

Market Tip—Buy Resources

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IT'S a truism that it's *when* you buy rather than *what* you buy that will account for any success you have in placing your funds in Wall Street. The street, however, concentrates its statistical efforts upon picking out values which can be depended upon to come back even if your timing should be wrong. What do the street's experts pick?

Natural resources every time are the choice of the more successful. W.S. Landis, vice president of American Cyanamid, who has made a long study of the problems of hedging against inflation on the basis of European experience, advises that one buy the oils or metals with the largest reserves underground.

This is safer than "riding a carload of potash, copper or steel," as the expression went in Germany [in the 1920's]. The charges on storing your car (rent and interest) eat up the gain. But if you have the potential commodity in the ground, and if you own the ground, your company can sell its holdings as prices reach favorable levels, or hold them back if that should be the more profitable course. In the ground the resource does not deteriorate as it may in storage. If your company stored the resource you would have to watch it or the subsidiary company operating the distributing plant for storage costs, for plant depreciation, and for cost of the site (rent) which changes as the favorableness of its situation changes in relation to population and other trends.

If you buy into any corporation it is well to remember the warning of Roy A. Foulke, manager of the analytical report department of Dun and Bradstreet, Inc., that an average of

20.1 percent of all active commercial and industrial concerns were forced out of business between 1930 and 1936, and that the active life of the average enterprise which was liquidated for one cause or another was about five and a half years.

These failures were largely among companies whose speculation or business was preponderantly concerned with wealth, that is, goods, after extraction of the commodities from the land. Fewer corporations can engage in the extractive industries, because to become a low-cost primary producer of raw materials is not so much a matter of efficiency (rational organization of production) as of natural advantages — priority of establishment and exclusive title to such advantages.

Efficiency of production is achieved by the cooperation of labor and capital through devices and techniques which are, generally speaking, entirely known. In this all start more nearly equal. Enterprisers, of course, must be eternally watchful for the development of improvements in methods and machinery. Money wages are related to what the medium of exchange will buy in any locality, so that real wages — the purchasing power of money wages — are the same everywhere for the same type of skill if the mobility of labor and other special conditions of the labor market are not impeded. Interest rates for the same risk do not vary appreciably, so no corporation has an advantage here.

Even other monopolies than those based on control of the sources of their raw materials are more transient in strength. Monopolies based on patents are limited to seventeen years, and research for the improvement of

the patented development must be carried on constantly or the patent becomes obsolete. Monopolies based on special favors from governments, or on the general attitude of the government toward industry, are as transient as the political power.

This is generally accepted by our legislators, for example. When in New York State, they tackled the problem of protecting the widow and orphan, they restricted investment of trust funds to first mortgages on land and improvements directly, or indirectly through first mortgages on public utilities or railroads. When they try to protect the people's savings, they restrict their investment to the same type of holding. When they try to safeguard the public's investments through insurance companies they exact the same requirements; only recently have they relaxed the restrictions in favor of a few preferred stocks and certain types of debentures or industrial corporations. In other words, they believe loans on land or franchise monopolies to be as safe as any investments available under our laws for those whom the government would particularly protect. The return on these investments is euphemistically called "interest" but the greater part of it is ground rent.

Roger W. Babson, the American statistician, advised investors not to be panicky about American securities, provided they own outright shares in companies that have escaped labor difficulties. The companies that are most exempt from harm by labor trouble, he pointed out, are those that own natural resources. The owners of the earth can afford to wait, under our iniquitous tax system, until labor starves itself into submission. From a longer range point of view, he added: "English investors must not forget that the whole world is headed for inflation which should materially benefit

companies owning large natural resources."

When the legislators seek to play safe, they order investment in land values. When the shrewdest of the Wall Street speculators buy, they pick low-cost producers with control of natural resources, also land values. For whether they seek to hedge against inflation, or whether they are seeking to hedge against deflation, they are always hedging against poverty.

The above article was written some 30 years ago. Then as now it was necessary to seek a hedge against inflation. Today Lancaster M. Greene, a New York investment counselor, would amend his earlier comment as follows in view of the present speculative boom in land development.

Natural resources were the best defense for savings when inflation galloped as it did in Germany and France in the 1920's, and they are still a safe refuge. Following the gradual erosion of the dollar after 1933 however, technology and expertise in management have combined to provide a better resource for savings than oil, copper, steel, cement or other commodities in the ground. Commodities compete with other commodities, as copper vs. aluminum, but new resources continue to be discovered in various parts of the world.

The federal government supported industry with \$7.8 billion for research and development in 1965—this was five times the amount awarded in 1963 for the same purpose. By 1965 industry reported \$14.2 billion spent for research and development. Thus technology has been important for the growth of industry.

Nevertheless, we need location value taxation now more than ever, to discourage holding sites out of use. And it is equally important to exempt improvements from taxation for that is the only way to enlist site owners in building.