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Ļoti godājami valdes locekļi!

Sakarā ar priekšā stā-
vošajām saimnieciskajām grūtībām
kurās, pēc mūsu vērtējuma, vis-
smagāk skar ieguldījumu
fondos esam noteikuši at-
prasīt savu aizdevumu Latvian
Fondam. To varētu izdarīt 2
veidos:

1) Atmaksājot pilnu summu \$ 500.00

2) Atmaksājot, teiksim, \$ 490.00 un
paturot \$ 10.00 fondā, tādā nolū-
kā, kad, inflācijai samazinoties,
un saimnieciskajai dzīvei no-
stabilizējoties, mēs varētu atkal
maksājumus fondam turpināt.

Izvēli ① jeb ② atstājot valdes
ziņā. Pielikumā specialista
domas par fondu ieguldījumiem.

Ar cieņību, Jūsu Jānis A. Zibins
Brigita Zibins



Stock Comments

Corporate Tax-Exempts

By Heinz H. Biel

THE SUMMER RALLY came to an abrupt end in mid-July. This was a little sooner than I had expected. By early August the DJI was down some 60 points, or about 7%. This most recent setback is somewhat greater than two similar declines earlier this year and, like its predecessors, it is causing considerable apprehension among investors as well as in The Street.

I do not know what caused the sudden sell-off. One never does. Business news in general is about in line with realistic expectations, and the world's political scenery is neither worse nor better than it was when the market was going up. If there is one specific event that might be blamed for the sudden stock market reversal, it is the inability of New York's Municipal Assistance Corp. (Big MAC) successfully to sell even the first billion-dollar tranche of bonds. This makes further offerings extremely difficult, if not impossible. New York City may be able to avert default on its \$741 million in notes maturing this month. But then what?

New York City bonds and notes have become all but unmarketable. Notes maturing on Aug. 22 were recently being offered at 89, a yield to maturity—if they are paid off—of well over 100% at an annual rate. But there were no real bids. Other city bonds, due in 1976, or beyond, are being offered at yields of as much as 20% and more. No one wants them. These are panic prices.

The plight of New York City is beginning to make waves. The credit of many other municipalities has become suspect. If they let New York go bankrupt, cannot the same disaster happen in many cities and towns of lesser importance? Investors in municipalities have become extremely wary. Only the best are good enough. The bond market is in such a state of disarray that A-rated tax-exempts are often yielding more than A-rated corporate bonds that are fully taxable.

It has become apparent that the full faith and credit of some municipalities is no longer adequate security for many investors who, rightly or

wrongly, draw parallels with New York City. But there are tax-exempt alternatives. A surprisingly large number of investors do not know that there are virtually hundreds of "corporate" bonds which are also tax-exempt. These are Industrial Development & Pollution Control bonds, often issued by very small communities whose faith and credit wouldn't be worth a tinker's damn; however, these bonds are secured by lease payments of big corporations. It is their credit rating that determines the quality of an industrial revenue bond which, in effect, is the equivalent of an unsecured corporate debenture.

Bonds whose lease rentals are paid by companies like Exxon, Mobil Oil, Dow Chemical, U.S. Steel, Weyerhaeuser, major electric utilities, etc. are obviously good credit risks. In the eyes of many investors, they are preferable to obligations of some of our large cities. The main drawback of these industrial revenue bonds is a certain lack of easy marketability, but this also applies to a multitude of other municipals. The unfamiliarity of many brokers with this type of security is also a handicap. However, every bank or brokerage firm has the "Blue List," published daily and showing all current offerings of tax-exempt bonds. It has a special section for Industrial Development & Pollution Control bonds.

Fading Glamour

Many of the so-called vestal virgins, the one-decision stocks of yesteryear, are no longer what they used to be. While as a group they still constitute the bulk of trust and pension fund investments, their glamour has become a bit tarnished. Stocks like Coca-Cola, Eastman Kodak, International Flavors, IBM, Minnesota Mining, Sears, Xerox, etc., not to mention Avon Products, Honeywell or Polaroid, have all been underperformers in this bull market. While they had smart recoveries from their extreme lows of last year, they never even came within hailing distance of their highs of two or three years ago. What happened?

First of all, these stocks had been crazily overpriced at their peaks. The

high multiples then prevailing are not likely to be seen again for a long time to come, not only because they were so utterly unrealistic, but because these companies turned out to be not as invulnerable to economic adversity as their proponents had believed.

Growth companies are supposed to grow, in good times and in bad. Growth in sales volume is easy, of course; inflation alone takes care of that. But good percentage gains in profits are far more difficult to come by once a company has attained a multibillion-dollar size. While a slowdown in the rate of earnings growth in times of adverse business conditions is pardonable, an actual earnings decline is not.

The companies named above, with the possible exceptions of IBM and IFF, have broken the magic spell of annual profit increases. Henceforth such stocks will be appraised by the same standards as other equities, taking into account their historic record as well as future prospects, their industry position, financial soundness and management capabilities. This return to reality is all too the good.

Superblues

Some glamour stocks have, of course, managed to maintain an unbroken record of rising per-share earnings. Most of them are doing business with the ultimate consumer, like *American Home Products* (P/E of 23), *Disney* (23), *Johnson & Johnson* (29), *Merck* (25), *Procter & Gamble* (21), to mention only a few of the most prominent companies. The indicated multiples are still quite steep, certainly by comparison with the price/earnings ratio of less than 9 for the DJI, but they are no longer as insanely high as they were two or three years ago.

These are outstandingly fine companies, and, if an investor wants the very best, he will have to make his selections from stocks of this character. In the very long run, these superblue chips will perform well, probably as well or better than the market averages. Taking a shorter-range view, however, I expect more reasonably priced stocks, which also grow but are not burdened by the halo of being recognized growth stocks, to do better. Here are some examples with the current price and the P/E shown in parenthesis: *Anderson, Clayton* (30-6.7), *Continental Oil* (64-9.6), *Diamond Shamrock* (48-7.6), *Dow Chemical* (84-13.2), *Esmark* (33-5.6), *General Signal* (38-12.7), *Heublein* (39-14), *Ingersoll-Rand* (74-11.8), *Pullman* (54-10.1) and even *Searle* (15½-10.7), despite the FDA cloud hanging over it. ■

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