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/ LONG TERM INVESTMENT SECURITIES
FOR PROFESSIONAL WOMEN /

Lucille Ashmore
//
August 12, 1960

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ACKNOWLEDGMENTS

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CHAPTER I

INTRODUCTION

Importance of Long Time Planning

Women need to know how to make long range financial plans to have a happy and secure retirement. Many years ago men were the breadwinners and the fiscal agents. Now there are increasing numbers of professional women and widows, many with children to rear, that need to understand how to plan for financial security. Also, since "women own over two-thirds of the private wealth of America"¹ they should know how to use this wealth so they can receive the maximum benefits.

A good financial plan will give increased income through interest and dividends, and it will also give principal appreciation if sound investing practices are followed. Perhaps the greatest benefit of all would be the satisfaction received by knowing that you can enjoy the level of living that you had planned for many years earlier.

Each plan must fit the investor's income, age, circumstances, future prospects, personality, temperament, likes and dislikes. Webster² says to invest is to lay out money to obtain an income or profit.

In order to prepare a private retirement income for a respectable level of living, each person or family must learn to do without the un-necessaries and save part of the earnings for the future. By using these

¹Mabel R. Putnam, What Every Woman Should Know about Finance, (New York: Charles Schibner's Sons, 1955), p. 8.

²Webster's Collegiate Dictionary, Fourth Edition.

savings for investments, it makes you independent of Social Security and pension benefits, which really are delayed payments. So these should be considered part of the retirement income rather than the basis for a level of living after retirement.

Realistic financial goals should be a part of every person's or family's philosophy of life; a most direct route should be made to reach these goals. The long run forecasts of continuing prosperity permits planning for an optimistic future.

Each financial plan should provide for emergencies, major future expenditures, life insurance and retirement income. This paper is most concerned with the investing of these savings for future use.

Source Material

For long range planning one must seek reliable and current information. There are several dependable rating companies, investment services or weekly publications that may be used.

John Moody established a rating system for securities in 1909. The purpose of the bond rating is to provide the investor with a rating scale showing the relative qualities of bonds. The rating symbols, starting at top with bonds of highest quality, are: Aaa, Aa, A, Baa, Ba, B, Caa, Ca and C. The Aaa bonds represent the highest quality bonds and the least amount of risk. The bonds rated with C have a greater degree of risk and do not have any real investment standing. Bond ratings change from time to time as economic conditions change.

Moody also ranks stocks through "Moody's Ranking Scores". These scores compare stocks' past price and dividend records. This performance may be compared to Moody's 125 Industrial average, which always equals

100. The Ranking scores compare "(1) long term dividend stability, (2) long term price growth and (3) recent price behavior."³

Moody's publish numerous current periodicals that cover the investment field. Standard and Poor's have a like service. Their bond ratings start with A1+, A1, A, B1+ which can all be considered as bank quality bonds. These bond ratings continue with B1, B, C1+, C1, C through D1-D which represent the more speculative issues. D1-D are the bonds that are in default.

Standard and Poor's stock rating goes from A+ (excellent), A (good), A- (above average), B+ (average), B (below average), B- (low), to C (lowest). These scores are developed after examining the earnings of the last eight years, the dividend and growth records. Standard and Poor's point out that these ratings cannot be substituted for market recommendations because sometimes a high grade stock becomes overpriced.

Financial World also has a rating for stock. These ratings go from A+, A, B+, B, C+, C, D+, D, R and X. The A+ ratings are well established stock with good earnings, D are speculative, R is in reorganization and X in the process of dissolution. Financial World's intent is to use these ratings to represent a position of the stock in a wide range of investments.

There are other sources of reliable information like Fitch, Barron, Kiplinger, Forbes, Fortune and others. Probably most people use a combination of these sources. Many of these have weekly publications. Some also have investment services and will make a contract to supervise your securities, if your portfolio is of sufficient size.

³Moody's Stock Survey, July 18, 1960.

CHAPTER II

TYPES OF INVESTMENTS

Fixed Income

Investments are of two types. They have fixed or variable incomes. Each type has its use and serves a definite need. There are advantages and disadvantages to both.

Fixed income investments include such things as social security, pensions and savings held in banks or other safe places. The fixed income gets its name from the fact that you will receive a fixed number of dollars. The value of the dollar changes from time to time. For some time our country has been in a period of inflation, which means the purchasing power of the dollar has decreased. The fixed number of dollars you receive from these sources will purchase fewer goods and services now than--say ten years ago when you made the investment.

Social Security

The Social Security Act of 1935 was passed by our federal government to help solve personal financial problems. This law has several parts. The one of greatest interest here is the Old Age and Survivors' Insurance Benefits. The purpose of this is to provide minimum financial protection against consequences of old age, premature death and total disability. Several specific features are (1) old-age income can start at sixty-five for men and sixty-two for women, (2) lump sum benefit is available on death of the insured, (3) survivors benefits are available for dependents of an insured worker and (4) disability

⁴Jo Bradley and R. Wherry, What Every Woman Should Know about Finance (Rinehart, 1957) p. 250.

income to disabled workers over fifty and his children. A fully qualified retired worker at age sixty-five can receive \$119.00 at the present time.

If a woman elects to retire at sixty-two and draw social security benefits, she will receive eighty per cent of the maximum. This cannot be increased at age sixty-five. Should a woman elect to start drawing her social security benefits at age sixty-two and live for more than fifteen years, she will receive a smaller sum than she would, had she elected to wait until the age of sixty-five and drawn the full benefit. Naturally, her health is the major factor in making this decision.

Congress has liberalized the benefits of the Social Security Act with each succeeding election. The latest benefits were effective in 1959. This Act was an outgrowth of the depression to provide benefits for the unemployed and to encourage the workers near and over sixty-five to retire, so younger workers could be on the payroll.

The benefits have been continuously expanded. Now the problem "is to hold the Social Security system within bounds--to prevent its being developed into a serious threat to our economic well-being."⁵ Linton is afraid that the individual will lose his initiative in making his own retirement plans. Another danger the public should be aware of is the long range cost of the Social Security program. Under the 1959 law it is possible for a retired worker and his wife to receive old age benefits of at least fifty per cent of the wages they earned. "The payroll tax has been sufficiently large to enable accumulation of a reserve or Trust Fund of approximately \$23 billion as of the end of 1958"⁶ This

⁵M. Albert Linton, "Social Security and Life Insurance," p.2.

⁶Ibid., p. 10.

fund has been decreasing and one wonders just what the future might be.

Pensions

A large number of professional women now earn their living as public school teachers. All Michigan public school employees outside of the city of Detroit come under The Michigan Public School Employees Retirement System. Contributions are deducted from each employee's pay and placed in the Annuity Accumulation Fund. Each member has an account and interest is compounded annually at the rate of $2\frac{1}{2}$ per cent. This fund is held for each individual either to provide a refund when leaving public school work or to pay the annuity portion at retirement age.

A minimum of ten years of service is required. A person with twenty-five or more years of service may leave public school work at any age and start drawing retirement pay at sixty. Anyone with thirty or more years of service may start drawing retirement pay at age fifty-five on a reduced basis.

To estimate the retirement allowance do these things (1) find the average salary for your best five years, (2) take 1 per cent of the first \$4,200 of that average, (3) take $1\frac{1}{2}$ per cent of the remainder and (4) add 2 and 3 above and multiply the total by the total years of service.

Lawrence Von Zwohl,⁷ executive secretary of the Michigan Public School Employees Retirement Board feels that some precautions should be taken to improve the financial system of the retirement plan. He suggests that the reserve be increased. The present percentages of school payrolls must not be reduced and in fact additional financing must be

⁷Lawrence Von Zwohl, "Retirement Fund Finances."

found. Employees now 44 years old will not be able to retire and draw allowances at age 60 unless additional financing is found.

Employees of four teacher colleges are covered by this same retirement system. Other colleges may have the TIAA--Teachers' Insurance and Annuity Association. The Carnegie Foundation originated this plan for private schools. The University of Michigan has been a member for some time and Michigan State University is a more recent member. Today this Association gives economic protection with benefits providing "(1) income during retirement, (2) life insurance, (3) major medical expense insurance, and beginning in 1957, (4) total disability income insurance."⁸

The TIAA policy holders may transfer to any other participating school without losing retirement benefits. The public school retirement plans are state wide rather than nation wide. The Carnegie Corporation has also given additional grants to strengthen the reserve funds of the TIAA. This is a weak spot in the Michigan Public School Retirement System. Teachers have vested interest in both retirement systems and should work for continued improvement of the programs.

Women working in industry or other areas should know what pension rights and fringe benefits are available. Also, they should know what happens to the fund if they change employers, or if the fund is in safe keeping and is earmarked for them and/or their heirs.

Savings

The savings account is the first real step toward financial

⁸"Teachers Insurance and Annuity Association--College Retirement Equities Fund," 1957 Annual Report, p. 3.

independence. Table 1 shows the ownership of financial assets early in 1957.⁹

Table 1

OWNERSHIP OF FINANCIAL ASSETS EARLY 1957 (Owners as a Percentage of Spending Units)				
Total Financial Assets	Checking Accounts	Savings Accounts	Savings Bonds	Corporate Stock
All spending units	55	50	32	11
All owners of financial assets	72	66	43	14
\$1--\$199	64	39	20	1
\$200--\$499	69	59	26	1
\$500--\$999	70	69	42	5
\$1000--\$1,999	68	74	52	10
\$2000--\$4,999	77	84	57	13
\$5000--\$9,999	79	86	65	38
\$10,000--\$24,999	82	87	70	55
\$25,000--and over	95	75	71	77

Saving takes will power, self-denial and patience. These qualities are not found in all people.

Ward¹⁰ says the most important principles of economic growth are productivity and saving. Ward continues, "the most primitive economies save a little--putting aside seed corn for the next harvest. Perhaps 5 per cent of national income is saved in this way. Economists reckon that, as a general rule, . . . 15 per cent is the 'break through'

⁹Federal Reserve Bulletin, August, 1957.

¹⁰Barbara Ward, "The Economic Revolution," The Saturday Evening Post, p. 52.

point then they can generate each year enough savings to insure the expansion of both savings and consumption."¹¹ Applying this to individuals we can say 5 per cent savings gives us some security and 15 per cent would enable us to make the future more secure.

If you have the desire and determination and follow a system saving will be part of your way of life.¹² Putnam¹³ says savings should be not less than ten per cent of your income, but it should not be so high that you can't afford to save this amount regularly. Putnam also believes this fund should be increased until the cash reserve is large enough to meet living expenses for six months. This fund should eventually be equal to one year's living expenses. This would then take care of any extraordinary emergencies and also provide a fund that could be used to take advantage of any investment opportunities that arise. This should be considered as a savings investment fund, not a fund for consumer buying.

Cobleigh¹⁴ feels a general guide for a single person making \$4,000 a year or more and having no family financial responsibilities should be able to save regularly eight to fifteen per cent of their income. A family of four on \$6,000 should aim for five per cent saving.

¹¹Ibid.

¹²George Katona, The Powerful Consumer (McGraw-Hill, 1960), p. 13.

¹³Putnam, loc. cit., p. 13.

¹⁴Cobleigh, loc. cit., p. 21.

Cobleigh also feels you should have available in one place a rainy day fund equal to one-fourth of your annual income (before taxes). This is a flexible guide and as your income increases your savings fund should also increase.

The savings unit is the dollar. These same dollars will be returned to you at some future date. These units or dollars might purchase more or less in twenty years. The total number of dollars cannot be less, but the purchasing power may be.

Commercial Banks

Savings can take many forms, from putting cash under the mattress to bank deposits. Obviously, keeping loose cash around is hazardous; it can be lost or stolen too easily. "A low level of real income does not make for a low savings ratio, a rapid rate of rise in income, whatever the level, may do so."¹⁵ It is best to adopt a systematic plan of saving each payday. The amount you plan to save could be deposited in a savings account in a commercial bank.

When you are selecting your bank it is wise to select one that is located conveniently, so it is easy for you to follow your savings program. Commercial banks offer many services and usually have highly qualified experienced officers.

Commercial banks may be organized under national or state laws. Those organized under national charter must be members of the Federal Reserve System and the Federal Deposit Insurance Corporation. This organization insures each account up to \$10,000. A state bank may belong

¹⁵Milton Friedman, "The Theory of the Consumption Function," p.234.

if it wishes. It is wise to select a bank that is a member of the FDIC. Your money is absolutely safe. The interest rate is comparatively low. Usually it varies from two to three and one-half per cent, although this can change from time to time. If possible, the interest should be left in the savings account, so you can earn compound interest (interest figured on both principal and interest). Many commercial banks require a thirty-day notice before withdrawing savings accounts. However, this rule is seldom enforced so it can usually be withdrawn in case of need.

Mutual Savings Banks

Mutual savings banks were organized in the early days of our country to provide a place for the small depositors to have a safe place to save modest sums. Mutual savings banks are governed by state laws. These are found in seventeen states, predominately located in the New England and Middle Atlantic States, although they are also found in the Middle West and Pacific North West.¹⁶ These mutual banks have no stockholders. The organization has a fund which protects the depositors until reserve funds are established through earnings. Mutual banks have a good financial record. They usually protect their depositors with the Federal Deposit Insurance Corporation or its equivalent.

Savings and Loan Associations

Savings and Loan Associations are another good place to deposit savings. Like commercial banks these may be set up under a state or federal charter. The Federal Savings and Loan Associations are insured

¹⁶"Important Facts About Mutual Savings Banking," National Association of Mutual Savings Banks, p. 5.

by the Federal Savings and Loan Insurance Corporation. Many of the savings and loan companies organized under state charters also are insured by the Federal Savings and Loan Insurance Corporation. Barron¹⁷ estimates 93 per cent of all savings and loan companies are insured.

When money is deposited in a savings and loan association you become a shareholder and so an owner of the organization. The shareholders elect a board of directors to manage the affairs of the association. These are non-profit organizations whose aim is to pool resources and lend funds to buy or remodel homes in the geographic area of the association. So the savings and loan portfolio is made up of cash, perhaps government bonds, but mainly residential mortgages. Since mortgages give a good return, the depositors earn 3.5 per cent on the average as compared to 3.2 per cent in mutual savings banks and 2.3 per cent in commercial banks. Some western associations paid as high as 5 per cent.¹⁸

Most savings and loan associations are mutually owned which gives each account holder one vote per share and surplus earnings are pro rated upon liquidation. Eleven states allow stock charters. California leads with 158 stock Savings and Loan Associations out of a total of 172 chartered associations.¹⁹ In stock companies the stockholders have the voting power and a right to all earned surplus. Since 1955 holding companies have been formed to buy several savings and loan associations. Stocks were sold in these new corporations; they have enjoyed a good earning.

¹⁷"Speculations in Thrift," Barron's, August 3, 1959, p. 3.

¹⁸Ibid.

¹⁹Ibid.

There has been some criticism of these holding companies that they are forming monopolies and losing the "community" feeling. "Last September holding companies controlling one or more associations were prohibited by Federal legislation from acquiring control of any additional ones."²⁰ The holding companies feel by introducing Wall Street know-how the savings and loan companies have become more flexible. More mortgages have been granted and they feel they can raise interest rates to attract more savings. Holding companies can also grow by diversification. This has already been done by buying service companies, insurance and real estate companies. These holding companies are a product of the age and might prove a good investment.

Table 2 on page 14 shows their income and earnings.

Credit Unions

Credit unions are another common organization used for depositing savings funds. These also may follow a federal or state charter. The membership is limited to those having some common bond like occupation, employment, or some like group. When savings are made you receive shares as you do in the savings and loan associations. Most of the officers serve without pay, so the overhead is low which means that credit unions are a non-profit, cooperative organization and were really established to provide services for its members. Members can borrow on character up to certain limits. Often loans have credit life insurance protection which has the effect of doubling the dollar saving of a member who dies.

²⁰"Growth Promise in Savings and Loan Issues?," Financial World, p. 4.

Table 2
SAVINGS AND LOAN HOLDING COMPANIES--NEW INVESTMENT MEDIA

Firms controlling savings and loan associations have recently completed public financing. Legislation limiting their activities is making headway in Congress	Gross Income (Millions)		*Earned Per Share			Dividend	Recent Bid Price
	1958	1957	3 Mos. 1959	1958	Years 1958	1957	
Financial Federation.	\$ 9.7	\$ 7.7	a\$0.43	a\$0.29	\$2.56	\$1.83	None 31
First Charter Financial	26.3	21.5	b 0.46	b 0.39	1.37	1.20	None 19
Great Western Financial	24.3	20.6	c 2.49	c 1.40	3.61	3.79	a\$0.48 e47
San Diego Imperial.	3.7	2.5	0.15	0.09	0.35	0.25	None 9
Wesco Financial	7.8	6.8	0.55	0.31	1.74	1.59	None 22
*Before appropriations to general reserves.	b--Four months		e--American Stock Exchange				
a--Two months	c--Six months		s--Plus 5% stock				

FINANCIAL WORLD, August 5, 1959

The officers of credit unions are bonded against absconding. The management is often not very qualified since the officers are selected from within the group. If the credit union is a very large one, it would probably benefit from employing a professional manager.

Life Insurance

Life insurance is usually considered part of every good financial plan. This can be small or large to fit each situation. There should be at least sufficient to cover death costs, taxes and any debts there are apt to be at this time. If there are dependent children, carry enough life insurance to support them through high school in case of disability or death.

A straight life policy with an income rider or decreasing term insurance is a good plan to follow. Table 3 on page 16 shows seven ways to protect a family with insurance.

If you have dependents you may want to follow Cobleigh's²¹ suggestion of having three times the amount of your gross annual income. Due to the inflation in our present day economy a larger total is now becoming more common. Also, it is obvious one dependent may not require the same amount of insurance protection as five. So the amount of insurance must be fitted to the needs of the individual situations. Again life insurance cannot protect you against inflation, so other investment forms are probably wiser.

Each premium builds up the investment program. The cash surrender value or loan value also increases each year. Each policyholder

²¹Cobleigh, loc. cit., p. 36.

Table 3

SEVEN WAYS TO PROTECT A FAMILY

The head of the house is 25. If he dies any time within the next 20 years, he figures his family should have \$100 a month income for the balance of that period. Here are seven ways he might try to provide that income, three using conventional policies, four using family-income plans. Payment and values, based on those of several companies, are approximate and assume that dividends, where paid, continue at present scales. Term insurance is convertible and renewable.

If he buys . . .		he buys this much protection	his payment over 20 years	the policy will pay *	
		permanent	temporary yearly av.	if he dies	if he lives
Whole life	\$20,000	none	\$280	\$100 a month for 20 years	\$5,650
20-year term	none	\$20,000	98	\$100 a month for 20 years	nothing
10-year term					
1st 10 years	none	20,000	102	\$100 / mo., 20 yrs.	nothing
2nd 10 years	none	10,000	63	\$100/mo., 10 yrs.	
\$10 family-income rider for existing policy	none	80 a mo.	40	\$100/mo. for bal. of 20 yrs.	value of existing policy
family-income policy term only	none	100 a mo. income	67	\$100/mo. for bal. of 20 yrs.	nothing
whole life with \$20 family income rider	\$5,000	100 a mo. income	118	\$100/mo. for bal. of 20 yrs, then \$5,000	\$1,435
whole life with \$10 family income rider	10,000	\$100 a mo. income	180	\$100/mo. for bal. of 20 yrs, then \$10,000	\$2,825

*20th year cash value. Includes \$20 a mo. from existing policy.

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should select a beneficiary, a contingent beneficiary, and the settlement options. The payments may be in a lump sum, installments or life payments. Some life policies have a provision for converting the policy to an annuity whereby the policyholder may receive income for life or for a certain number of years.

Straight Annuity

Next is the straight annuity which many people like because it can guarantee a definite income for life. An annuity may be purchased in one lump sum or by the installment plan. The payments may start at any time elected--immediately or some time in the future. A medical is not required. The cost depends on your age and sex. Since women live longer than men, they pay a higher premium. Annuitants often live longer than other people. It is thought this may be true because they do not have an anxiety over income.

The disadvantages to annuities are that they are not marketable or convertible into cash and they are vulnerable to inflation. Variable annuities have been developed to meet this need.

Changing Times²² shows the amount of money you should save each year to have \$10,000 at age 65. They also show the cost of annuities.

Following is the amount you must set aside each year to have \$10,000 at age 65. The sums are approximate and assume that you will reinvest all interest or dividends received, without deducting for income taxes. These figures are based on annual compounding, though many institutions or securities compound semiannually or quarterly.

²²Changing Times, March 1958, pp. 9-10.

Your present age	Yearly saving that will total \$10,000 at 65 if interest is		
	3%	4%	7%
50	\$540	\$500	\$400
45	370	335	245
40	275	240	160
35	210	180	105
30	165	135	70

Here's what it costs to include an annuity in your retirement plans. These are sample rates--premiums vary some from company to company.

Immediate annuities. For an income of \$1,000 a year to start at once, a man aged 65 will pay a single premium of:

\$12,120 if all payments are to cease at death, whenever it occurs;

\$13,200 if payments continue at least ten years, even though purchaser dies sooner;

\$14,250 if payments continue until the total equals premium paid, even though purchaser dies sooner.

Retiring annuities. For an income of \$1,000, paid in monthly installments beginning at age 65 and continuing for life only, a man will pay annual premiums of:

If bought at age 50, \$772 a year, less dividends.

If bought at age 45, \$539 a year, less dividends.

If bought at age 40, \$402 a year, less dividends.

If bought at age 35, \$312 a year, less dividends.

If bought at age 30, \$249 a year, less dividends.

Bonds

Bonds are one of the oldest forms of investments. They represent a solid, safe and conservative form of fixed investment. The interest paid is consistent with the type of investment.

When buying bonds you become a creditor. Bonds represent a long term promise of the government or corporation to pay back a fixed amount

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of money at a certain date (maturity). Often bonds have interest coupons payable every six months. Cobleigh²³ feels that no more than ten or fifteen per cent of the total market value of the portfolio should be in bonds. Bonds are purchased for stability and income, not for appreciation.

U. S. Bonds

The United States savings bonds are the safest and perhaps the most widely purchased form of bonds. The interest rate is three and three-quarter per cent if held to maturity. All series E bonds, old or new, now carry an automatic extension privilege; they'll keep paying liberal interest for ten years beyond maturity."²⁴

United States savings bonds have certain advantages like having the wealth of the nation for the guarantee, being able to purchase through payroll deductions. The payroll savings plan is the backbone of the savings bond program. The small saver finds this to be a convenient method of saving and complete protection from possible loss that might occur in other securities. The bigger investor, both individuals and institutions, have shown a trend away from U. S. bonds and toward securities that give a bigger yield.²⁵

Sometimes these larger investments have been made in United States bills, certificates or notes.²⁶ These pay a higher rate of interest and

²³Cobleigh, loc. cit., p. 79.

²⁴Time, November 30, 1959, p. 103.

²⁵U. S. News and World Report, August 3, 1959, p. 91.

²⁶Sylvia Porter, Notes and Certificates, Bills, Bonds Explained, (The Hall Syndicate, Inc., 1960).

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mature in less time than the United States bonds. These are all available from your banker or broker.

The U. S. bill matures in less than one year. The longer the bill is held the higher the rate of interest. This varies from 4-4 3/4%. These bills are always issued at a discount from the maturity value. This discount represents your income from the bill. U. S. bills must be purchased in amounts not less than \$1000.

U. S. certificates are generally issued at par; they also mature in a year or less and are not sold for less than \$1000. The amount of interest to be paid is on the face of the certificate and the rate for the ones that mature in a year is nearly 5%. Usually the certificates have coupons, enabling you to collect the interest as the certificate matures.

U
The U. S. note has a maturity date longer than one year but shorter than five years. These are usually issued at par and carry coupons with a specified interest rate that may be collected semi-annually. The "Magic Five" sold last October were notes with a 5% coupon. These are due in 1964. Each six months the owner gets \$25 per \$1000 of notes.²⁷

Municipal Bonds

Municipal bonds have a good safety record. These are tax-exempt from federal income tax, so in the past wealthy people have been the buyers. Now many people in the middle income group are buying these. A disadvantage of these bonds is that you cannot cash these at any time and be sure of getting your principal back.

²⁷Ibid.

U

There are four basic kinds of tax-exempt municipal bonds. (1) The general obligation bond--these usually carry the highest rating because the full taxing power of the unit issuing the bonds is behind it. (2) Revenue bonds are issued to finance particular projects like toll roads, bridges, sewer plants and transits. (3) Special assessment bonds are secured by special taxes on the taxpayer who benefits from the project. It might be streets or sewers. (4) Housing Authority bonds may be general obligation bonds or revenue bonds. These are issued with the Federal Housing Authority, so have the backing of the Federal Government.²⁸ Municipal bonds are rated by experts and these should be used as a guide for buying. Moody's, Standard and Poor's and Fitch are considered reliable sources.

Table 4 on page 21 compares the yield from tax-exempt bonds and the yield from a taxable bond to give an equal return.

Due to an increase in traffic, more connecting roads, and better profits the interest rates of the toll roads have increased. "The highest quality issues are undoubtedly the New Jersey Highway Authority (Garden State Parkway) and New Jersey Turnpike bonds and the Pennsylvania Turnpike 3½ s. Yields on the two latter, however, are too low to make these obligations attractive."²⁹

Corporation Bonds

The corporation bond is another investment to consider. The value

²⁸Leo Barnes, "Your Investments," American Research Council, 1959, p. 105.

²⁹"Toll Road Bonds Return to Grace," Financial World, July 27, 1960, p. 5.

Table 4

Tax Exempt Bonds Have Two-Way Yield
Tax Exempt vs. Taxable Yields

Taxable Income	Tax Rate	To Provide An Equivalent Return a Taxable Bond Must Yield									
		3.00%	3.25%	3.50%	3.75%	4.00%	4.25%	4.50%	4.75%	5.00%	5.31%
\$ 0 - \$ 2,000.	20%	3.75%	4.06%	4.38%	4.69%	5.00%	5.31%	5.63%			
2,000 - 4,000.	22	3.85	4.17	4.49	4.81	5.13	5.45	5.78			
4,000 - 6,000.	26	4.05	4.39	4.73	5.07	5.41	5.74	6.09			
6,000 - 8,000.	30	4.29	4.64	5.00	5.36	5.71	6.07	6.43			
8,000 - 10,000.	34	4.55	4.92	5.30	5.68	6.06	6.43	6.83			
10,000 - 12,000.	38	4.84	5.24	5.65	6.05	6.45	6.85	7.26			
12,000 - 14,000.	43	5.26	5.70	6.14	6.58	7.02	7.45	7.90			
14,000 - 16,000.	47	5.66	6.13	6.60	7.08	7.55	8.03	8.50			
16,000 - 18,000.	50	6.00	6.50	7.00	7.50	8.00	8.50	9.00			
18,000 - 20,000.	53	6.38	6.91	7.45	7.98	8.51	9.05	9.59			
20,000 - 22,000.	56	6.82	7.39	7.95	8.52	9.09	9.68	10.23			
22,000 - 26,000.	59	7.32	7.93	8.54	9.15	9.76	10.37	10.98			
26,000 - 32,000.	62	7.89	8.55	9.21	9.87	10.53	11.19	11.85			
32,000 - 38,000.	65	8.57	9.29	10.00	10.71	11.43	12.15	12.86			
38,000 - 44,000.	69	9.68	10.48	11.29	12.10	12.90	13.70	14.51			
44,000 - 50,000.	72	10.71	11.61	12.50	13.39	14.29	15.19	16.08			
50,000 - 60,000.	75	12.00	13.00	14.00	15.00	16.00	17.00	18.00			
60,000 - 70,000.	78	13.64	14.77	15.91	17.05	18.18	19.33	20.46			
70,000 - 80,000.	81	15.79	17.11	18.42	19.74	21.05	22.38	23.68			
80,000 - 90,000.	84	18.75	20.31	21.88	23.44	25.00	26.56	28.13			
90,000 - 100,000.	87	23.10	25.00	26.92	28.85	30.77	32.62	34.62			
100,000 - 150,000.	89	27.27	29.55	31.82	34.09	36.46	38.60	40.92			
150,000 - 200,000.	90	30.00	32.50	35.00	37.50	40.00	42.50	45.00			
200,000 -	91	33.33	36.11	38.89	41.67	44.44	47.22	50.00			

Note: Rates shown are applicable to taxpayers filing separate returns; married taxpayers filing joint returns may find equivalent yields by dividing taxable income by two and using the income bracket applicable to the amount obtained.

and safety of these depend on the companies property, credit and earning power. Again it is best to follow the rating of a recognized investment service.

Corporations like to use bonds for financing because they are an expense of operating so are fully tax deductible to the corporation. Preferred and common stockholders must be paid after all other costs have been paid. Many corporations are issuing convertible bonds because they are popular with investors and can be floated at a somewhat lower interest rate. Also, bondholders voluntarily convert their bonds to common stock periodically and this reduces the bonded debt gradually.

Corporate bonds may be mortgage bonds. In this case the company pledges a specific piece of property to back the bonds. Debentures have no collateral backing. Railroads often use equipment trust certificates for financing freight cars. Corporations always have a trustee who is supposed to see that a bondholder's rights are protected.

Preferred Stock

Preferred stocks are another form of investment. When you buy stocks you become a part owner of the company. Preferred stockholders receive dividends before common stockholders. Usually preferred stockholders look for additional features. Some special features might be cumulative, debt-free, noncallable or convertible. A cumulative preferred stock means that if a company didn't have sufficient funds one year to pay the dividends, these cumulate till the next year and must be paid ahead of common stockholders. Debt-free preferred stock means the company does not have any outstanding bonds or long term debts. Noncallables mean that the company cannot call these in when the interest rates drop

and refinance them. Convertible preferred stock means it is convertible to common stock at the owner's option.

Summary

The above items conclude the types of investments for fixed incomes in this paper. These various items should be selected by each individual or family in the light of their goals. Many extremely conservative individuals never get beyond this step. Often this is due to lack of knowledge. Those persons who may be conservative, but realize the benefits of variable income have hardly started their investment portfolio at this point.

Variable Income Investments

Variable Income

Perhaps the real security comes to the people who choose the investments for variable income. These are most commonly found in real estate and common stock. The fixed securities just discussed are known as debt securities. They represent a promise to pay a fixed amount of dollars. The variable securities are known as equity securities; they represent ownership or partial interest in real or personal property. According to Putnam³⁰ the function of investments is to conserve capital and safeguard its purchasing power. During periods of prosperity, industry and business prosper. Prices of commodities and wages rise. The cost of living increases while the purchasing power decreases, so the dollar buys less. During periods of depression or recession the opposite of this is true. Since 1949 our country has been in a period of creeping inflation. To maintain your purchasing power you should select securities

³⁰Putnam, loc. cit., p. 104.

that will increase in dollar value and provide an income that will increase to make up for the loss of the purchasing power.

Common Stock

The free enterprise system of our country makes it possible to start a small business and build a large corporation. Much of the capital of these corporations is supplied by the sale of common stock. By pooling the resources of many stockholders new ideas and products are developed and progress continues. These corporations form the foundation for our national economy. The stockholders are the support for these business institutions. By purchasing stock you assume the risks of gain or loss of the company. Investments in common stock have two advantages over the fixed income securities. "First, average income in the form of dividends was markedly greater as a percentage of cost than was obtainable on high grade fixed-income securities. Second, it was found that common stocks enjoyed a long term appreciation which was not available to the holder of bonds or preferreds."³¹

Real Estate

Many people have realized sizable profits from buying vacant land, then reselling it at some future time. The fast developing suburban areas of the last decade have used many acres of land that many times had never before yielded a profit. Industrial expansion has also used much vacant property. There are still some rapidly expanding areas in our country where this will continue to be true for some time.

³¹Douglas A. Hayes, Appraisal and Management of Securities, (Macmillan, 1956), p. 35.

Homes are owned by 60% of the families in the United States³² and represent the most widely held investment in our country. Often the cost of owning a house is less than renting because mortgage interest and real estate taxes are deductible from the Federal income tax. A factor to consider when buying a house is its resale value. Conditions change and for one reason or another houses are resold. Size, surrounding neighborhood, conditions and location are some of the items that influence resale value.

Two family houses are thrifty and can be used to reduce the cost of living for the professional woman. Income property offers some tax advantage. Depreciation and operating expenses can be deducted from the earnings. Income property can be multiple units. These might be duplex, triplex, fourplex. As the units increase more skill and knowledge is required for a profitable return.

Bradley³³ summarizes some of the qualities of real estate as an investment by saying (1) the risk is greater than series E bonds, insured deposits or shares, but less than corporate securities in the long run, (2) the return is not fixed and you should not expect more than five per cent, (3) it is not automatically converted to cash and you must accept current market value, if sold, (4) it is a hedge against inflation and (5) it does require attention. If it is rental property it must be maintained and tenants kept so income continues. Also real estate is subjected to changing values and you may or may not want to sell as economic conditions change.

³²William Nickerson, How I turned \$1,000 into a Million in Real Estate--in My Spare Time, (Simon and Schuster, 1959), p. 2.

³³Jo Bradley and R. Wherry, loc. cit., p. 347.

Institutional Investing

Some individuals do not want or have the time to study the complex problem of selecting their investments. They may have institutions do this for them. This might take the form of a variable annuity, life insurance stock, closed-end or open-end trust companies. The primary purpose of any investment company is to pool the funds of all of the investors and invest this money in a diversified list of securities. These investment companies have professional managers who give continuous supervision to the investments.

Variable Annuity

The variable annuity is a method of building a variable income through investments. Premiums are paid to purchase units in a variable annuity. The company takes a percentage of this money for overhead and the rest is invested for the most part in common stock. The purchaser is given a fixed number of units for life or some designated period of time. If the annuity units increase in value, the payments would increase. So that during periods of inflation the purchasing power of the dollar would be more equalized. This investment is intended for added protection rather than replacement of a fixed annuity. The variable annuity is a little more of a risk since it is an investment in common stock, but the return is a little larger, usually 4 or 5 per cent.

The variable annuities are safeguarded by³⁴ (1) having diversified investments--both by firms and industries, (2) having only a certain percentage of any one company's stock, (3) buying over long period of time

³⁴Bradley and Wherry, loc. cit., p. 419.

to have dollar averaging and (4) having staff of competent analysts.

This is another example of where the individual investor is relieved of constant supervision.

CREF (College Retirement Equities Fund) has been in operation for sometime. This allows TIAA members to invest up to fifty per cent of their premium in CREF. The CREF premiums are used to purchase common stock; at the same time TIAA premiums are used primarily to purchase bonds and mortgages. So this gives protection against inflation and deflation. The annuity units are paid each month upon retirement. The value of the units are figured each year. So the retirement check varies from year to year depending on the earnings. There are several methods to choose from in selecting the way you and/or your beneficiary will be paid.

Recently insurance companies have been trying to get permission to sell variable annuities. The United States Supreme Court says they must be regulated by SEC. The states in which the insurance companies are domiciled must also give permission. Six states and the District of Columbia may now sell variable annuities.

Life Insurance Stock

Life Insurance stock should not be overlooked as a form of investment for variable incomes. Due to the continued need for this type of protection, an investment in its capital structure is considered safe. Insurance companies are regulated by state law as to how they can invest their assets. Much of their money has been invested in residential mortgages. Profits and growth in assets per share are steady. Life insurance companies are known as "stingy dividend payers." They usually plow back

80 to 90 per cent of their earnings thus compounding profit and assets per share.³⁵

Table 5 on page 30 shows the earnings and other financial data of life insurance stock. These can be excellent long term investments to give stock appreciation.

Closed-end Trust

The closed-end companies are another form of variable investments. These companies have a fixed amount of shares to sell to the public. These shares are bought and sold over the major security exchanges. The regular brokers fees are charged to buy or sell. Often these shares can be purchased at a discount. Kiplinger³⁶ states that among other reasons for this (1) they do not have an aggressive salesman creating a demand and (2) there is no fixed liquidating value. Often these companies use their record as a means of advertising, so want only the best performance. Kiplinger³⁷ reviewed four closed-end companies in August, 1960 and thought they would make attractive investments, when they were available at a discount. The companies are Consolidated Investment Trust, The Lehman Corp., Adams Express Co. and Tri-Continental Corp.

Broker's commissions and fees are charged for buying or selling. Shares selling at the above mentioned discounts are not always bargains. Sometimes they represent leverage (effect of outstanding debt on asset value) and unsatisfactory management. Besides the broker's fee the

³⁵Barnes, loc. cit., p. 41.

³⁶Kiplinger, Changing Times, August, 1960, p. 15.

³⁷Ibid.

Table 5

OUTSTANDING MARKET PERFORMANCE*

During the 10 past years and more the market performance of the insurance stocks has been outstanding--soundly supported by the growth in underlying value as previously illustrated.

<u>January, 1947</u>	<u>June, 1958</u>
\$1000 invested in the shares of Commonwealth Life	\$11,280
\$1000 invested in the shares of Conn. General	13,675
\$1000 invested in the shares of Continental	15,631
\$1000 invested in the shares of Franklin	20,042
\$1000 invested in the shares of Lincoln National	13,241

HOW \$10,000.00 INVESTED JANUARY 1, 1951 WOULD HAVE GROWN

Following is a tabulation of comparative performance of 20 selected investment grade stocks out of a list total of 100.

<u>Stock</u>	<u>Market Value Dec. 1957</u>	<u>Cash Div. Paid</u>	<u>\$10,000.00 Produced</u>
Franklin Life	\$131,450.00	\$3,986.00	\$135,435.00
Colonial Life	125,822.00	4,726.00	130,548.00
Commonwealth Life	70,822.00	3,660.00	74,482.00
Goodyear Tire & Rubber	56,505.00	7,720.00	64,225.00
Kansas City Life	56,700.00	1,944.00	58,644.00
Lincoln National Life	45,055.00	1,998.00	47,054.00
Connecticut General Life	44,321.00	1,627.00	45,948.00
General Electric Co.	37,085.00	6,241.00	43,326.00
Standard Oil Co. of New Jersey	32,618.00	7,791.00	40,409.00
Eastman Kodak Co.	30,054.00	4,117.00	34,171.00
General Motors Co.	21,728.00	7,913.00	29,641.00
E. I. duPont de Nemours	20,989.00	4,332.00	25,320.00
U.S. Fidelity and Guaranty	17,729.00	3,714.00	21,443.00
Transamerica	16,082.00	4,733.00	20,815.00
Corn Products	15,784.00	4,249.00	20,033.00
Sears, Roebuck & Co.	14,720.00	3,733.00	18,453.00
Bank of America	12,593.00	4,586.00	17,179.00
American Telephone & Telegraph	11,089.00	5,146.00	16,234.00

* Frank Helm, "The Life Insurance Industry," NAIC Bulletin, September 1959.

second cost of the closed-end company is the annual management expense. This expense is deducted from the income before any dividends are paid. This usually averages .60%.³⁸

Open-end Trust

The open-end companies are often referred to as a mutual fund. These companies continuously offer new shares for sale at net value plus 7 to 9 per cent sales commission or loading charge. The mutual funds go up and down with the market. Funds can be selected for (1) conservative securities, (2) balanced funds or (3) a broad list of common stocks for greater capital gains and larger dividend returns.

According to Cobleigh³⁹ some criteria for mutuals are to know (1) how much income was distributed to shareholders over the last ten year period, (2) how much was paid out in capital gains, and (3) how much the shares did or did not appreciate over a period of years.

The mutual fund accumulation plans have become more popular; this is probably due to the investing service they provide. The accumulation plans have several alternatives. One is voluntary, which is an open account used at the pleasure of the purchaser. Usually the first payment is high and the others are made to suit the individual. Another form of accumulation is the contractual form. In this you "contract" to invest so much money over a certain period of time. These plans may or may not have a penalty clause for non-payment. The pre-paid penalty

³⁸ C. Russell Doane and Edward J. Hills, "Investment Trusts and Funds," American Institute for Economic Research, p. 17.

³⁹ Cobleigh, loc. cit., p. 218.

permits the mutual fund to take out up to 9 per cent of the total contract during the first twelve to twenty-four months. This is frequently called "loading" and helps prevent the new investor from abandoning his long time financial goal. According to Straley⁴⁰ this fee usually averages 7.5% of the offering price on small purchases and less on large purchases. Mutual funds also charge .25% per year for administration expense and .5% per year for management fee. Straley⁴¹ feels this is not too much to pay for professional investing.

Some mutual funds have withdrawal plans that can be substitutes for the fixed or variable annuities. As the names indicate the fixed or variable cash amounts can be withdrawn at retirement age. This can be effective after following an accumulation plan for some period of time or by a lump sum investment in the mutual fund of your selection.

Barron's publish mutual fund records quarterly. This shows the net asset value per share, the dividends per share and the distribution of capital gains. Financial World also keeps their readers informed about mutual funds. Table 6 on the following page shows the performance of some leading mutual funds.

The chief value of mutual funds is the diversification they afford the small investor and the management skill of their leaders. So far, mutual funds have enjoyed a market rise and real management skill will only be tested when there is a prolonged decline in the market.

The above methods of investing represent selection of an institution and then you rely on their judgment for managing the investment.

⁴⁰ John A. Straley, What About Mutual Funds, (Harper and Brothers, 1958), p. 8.

⁴¹ Ibid.

Table 6
BULL MARKET WAS MUTUAL FUND AID
1959 Performance of the Leading Mutual Funds

	Net		Invest.	Capital	Total	Net		Recent
	Asset	Asset				Value	Value	
	12/31/58	12/31/59	Inc.	Gains		12/31/58	12/31/59	Price
BALANCED FUNDS								
Axe-Houghton B	\$ 8.45	\$ 8.57	\$0.24	\$0.32	\$0.56	\$ 8.45	\$ 8.57	\$ 8.59
Boston Fund.	17.82	17.78	0.53	0.58	1.11	17.82	17.78	17.80
Commonwealth Invest.	9.69	9.68	0.29	0.01	0.30	9.69	9.68	9.68
Eaton and Howard	23.22	22.87	0.71	0.60	1.31	23.22	22.87	22.88
Loomis-Sayles.	45.97	44.37	1.35	2.24	3.59	45.97	44.37	44.22
Nation-Wide Securities	20.33	19.60	0.71	0.69	1.40	20.33	19.60	19.63
Putnam Fund.	13.56	14.28	0.42	0.52	0.94	13.56	14.28	14.33
Scudder Stevens.	19.27	19.17	0.56	0.91	1.47	19.27	19.17	19.26
Wellington Fund.	13.88	14.16	0.46	0.48	0.94	13.88	14.16	14.17
Whitehall Fund	12.74	12.64	0.47	0.25	0.72	12.74	12.64	12.68
STOCK FUNDS								
Affiliated Fund.	\$ 7.15	\$ 7.48	\$0.22	\$0.36	\$0.58	\$ 7.15	\$ 7.48	\$ 7.46
Broad St. Investing.	12.68	12.93	0.44	0.24	0.36	12.68	12.93	12.96
Bullock Fund	13.48	13.35	0.35	0.72	1.07	13.48	13.35	13.39
Chemical Fund.	9.93	11.61	0.15	0.37	0.52	9.93	11.61	11.54
Delaware Fund.	11.90	12.20	0.30	0.80	1.10	11.90	12.20	12.18
Dreyfus Fund	12.57	15.10	0.30	0.30	0.60	12.57	15.10	15.13
Eaton and Howard Stock	23.49	24.78	0.56	0.30	0.86	23.49	24.78	24.78
Fidelity Fund.	16.13	16.80	0.45	0.54	0.99	16.13	16.80	16.26
Fundamental Investors.	9.13	9.91	0.23	0.20	0.43	9.13	9.91	9.70
Incorporated Investors	9.69	10.11	0.18	0.57	0.75	9.69	10.11	10.14
Investment Company of America.	10.27	10.69	0.25	0.75	1.00	10.27	10.69	10.69
Keystone K-2	13.40	14.70	0.19	0.70	0.89	13.40	14.70	14.73
Lazard Fund.	15.75	17.38	0.36	--	0.36	15.75	17.38	17.50
Mass. Invest Trust	13.41	14.13	0.40	0.12	0.52	13.41	14.13	13.96
National Investors	11.85	13.41	0.24	0.30	0.54	11.85	13.41	13.40
National Securities Stock.	8.62	8.91	0.35	0.29	0.64	8.62	8.91	9.02
Pioneer Fund.	8.16	8.88	0.24	0.18	0.42	8.16	8.88	8.90
Scudder, Stevens and Clark	9.23	9.72	0.43	0.91	1.34	9.23	9.72	9.77
State St. Investment	36.75	38.64	0.88	0.05	0.93	36.75	38.64	36.78
United Science	12.39	14.75	0.20	0.40	0.60	12.39	14.75	14.67

The possible advantages to using this method according to Barnes⁴² are that you probably (1) start with better selection of securities, (2) have better supervision, (3) have more effective management and improvement and (4) have freedom from care. The disadvantages are (1) you pay more since you buy this expert management although this should be compensated for in better earnings, and (2) there is less flexibility to meet your personal desires.

Individual Investment plans

Monthly Investment Plan

Many individuals prefer to do their own investing. This may be done periodically--monthly or quarterly or some other period of time. If you can afford some amount monthly, you can take advantage of dollar averaging which ignores fluctuations of the market. The monthly investment plan was devised by the New York Stock Exchange to help the small investor start investing in the stock market. As little as forty dollars can be invested monthly or quarterly. You can select the stock to be purchased and your broker will buy the shares and/or fraction of a share your payment will buy. This process is repeated with each payment. It should be used for long term investing, not a get rich quick system. "On the first day MIP was available, 283 orders were placed with 55 member firms of the Exchange. . . up to the end of 1957 the 65,000 plans then outstanding had accounted for the purchase of about 2,000,000 shares of stock with a market value of some \$75,000,000."⁴³ Brookings institution

⁴²Barnes, loc. cit., p. 10.

⁴³Straley, loc. cit., p. 124.

showed in their 1952 survey that of 6,500,000 people who own stocks of public corporations, 1,220,000 of these had an annual income of less than \$4,000.⁴⁴

The regular commission may be charged. This is six per cent on less than one hundred dollars and one per cent plus three dollars on more than one hundred dollars with a minimum charge usually of six dollars or as agreed. Purchasing larger dollar volume of shares quarterly will cost less than smaller monthly purchasing. A broker's fee decreases as the dollar value of shares purchased increases.

The monthly or periodic investment plan takes advantage of dollar averaging. This means buying the same security at regular intervals over a period of time. Securities do fluctuate from time to time. This plan gives you more shares when the price is low and fewer shares when the market rises.

This method is contractual but can be cancelled at any time. There are no fees or penalties. The brokerage company may cancel your agreement if you miss as many as four payments in a row.

The firm may keep your shares and reinvest your dividends if you so elect. This helps to build your net worth faster.

Following are two tables of MLP favorites. Table 7 shows six-year market performance of 20 MLP favorites. Table 8 shows 50 stocks most popular with MLP investors.

⁴⁴Brooking Institute Survey (cited by Straley, op. cit., p. 125.

Table 7
SIX-YEAR MARKET PERFORMANCES OF 20 MIP FAVORITES

20 Top MIP Favorites as of Sept. 25, 1959	Stock Open	1954-1959 Market Price Range		Last*	6-Year Spread Per Sh. **	6-Year Price Change***
		High	Low			
General Motors Corp.	\$19 3/4a	\$58 7/8	\$19 5/8a	\$52 5/8	\$39	\$ + 32 7/8
General Electric Co.	29 1/8a	84 3/4	29a	81 3/4	55 3/4	+ 52 5/8
Dow Chemical Co.	35 3/8a	94 1/4	30 7/8a	93 1/8	63 3/8	+ 57 3/4
Standard Oil Co. (N.J.) . . .	24a	68 1/2	23 7/8a	48	44 5/8	+ 24
Tri-Continental Corp.	15 3/8	42 3/4	15 3/8	37 7/8	27 3/8	+ 22 1/2
Sperry Rand Corp.	6 3/4a	29 5/8	6 3/8a	23 1/4	24 1/4	+ 16 1/2
Phillips Petroleum Co.	26 3/4a	56 3/4	26 3/4a	42	30	+ 15 1/4
American Tel & Tel Co.	52a	89	52a	78 5/8	37	+ 26 5/8
Int'l Business Machines. . . .	48 7/8a	488	48 3/4a	408	439 1/4	+359 1/8
Pfizer (Chas.) & Co.	11 1/4a	45 1/4a	10 1/8a	33	35 1/8	+ 21 3/4
Radio Corp. of America	23 1/4	71	22 1/2	64 1/2	48 1/2	+ 41 1/4
Safeway Stores, Inc.	13 1/8a	42 1/4	12 3/4a	36 3/4	29 1/2	+ 23 5/8
Sears Roebuck & Co.	20 1/4a	50 3/8	18 5/8a	48 5/8	31.3/4	+ 28 3/8
Monsanto Chemical Co.	25 3/8a	55 5/8a	24 1/2a	49 7/8a	31 1/8	+ 24 1/2
Gen. Tel. & Elect. Corp.	19 7/8a	79	19 3/4a	76	59 1/4	+ 56 1/8
Minnesota Mng. & Mfg.	28 3/4a	151 1/2	27 5/8a	148 1/4	123 7/8	+119 1/2
American Cyanamid Co.	23 3/4a	65 1/4	21 3/4a	60	43 1/2	+ 36 1/4
General Dynamics Corp.	12a	68 5/8	12a	44 7/8	56 5/8	+ 32 7/8
Lehman Corp.	17 1/8a	32 1/2	17a	29 1/2	15 1/2	+ 12 3/8
Standard Oil Co. (Calif.) . . .	23 7/8a	62 1/8	23 7/8a	48 1/4	38 1/4	+ 24 3/8

*1959 prices through November 6, 1959.

**Difference between 1954-1959 high and low.

***Difference between opening and last prices.
a Adjusted for stock dividends or splits.

The Exchange, December, 1959, p. 12.

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Table 8

50 STOCKS MOST POPULAR WITH MIP INVESTORS

9-58	Stock	As of 9-57, 9-58, 6-59				Plans in Force	Stock	9-57	6-59	Plans in Force
		9-57	6-59	Plans in Force	9-58					
1	General Electric	1	2	3,843	26	Minnesota Mng. & Mfg.	33	15	690	
2	General Motors	2	1	3,644	27	U. S. Steel	19	31	686	
3	Dow Chemical	3	3	2,921	28	Reynolds Metals	24	29	661	
4	Standard Oil (N.J.)	4	4	2,866	29	Eastman Kodak	27	24	604	
5	Tri-Continental	7	5	2,446	30	American Can	26	29	556	
6	Sperry Rand	5	6	2,022	31	Bethlehem Steel	44	32	538	
7	Phillips Petroleum	9	7	1,739	32	United Gas Corp.	25	36	521	
8	Radio Corp.	6	9	1,653	33	General Tele.	39	16	514	
9	American Tel. & Tel.	8	8	1,516	34	Aluminum Co. of Am.	30	35	500	
10	Int'l Bus. Machines	22	10	1,086	35	Kaiser Alum & Chem.	28	40	489	
11	Pfizer (Chas.) & Co.	31	11	1,033	36	Texas Company	32	37	470	
12	Safeway Stores	35	12	1,015	37	Merck & Co. Inc.	*	25	445	
12	Sears Roebuck	12	13	978	38	Aluminum Ltd.	41	28	441	
14	General Dynamics	18	17	927	39	United Fruit	34	43	429	
15	Lehman Corp.	11	19	929	40	Grace (W.R.) & Co.	40	48	384	
16	Olin Mathieson Chem	16	20	904	41	Pacific Gas & Elect.	36	42	375	
17	Union Carbide	14	23	879	42	Consolidated Edison	43	39	362	
18	American Cyanamid	29	18	866	43	El Paso Natural Gas	42	38	352	
19	du Pont (E.I.) deNemours	13	21	796	44	Texas Instruments	*	45	333	
20	Monsanto Chemical	17	14	788	45	Detroit Edison	45	47	331	
21	Westinghouse Electric	20	27	770	46	Sunray Mid Con't Oil	37	0	328	
22	Standard Oil of Calif.	21	21	748	47	Schering Corp.	*	0	319	
23	Gulf Oil	15	30	747	48	Pepsi-Cola	*	44	314	
24	American Airlines	10	33	721	49	Raytheon Mfg.	*	46	303	
25	Columbia Gas System	23	22	712	50	National Biscuit	38	0	289	

* Not on list on 9-57. On 6-59, 41 Int. Tel & Tel, 49 Long Island Lighting, 50 Northern Pacific.

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CHAPTER III

INVESTMENT OBJECTIVE

Before investing the capital you have accumulated you must decide on the purpose you want your common stocks to serve. Authorities are in fairly common agreement on what to expect from various selections of stock both by types of industries and the company within an industry. So here you must decide if you want to select income, growth or a combination for your objective. Each person should make this decision in the light of his age, needs and desires. This should not be the decision of your broker.

Income

Some common stocks have paid regular dividends for many decades and are a steady source of income. "If you are a very conservative, play-it-safe personality and want to have everything you saved, guaranteed and pinned down, your stocks should be conservative securities, stressing income."⁴⁵

These stocks produce a steady income a little higher than bonds or preferred stocks and can be found in the consumer industry type of companies. These companies are food, tobacco, electric and gas utilities, telephone and banks. Income stocks are most frequently selected by people near retirement age who want the maximum return consistent with greatest stability and the least risk. Table 9 on page 39 shows ten companies that have never cut dividends. So for the investors that want a safe security a choice from this list would certainly be safe.

⁴⁵Cobleigh, loc. cit., p. 114.

Table 9

10 STOCKS THAT NEVER HAVE CUT DIVIDENDS

	Dividends			Price Range 1959-1960	Recent Price	Yield
	Paid Since	Indicated Annual Rate	Present Rate Since			
American Insurance.	1872	\$1.30	1957	x31 7/8-22	26	5.0%
American Tel & Tel.	1881	3.30	1959	89 7/8-75 1/8	88	3.9
Baltimore Gas & Electric.	1910	1.00	1959	27 1/4-24 1/8	27	3.7
Boston Edison	1890	3.00	1959	66 1/4-58 3/4	61	4.9
Chase Manhattan	1848	2.40	1956	x70 3/4-56	63	3.8
Chemical Bank N. Y. Tr.	1828	2.40	1958	x69 1/2-58 1/4	59	4.1
First Pennsylvania Banking & Trust.	1814	2.30	1957	x53 1/4-46	48	4.8
Great American Insurance.	1873	1.60	1959	x47 1/2-34 7/8	43	3.7
Manufacturers Trust	1909	2.40	1959	x68 1/2-50 1/2	58	4.1
Pacific Gas & Electric.	1919	2.60	1958	66 3/4-58 1/4	64	4.1

a--includes 10 cents year-end extra. x--bid prices over-the-counter.

Financial World, April 6, 1960, p. 11.

Growth or Capital Gains

Growth should be the investment aim of people who have a number of years before retirement age. Growth industries pay lower current returns because they often retain as much as 55 to 80 per cent of the current earnings⁴⁶ for reinvestment, thus making future prospects better. Some investors feel prospect and potential growth the most important factors in selecting stocks. Growth stock steadily expands faster than our economy. Cobleigh⁴⁷ says rate of increase in gross revenues and net earnings must be greater than our growth in population. In 1956 the United States was growing at a rate of 2.9 per cent a year. He also says increase in gross and net sales must be faster than the average rate of production in the United States. This has averaged 3 per cent per year since 1880.

The advantages and disadvantages of growth companies are summarized by Leo Barnes.⁴⁸ Some advantages are (1) if companies are selected carefully and purchased at the right time, remarkable gains over a long period are virtually assured; (2) earnings are reinvested rapidly; (3) growth stock are tax favored since they come under the long term capital gains clause; (4) investors do not have to worry about daily, weekly, monthly or even yearly price fluctuation. The disadvantage is that the stock of the growth companies are almost always overpriced. The price sometimes offsets their superior future growth.

⁴⁶Cobleigh, loc. cit., p. 145.

⁴⁷Ibid.

⁴⁸Barnes, loc. cit., p. 38.

Combination--(Income and Appreciation)

Common stocks may be selected for both income and capital gains. These are sound, seasoned stock. They are not as stable as those in the income group but a rise in assets can be expected.

Following is a page reproduced for comparison of various securities. These issues are selected to meet different objectives. These selections are changed as economic factors change.

Investment Service Section

SELECTED ISSUES

Issues listed do not constitute all the recommendations made from time to time, nor is it intended that holdings be confined to these securities. The selections are not to be regarded as trading advices, nor as short term recommendations. Notice is given—

together with reasons for the change—when issues on this page are dropped from the list. Purchases should be made only when they are consistent with the policies that are outlined on the Market Outlook page.

Bonds

These sound quality bonds are suitable for conservative portfolios.

	Recent Price	Yield To Maturity	Standard & Poor's Rating
Amer. Tel. & Tel. 2½ s, 1975..	83	4.26%	A1+
Chicago, Burlington & Quincy 3½ s, 1985	80	4.43	A
Cities Service 3s, 1977	80	4.72	A
Colorado Fuel & Iron conv. 4½ s, 1977	102	†4.78	B1+
Commonwealth Edison 2½ s, 1999	76	3.95	A1+
Grace (W. R.) conv. 3½ s, 1975	89	†3.93	B1+
Okla. Gas & Elec. 2½ s, 1975..	81	4.50	A1
Pacific T. & T. deb. 2½ s, 1985	73	4.52	A1
S'western G. & E. 3½ s, 1970..	88	4.77	A1
Vanadium Corp. conv. 4½ s, 1976	90	†4.72	B1+

Preferreds

These issues are suitable for investment purposes.

	Recent Price	Yield	Financial World Rating
American Sugar 7% (par \$25) cum.	29	6.03%	A
Assoc. Dry Goods 5¼ % cum.	106	4.95	A
Atchison, Topeka & Santa Fe 5% (par \$10) non-cum....	10	5.00	A
Champion Paper \$4.50 cum...	91	4.95	A
Public Ser. E. & G. \$1.40 cum.	28	5.00	B+
Wheeling Steel \$5 cum.	95	5.26	B+

Growth

Attraction of these issues is based on industry growth or improvement of company position. Yield is subordinate to price appreciation.

	Dividends—		Recent Price	Yield
	So far 1960	Paid 1959		
American Cyanamid ...	\$0.80	\$1.60	54	3.0%
Amer. Mach. & Fdry...	0.65	1.07½	60	\$2.2
Grace (W. R.)	*0.80	*1.60	34	4.7
Owens-Illinois Glass ...	1.25	2.50	102	2.5
Sperry Rand	0.60	0.80	23	3.5
Standard Oil of Calif...	1.00	2.00	41	4.9
Sterling Drug	0.90	1.65	57	\$3.2
Union Carbide	2.70	3.60	118	3.1
United Air Lines	*0.25	*0.50	28	1.8
Westinghouse Electric..	0.60	1.05	53	\$2.3

*Also paid stock. †Current yield. §Based on current quarterly payments.

Income

Issues of this type should constitute the larger portion of common stock commitments held by the average investor.

	Dividends—		Recent Price	Yield
	So far 1960	Paid 1959		
American Can	\$1.50	\$2.00	39	5.1%
American Telephone & Telegraph	2.47½	3.15	90	\$3.7
Beech-Nut Life Savers..	0.80	1.60	37	4.3
Columbia Gas System...	0.50	1.00	20	5.0
Consolidated Edison ...	2.25	2.80	65	\$4.6
Endicott Johnson	1.20	1.60	34	4.7
Family Finance	0.80	1.60	29	5.5
International Harvester.	1.80	2.00	43	\$5.6
Kresge (S. S.)	1.20	1.60	31	5.2
Louisville & Nashville..	3.50	5.00	57	\$7.0
May Department Stores	1.65	2.20	52	4.2
Niagara Mohawk Power	0.90	1.80	37	4.8
Norfolk & Western ...	3.00	4.70	93	\$5.4
Pacific Lighting	1.20	2.40	48	5.0
Peoples Drug Stores ...	1.00	2.00	42	4.8
Philip Morris, Inc.	2.70	3.00	70	\$5.1
Singer Manufacturing ..	1.30	2.20	56	\$4.6
Southern California Edison	1.95	2.60	63	4.1
Sunshine Biscuits	3.30	4.40	90	4.9
Union Tank Car	0.80	1.60	31	5.2
West Penn Electric	0.85	1.60	40	\$4.2

Income and Appreciation

These sound common stocks are satisfactory for larger portfolios, though not as stable as those listed in Income Group. Greater price volatility can be expected from these issues.

	Dividends—		Recent Price	Yield
	So far 1960	Paid 1959		
Allied Stores	\$3.00	\$3.00	51	5.9%
Allis-Chalmers	0.75	1.25	28	\$5.4
Container Corporation ..	0.75	1.00	23	4.3
Flintkote Company	0.90	1.75	36	\$5.0
Glidden Company	1.00	2.00	37	5.4
Middle South Utilities..	0.73%	0.93%	32	3.1
Mississippi River Fuel..	0.80	1.60	31	5.1
National Distillers	0.60	1.10	27	\$4.5
Olin Mathieson	0.75	1.00	39	2.6
Pepsi-Cola Company	0.70	1.25	44	\$3.2
Stevens (J. P.)	0.75	1.50	28	5.4
Worthington Corp.	1.25	2.50	46	5.4
Yale & Towne	1.12½	1.50	29	5.2

CHAPTER IV

CRITERIA FOR SELECTION OF INDUSTRIES ACCORDING TO OBJECTIVES

Income Industries

According to Leavitt and Hanson income industries are selected mainly for (1) safety of principal, (2) regularity of income, (3) marketability, (4) rate of return and (5) balanced portfolio.

Safety of Principal

Safety of principal and income are closely related. All investors want to keep their capital and receive a return upon it. If the income payments are safe, these same earning powers give value to assets thus making the principal more secure. The cash dividend paid common stockholders is paid in dollars at the discretion of the management. The dividend can be increased or decreased as the economic trend changes. A decline in the purchasing power of the dollar may be offset with an increase in the cash dividends, and visa versa. So common stockholders may have some protection against inflation.

Regularity of Income

Regularity of income can be thought of in different ways. Some people want this immediately so they select a stock that has paid dividends regularly for many years. Others may be more willing to wait a period of years and this could be illustrated by the people who purchased vacant land and kept it half a lifetime waiting for the value to increase. People familiar with real estate are more apt to use this form of investment. Regular income can be attained by selecting stock that pay their

dividends in different months during the quarter and pay a dividend regularly each quarter. By selecting three such stocks you may have a dividend check each month. Regular income stocks are often found in utility, food and tobacco companies where the consumer demands stay about the same. Financial World developed a portfolio of common stock investments to pay a regular income of \$200 a month. These securities are conservative. Beside regular dividends these investments "offer relatively high quality, liberal yield and a considerable degree of diversification."⁴⁹ This portfolio is shown in Table 10 on page 45.

Rate of Return

The rate of return is called the yield. It is the relation between income received and the capital invested. The return varies with the amount of risk involved. The more speculative the security the higher the rate of return may be. A low yield may reflect a high price due to greater demand for the stock or security. The stocks known as income stocks give a steady rate of return (or dividend). The growth stocks usually have a lower yield because they are putting their money into expansion.

Marketability

Marketability refers to the degree of ease with which a security can be converted into cash without the loss of value. The degree of marketability is affected by popularity, distribution and seasoning of the security. Stocks are more popular in a period of prosperity and bonds are more popular during period of depression. The more marketable the security the higher the price.

⁴⁹"\$200 A Month Extra Income," Financial World, July 13, 1960, p. 5.

Table 10

\$200 A MONTH PORTFOLIO

No. of Shares	Recent Price	Cost	Dividends			Annual Income
			Paid Since	Indic. Rate	Payable	
70 Allied Stores	51	\$3,570	1942	\$3.00	JAJO	\$210
120 Family Finance	29	3,480	1928	1.60	"	192
91 Glidden	36	3,276	1933	2.00	"	182
120 International Shoe.	34	4,080	1913	1.80	"	216
93 American Can.	38	3,534	1923	2.00	FMAN	186
200 Columbia Gas.	19	3,800	1948	1.00	"	200
135 Kresge (S. S.).	31	4,185	1913	1.60	"	216
45 Sunshine Biscuits	90	4,050	1927	4.40	"	198
85 Chemical Bank N. Y. Trust .	56	4,760	1828	2.40	MJSD	204
40 Liggett & Myers	80	3,200	1911	5.00	"	200
120 Niagara Mohawk Power. . . .	35	4,200	1950	1.80	"	216
80 Standard Oil (N. J.). . . .	41	3,280	1882	a2.25	"	180
TOTAL COST		\$45,415	ANNUAL INCOME			\$2,400

*JAJO--January, April, July, October; FMAN--February, May, August, November; MJSD--March, June
 September, December. a--Paid in 1959. Financial World, July 16, 1960 p. 5.

Balanced Portfolio

The balanced portfolio is another criteria looked for especially for income investments. The objective is to have the highest possible income with relative safety. Bonds and preferred stock give a steady income with a fixed amount of dollars. The purchasing power may be more or less than when you purchased the security. In order to keep the portfolio more in balance during periods of prosperity the percentage of common stock may rise with inflation, if there is a depression there may be no dividends. A well-balanced portfolio should contain bonds, preferred and common stock. The common stocks should have some different types: perhaps these might be utilities, food, chemicals or banks. The smaller investor might find the easiest way to secure a balanced portfolio is by purchasing a balanced mutual fund, where the diversification is planned by professional managers. Most individual investors diversify through different industries and different geographic locations for further protection.

Growth Industries

Criteria for selecting growth industries are important. January 1, 1960 Forbes used several performance characteristics to make their ratings. To rate the growth of companies they felt these questions needed to be answered. (1) How fast the company's sales increased the last five years? (2) How fast has the company increased its cash flow over the same five years? (3) Are the earnings growing as fast as the sales? (4) Is management making the stockholders equity grow?

The management of any growth company must be sound and progressive. The management of a growth company often retains a high percentage of the

earnings to add to its plant and property to improve production and sales or develop new products through research and development. In the long run this may give stock splits--stock dividends which gives the stockholder more shares and increases the total market value. Growth stock should always be purchased with the idea of holding it five, ten or twenty years.

Sales Growth

For a company to grow it must sell its products by aggressive salesmanship. Through research and development programs new products are a result. Many times demand must be created through advertising. Growth in sales is sometimes raised through acquisition of another company. As sales increase the profits should show a steady increase.

Cash Flow

Cash flow is another way the rate of growth of a company is measured. Cash flow is found by subtracting from the current receipts the current cash expenses. The amount remaining is the cash flowing into the company's treasury before depreciation, depletion, amortization and cash reserve are deducted. This cash can be used for expansion, research and development or whatever management thinks is a wise use.

Earnings

The earnings must grow as the company grows. If sales have increased earnings should increase. Growth earnings sometimes show a set-back, but as a whole they must show a steady rise. Over a period of time the earnings should increase faster than the economy as a whole.

The gas and electric utilities especially in areas of increasing population have shown this steady rising growth trend.

Growth in Equity

Growth companies retain much of their earnings to use for plow-back. This can be used to buy property, build plants, buy modern machinery and equipment or for other assets. Through the use of plow-back to increase the assets directly or to develop new products by research, the equity of the company is growing. These should also be evaluated over a period of years, not one year.

Measuring Growth.

Besides these characteristics for growth industries, Forbes has other devices for measuring. One of these is for rating management. A perfect score is 100. Reproduced from page 24 of their January 1, 1960 issue is a chart which illustrates how their "yardstick of performance" works.

YARDSTICKS OF PERFORMANCE

COMPANY	GROWTH		DILUTION		PROFITABILITY		STABILITY		USE OF PLOWBACK		FORBES RATING	
	Sales Growth: Compound annual rate, latest five years.	Growth in Cash flow: Compound annual rate, latest five years.	Growth in Earnings: Compound annual rate, latest five years.	Degree of Dilution: Degree of growth in per share earnings, latest five years.	Cash flow/\$1 of Equity: Plus depreciation & depletion, net equity, five year average, 1959.	Net Return on Equity: Net earnings per dollar of book value for 1957-59.	Relative Profitability: decline (or gain) in est. 1957-59 vs. average for 1957-59.	Reinvestment Results: Per cent relating growth in earnings to reinvested profits, latest 5 yrs.	Reinvestment Results: Index to (Ideal Score: 100)	FORBES PERFORMANCE (Ideal Score: 100)		
EASTERN												
Pennsylvania*	declined	declined	declined	0.4%	0	5.5¢	1.8%	0.6%	-22.1%	0	80	
New York Central*	declined	declined	declined	0.4	—	6.6	2.4	0.7	3.1	0	85	
Baltimore & Ohio	declined	declined	3.5%	2.7	0	5.2	2.2	1.9	-12.4	3.5¢	85	
POCAHONTAS												
Chesapeake & Ohio	0.6%	2.7%	1.0	5.1	32.0%	15.2	10.6	8.2	-13.0	1.8	95	
Norfolk & Western†	1.6	8.9	9.4	2.8	0	9.6	7.1	8.4	7.1	18.3	95	
SOUTHERN												
Southern	declined	declined	declined	4.1	—	10.0	7.0	6.6	3.7	0	95	
Illinois Central	declined	declined	declined	1.0	—	8.4	5.1	3.5	-5.5	0	80	
Louisville & Nashville	declined	declined	declined	1.9	0	10.5	6.0	3.9	-8.3	0	75	
NORTHWESTERN												
Northern Pacific	declined	7.9	7.1	2.3	3.3	4.8	3.2	3.6	5.1	11.7	85	
Great Northern	declined	declined	declined	1.7	—	6.8	4.7	4.2	-1.6	0	90	
Milwaukee	declined	declined	5.5	0.8	0	7.0	1.6	1.4	-5.2	17.6	80	
CENTRAL WESTERN												
Southern Pacific†	declined	0.8	declined	2.3	—	7.2	4.3	5.6	18.5	0	90	
Santa Fe	declined	declined	declined	1.9	—	8.9	5.8	5.1	-1.7	0	85	
Union Pacific	declined	3.4	1.9	4.2	4.8	10.2	7.6	6.4	-6.5	3.4	80	
SOUTHWESTERN												
Missouri Pacific	declined	2.2**	30.7	6.8**	0	10.1	2.7	3.2	11.0	24.8	85	

*Company only. †Consolidated. All figures before October split. **Latest four years. ‡All figures prior to merger with Virginian R.

CHAPTER V

GROWTH OF THE ECONOMY IN THE 60'S

Fortune⁵⁰ and Financial World⁵¹ have selected growth industries for the 60's. Both agreed on the basic industries. Their lists included chemicals, electronics, electrical equipment and machinery, paper, metal gas and electric utilities and oil.

Chemicals

Chemicals and electronics have a past and future unequaled. Chemical production has been growing since records have been kept with no sign of stopping. Much of this growth has been due to the multitude of new products that have come from their research and development programs. Plastics represent one of the fastest growing parts of the chemical industry. With present day expansion the business leaders are convinced the chemical industry will continue to grow.

Financial World⁵² says the closely allied field of drugs will also show much growth. Some of this will be due to wide use of the miracle drugs and vitamins. New products as a result of the research and development programs will undoubtedly add to this growth.

Office Equipment

Electronic advances have found ready uses in office equipment, especially in computers, which will increase three times.⁵³ "Despite

⁵⁰"The Market Behind the Markets," Fortune, December 1959, p. 110.

⁵¹"Growth Leaders for the Sixties," Financial World, March 16, 1960 p. 3.

⁵²Ibid.

⁵³Fortune, loc. cit.,

aggressive development in the past few years their potential has hardly been touched. The further gains anticipated for data processing equipment make the office machinery field a dynamic one despite foreign competition for typewriter makers."⁵⁴

Transport Equipment and Machinery

Financial World limits its projection to other types of electrical equipment that would grow due to the influence of electronics on automation. Fortune feels that transport equipment and machinery will become very mechanized and automated; much of this growth will be the result of advances in electrical and electronic equipment. Industry constantly increases the use of machinery to increase productivity.

Paper

Both magazines agreed that paper is a growth industry. Probably the packaging of consumer goods has been the greatest cause for this growth. "Production has practically doubled within the past fifteen years. In view of the wide variety of uses for various kinds of paper and board, producers will undoubtedly find demand for their output continuing to rise for many years to come."⁵⁵ "New uses are also being developed, e.g., as a raw material for disposable non-woven fabrics. Scott Paper is already producing disposable sheets and towels for the Army on an experimental basis; it may be cheaper to throw away the linens than to launder them."⁵⁶

Gas and Electric Utilities

The steady increased uses of electricity and natural gas is expected to continue. "Residential use of electricity has doubled in

⁵⁴Financial World, loc. cit.

⁵⁵Ibid.

⁵⁶Fortune, loc. cit. p. 254.

in less than a decade,...residential customers have risen by one-fourth."⁵⁷ This trend will continue in states like Florida, Arizona, Texas and California where the population is rapidly increasing. Commercial uses of electrical power are growing. The "Big Inch" and "Little Inch" gas pipelines have made natural gas available to heat houses. So natural gas has also shown much growth. Utility companies have the amount of their debt regulated by law. So they often sell preferred stock for expansion money. They often use fifty to sixty per cent of their earnings for dividend payments.

Oil

Although "oil is now in world-wide oversupply, these are temporary problems which should be solved within a few years."⁵⁸ "U. S. consumption of oil, which has been growing by six per cent a year, should rise by at least 3.5 to 5 per cent a year in the 1960's."⁵⁹ Due to the common use of cars and trucks and the increasing population the continued demand for oil will continue.

The petrochemicals are chemicals made from oil and natural gas. These products include synthetic rubber, plastics, wrinkle proof fabrics, soapless soaps and ethylene. In 1958 the production of chemicals from petroleum and natural gas totaled 28% of the United States chemical production.⁶⁰ Even though competition has trimmed the profit margin,

⁵⁷Financial World, loc. cit.

⁵⁸Ibid.

⁵⁹Fortune, loc. cit., p. 248.

⁶⁰Petrochemicals Have High Growth Rate," Financial World, April 8, 1959, p. 5.

continued research will keep the petrochemicals growing.

In summary, "no projection can be more than a statement of probabilities; the future has to be earned. But the U. S. economy has certainly not lost its capacity to grow, and perhaps more important, it has not lost the adaptability and capacity for innovation that flow from competition and private initiative."⁶¹

⁶¹Fortune, loc. cit., p. 257.

CHAPTER VI

CRITERIA FOR SELECTION OF COMPANIES WITHIN AN INDUSTRY

Sales and Earnings Record

Before becoming a part owner of any business, the financial and management records of the company should be thoroughly investigated. The sales record for the last five to ten years is a good indicator. The sales should be growing three per cent or faster each year. The earning record should also increase. Sales and earnings are influenced by management, production and sales efficiency, research and development, proper financing, labor relations and cost controls. Each step is important and effects the end results.

Price Range--Current Price

The price range of the stock should always be checked for the last year. Then this should be checked against the current price before making your selection.

Price-Earning Ratio

The price-earnings ratio is the relation of the price to earnings. An example would be if the current price is 48 and the current earnings is \$3 per share, the price-earnings ratio is 16 to 1 or an earning yield of 6.25 per cent.⁶² Price-earnings ratios vary in different industries. They should be checked with the latest information available. At one time a price-earning average of 10 was considered good. Today, due to

⁶²Barnes, loc. cit., p. 53.

the increased demand for growth stocks this may easily be from 15 to 25.

Dividend Pay-out

Dividends are also important for consideration. The growth companies often pay out a low dividend, even though the earnings are high. The retained earnings may be plowed back for new plant and equipment and other expansion uses. In a growth company this can easily represent 60 per cent or more of their earnings. When investing in income stock a higher percentage is looked for in dividends. To find the per cent of dividends that have been paid out from the earnings--the dividend is divided by the earnings. If you want to know the yield of your security--you divide the dividend by the price you paid per share. That part of the earnings not paid out is plowed back into the company for expansion, modernization or research and development programs.

Flow Back

A growth corporation plows back or reinvests part of the earnings in the business. For this reason growing companies pay small dividends. "A growth company plowing back at a rate of twelve per cent of its invested capital each year can double its assets in about six years."⁶³ Usually this money is used to purchase new plant and equipment. This might be to increase production or to make a more efficient operation.

Research and Development

Research and development programs are carried on by all aggressive companies. New products are a part of our way of life and it is

⁶³ Barnes, loc. cit., p. 44.

new products and new ideas of processing that keep America's industry growing. Barnes⁶⁴ says that companies that use three to four per cent of the sales for research and development enjoy a ten per cent increase in growth. There is more than \$200 million scheduled for research and development programs in the drug industries this year compared with \$39 million in 1950.⁶⁵ This vast program helps explain the growth and the high price of drugs.

Capitalization

Always investigate the capitalization of the corporation before investing your money. Corporations that show a high ratio of bonds and preferred stock to common stock, may not be good growth companies. Since preferred stock pays a fixed dividend this may prevent maximum growth for a company which needs to plow-back much of its earnings for expansion. However, the interest on bonds is tax deductible; therefore bonds may be desirable for a rapidly growing industry. There are corporations that only have common stock in their capitalization. These might be a better selection for the individual investor.

Working Capital

Working capital needs to be adequate and show improvement from year to year. Working capital or net current assets is the difference remaining after subtracting current liabilities from current assets. The working capital should be large enough for a company to meet its

⁶⁴Ibid.

⁶⁵"The High Cost of Drugs," Changing Times, August 1960, p. 26.

obligations and expand its volume. The working capital varies in different industries. Utilities can operate on less capital than a merchandising company.

The book value of an industry is an important figure. It is the value of something that is shown in the books of the company. To find the book value of bonds the value of the bonds, preferred stock, common stock, reserve and surplus are added together and divided by the number of bonds outstanding. This then represents the book value of the bonds.

The book value of common stock is not so important as it is to the senior securities. The book value of common stock can be used as a comparison. The book value of common stock can be found by adding the common stock, reserves and surplus and then subtracting for patents and good will. This net book value then must be divided by the outstanding shares of common stock to get the book value per share.

Generally speaking an industry should have no more than a quarter of its capitalization in bonds and the common stock should at least equal all senior securities.⁶⁶ If this is not true and a company has a large proportion of bonds and preferred stock outstanding in relation to the common stock, this company is said to have high leverage. These may be growth companies, but they do become more speculative. Companies should not be overburdened with debt. Debt is only good if it provides increased earnings.

⁶⁶"How to Read a Financial Report," Merrill Lynch, Pierce, Fenner and Smith, p. 18.

Management Rating

Management ratings are made by Forbes and stock and bond ratings by Fitch, Moody, Standard and Poor's and Financial World. These should be studied carefully before any financial decision is made on buying an investment.

CHAPTER VII

SAMPLE PROBLEM

Each individual or family must decide on the investment objective--income, growth or a combination--to stress. Before making this decision Prime⁶⁷ feels these things must be considered: (1) your financial position which involves age, dependents, insurance and cash reserve, (2) the degree of risk you can justifiably assume, and (3) the income required from the investment.

Each basic portfolio should show sufficient savings in an insured savings institution and adequate insurance to provide against disability and provide for dependents. Then investment securities should be purchased to complete the objective.

For the purpose of this problem the following assumptions have been made for a professional woman with no dependents: The investor has (1) savings equal to more than six months salary or at least enough for twelve months living cost, (2) adequate insurance for illness and death expenses, other current debts and taxes due, (3) earned full social security benefits. Today's maximum at sixty-five is \$119.00. This amount is scheduled to increase. (4) earned the right to pension payments of approximately \$200 per month (5) fifteen or twenty more years to work so wants to invest in growth stocks as a hedge against inflation and the uncertainties of the social security and pension programs.

In order to limit the area of the growth stocks rubber has been selected as an industry to evaluate. The study has further been limited

⁶⁷J. Prime, "Investment Analysis," p. 192.

to the five major companies. Facts have been collected from reliable sources. Table 11 shows the leading tire manufacturers.

Moody⁶⁸ says tire and rubber stocks offer skills, opportunity and financial ability for significant growth earnings in the 1960s. It is somewhat cyclical, but long term growth is quite certain. The tire business is highly competitive and growth does have limitations. With the number of cars growing constantly tires will take most of the production. The major tire companies have introduced lighter weight nylon tires to lessen the price gap and capture more of the replacement market from the secondary producers. Much of the growth of the rubber industry will come from expansion and diversification. Chemicals and electronics have accounted for much of the diversification, through synthetic rubber, plastics and missiles.

Firestone Tire and Rubber is expanding by using \$120 million of their earnings. Some of the expansion will be in foreign countries, namely Canada, France and India. Moody⁶⁹ rates Firestone in a strong competitive position. They have their own rubber plantation and sell many of their products through the 700 stores they own. They make a variety of synthetic rubber, plastic and steel products.

General Tire and Rubber's real growth possibilities comes from Aerojet-General division. They are the leading maker of rocket engines. RKO Teleradio Pictures is 100% owned by General Tire. Moody⁷⁰ thinks there will be a price decline due to cost of a new tire plant and the smaller margins on truck-tires.

⁶⁸Moody's Stock Survey, July 18, 1960.

⁶⁹Ibid.

⁷⁰Ibid.

Table 11

THE LEADING TIRE MANUFACTURERS*

(1) Long-term Ranking Scores Div. Price Stab. Growth	1959 Sales (mill)	Est. 1960	Per Share Earnings 1959	Indl. Divl.	1959-60 Price Range	Recent Price	Current Yield
110.8 135.3 Firestone (2)	\$1,188	\$2.60	\$2.45	(3) \$1.00	50-33 3/4	36	2.78%
129.1 220.4 General (4)	677	4.40	4.84 (5)	(3) 1.00	86 3/4-44 1/8	59	1.69
92.9 101.3 Goodrich	772	4.25	4.18 (6)	2.20	103 1/4-56 3/8	57	3.86
101.7 153.7 Goodyear	1,579	2.30	2.29	(3) 0.90	51 3/8-36	36	2.50
43.2 102.1 U.S. Rubber	977	5.50	5.30	2.20	69 3/8-45 3/4	53	4.15

(1) Description in section two
 (2) Fiscal year ends October 31
 (3) Plus 2% stock

(4) Fiscal year ends November 30
 (5) Includes 14¢ tax credit
 (6) Includes 25¢ capital gain

* "Tire Stocks for Growth in the 60's," Moody Stock Survey, July 18, 1960, p. 382.

Goodyear Tire and Rubber is the number one company of the tire industry. It gets 60% of its sales from tires. Stability is helped by its leadership in replacement sales. They also sell other rubber products, chemicals, plastics and electronics. They plan to spend \$90 million for expansion this year. Tire or synthetic plants will be built in France, India, Canada, Brazil, Australia and Texas.

B. F. Goodrich was handicapped last year by price cuts and strikes. Tire prices are still unsatisfactory, but Goodrich has been building up their marketing program. They are also expanding in Australia, Brazil, Iran and Indiana. Goodrich-Gulf Chemical is building polyethylene and synthetic rubber facilities. Plastic plants are also being added so their position should improve.

U. S. Rubber tire sales represent a little less than half of its total income. Rubber goods, plastics, chemicals and textiles make up the rest. Earnings are expected to increase a little, but management has been slow to improve efficiency and marketing. Moody⁷¹ is not convinced that U. S. Rubber will succeed in reshaping itself.

Table 12 page 63 shows a detailed financial summary for the five major rubber companies. From the information in the table and from current readings Goodyear was selected as the best buy for the following reasons:

Goodyear is the "largest and most efficient producer"⁷² in the industry. The sales have shown good growth and the earnings have

⁷¹Ibid.

⁷²"Goodyear Widens Its Lead," Forbes, August 1, 1960, p. 15.

Table 12

THE RUBBER INDUSTRY**

	Firestone	General	Goodrich	Goodyear	U. S. Rubber
Sales (\$Mill)					
1949	579.6	92.6	364.5	633.5	518.2
50	690.6	125.4	514.6	845.1	696.5
51	975.8	170.8	599.2	1,101.1	838.0
52	969.4	185.9	588.4	1,138.4	850.1
53	1,029.4	205.4	674.6	1,210.5	838.5
54	916.0	217.0	630.7	1,090.1	782.5
55	1,114.9	295.7	755.0	1,372.2	925.5
56	1,115.2	390.5	724.2	1,358.8	901.3
57	1,158.9	421.2	734.7	1,421.9	873.6
58	1,061.6	469.8	697.3	1,367.6	870.6
59	1,187.8	676.9	771.6	1,579.3	976.8
Earnings (net income) (\$000)					
1949	17,824	1,015	20,936	20,231	15,100
50	33,268	8,558	34,708	35,109	24,658
51	48,399	7,017	34,743	36,628	30,366
52	43,082	6,148	32,364	39,010	28,170
53	46,749	6,275	34,227	49,323	32,732
54	40,510	4,503	38,816	48,055	27,959
55	55,379	9,705	46,662	59,666	33,559
56	60,539	10,860	43,765	62,456	31,870
57	61,692	11,300	39,370	64,826	29,695
58	53,752	11,279	35,457	65,741	22,671
59	64,597	26,624	37,580	76,009	35,580
Price Range 1959	50 ³ --40 ²	86 ⁶ --44 ¹ a	103 ² --76 ²	51 ³ --39 ¹	69 ³ --45 ⁶
Current Price*	35	54 1/8	59	36 1/2	49 7/8
Price x Earnings ratio	19.3	13.5	51.5	19.8	10.8
Dividends paid each year since	1924	1937	1939	1937	1943
Earning per share	2.44	4.84	g 4.18	2.29	5.30
Div. pershare	.87 + 2% stock	.775	2.20	0.825	2.05
Div. pay %	35	16	53	36	39
Average Yield %	1.8	1.2	2.5	1.8	3.5
Stock Split	2 for 1--10/11/51 1/15/55 3 for 1--2/23/60	2 for 1--4/52 3 for 1--9/57	3 for 1--1/51 2 for 1--1/55	2 for 1--1951, 55 3 for 1--12/59	3 for 1--5/52
Capitalization (\$000)					
Debt \$	\$91,750	87,671	41,311	231,016	159,920
Minority Int.	2,748	9,476	----	20,126	12,917
Pfd.	(4.5%) 800	20,921	----	-----	(8%) 65,109
Common & Surplus	532,837	125,183	c 410,488	561,788	247,526
No. of shares	(NP) 26,382,096	(P2 ⁵⁰) 3,265,912	(P10) 9,000,314	(NP) 33,163,217	(P5) 5,730,453
Working Capital (\$000)	394.5	112.7	251.7	510.4	312.2
Ratio X	3.6	2.4	3.8	5.2	3.1
Rating					
Financial World (6/20/60)	B+	B	B+	B+	B+
Moody July 1960	High Grade	Speculative	High Grade	Medium-grade	Speculative
S & P July 1960	A+	B+	A	A+	A-
	90	90	80	95	75

a--adjusted for stock splits

c--includes \$33 mill plant replacement reserve

g--includes 24c a sh (\$218 mill) capital gains

*--Barron's, August 8, 1960

X--Financial World, August 1960

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increased every year but 1954. The capitalization is in good position. There is no preferred stock and they have sufficient reserve capital for their expansion program.

Edwin Joel Thomas was made the chief executive in 1956 and has an insatiable desire to be first. He has added "resourcefulness and flexibility, careful cost control, vigorous marketing practices and dedicated capital efficiency,"⁷³ through appointment of younger men in management positions.

Earnings have been increased by such things as increasing the volume 16% with fewer employees and new catalysts in the polyester plant that boost production 15 to 20 per cent with no extra cost.

They have a price earning ratio of 19.8 and have a medium grade rating by Moody and an A+ rating by Standard and Poor's. Forbes⁷⁴ gave a rating of 95 and says with their sales, earnings and profits they will be hard to beat.

For the above reasons I believe Goodyear will be a good growth stock to buy and hold.

⁷³Ibid.

⁷⁴Forbes, loc. cit., p. 18.

CHAPTER VIII

SUMMARY

In building toward financial security everyone should make plans to meet his needs and desires. The first step would be to build a reserve fund to be kept in a safe place to meet any emergency situation. Then build a fund that could be used to invest in the stock market through an investment service, the monthly investment plan or individual selection.

Collect reliable and current information through such publications as Fitch, Moody, Standard and Poor's, Barron's, Financial World and Forbes. After complete analysis and careful study select and purchase the investments of your choice as personal and economic conditions seem to indicate. Do not assume any unnecessary risks. Watch your purchases. Income stocks should pay you a consistent dividend. Growth stocks should show growth, perhaps not every year, but over a period of time. An investor with several years to work will want more growth stocks than the investor that is near retirement age.

A balanced portfolio helps minimize risks. It should be balanced by the use of bonds and stocks. The percentages and types must fit the individual objectives, needs and desires.

CHAPTER IX

CONCLUSIONS

Long term financial plans must include fixed and variable income securities. The fixed income may be from savings in banks, savings (or building) and loan associations and credit unions; in life insurance, straight annuity, bonds and/or preferred stock. Variable income might come from real estate or common stock.

The common stock may be the result of a special mutual fund that had been purchased monthly or quarterly starting as soon as a savings account had been built. The mutual fund could be a special one--like electronics or chemicals. In this way the small investor achieves diversification. Common stock could be purchased individually if this pleases the investor better. Either or both of these could be sold at retirement and an annuity purchased with options selected to suit the individual.

Financial security at retirement age is the outcome of careful planning and successful investing.

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