Inflation Versus Savings

by LANCASTER M. GREENE

"SINCE the memory of man" the moneys of each country have been depreciated—fast or slow—and it "runneth not to the contrary." In every country and time depreciation has been different in historical detail, but the loss of savings has tragic sameness in any language.

Until 1933 U.S. dollars had been fixed for many years at $20 to an ounce of gold. Then the government announced a depreciation in the dollar to the present ratio of $35 per ounce of gold. But labor leaders, repeatedly courted by politicians for the "labor vote," realizing their power, have demanded higher wages for their unions each year in order to justify their positions. Politicians acceded willingly but found they had to increase the money supply to cover the annual pay raises. The dollar became less and less valuable in terms of land or labor products and those who kept their money in savings banks or bonds gradually noticed they were being priced out, while those whose savings were in common stocks of well managed companies saw their capital rising.

Some economists still maintain that 1½ to 2 percent depreciation in money is an acceptable aid toward fuller employment. Recently money has declined in value by 4½ per cent or more. This encourages investment in shares for growth but dismays those who were getting 3, 4 or 5 percent on savings in banks or in pension funds. Savers are now getting 6½ percent on the best credit—six months' U.S. notes. Bonds are priced at the 1921 level—the post-World War I money crunch.

Investors are waiting to see what change will come with the new administration. The President-elect has declared himself for continued growth but against further depreciation. The people are alarmed over the shrinking dollar — they would welcome sound money and the end of inflation. But a few can still remember men selling apples in the streets in 1932, and merchants are fearful of prices dropping too low. Richard Nixon and his advisers are surely aware of this—it will be interesting to see how they will steer us beyond Scylla and Charybdis — or between extreme pessimism and optimism.

Now that moderate inflation has become accepted as the least bad national policy, investing institutions are substituting common shares more and more in place of the once mandatory bonds and mortgages which were considered safer. Individuals too in large numbers are shifting savings from banks to investments, but this can lead down a dangerous path unless good judgment is used. Those who accept seven years as the time it takes to develop a production program will do well. That is the established "test tube to tank car" formula, and many financial experts have observed it as the average length of time for building up investments.

Those who frantically insist on trying for a fast dollar are not allowing enough time for managements to make progress with their capital. They are trying to take advantage of other investor speculators, and they run the risk of much frustration. When their stocks go up they are exhilarated but they worry about whether to take a quick profit or await a longer one. When the market is down they consider taking tax losses, but this procedure results in a sale near the bottom in a management which may warrant patient waiting for larger gains. Taking a loss in the belief that they can get back after 31 days at the same price often finds them buying back at a price higher than the tax sav-

ing, or even missing a good investment completely. Tax considerations are a poor basis for making investment decisions.

Those who think of themselves as partners in a great enterprise over a period of years have a better approach than people who say they don't care about the integrity of the company, they're only in it for a six months' ploy. That is like a numbers game which can lead savers into strange company.

It goes without saying that the safest investments are among the 1200 companies on the New York Stock Exchange. The Stock Exchange, the Securities Exchange Commission and the security analysts make a great deal of information available for those who are willing to ponder it. Mutual funds help some investors in doubt, but many will prefer to select an investment counselling firm who will pick superior managements. This plan may result in doubling an investment in five years and help build increasing dividend income for retirement.

However much share prices may fluctuate in the short run, they cannot, over the longer run, fail to reflect growing assets with growing earnings and dividends from those assets.

So if I were asked whether we are in a bear market I would most likely answer "as a long term investor I don't concern myself so much with the market as with certain companies and their future rate of growth over the next five and ten years." If I am right in my analysis on this, the market prices of my investments, though they may fluctuate widely, will take care of themselves.

Thus investing in common stocks for the long term requires knowledge and much patience, but it avoids the often profitless anxiety involved in attempting to guess the short term fluctuations in the economy and in share prices. The miracle lies not in today's dividend yield of a mere 1 to 3 percent, but in the growth realized from compounding retained earnings which provide some protection from the personal income tax.

These retained earnings, after payment of corporate taxes, are the property of the shareholder. If a company can earn an annual return of 10 to 20 percent or more on capital it is easy to see how assets earned on each share can multiply. This accounts for the heavy concentration in stocks by sophisticated large investors. Small investors are also partners in firms to the extent of their investment.

HOW CITIES CAN COMPETE FOR INDUSTRY

Cities are now offering to build plants for manufacturers financed by the city, with the debt guaranteed by the corporation.

Southfield, Michigan originated a more effective plan when it started assessing on full market value of the locations and reducing the assessment on improvements by 3 percent each year. Even more impressive would be complete exemption of taxes on building.

The full assessment on location value however has intrigued a number of prominent national companies, such as Bendix, Standard Oil, Maccabees Insurance, Eaton Yale and Towne, Inc., to name only a few. They feel they are protected from runaway prices on locations.

Southfield is a suburb separated from Detroit by 9-Mile Road. On the Southfield side there are new modern buildings — the Detroit side remains in shocking neglect. For all who have studied photographs of this street the evidence for LVT is conclusive and striking. **L. M. Greene**