoing a "sweating" process which is wringing a hell of a lot of the fat from them in a very painful and protracted process. Thus we see Polaroid dropping from \$130 since January to about \$70, IBM from \$387 to \$290, Xerox from \$115 to \$82, Syntex Drug from \$67 to \$29, and so forth). The Glammers were the last to start sliding badly, after half a year of everyone dropping alarmingly. Now that they are being brought back to a line more compatible with the Market in general, I am counting this re-evaluation of the Glammers as a positive sign that the Market has bottomed out or is about to do so. All the high-flyers have been dropping now, including that supposed recession-resistant Avon Cosmetics from \$184 to \$147.

**PROSPECTUS:** A usually involved lengthy document which the company has to print....and accurately state its position and prospects by SEC rule. Dry reading but the details can be fascinating...and hair-raising....if you are or were thinking of investing in the company. All new stock issues must have a Prospectus and legally the Prospectus is often the only nudge that can be given you to buy Their Company's Wonderful Stock.



"CHURN": This is directed towards Funds for the most part, or anybody with a large portfolio. Now most Funds have a buddy-buddy arrangement with some Brokerage House, or two for one thing. And the more times the Big Money Portfolio buys and sells the more Brokerage Commissions the Brokerage gets. And if 50% of a portfolio Turns-Over, or "Churns", it may be either a sign that the outfit is a speculator and trying ruddy hard to make money or it can mean they are creating action in lieu of any real motivation for legitimate trading on the Market.

If you have the notion that I am suspicious at the least of many Mutual Funds and at worst think they're a menace to the entire Market system, you'd be perfectly correct. Theoretically, due to the large amounts of money they tend to deal in, they have the potential of being a fantastic steadying force on the economy of the entire nation. Instead they indulge habitually in the very worst forms of Market-Panic, driving prices low or high like a herd of very rich sheep. They tend by their very nature to become involved in very monopolistic practices of giving all their Brokerage business to a few friends and the Brokerages in turn giving their small People-type customers at best a cold shoulder and at worst shoddy advice in their desire to toady to the big money boys of the Funds. The Funds are also excessively lobbyististic and are fighting like demons at the very moment to prevent any sort of legislation at all being attached to their lucrative and almost-crooked practices that many habitually indulge in. Besides a set fee for their "services", the managing group of the Fund....an excessive fee by any standards....they generally give themselves an additional bonus of  $\frac{1}{2}\%$  of total worth (sometimes total worth is \$40 millions to a billion dollars) whenever their Fund manages to "beat, or do no better than the Dow-Jones Averages or Standard & Poor's or whatever guide they use." Excepting maybe a dozen out of the some 550 plus Funds going strong right now, none of them have any penalty clause where their set fee is cut if they fail to match the Dow-Jones or do worse. Another case of Tails I Win, Heads You Lose. But let me start a new section on:

#### MUTUAL FUNDS; Or; YOU PAY ME FOR BORROWING YOUR MONEY

Basically that is what a Mutual Fund is. They may talk about skilled Professionals managing your money, but in essence you're paying them to play with your money on the Market.

Basically they get "their" cut in at least two ways. The first is by taking a certain percentage out of the operating funds of the Fund to pay their salaries and bonuses and incentive percentages and such things. All of the Funds do that, regardless of whether or not the Fund is improving in value or decreasing.

The second way is even more ingenious and is one I distressingly find that a lot of people like to pay. It's called a "Load".

Let me define a few things about Funds first.

There are basically three kinds with a few freakish variations. They all have as their aim, of course, the making of money using your money as capital. They invest in an enormous variety of subjects, but most of them are garden-variety common-stock Funds. That is, they buy stocks (and some Bonds) and if they've done their homework, the stocks increase in value. When they are high in value they then have the option of either holding on to them and waiting for some future raise in value, or of selling and taking their profit. Some buy strictly Energy (coal, oil, nuclear energy, etc.) or some Chemicals (Monsanto, DuPont, Celanese, Purex, Wang Labs, etc.), some buy strictly Aviation stocks, or tax-free municipal Bonds or Florida companies or California companies or just Over-The-Counter stocks. There is one that buys Art with a capital A which they hope will appreciate in value. There are now two Japan Funds, both buying strictly Japanese stocks or European stocks. There is quite literally no end to the fields in which some Fund can....and probably will....branch out into.

But the three main types are thus: Load, No-Load and Closed. A Closed End Fund is one which is closed-up at both ends. That is, they sold all



their shares like any other company selling stock, when they first went Public. Unlike most other Funds, they no longer either sell new shares to new shareholders nor redeem the shares sold. Generally these stocks, et, Funds, are sold like any other Corporation in one of the Exchanges. They are not listed with the Mutual Fund quotations in your paper, though they are in fact Mutual Funds. This kind of Fund works entirely with the money they initially received from their initial sale of stock in the Fund. Some of them...like Japan Fund....are doing quite well. But many others are in effect selling for small discounts, to cover Brokerage costs more than anything else. Yes, that's right....these are the only stocks in Funds that you buy like any other stock....through your Broker.

The Load Fund is a somewhat different beast. The open-end Fund (which is what the Load and No-Load Fund is, after all) is a Fund which constantly will sell new stock and redeem old stock from its shareholders. In fact they want to be the only people who trade their own stock. This is an Open-End Fund. The net asset value of the Fund's stock is determined by a precise Mathematical Formulae. They divide the net asset worth of the stocks in the Fund portfolios by the number of outstanding shares and Presto, they have the net asset value per share.

The Load Fund now, well, it sells you shares at Net Asset value per share....plus a Load. This load is a fee, generally between 7% to 8% of the Net Asset Value per share, and the sales fee (for that's what it is) is split between the "Sales Agent" (I prefer the word pimp or flack) and a small part going back to the Fund itself. If you then want to sell your shares, you have to sell them to the Fund itself. And all they'll pay you is the Net Asset Value Per Share. Which means that as soon as you've bought shares in a Load Fund, it has to go up 8% in value before you can even break even. Of course they regularly pay dividends, but that can be small consolation if your Fund cannot be sold for what you paid for it, and that on the very same day you bought it. There are plenty of "straight" stocks which pay nice dividends and don't immediately depreciate in value like that.

This Load, by the way, is what keeps the sales agents-pimps on their toes. This is their incentive to keep money flowing into the Fund. And as most of them are open-ended, they can become....like the Dreyfus Fund....2 or 2½ Billion dollar organizations which have all the grace and finesse within the Market trading place of an enraged bull elephant roaring through a stained glass window. In fact there is a definite "theory" going the rounds within the "smart money" these days that a really large Fund is much too clumsy and big to either act fast enough to cut its losses nor buy in soon enough to really make any major gains, in a really volatile situation. They are now tending to state that something not too far above \$40 millions is an optimum size for a Go-Go Fund.

At any rate, Load Funds are well serviced because they have a large network of individuals flogging their product with a profit motive in mind. But there is another group of Funds. No-Load.

The name is just exactly what its name implies, of course. There is no Sales Fee. This outfit obviously does not have a large network of eager salesmen running around pressuring people into the Safe Investments Of Mutual Funds. But they manage to survive anyways simply by mail-order purchasers of their stock. They sell their open-end stock at the Net Asset Value and redeem at Net Asset Value....no hidden charges hidden anywhere in there.

Generally you will see them advertising in little boxes in the Wall Street Journal or BARRON'S or one of the other Market magazines or papers. On these little insignificant ads they manage to at least survive, and some of the better ones even thrive. For it is such good business practice to not pay that Sales Fee, or Load, that people search these No-Load Funds out to deal with them.

The important thing, of course, is to find a No-Load that is half-way decently run, as good as the Load Funds, and invest in that. In fact, in the latest debacle in the Market (from March '69 till now) the No-Load Fund as a group has done no worse than the Load Funds and have actually done a little bit better.



But again, like stocks in general, you should try to shop around a wee bit first and find one that suits you. Or at least looks like a prudent investment to you. I actually am not very much in love with Funds as a total group, but for some small investors they are obviously the answer.

The No-Load Fund by the way, gets its money internally within the Fund's resources....exactly the same way the Load Funds do. That is, the money that flows in to buy new shares is at least partially diverted to pay salaries and operating expenses as well as to finance new investments by the Fund managers. Note the plural, because they all operate that way. It is impossible for any single or two or three men to handle all the ramifications implicit in a viable functioning Market composed of the some 7-9 thousand listed stocks plus Bonds, debentures, Treasury Bills, Treasury Notes, foreign companies and the managerial expertise that each of these companies has at hand in their upper echelons. In short there is simply too much information available and necessary for a few people to keep track of it all. For this they need a very Corporate set-up. They have the Board of Directors, the head ( or Ex-), sometimes for whom the Fund is named, who governs the managerial company which itself manages the Fund. And below this highest echelon of command we have the portfolio managers, sometimes with a few chiefs in charge of some broad spectrum of investing. The Portfolio Managers themselves are the "Wonderkind" of the Funds, the gun-slingers, the Go-Go Boys who have to keep abreast of the developments in some area (like maybe aviation or Oil or computers or Steel or....) and recommends buying, selling or holding, as regards various companies and their plethora of stocks, Preferreds, Bonds, debentures mortgage notes and such. In a Go-Go stock....where the emphasis is on buying stocks that go up in value and therefore increase the value per share of the Fund....and means they can charge more per share....these lads are under fantastic pressures. They must quite literally produce "hot" stocks, or at least stocks which do increase in value if not fairly explode in price. To many wrong guesses and that gunslinger might be back selling odd-lots to small investors at Paine, Webber, Jackson. But if he habitually does a good job (a few failures occur with the best of them after all....) he will rise with the organization...or these days....he might go out and find an underwriter (financier to back his deal up) or two and start his own Fund. The Manhattan Fund is one example of a person who did his job well in Boston for one of the big institutions and when he came to The Street, he was able to start up his own Fund. His reputation had preceded him, you see.

Now all the Funds take a cut out of the proceeds to pay their expenses. But they usually don't touch any of the direct profits they make by selling stocks at a profit, or what they earn in dividends from stock they're holding. According to Federal Law, if they pass these direct profits directly on to the shareholders in the Fund, they do not have to pay taxes on them. So we find that Funds at least always pay some sort of quarterly dividend if for no other reason than the tax loophole that was created in order to encourage the Funds and other institutions to pass the profits on instead of keeping them. Sometimes this isn't a hell of a lot, One William Fund (a No-Load of some worth and character) paid out about a \$1 in '69 and probably won't make .70¢ this year all told, probably. Somebody like Consultant's Mutual (a Load) has paid over \$2 last year but probably won't do so well this year. But then an outfit with a high dividend might also have a very high "Churn" with resultant real and actual nibbling away at the true asset value per share of your Fund.

There are a hundred factors that you have to be aware of in the Funds, but they also on a whole have a very large number of positive-good points to them. For the small investor who doesn't either trust his own judgment in buying stock via the Market himself, or doesn't wish to take quite the gamble, or in some cases hasn't the money, the Funds can be one fairly safe way to watch your money increase in value (and fight inflation erosion) and obtain fairly regular dividend checks of reasonable proportions at the same time. You are paying other people in effect to play with your money, but if you go to a No-Load you can cut the Sales Fee out. And if you pick a good, well-run Fund, your money will appreciate in value. Since we've therefore



covered most of the salient points about Stock Market investing, I might as well start listing some actual recommendations in stock and such, and might start off with Funds, since I've just covered them.

In the section following the Fund recommendations...such as they are.... I'll include a Fund that isn't quite one. This is a Closed-End Fund, one in which you have to buy and sell the shares in the Market like that of any other company. And they are a regular company, of course.....their product is money.

By the way, there is also a variant beast in the Funds known ~~as~~ as a Closed-Up Fund. This is one which feels that it has reached its optimum operating size and is no longer looking to sell new shares to the public. It will purchase shares back from people who wish to do so, and most will sell new shares to existing stockholders only. But not to the great unwashed public. They follow the dictum that growth is not always good.

There are also Minimum Purchases with many Funds. Most Load Funds do not have Minimum's, but with the Load Fee they could care less. Their salesmen will sell one share if that's all you want. Most No-Loads (and some Load) demand a certain minimum investment. Either in a definite amount of money. (Say like \$200 to begin with though future investments might be so low as \$50 at a whack.) Or a minimum number of shares. (Maybe as low as 10 shares, or 25, but 100 shares is quite common.) This minimum investment by any one person is what the No-Loads manage to survive on for the most part. They may not get a great number of constant new investors like some of the widely-touted Loads like Dreyfus or one of the Axe-Houghton's. But what investors do come in are thereby required to bring enough operating capital with them to make it financially feasible for the No-Load Fund to operate. There are even a few cases, like Massachusetts Fund (a Load) where the minimum unit is \$1000 simply because they wish to keep a fairly elite-type bloc of shareholders.

But to a few Funds. According to Federal Law, a Fund can only offer to sell via its Prospectus (that listing of its position financially and othersiwe) and the Load salesmen are just pressure-men and touts. You must be given a Prospectus (in person or mail) before you can buy any Fund stock. When writing any of these No-Load Funds they will send the Prospectus and probably a recent Report to the shareholders and a prepaid envelope and form with which you can order shares via mail of the Fund's shares. No salesman will come to see you nor phone you nor pester you. They may continue to send reports and such to you for some time but will not pressure you in any other way.

American Investors Fund, Inc.: 88 Field Point Road, Greenwich, Conn., 06830. Mail address: PO. Box 2500. It was selling for better than \$7 a share last year, is now worth about \$5 per share or slightly under. It has made a number of bad moves, obviously, but it is still in business and was probably one of the biggest losers to the recent debacle in Financial lending institutions, real estate and mobile homes. But there is no minimum purchase (though they charge .45¢ if less than \$100 is purchased.) An obvious case where it has sunk so low now that even a bunch of idiots can improve on their position.

Energy Fund: 55 Broad Street, N.Y.C., 10004. Was as high as \$14 last year and as low as \$12½ this year. Minimum unit is 10 shares. It suffered from the general Market decline and due to its heavy reliance on Oils, it suffered perhaps unduly earlier this year. But it has a very low "Churn" and due to its large Utilities position is bound to go back to \$14 this year. Present price about \$11.20 and bound to rise.

Growth Industry Shares: 6 North Michigan Avenue, Chicago, Ill., 60602. Another victim of the fact that no matter what stocks they buy, or hold on to, they have been decreasing in value. Yet a listing of their Portfolios is a listing...in effect....of solid companies sure to rise in value again and based upon genuine financial stability. It has been up past \$24 last year, is presently at \$17½. 25 shares minimum initial purchase, though you may elect for a Dividend Reinvestment Plan by which you may start with \$100 and all dividends are used for purchase of fractional shares of the Fund.



**Guardian Mutual Fund:** 120 Broadway, N.Y.C., N.Y., 10005. Like most Funds they are unable to put more than 20% of their monies into anything other than stocks and bonds and such. But their total drop through this catastrophic period has been from over \$25 to the present \$21. Less of a drop than the Dow-Jones has taken, percentagewise. May be purchased in either \$200 minimum or a minimum of 10 full shares.

**Johnston Fund:** 460 Park Avenue, N.Y.C., N.Y., 10022. Badly hurt in the most recent drops, especially in cosmetics, drugs, real estate and mobile homes. From \$23 last year to \$17.55 at present. But again they have sunk so low that they are likely to share in any revival. In the past 20 years they've done well and their management has not changed all that great deal. Speculative. \$250 minimum, additional accumulations after that to be no fewer than 10 full shares at a whack.

**Northeast Investors Trust:** 50 Congress Street, Boston, Mass., 02109. Only if you absolutely love Bonds. If you do, I can hardly think of anything more "prudent" and "hedged" than this outfit. It is about all they buy. \$500 minimum, have dropped from \$16 to present \$14½.

**One William Street:** One William St., N.Y.C., N.Y., 10004. A prudent outfit which managed to survive 1969 with only a 5% loss in net Asset Value Per Share versus a 19% for the Dow-Jones and a 1¼% to 19% for the Fund field in general. They've dropped another 9% since then but so has everyone else...in other words they're still doing better than average. Am not sure what it is they are doing right, but they've been guessing wrong less often than most of your Wunderkind gunslingers. From \$16½ to \$12½ over a period of 14 months. Minimum investment is \$500.

**Penn Square:** 451 Penn Square, P.O. Box 1419, Reading Pennsylvania, 19603. This one has one of the lowest "Churns" in the business and have dropped in the last half-year when all about them have withered under the bright harsh flame of continued Market debacles...no less than from \$8 to the present \$7. They don't gamble much and so they didn't share in the oftentimes 100% gains of '68 and '69 made by some gunslinging Go-Go Funds. But they have also survived better than most. I've seen their April 30th Portfolio and I must admit that I personally admire their impeccable good taste in Stocks and Bonds. Very probably the most solid No-Load or Load Fund going the rounds without being stiff and awkward. Minimum initial purchase is 100 shares and most recent price is \$7.02 per share. Dividends this year should be apx. .60¢ a share. The only one of the Funds that actually has a "flavour" to it, a feel of something being there other than a computer and 22 accountants....

**Price, T. Rowe, Groth; and, New Era Fund:** One Charles Center, Baltimore, Maryland, 21201. One of the 7 Funds which actually made a profit during last year's debacle. Their heavy position in the Blue Chips and reputable Glamour's (like IBM and XEROX and Polaroid) has meant some substantial paper declines due to the recent "sweating-out" process going on there, but it is probable that the net share value is over, despite probable continued declines in the Glamuors after the Market turns about. They're also the one outfit I know of with more than one woman in either of their Managerial groups and with bearded people in the executive positions....for what that's worth. Recent prices are \$20½ for the Growth and \$8½ for the New Era (a newer Fund.) Minimum of \$500.

**Scudder, Stevens & Clark Balanced; Common; Special Fund:** 10 Post Office Square, Boston, Massachusetts, 02109. A Canadian-based outfit which still puts a large block of their money in Canadian enterprises...and utilities and Bonds. They've been hard hit, but they were all still in the top 40 performers (out of a field of some 600) coming out of 1969. Balanced was \$15, is now \$13¼. Common was \$10½ is now \$8½. Special was \$32½, is now \$28½. \$500 minimum for the Growth and Balanced. \$5,000 for the Special.



Naturally enough, this is only a partial listing of the No-Load Funds. There are also available, in the larger groups, the following No-Loads. David I. Babson Inv., Beacon Fund, Berger Kent, Afuture Fund, a Columbia Growth, Consultant's Mutual Investment, de Vegh, Dodge & Cox Balanced, Drexel Equity, Equity Growth, Farm Bureau Mutual, Federal Securities, Hedberg & Gordon, Herold, Investment Guidance, Investment Indicators, Ivy Fund, Loomis, Mates, Mathers, Nassau, Naess & Thomas Special, Mutual Shares, National Industries, Neuwirth, Pennsylvania Mutual, Pine Street, Rittenhouse, Shamrock, Sherman & Dean, Smith & Barney Equity, State Farm Growth, Stein Roe & Farnham, and Variable Stock Fund. This is just the most major No-Load Funds. There is a constant stream of small tadpole No-Loads springing up in the Over-The-Counter area, most of which are quite speculative.

All of this listing is not a recommendation to buy, much less buy any of the Funds listed on the past few pages. But it is a listing of some of the more characteristic No-Load Funds available. To find addresses for the others, you have merely to write the SeEC, or Standard & Poor's, or your local newspaper or just start leafing through your local library's copy of the Wall Street Journal....they all advertise eventually in there.

But I do not much care for Funds for many reasons, personal dislike of the ways they over-react in The Market one of them. But if you want a hedge against inflation, and a regular dividend, and don't really want to speculate in the Marketplace itself, maybe a Fund would be your best bet. In that case, I feel it is my duty to mention to you all that there are many good No-Load Funds which have done as well as the Load Funds in both bad times and good and give you the same inflation hedge and low-risk opportunities as any other Fund...without that Sales Fee. If you must buy a Fund, at least consider buying one which doesn't automatically depreciate in value by  $8\frac{1}{2}\%$  the very second that you buy it.

There is another reason for my failing to actually recommend any of these Funds. And that same reason is why in the coming sections on Stocks that seem to be good investments, I must also fail to actually recommend any of them. That other reason is the present laws on the books, both real and laws of precedent which state that if I were to actually recommend purchase of any particular stock....and it goes down....I can legally be sued for the actual money loss that the investor took plus court costs.

The brokerage houses and other publishing concerns which tout "hot" tips on stocks are able to avoid constant law-suits by unhappy investors by being able to prove two things. One, that they did actually engage in definite research into the concerns touted. And two, that they did so with the investors interests in mind, a catch-all phrase which means that they are at least trying to do right by their readers and customers.

Granted in fandom such petty spoil-sportism is decidedly rare, but it does exist often enough in the mundane world that it severely cramps me and other people like me who would like to recommend definite issues as buys to our friends and associates. The printed word, after all, can be pretty damning....

Therefore I have to indulge in such stratagems and euphemisms as these protestations which I am presently writing, and the hedges and pussy-footing that you will detect when I list a few stocks which might be worth your close scrutiny. And indeed maybe it is best that way. For in the final analysis you must indeed take a few names suggested to you by friends, associates, brokers' and Stock Report magazines (such as FORBES, BARRON'S, the Wall Street Journal, Financial World and Wall Street Reports) and determine whether any of these stocks fit your newly formed requirements, whether any seem a good buy.

It is obviously a decision not taken lightly and a visit to your local Main Library and close study of this year's issues of the above-mentioned magazines can aid you greatly in determining what might interest you enough to actually put your hundreds of dollars down.

The best I can do is to give you some of my own guidelines, some stocks which I have been watching, and a shorter touching-upon of many other stocks that have recently come to my attention and might be worth additional study.

Bearing in mind, therefore, that I want to recommend a number of stocks but cannot, please read on.



You might also bear in mind the fact that the Market is probably going to very shortly establish its lowest point and perform a "bottoming-out". Once it truly bottoms out, the Market in general will gradually rise again and may never see these lows again. Inflation if nothing else will tend to raise the paper values of all the companies involved. What is more, when the true Bottoming-Out occurs, quite a number of the better companies will immediately turn-around and out-pace the Market in general, in recovering their former prices and worth. In fact a number of blue chips which took bad dubbings last year and early this year seem to have already established their own individual True Bottoms. (Which is a good opportunity to remind you once more that what you buy is a company...or two...or three....not the Market in general. Therefore you see the phenomena of some stocks dropping in value in a swinging Bullish market and others reaching new highs as the Dow Jones retreats on a board spectrum.) This evident true Bottoming-Out of some stocks already is one more indicator that the Market is shortly going to reach its own generally established Bottom. At that point the chance of picking up many real bargains will have passed.

This is essentially why I am postnailing this thing. Stocks and Bonds and such do not very often reach these sort of lows. Especially in the face of heavy inflationary pressures. True, there is not going to be any dramatic upturns in the Market in general. The recession will see to that by keeping most corporate profits low and thereby cooling investor enthusiasm. But the really classic low point is occurring now and while you are reading this.

Now....this summer, this year anyways....is probably the very best time of all for anyone to start buying into selected stocks. The economy is going to be "flat" for some time, but Cambodia or no the economy itself is still a very healthy beast and the ability to make money remains imbedded in the character of the American corporation.

Personal inquiries to me will get you further elaboration on some particular issue, or at least where to find out a great deal more.

But now to the stocks in general and in particular.

You will note a few salient facts quickly, of course. One is that I'm tending to group the companies by "Field". Utilities, oil, auto, aviation, conglomerates, food processors, supermarkets, retail stores, electronics, high-technology companies, etc. Also I'm tending to state any particular Defense Contracts that the outfit is engaged in. You will note that I'm not particularly enthusiastic about any outfit heavily committed to governmental contracts. The reason has nothing to do with any moral objection to Viet-Nam or Cambodia or any related spheres. It simply has to do with the fickleness of the public weal. Lockheed is a perfect example. For some years it has been buddy-buddy with the Pentagon, it has made money hand over fist and basked in the warm glow of Defense spending. Then the C5A came up and Lockheed has been accused of doing everything but using its brains, due to heavy cost over-rides. The Lockheed case has become a political hot potato and the over-ride system of defense contractual procedure a cause celebre. The whole system of how we contract for defense work and with whom has come under close scrutiny. This has rebounded onto other defense contractors, like General Dynamics and Royal. In the aftermath of public over-kill vis-a-vis the defense contractual system, the government has moved to slash military spending rather than revamp it, as should be done. By cutting the military budget and leaving the over-ride system intact they are leaving equally intact the Truth that future defense spending will be as unwisely carried out. At any rate, Lockheed has had its contracts cut into ribbons and is unable to gear down and away from defense contracts. It has this massive outlay in buildings and personnel and equipment and nothing to build and the result is financial disaster for Lockheed. As mentioned before, they are trying to get the Pentagon to sneak them some money as a gift or favor in order to remain solvent.

I am reminded immediately of one Broker's comment when the proposed new rate system was aired by the Brokerage Houses. "I fail to see why (the small trader) should be penalized to support the inefficient." And I fail to see why I should be taxed to support an incompetent and inefficient corporation which hasn't enough sense to make any provisions for the future.



But Lockheed shows why living off the public tax-pocket can be a very risky proposition. The Pentagon wants its goodies like last year, when they want it. But whenever the war ends, or the government goes into another spate of inefficient "fat-trimming", the defense contractor is left holding an immense industrial establishment which is completely geared to produce products that its one big customer....the Pentagon....doesn't want any more. The result is a big fat loss. This is why your cammy corporations any more tend to only deal in limited degrees with the Government. The earnings may be fine for a while, but when it comes to ~~tax-money-saving~~ time again..... Whammo! Right between the eyes.....

Granted we are nbt about to go out of the Arms Business by any means. And Arms these days tend to mean more and more missiles of various sorts and high-technology product lines, which means high-technology costs. Despite recent outcrys over over=spending, defense still has a certain priority and you cannot discount aerospace and defense as dead ducks. But obviously the inefficient should be pruned and Lockheed is one corporate image I would dearly love to see vanish from the American scene. Arrogance and waste are their prime crimes and we can afford neither one in this world anymore.

Of course some of the defense-s-called businesses will eventually recover. So let's tackle our first field:

#### DEFENSE & ARMS

In a word: Don't.

The big outfits, most of which are also in Aerospace (which is undergoing a similar drop in taxpayer's popularity), are: General Dynamics, McDonnell-Douglas (which is under pressure as well to reverse its discriminatory politics towards Blacks and other minorities), Boeing (ask the Seattle fans about how Seattle is doing.....Seattle is the only city in the nation this year where rents have actually dropped.), Northrop, Ling-Temco-Vought Aero, North American Rockwell, United Aircraft, Grumman, Fairchild Hiller and Rohr. Martin Marietta is also a major contractor but is also a prime so-called "High Technology" company, making machines and systems for the industrial and commercial field, as well as things like cement and construction materials. Rayal also has large Defense Commitments, but is drawing back as their fingers get burnt. It is interesting to note in Martin-Marietta's case that they have undergone a minor blood-letting in the managerial structure of late and have taken a major bloodbath in the Market. Whether they have sense enough to limit their defense contracts in the future is a moot question. In effect it amounts to less than half of their earnings and sales and has decreased in % as the Nixon forces have retreated in the face of public outcry. In a year or two you might take a look at M-Marietta and see how they're doing. The rest of them you can forget. I'm a gambler but not that much of a gambler....

Many companies, of course also have Defense contracts. The auto companies produce vehicles of all types for the nation and hundreds of smaller companies feed their products into the Big Three automakers and other outfits that do defense work. The major chemical companies also have a share in defense work, of course. Besides the obvious (and right now disreputable) things like napalm and poison gas, they produce explosives and disinfectants and cleansers and rocket fuels. There is, in fact, very few companies that do not have a few dollars of their sales directly or indirectly purchased by the military. But today no one rely's on defense money and for simple financial reasons many outfits are reluctant to take any major defense contracts. Large defense contracts, as I've already noted, mean tooling up for a major effort....and if the government decides to cut back, the outfit is stuck with a major expenditure and no customer for their specialized goods. This, more than any hooting by the ultra-Peaceniks, is why defense contracts are in such bad odour in the industry in general. But on to some other industrials....

#### AUTO MAKERS & SUPPLIERS

Auto's are a very cyclical industry, as I know from personal experience. Most autos still are not assembled here anymore, but the parts for most of



them are made here. About every three years or so (sometimes four) just about everyone in the nation will have bought a new car. Then no one wants to buy a new car. And the automakers cut back their orders and lay off workers and the suppliers do the same and the whole economy feels itself suddenly short of breath. When this downturn occurs in a major recessionary period like the present, the cumulative effect on their net earnings and the economy in general is doubled. But despite the outcry over pollution in the air, the major auto makers are not about to go out of business. Whether or not we switch to alternatives like electric cars (my own bet, by the way), they are still going to bear labels like Cadillac, Chevrolet, Lincoln and Dodge. The blood-letting when they have to change over is going to be extreme but the big three at least will survive. If they could ever do something about the disparity between the costs of foreign imports (which have to pay onerous import duties as well as shipping costs!) and the high costs of domestic models, I would be a hell of a lot happier. Also the auto makers are due for a major blood-letting this fall when the contracts come up. Due to Reuther's death & the subsequent power-struggle that is taking place (most of it hidden from public view), whoever comes out on top is going to have to "prove" himself to his Union associates and the rank-and-file. And the only way to do that is to be "tough" on the auto-makers. With earnings dramatically down in the auto industry at the same time, I foresee strikes at least at two of the big three....and tough ones. The outlook generally, therefore, is not good for the auto groups. Yet the fact is obvious also that the Big Three have probably been discounted as much as they are going to be. They are such solid investments and everyone knows it, and they are badly underpriced. Even at recent earnings levels General Motors is selling at apx. 11 X Price-Earnings, Ford slightly less than 11 P-E, Chrysler at about 15....but this is in the face of a first-quarter loss, so when Chrysler once more begins making real money the price will not go up nearly so fast as the P-E ratio will go down.

There is, of course, also the matter of leverage. Leverage is that odd-ball word which defines the potential real per-share growth of a corp. Obviously an increase in sales by GM of 11 millions would hardly make a ripple in either their gross sales or earnings after taxes. And to garner an increase of 100 millions in sales per month, an outfit like Ford or GM would be forced to increase expenditures by an equally vast amount. In other words, to make \$10, they'd probably have to spend nearly \$8. When an outfit is only making 20 millions a year, an increase in sales by \$11 millions would be explosive. And if they spent \$20 millions on expansion, advertising, and such expenditures, they would probably receive something like 300% in gross returns on their investment. This is what leverage means. How much farther a company can be pushed simply by tossing in a few millions of dollars for expansion and expenses. Similarly, if such a company were to lose \$5 millions, they'd go kaput. If GM were to lose \$5 a month on some particular divisional operation, they'd flicker an eyelash or two but not panic by any means.

In other words, the really big gains are likely to be scored by the small operators....and the biggest risks are there also. The only time, in fact, that the mutli-Big Corporations become attractive buys is during a bad time. As one analyst put it, the risk is low. Therefore buy when all the news is low and sell when everyone is oohing and aaahing over their wonderful growth prospects. Because a big company just simply isn't going to grow all that much. Not in actual earnings. And the movement of that outfit's stock....either up or down....just does not have very much relation to the actual position of that company. If the economy of the nation acted like the Market, every corporate manager in America would be dead from heart attacks or assassinations by outraged stockholders one. (As an aside, the present ultra-ultra-Left posture that businesses...and their managers....are "ethically speaking" targets for bombings and assassinations is perhaps the most chilling thing I have ever heard. The rationale seems to be that they are despoilers of the environment and the working



classes and their lives should therefore be snuffed out without trial or recourse to appeal for their "crimes" against "The People". These types may garb themselves in the cloaks of Intellectualism and a high moral tone, but whatever mask they wear, they are fascists and gangsters of the most brutal and dictatorial sort. They have gone so far in their extremism that there is a blurring of identity of them with the farthest Rightists. I shudder a little bit....)

There must also be considered the fact that the Big Three....and most major corporate giants....are probably going to be the first outfits to be forced to expend a major portion of their monies towards pollution abatement. Not because they are that much more worse a group of polluters than the thrifty little communities throughout the nation that dispose their sewage directly into the local lakes, streams and oceans. Or because per dollar earned they pollute the air that much more obviously, or create that much more solid waste. But because they are concentrated and vulnerable to public action and it is ever so much more politically rewarding for our local Election-Year-Crusaders to attack a big outfit than the Mom & Dad shops which are just as bad and usually worse than the big outfits. But once the pollution fad wears off and some serious legislation gets enacted (as opposed to the present political promises), the measures will be enforced sweepingly and the costs....if not lightened....will be borne by the nation in general instead of a few forward-looking companies in particular. You can hardly blame a corporate board of directors for dragging their heels when you realize that cleaning up a single complex like Ford's River Rouge entity could cut the corporate profits to zero for two or three years by itself. (By cleaning up I do not mean just halting pollution of all types but actually reversing the process so that the River Rouge river itself is no longer a fire hazard, for instance.) For Ford to do that whilst GM or Chrysler (or even little American Motors) didn't would mean disaster to Ford. At the very least the stockholders would vote in a new slate of officers who would promise to let things continue as they are. At worst it could see Ford collapse as a major producer and become another poor cousin like American Motors.

No, in order for pollution to have any teeth the Federal Government must act. It must act to enforce pollution controls and laws across the board on all corporate structures so that at least no one would have an unfair advantage over another. The problem with foreign companies continuing to operate in a polluted environment will mean they will be able to sell their products here even more cheaply....for a while. An inflationary spiral is beginning to rock the European producers and Japan is under heavy pressure to drop the present Japanese import laws and tariffs and quotas which in effect protect Japanese producers from any foreign competition, in any field. But we must do something and the sooner the better. Then, in years to come, when other nations will be facing the agonizing problem of spending a large part of their wealth in order to save their environment, the worst will be over for our nation.

But to get back to the auto-makers....

Ford and GM are obviously good buys right now and pay some of the best dividends in America today. Chrysler is slightly more speculative and American Motors is strictly for gamblers, even at their present low price. Amex is betting heavily on their gremlin but primarily they haven't the muscle to do more than survive the next decade...if that.

GM was selling at 65 $\frac{1}{2}$  Friday, May 16th, up a bit from their low of 62 $\frac{1}{2}$  Thursday. It will probably seek the 62 level again before the Market as a whole bounces. Ford was selling at 42 lately, 41 $\frac{1}{2}$  Friday, same situation as GM. At 61, 10 shares of GM with brokerage costs would be about \$650. 10 shares of Ford at about 42 would be \$428.

In the foreign field, Volkswagen ADR (American Depository Receipts....the means by which foreign companies stock is bought by a US Citizen) is badly overpriced and most of the European auto makers are due for a "sweating".

In the supplier scene, the rubber companies (Goodyear, Goodrich, Uniroyal, etc.) are all having labour troubles and being faced with antiquated facilities that will have to be replaced. Sure, they're underpriced right now, but for a good reason. Their prospects aren't too good.



Generally speaking the parts suppliers are in much better shape for a long run option, provided you pick the right outfits. Associated Spring is a much-touted outfit widely held by Institutions and Funds. Their earnings have only dropped a few percentiles, but the stock itself has over-reacted by going from \$34 a share to around \$27. It is evidently tough, capable & geared for high-precision production lines of all types. Very probably the biggest and best spring manufacturer in the nation if not the world. 10 shares at 27 would run apx. \$278, 20 would cost apx. \$565.

Braun Engineering (I once worked there) is a clean modern establishment with almost no defense work and very little debt. Their profits are way down this year with the auto slump, but the bulk of the stock remains closely held by the "family" and management. They have not laid off any help this year, unlike the Big Three or most suppliers, even the one I work for at present. Contract is coming up this fall, with the Teamsters, but no especial problems are anticipated and a strike seems unlikely. Was as high as 22 this year, is presently \$13 or so and vastly under-priced. But it will not show any obvious recovery before the beginning of next year, due to the specialized auto market that it services. 50 shares would run about \$665, 100 about \$1320.

Schiller Industries are what is known as a High-Technology supplier to not only auto makers but aerospace, computers and some missile components. All of these fields are down right now but Schiller has very good recovery potential because of its ability to change small chunks of metal into expensive precision parts. Schiller still holds 2-3rds of the stock himself and much of the rest is owned by management. They are not selling....they still see the outfit as a viable operation. In fact when the people who should know hold large blocs of their own stock, it is a safe bet to assume that they at least anticipate no disasters and very probably anticipate an upturn. Was 13 this year, is presently about 11½. 50 shares would run apx. \$565, 100 would cost something like \$1117.

The other major parts suppliers like Budd and Purolator and Libby-Owens-Ford and Dana, etc., are unknown factors. But again each of them should be approached with two ideas in mind. The automotive field is very cyclic right now and everything is at a downturn. And each outfit should be approached on an individual basis. I will say, however, that Budd for one has made some very bad moves lately and the worst is not over for them by a long shot. I may not be able to definitely recommend any particular outfits, but I can sure mention something I think is a dog.

Do not look for any improvement in prices of the auto stocks much before spring of next year. But on to another industry.

#### OILS

Last year the Congress did something they should have done a long time ago....they cut the depreciation allowances for the oil companies. This was a beautiful dodge for the oil outfits which meant that the more oil they pumped out of the ground the more they could write off as a loss in their tax reports. The effect of the Congressional action was that all the oil outfits headed right for the bottom. Since then all the Brokerages and Market magazines have been touting the Oils of one ilk or another as classic investments. That may very well be true, but the worst may not yet be over.

There is at present a movement afoot in the halls of Congress to lift the present ridiculous oil-import quotas. These quotas in effect mean that we here in America must live on our own domestic oil production or else. As native American pools begin to empty more and more thought is being given to Arab and particularly Latin American products. The oils may be able to avert the present surge of legal pressure, but pollution is another matter entirely. Due to the very nature of their present operations along the continental shelf's of our continent, the oil companies can by a few errors destroy more of our environment at one fell swoop than any big industrial concern could in a year's time. And a few times already they have done so. They are therefore the choicest targets...and rightly so....of the ecologists. Even if no legislation is passed this year on pollution in general, it is exceedingly



obvious that special legislation will probably be passed to control the oil companies' present methods of drilling and exploiting oil & gas. In light of that, while the Oils in general may show a very good rebound for much of this year, next year may see them in worst shape than they were in January of this year. If you buy an oil, follow the Market and the political news like a hawk and be prepared to dump at the first sign of disaster.

Nonetheless many Oils will obviously survive even punitive governmental action and retain their earnings ability, however much their profits may be slashed in the long haul of a year or two. For short-term action (i.e., six months or so) they make an attractive group. Their profits have remained steady once the tax depreciation bill was swallowed. And the major ones...like any major company...can survive almost anything short of atomic war. And if that comes money is worthless anyways, so whathell, whathell.....

Look into Standard of California (Chevron), Standard of New Jersey, Shell Oil, Union 76 of California (they've tightened up their safety procedures considerably and might suffer least now from any further tightening up by the US government). Texaco is obviously the most well run and crisply worked Oil in the Market today, and Sun and Standard of Ohio are slightly more speculative.

One interesting fact is that the Oils are showing some signs of beginning to diversify at long last. After the shock of the tax depreciation bill sunk in, they have begun to realize how vulnerable a one-product company is, no matter how profitable that one product is. As fossil fuels diminish in the years to come I foresee most of the oils switching to either other fields of endeavour or to other fuel sources. At least half of the major oil companies will probably survive the next forty years in one form or another...though not as oils.

And while we're on Fuels, let's take a look at the major users...Utilities.

#### UTILITIES

Right now every Brokerage in the nation....and most of the Market magazines...are touting utilities as the greatest thing since Henry Ford. But there are a few problems involved, intimately connected with the present still-explosive population growth.

Most of the utilities haven't the facilities at present to meet the forthcoming consumer demands that will reach them. The big city combines in particular are in a world of trouble because their facilities are unable to meet the loads that they will be called upon to produce this very summer, much less the anticipated loads for '71 and '72 and '73, etc. For a few years now the utilities as a class have been postponing the major expansion programs they knew they'd need because of the high interest rates. They couldn't see borrowing a few hundred millions at 5½% when surely next year the rates would be much lower. They did not correctly take Viet-Nam and governmental waste into their estimates and as the Federal government has increased its pace of deficit spending, the borrowing rate percentages have increasingly spiraled right along with it. Now instead of borrowing money at 5½% they are faced with two distinctly unpleasant possibilities. Borrowing money at 8½% to 9% (and the utilities are governmentally regulated in regards their profit structure....no matter their plight or debt they cannot raise their rates unless the government allows it and it is un-political right now for the politicians to allow the utilities to raise their rates....especially in an election year where everything else is inflating faster than the eye can follow). Or in effect let the public go hang so far as electricity, gas and telephone usage go. AT&T took the desperate step of financing 3½ billion in a public offering of Bonds, notes, warrants and debentures. At nearly 9% interest. IT&T has gone searching for funds in Europe and Asia even if it means a majority ownership outside the USA. And where possible the gas and electric utilities are issuing new stock or Bonds (again at usurious rates) in order to finance their desperately needed expansions. Some big city utilities like Consolidated Edison (New York) are badly watered and over-pledged in stocks and bonds and preferred stocks right now and any new issues may drive the stockholders right up the wall. Commonwealth of Chicago is in much the same shape, as is the utilities for St. Louis, Minneapolis, New Jersey, Pennsylvania and many others.



In other words, the Moment of Truth has arrived for most large urban utilities. They must either expand to meet public demands...or die. And if the government starts stepping in to save them, the extent of government ownership per se in the companies will increase further. Many large city utilities are right now sounding out the Feds on possible governmental loans at low interest rates in the interests of the public good. That this bloc of hearty government-interference-capitalists are willing to put themselves in hock to the US Government illustrates the financial plight that some of them have allowed themselves to get into. Similarly most electric utilities are prime air and thermal polluters, sewing coal into the air in immense amounts to fire up their generators (Commonwealth and Consolidated for two examples would be hard pressed to produce enough electricity for the needs of Glen Harbour, N.Y. between them if they couldn't burn coal). Here in Detroit the "Seven Sisters (Detroit Edison) has been under heavy attack of late for its "callous" aerial pollution. As an aside, most of them burn low-grade domestic coal because US laws prevent them from importing...cheaper.... foreign low-sulphur coal. Once more the United Mine Workers come to the rescue, so to speak....

Not all of these troubles are their own fault, of course. The governments have for a very long time determined how much they charge for their product and to whom, not to mention what procedures they have to fulfill in the selling of those services and products and the installation of their transmission lines and circuitry and when they can expand and where they can put their facilities and when they can expand and.... But you get the idea. Basically the problem has been that they cannot keep up with any inflationary spiral. By the time the government allows them to increase the rates, utilities (of all American companies) have already been selling their product at an inflationary true loss. If they try to outguess or anticipate inflationary rises, the government disallows such rate increases because they are not justified by their costs. So utilities are constantly running a poor second in the cost-price game. The situation is not entirely bleak though, for two reasons. The first is that the demand for their services and product is constantly going up, and the government does at least allow them to enjoy area-monopolies, which makes them the only game in town in their respective zones. The second is that the rural utilities at least have a great deal of leverage.

By that I mean that their expansion costs are still relatively low. To meet a growing demand of 25% a year somebody like Montana Power would only have to invest a few hundred millions a year, at present. To match a similar growth the already-large urban outfits would have to go into hock past their eyebrows and then some.

There is also some stirrings on Capitol Hill that maybe price-fixing is not the entire answer for the utilities and a number of bills have at least been formulated which (however slim their hopes of passage this year) would in effect let the utilities charge more now, and if inflation continues for their basic costs, they keep the extra money and their rates are officially allowed to raise to a new permanent level. If the inflationary spiral does not continue ( stop laughing, back there, dammit!) they rebate the monies back to the consumer pro rated to their usage per dollar. One stick that is presently beating some congressmen on the head is the fact that even the TVA is in a world of trouble, and in order to service its area will need a new massive infusion of funds....and right now, too. It is a reminder to some congressmen that all the dollars lavished on the TVA...or any other utility....does not mean that you can forget about it and it will always be able to meet the needs of the consumer. Congress likes the wealth constant growth brings, but they tend to forget the costs in pollution and expansion that also go along with it.

At any rate, therefore, the leverage....and Market action...is obviously going to be with the rural and under-developed gas and Edison outfits. A few outfits, like Boston Edison and Columbia Gas (Ohio) have evidently seen their worst days and are definitely in a period of turnaround. They have bitten the bullet of financing in Boston's case by a massive Bond issue this January and new management in Columbia's case and they are looking very good indeed.



Columbia Gas has been selling at \$28 and shows little sign of reaching its low of \$25 again. 20 shares would cost apx. \$577. Boston Edison is pegged at 32-33 and 20 shares would run apx. \$660-75. But again I must mention that none of the utilities are going to experience any explosive growth. The problems are too immense for that. But many of them are going to experience some very favourable action in this year's Market. In the words of one Fund manager, it seems that Utilities are "In" this year amongst the Funds.

What is more, generally speaking Utilities offer probably the best and most steady dividends of any of the Market stocks.

Mountain Telephone & Telegraph...otherwise known as Mountain Bell...is a prime beneficiary in the lowering and eventual removal of the surtax. It has a hell of a lot of leverage and little debt, no matter what Mama Bell (AT&T who owns 80%) may be suffering from. Earnings have steadily risen and may be better than the estimated (in 1969) \$2.05 a share. Dividend is apx. \$1 $\frac{1}{4}$  per share and present price...no change in three months of Market disaster...is apx. \$21. 25 shares would run about \$534.

Pacific Telephone & Telegraph is another outfit which has bitten the bullet and hocked its future earnings via a 8 $\frac{1}{2}$ % Bond issue. Having taken that step, however, it might become a reputable buy in the future. It has been going downhill lately, though, and this might be a good sign of the price for the stock retreating to match the expected earnings levels pre-taxes. Below \$18 and might go down to \$17.

Rochester Telephone is the largest non-Mama Bell outfit around, serving upstate New York. Price is \$35 and earnings level is high but with less of a dividend than Mountain Bell.

DelMarVa Power & Light serves the Delaware-Maryland-Virginia peninsula between Chesapeake Bay and the Atlantic and still has a lot of leverage in its area. Dividend \$1.12 on about \$1.70 earnings per share. Present price is \$16 $\frac{1}{2}$  and probably will stay there, at less than 10 X p-e. 50 shares would run \$860.

Public Service of Colorado is a very fast growing outfit with a hell of a lot of leverage and a lot of high-technology outfits like IBM and Xerox and such already building major facilities in its service region. Dividend is about \$1.06 on earnings of about \$1.95. Present price is close to \$20 and after its recent raising of funds by a new issue of common stock, shows no signs of heading downwards. 25 shares would run you about \$510.

Texas Utilities serves an urbanized area of Texas with lots of leverage to it, especially as high-technology industries are only lately moving into the Texas region. Texas will probably be the southern leader in growth of all sorts for the coming decade or two, and they're already equipped to handle most of any potential future load increases. Earnings per share went up past \$3 last year and may approach \$3.40 this year, dividends \$1.80. Present price on the NYSE is \$53 and thus has a high P-E ratio...relatively speaking...of about 16 $\frac{1}{2}$ . Despite high price, it might be one of the very utilities around. 10 shares would cost about \$538.50 at \$53.

**BEST**

Sierra Pacific serves the Lake Tahoe region in California-Nevada and has recently started putting a hell of a lot of money into expansion. But once completed this present round of expansion may keep the company up to consumer demand for the rest of the decade. Earnings probably better than \$1.25 per share despite expansion demands and .72c the year dividend. Present price at 16 $\frac{1}{2}$  and evidently being purchased widely by the Funds. 50 shares would run you about \$822.

Middle-South Utilities is in Arkansas, Louisiana and Mississippi and has a great deal of leverage as well as being situated in an area where industrial demands are finally becoming an appreciable factor. Earnings will probably better \$1.52 this year, dividend about .96c. May soon finally acquire Missouri-Arkansas Power. Present price range is \$21 $\frac{1}{2}$ , or 25 shares for \$541 including Odd-Lot brokerage costs.

Virginia Electric & Power is another beneficiary of the recent growth in industry in the South (they had almost none before so almost anything is an obvious and discernable improvement), and a utility with low debt needs. The earnings are better than \$1.75 and dividends may go beyond \$1.12. Present price is hovering around \$20 and 25 shares would cost \$509 or so.



In the Utilities there have been a number of others which have been touted by various Brokerage researchers and which might be considered as alternative Utilities to buy.

Florida Power is still high leveraged but will need to make some major expansion investments in the next year or two. At \$43 $\frac{1}{2}$  per share I think it's too expensive though. Ditto for New York State Electricity & Gas at \$28....their leverage is almost gone. Others to check on, though are: Duke Power, Tampa Electric, Allegheny Power, Duquesne Light, New England Electric System, Cincinnati Gas & Electric, Southern California Edison, Gulf States Utilities, Northern Indiana Public Service. The trouble with most of these is that they have major expansion financing still to come.

Southern Company does not and still has lots of leverage, as does Public Services of North Carolina. Southern is hovering around \$20 $\frac{1}{2}$  with earnings of about \$2.05 and dividend of \$1.20 and its best years are still ahead. North Carolina is paying about .70% dividend on \$1 earnings and is primarily a gas outfit.

Other attractive utilities are: Public Service of New Mexico, Utah Power & Light, Lone Star Gas and California-Pacific Utilities.

Utilities look fine right now, because they have held steady during a disastrous Market period. But the Market will not remain downturned forever, and when it recovers, the utilities will still be plodding along at their old prices and dividends and will start looking pretty drab again....as they did during the last Market Boom. But for many people they are probably the most safe and dependable stock venture you can find outside of buying solid gold bricks....and even Gold isn't what it used to be, to the dismay of all the gnomes of Zurich. But all of the utilities have also been beaten about the privates in this Market debacle and they will probably never again see these sort of prices, inflation being considered nowadays as a natural state of affairs and therefore liable to continue indefinitely. But, as with Bonds...they are not my cup of tea but then my cup of tea would choke most people. Your Broker will probably recommend Utilities if you ask him, and it is a very safe investment. So at least remember what I've said and buy the rural Utilities with the leverage....the room to grow without major expansion outlays....if you must buy Utilities.

Time is a-wasting, so onward. To:

#### SUPERMARKETS & RETAILING CHAINS

Supermarkets, along with the retail chains like Sears-Roebuck and MacCor (Montgomery Ward's) are victims of circumstances which no one really could have foreseen. One, that the costs of running such outfits would rise so high and so fast. And two, that competition would be so fierce. Supermarkets in particular have immense expenses tied not only to the produce which they sell to the consumer, but to the stores which they must of consequence keep looking appealing to the customer, keep their taxes paid and are at this very moment undergoing massive labor troubles as the underpaid clerks and such scream for higher wages. Inventory shrinkage—the trade euphemism for shoplifting—is ferocious, amounting usually to two to four times as much money as they make in profit...net after taxes. The leverage is almost nonexistent and creation of hundreds of new supermarkets by the major chains only makes the competitive throat-cutting all that much sharper. All the food processors have been passing rising costs directly on to the wholesaler and store chain and the store chain can only increase its prices so much before buyer resistance destroys his turnover and profitability. Supermarket profits now are under 1%....the lowest operating profit of any group of businesses in America today. They are caught between the mill of the public and the grindstone of their suppliers and A&P experiments in becoming its own supplier have been unmitigated disasters. The same situation is only now beginning to pinch retail merchandising outfits as badly as they've been pinching the supermarkets for the past decade. Coupled with recent retailing sales lags (the recession remember.....), the great chains and the small ones have had disastrous Market performances.



Unfortunately for all of these outfits the worst is yet to come. The recession will probably cut into retailing profits for at least the next two years at the same time that the producers are planning to pass on their own hiked costs to the retailer. This involves all categories of processed goods, of course. Vacuum cleaners, frozen Pizza's, washing machines, cottage cheese, work clothes, Kleenex tissue, flashlight batteries, frozen peas, Kodak film, floor lamps, Del Monte peas & carrots.... You name it, the prospect is for rising costs to the chain retailer and rising consumer resistance plus higher insurance costs to retailers (especially to cover theft and "inventory shrinkage") and rising taxes on those "Rich" retailers by local governments. The outlook is not good for the field in general, no matter how well the economy may do in the next few years. But many of the bigger chains have been badly discounted already and will continue to be driven downwards in Market value in the year to come. And these firms have shown in the past that they can survive the withering blasts of shrunken profitability and went on to grow despite that environment. Sears & Roebuck (recently at \$63 per share) is a classic example of one merchandising firm which was counted as down and all but out in the Korean War period, but has risen back to become the world's most aggressive and profitable department store chain. Many of the other chains should not be given up as lost causes now, either. Though I see them continuing to sell for low prices...to justify low or non-existent profits...for at least another year, it is a field to listen to once in a while to see "What's Happening." Good bets for survival and eventual turn-around are:

Zayre, an Ohio based general merchandising firm, over 30% of the stock owned by the directors so they like the outfit's chances anyways.

Federated Department Stores (Bloomingdale's of Manhattan, Bullock's of Los Angeles, Abraham & Straus of Brooklyn amongst others) which disdains the discount schluck merchandising method and so far is continuing to make it pay off.

MarCor, or Monky Ward's. Much as I think it's a cheap-cheap outfit, it seems possible that it too has a survival factor.

S.S.Kresge has grown to the point where it no longer has any real big growth leverage, but it is also likely to survive anything short of atomic war. It, and Marcor and Sears-Roebuck are vastly over-priced even now (whereas the worst seems to be over for Zayre and Federated) and have a great deal of blood-letting in store for them. But once the bleeding is over, they are possible "good" stocks in a year or two.

In the Supermarkets, the aggressive and large ones which may eventually see an upturn in profitability are:

Safeway, of California (badly overpriced right now.) Lucky Stores also of California and similarly overpriced. Fisher Foods of Ohio, aggressive, viable and down badly in the Market after a bad start for 1970 but may do well if anyone does in the Ohio area. Pueblo International, Pueblo Supermarkets rather, which has a bleeding in store for it but is still a sound company. Based on Puerto Rico. Food Fair of the east urban coast has its worst days ahead of it but will survive handily. And Bayless Markets, of Arizona, which evidently has its best days ahead of it and is likely to ride out the next two years better than any other supermarket chain.

Merchandising is a bad field right now. And it'll remain a bad field to invest in for some years to come. But eventually the crunch of small profit margins are going to force both the companies supplying the supermarkets and retailers with their products, and the tax-levying authorities to change their attitudes and methods towards the retailer, or face a real and actual buyer rebellion and a retailer dissolution. Already some pressure is being placed on the supplier to in effect "loan" their products to the stores and only collect on that which is sold, or at least to drastically change their accounting practices towards their largest customers...the retailing outlet. There is also a large body of lobbying taking place in state and local legislatures to give the retailing outfit a tax break which at least gives it "points" for revamping inner-city stores and putting some up down there, instead of continuing to move out to the suburbs.



But Bayless Markets reminds me of something else, which I might mention before closing up this overly-long issue of Die Schmetterling (The Butterfly). Bayless is an Over-The-Counter company but is in no way a "small" operation nor essentially a risky one. Like a few outfits, they are O-T-C because of choice...not necessity.

A few others are worth mentioning.

Tampax, for one, is one of the most solid outfits in the O-T-C field and is finally beginning to diversify. Pabst Brewing has just undergone a major expansion and management turnaround and despite the prospect of a bad strike this year or next, whenever the Teamsters decide to move in, has the capability to survive that and grow along with Schlitz and Anheuser-Busch in the premium beer brewing stocks.

Brookaway Glass, after Owens-Illinois and Libby-Owens-Ford is one of the most profitable glass manufacturers and is also researching its own dissolving plastic disposable bottle to replace the virtually indestructible throwaway which is littering our highways and byways.

And Boothe Computing is probably the only computer stock today which is at all worth buying...by a far margin. The rest are either all badly overpriced, like IBM and Burroughs and National Cash Register. Or are lousy buys because they are now and have been indulging in "imaginative" bookkeeping, where you count a rental as a purchase and such eccentricities. All of which tend to make the earnings picture good for a while but eventually all the crowd come home to roost and we see outfits like University Computing and Data Control and Mohawk Data declaring sudden and unexpected and unjustifiable losses after an unending succession of glowing earnings reports. Boothe does not now nor ever has indulged in these shoddy practices and at \$18-\$19 a share might be the only really honest computer services company in America today, outside of the big hardware manufacturers like IBM, who need not fudge their earnings reports in order to look good.

Still, computers have reached their present growth period and for the next few years the going will probably be very hard indeed for the entire field.

\* \* \*

On that note I might bid you adieu.

Before leaving I'm going to add that my aims are now...as they always have been...to have my stock appreciate in value, rather than search for a "secure" haven for my money. Prudent investment can be a fantastic prod to saving regularly and a fruitful way to accumulation of capital. But it does not quite suit my crap-shooting mind. In the end, as Keynes said, we are all dead. And nothing is 100% absolutely sure, not even death or taxes if we are either to believe the AMA or the politicians promises. In the meantime we must go our individual ways, and mine is clearly marked...and The Market is part of my future.

Some of my own investments have been bad, but I have learned a multitude of Do's and Don't's from them. Even Darvas, the professional dancer who parlayed \$5,000 into \$2 millions on the Market, made a number of major mistakes when he was starting out. I can hardly hope to become a millionaire....I have neither the genius nor the "touch". But I intend to garner quite a few tools.

At the moment I am in Republic Corporation, a conglomerate which is being vastly under-rated and over-sold, and which is painfully learning to live on its income instead of its acquisitions. As well as Titan Group (O-T-C), a land & insurance outfit which is probably the prototype for all future land development in America. Buy the land, finance its development within, construct the houses and such with the internal construction companies which are part of the corporate unit, and sell the units and rent them after construction as well. A complete land developer from raw acreage to finished home and store, etc.

Air West, which sold out to Howard Hughes (and I lost a bit on that one), but it is the sort of mistake I'd na'e ever repeat. Future investments will probably be in SMC Investing, an O-T-C closed-end mutual Fund which is being discounted madly right now but is in better shape than 85% of your Funds. And Ralston-Purina, probably the most aggressive and leveraged food processor around today. If ye any question, ye have but to ask. Peace.



From:

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return requested

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\* This fanzine is sincerely dedicated  
to Carol....

Who got me started in this  
crazy Market in the first place,\*

This has been:

Die Schmetterling #7.

A publication intended to be  
post-mailed to the May 1970  
FAPA Mailing by: Richard  
Schultz, 19159 Helen, Detroit,  
Michigan, 48234, USA. Die  
Schmetterling means The  
Butterfly and justifiably  
depicts my effect on the Market.  
This fanzine is being widely  
disseminated in general fandom  
in an effort to acquaint this  
segment of the population  
with some of the realities of  
the national economy and can  
only be assumed to be the first  
of a continuing series of  
reports on the Market and the  
nation in general.

Like all evangelists I am  
eager and willing to spread  
the "Faith" and will willingly  
discuss any fine points of the  
economy and financing with  
anyone who cares to listen.

In fact, I might venture to  
make a few guesses as to what  
business and businesses will be  
like in the next ten to fifty  
years (if we survive) and my  
ideas do not seem to coincide  
with a lot of popularly  
accepted sfictional doctrine  
and expectations. But more  
of that in the future.

\* Sic Transit Gloria\*  
\*Mundy\*

"I think my broker's lost his mind  
Or joined the ministry,  
Since lately he's been handing out  
Some strange advice to me.

For instance in this market rout,  
I called the other day,  
I asked if I should buy or sell - -  
He said, "No, Son, just pray!"  
-J.F. Fenlon-

"If we would guide by the light of  
reason, we must let our minds be bold."  
-Louis Brandeis-

"To live is not to live for one's self;  
let us help one another."  
-Menander-