Interview — with BENJAMIN GRAHAM
Expert on Investments

HOW TO HANDLE YOUR MONEY

Never before have so many people had extra money out of income to save or invest.

Millions wonder where to put this money —for safety, return, rise in value.

Do U. S. savings bonds pay enough? Is common stock safe?

What advantages do municipal bonds offer? What about corporation bonds?

To get competent answers to these and other questions now raised for so many, *U. S. News & World Report* consulted an authority.

Benjamin Graham, security analyst and widely read author on investments, was one of the experts invited by the Senate to testify at recent stock-market hearings.

Mr. Graham also is adjunct professor at Columbia University's School of Business, where he teaches investment analysis.

At NEW YORK

Q Do you recommend, Mr. Graham, that a man of moderate means include, as a general rule, some common stock when he invests his savings for the long term?

A My answer would be definitely "Yes," under normal conditions.

Q Why?

A Because common stocks have the advantage, in the first instance, of representing sound, growing investments in the American economy, with a higher return than you would get on bonds, and, secondly, because they do carry some measure of protection against inflation—against further inflation of the kind we've lived through as a result of the last two wars.

Q Would you say there is some risk in not including some common stocks in long-term savings?

A Yes. The experience of my lifetime has shown it is a very definite risk to have your investment only in bonds.

Q Will you detail that a bit for us?

A Yes. Since 1913, the price level has approximately tripled, and, at the same time, interest rates have gone down a good deal. The old bonds with high coupon rates have been pretty well called, no longer exist. The result is that the man whose investments were solely in bonds has suffered both a reduction in income return on a percentage basis and a large reduction in the purchasing power of whatever income or principal he had.

Q Will you give us the other side of that now? What would have happened to the same man if he had bought some stocks?

A Well, if he would have diversified his holdings among representative common stocks in 1913, or in most other periods since 1913, he would have had an advance in value and in income which would have at least kept pace with the rise in the cost of living.

Q Now a man with an income of, say, $5,000 who has but little saved, and doesn't expect to accumulate much out of that kind of income—would you recommend any common stock for him?

A On the whole, I would say "No," largely because what he could gain by having a common-stock component in his savings isn't large enough to warrant the amount of intelligence and character needed to carry on an investment program in common stocks soundly.

Q He would be better off to buy something with a safe principal and a fixed return?

A I think so, even though it involved some risk of loss of purchasing power.

Q And in a situation like that, would you recommend, say, No. 1, insurance and, No. 2, Government bonds? Or what would you recommend?

A Yes. I think the usual combination of insurance and Government bonds is correct.

Q What is that combination—what proportion?

A Well, that's difficult to say, because I think the insurance depends almost entirely on his protection requirements. I don't believe that the amount of insurance should be related to his savings program particularly. The savings are important in insurance, but they are incidental.

Perhaps I should correct my previous statement a little bit by saying that it is possible for the small man, the $5,000-a-year man, who wishes to build up an interest in common stocks out of his rather modest savings, to do so reasonably well by following one of these accumulation programs in the investment-fund area—

Q Investment companies?

A Yes, investment companies. Yes, he could do it, and I think on balance it would probably be better for him to do it if he wants to do so rather than not to do it. There are some risks involved in that program, but there are also some advantages, too.

Q If he goes into that, you would recommend three elements, then: whatever insurance his family needs for protection, some savings bonds, and some investment-company purchases?

A That is right, yes.

Who Should Buy Common Stocks . . . Ways to Offset Wide Price Swings . . . Investing at Different Income Levels

Q When you speak of Government bonds, you mean savings bonds?

A Oh, yes. I see no reason whatever for the small man to invest in Government securities other than the very attractive savings bonds which he now can buy.

Q You think they are a good buy for the average man?

A A very good buy in terms of fixed-interest investments.

Q You are talking primarily about the E bond?

A The H bond and the E bond. Actually, the E bond is better than the H bond because a man who is saving doesn't need to get current interest and reinvest it. It's better to have it compounded for him automatically.

Q This $5,000 man we were talking about—

A Actually, I should like to say this about the $5,000-a-year man. The original question assumed that his $5,000 was pretty well fixed. But that may be rather unrealistic. Most $5,000-a-year men are expecting to earn more than that as they go along, in one way or another.

The young man who has reached $5,000 in his career naturally expects to do better, and it wouldn't hurt him at all to start out in some common-stock program and get an education in common stocks, in part, by practice.

—Greystone Studio

BENJAMIN GRAHAM

Q He would get mostly education, wouldn't he? Because he wouldn't have enough surplus income to invest much—

A No, but I mean he could start with the small amount that he has in his savings to do something in the common-stocks field more advantageously for his future program than in connection with anything he may accomplish now. For example, if he's going to make mistakes, it's better that he make them with the small amount of money that he has than with a larger amount of money that he might have later.

Q Would you say there are many men in the $10,000 and $20,000 group who should be buying stocks but who are not?

A I'd put it this way: There are thousands who should have been buying stocks and who didn't.

Q But with the market level aside—

A Market level aside, I would say that $10,000 to $20,000 men would be well advised, as a whole, to have a systematic investment program in common stocks.

Q How should their investments be divided, roughly?

A On the whole, they can go higher in the common-stocks spectrum than the persons who don't have earnings independent of capital. They could get into the two-thirds-common-stocks area very soundly.

Q Why?

A I think mainly because of the fact that they can take the risks involved in changes in the economic situation from year to year with more equanimity than those whose sole financial support is their capital funds.

Q You mean they are less likely to face a time when they have to sell their stocks whether they want to or not because they find that the price has gone down—is that it?

A That's the way it's usually expressed, but my experience has been that it's not the outer compulsion that governs it so much as the inner compulsion, drive, the inner apprehension. Most people sell stocks at low prices not because they have to but because they are scared.

Q They won't hold on long enough?

A They won't see the situation through. Let's take a widow who has all her money in common stocks, or nearly all, and is doing pretty well with it for a while. Then the market has one of its old lashings, it collapses, and she finds her principal value greatly reduced. She is likely to get so panicky that she might sell out at the bottom, or near the bottom, and have a harrowing experience as a result of that.

A businessman or a man with a career earning a good deal of money may do the same thing, but he's not as likely to do it, particularly if he has educated himself to know and be familiar with the normal vicissitudes of the stock market.

Q You were talking about putting two thirds of savings for the long term in common stocks. Which man is that—which man should do that?

A That would be the $10,000 to $20,000-a-year earner who feels he may go further than that in the future.

Q As we go on up higher, as we get into $25,000 and $30,000, would you recommend a higher proportion in common stocks?

A I don't believe so, because, when you get beyond that range, you get to a different question where it's not so essential to try to get the maximum results out of your investment, but it becomes important to feel that you are protected against any eventuality.

One of the advantages of having a lot of money is that nothing should be able to hurt you. If you have a fair amount of your money in the Government-bond area and another fair amount in common stocks, you're in an ideal position.

Q Do you recommend corporate bonds for the man making $20,000?

A No. I don't see any reason under conditions today, and those we've seen for many years past, why a man should buy corporation bonds.

Q Why?

A The yields of the good bonds are only slightly in excess of what he could get on U. S. savings bonds. On the second-

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. . . "Investing a few thousand—you can't do it casually, by tips"

grade bonds, the risk element offsets, approximately at least, the additional income. There is, of course, the question of tax-exempt bonds, which is a separate factor; a $20,000-a-year unmarried man might find the tax-exempts interesting, whereas the married man with $20,000 income probably wouldn't.

Q We've been talking up to now, by implication at least, only about investing money to get income. Is there a stage at which investments become logical for long-term appreciation—that is, where profit can be made by an advance in the market value of a security?

A Oh, yes. I think in the early part of one's career, in business or the professions, if you have considerable interest in financial matters, as many people have, and want to educate yourself as far as you can in finance, there, if you wish to get the full advantage out of your education, the advantage would be in investment for appreciation. The rewards are greater, of course, in appreciation than they are in income, and there's no reason why a person shouldn't aim at those things.

Q Even at a relatively low income level?

A He could do that, too, as a matter of fact, and get more interest out of life, being a skillful investor for appreciation on a small scale, than he would if he just did it to get a few dollars a year income.

Q You think the average person is capable of doing this?

A Well, taking everything into account, I would say "No." I mean, if you took a person at random and gave him the ideal surroundings and education and counsel, and so on, you might turn him into a person capable of doing this. But, under the circumstances in which he lives, he probably would not do a good job.

Q Who would, then?

A It would be good for a person who has considerable native intelligence and ability and who has a real interest in financial matters and is willing to devote the amount of time and energy to it.

Q And who has time for it—the time is important?

A Well, everybody has enough time for it. It's really the determination that counts. I mean, investing a few thousand dollars is not a full-time job. But it is a job that you can't do casually, by tips, and so forth.

Q Where can the average man get his information? How does he go about it?

A You mean his education. Information is one thing and education is another, a more fundamental thing in connection with investment. Naturally, the way he can do that is by pursuing some of the avenues of instruction that are open. He can take courses, as many do. Those who are in New York, of course, have a better opportunity than those who are in small towns.

Q Around the country, though, many can't get such instruction, can they?

A Well, the average man won't do it. But I wouldn't be willing to admit that he can't do it. A person who is really determined to prepare himself to be an intelligent investor can do it. For example, he can take a correspondence course. You learn the job just the way you learn to play the piano.

Q What about the man who lives where such a course simply is not available? As a matter of fact, most people aren't willing to devote the time for such courses, anyway. What's the next best thing?

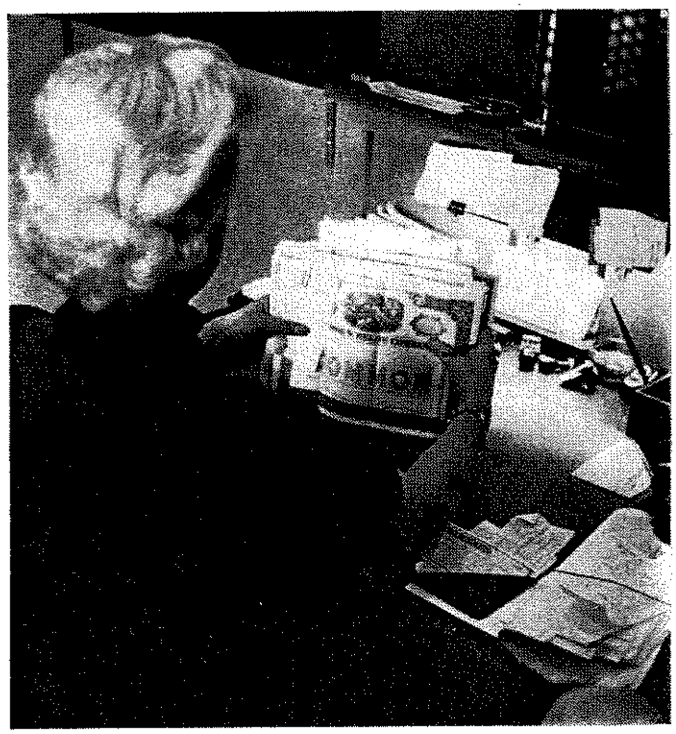
A The next best thing for him to do is to decide that he cannot expect to get optimum investment results without this optimum preparation, and consequently he has to accept a more representative or average investment program. He can do that by deciding to follow a simple but very definite plan—first, dividing his money into the compartments we discussed before and, secondly, following a systematic and simple procedure with respect to the common-stock components.

For example, I suggest that he buy investment-company shares on a regular basis. That brings in the concept of dollar averaging, which has now become so familiar and popular. That would be a sound procedure. The main thing for him is not to go off suddenly on a tangent, believing that he had suddenly become an expert because the market has gone up and he has been making some money.

Q What do you mean by "dollar averaging"?

A Dollar averaging is a method of investment under which you set aside regularly a fixed amount of money and invest it in common stocks generally, either in a single common stock or preferably in a group investment through investment-company shares. By investing the same amount of money at regular intervals—say, every three months—you get two advantages. One is that over the years your investment reflects the average market price rather than the high market levels—which is where you are likely to buy if you follow the crowd.

Secondly, the arithmetic of dollar averaging gives you more shares at the lower prices than at the higher prices, so that your average cost is lower than the arithmetical average. If you are putting $1,000 in one kind of stock and the price is $10, you'd get 100 shares. If later it's $20, you'd get 50 shares. You bought more stock at the $10 basis than at $20. Consequently your average price would be less than $15.



COMMON STOCKS: "They do carry some measure of protection against inflation"

. . . "Dollar averaging—the soundest and most simple plan"

Q Do you think the dollar-averaging plan for an individual is sound?

A Yes, I think it's the soundest and most simple plan open to everybody that I know of.

Q About how long does it take for dollar averaging to produce results?

A Over past experience, it's generally felt that a seven-year period is a kind of minimum. A 10-year period is usually the one that is talked about.

Q That being the case, one could start at any time?

A Yes. The reason you talk about a 10-year period is that past analysis shows that had you started at any time, even at the top of the market in 1929, you would have done all right by 10 years later.

Q Then the man of moderate means has two alternatives in buying stocks: If he hasn't a lot of time and know-how, he is well advised to buy conservatively, either to buy investment shares or to buy well-known stocks when they are at reasonable prices. Or if he has a lot of time, then he can go into it with more detail, take more risks, buy lesser-known shares, and not be so conservative about it. Is that the sum of it?

A I would question, in a way, your expression. You mention the fact that he would take more risks, and that is the usual concept where one buys securities that are not so well known. But when you consider the matter carefully you'll see that the purchase of securities that are not so well known at low prices—which is what a man wants to use his particular skill for—does not really involve more risk. It involves less risk on the whole. It only appears to be riskier.

Q Still, the point is that, if he doesn't have the time to think about it or the know-how, he's got to buy something like investment-company shares or the standard blue chips—isn't that right? He has no other choice, has he?

A Yes, that's true. And, when he departs from those procedures, the chances are that he will make mistakes, and perhaps very serious mistakes, by buying the kind of thing that's called to his attention by salesmen or others who operate by tips.

Q When a man is planning to use dollar averaging, the first thing he wants to do is to select a group of stocks that he's going to buy. Now, maybe he'd prefer to invest directly rather than through an investment company. What should he do? Should he go to his broker to seek advice?

A I don't want to disparage the service that brokers can render. I think they can render good services in many circumstances. But I don't believe that on the whole the service they can render for this particular man would turn out to be best. Because his limited objective is to buy sound securities over a period of years, and it's easier for him to follow that general principle than it is for him to get good specific advice.

The broker is likely to have his thoughts pretty much on what seems to be good at the moment, and that would not fit in too well with this long-term investment plan.

Q What would be the best plan for this long-term investor? He's going to try to select a group of investments that he is going to buy over a period of years and he does not feel confident in himself to sit down and figure out what those issues should be—

A It seems to me that the investment company is just made to order for that man.

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—USN&WR Photo

WATCHING THE PRICES IN A BROKER'S OFFICE

"A person who is really determined to prepare himself to be an intelligent investor can do it"

2003 No Load Mutual Funds

. . . At $100,000, "half to two thirds in common stocks"

Q But aren't investment-company shares expensive to deal in?

A They are expensive on a short-term basis. They are not particularly expensive on a long-term basis. The commission rates run, let's say, 7.5 to 8 per cent. If a man were to hold his investment for a 10-year period, that would mean it cost him about three quarters of a per cent a year on his principal. He's also paying a certain amount, perhaps 6 or 7 per cent out of the income, for operating expenses. While that is not negligible at all, I don't believe it's prohibitive.

One thing you must remember is that if he bought his investments directly and then later sold them, he would have an aggregate commission that might be about one third to a half of what he would pay to buy into an open-end investment fund.

Q So that the investment fund is for the man who is making long-term investments, the man who is saving for the future?

A Yes, by all means. I don't think it makes sense for any proposed investment for less than a number of years.

Q And particularly for the man who hasn't great amounts to invest and not too much time to go into it?

A Well, it's not limited to him necessarily, but it's of greatest advantage for the man who wants to invest over a period of time in a simple manner.

AT $50,000 OF INCOME—

Q What about higher up in the income scale? What about the man who is earning $50,000 a year?

A He, naturally, would feel that he would like to look over the situation in investments at least and consider making decisions of his own in the kind of securities that he wants. The amount of money that he has would make it worth while to give it thought and considerable care. I'm not so sure that this man would necessarily do any better than he would do if he bought investment-fund shares; but it's more natural and more interesting for him to do other things.

You must never minimize the personal equation. Most men like to make their own decisions.

Q To go back to what a man can do—is it impractical for the average investor, for instance, to deal with an investment counselor?

A For the small man, yes. The investment counselor generally deals with a person with $100,000 or more to invest in securities, particularly common stocks. It doesn't make much sense for a man to bring to an investment counselor a $50,000 fixed-bond portfolio. He can invest that money in bonds without paying the charges of an investment counselor. You need to be fairly wealthy to do that.

Q What about the investment services that are published monthly or weekly?

A Frankly speaking, I don't know much about them. But it's obvious that the small man couldn't soundly pay money for a weekly investment service and try to follow their suggestions every week or month. That would imply that he is going to be active all the time in the market, and that is an entirely different thing from the kind of investment that we are talking about. If he's a speculator, that's another story.

Q For the man who is going to spend some time of his own, instead of buying the Dow-Jones list or investment shares—and you've already suggested that the broker can't help him much—where does he get the factual information that he needs in order to exercise his own judgment?

A Now, I don't want to do an injustice to brokers here. I would say that the man who had a purely conventional program and wanted to select some issue for long-term, repeated investment probably wouldn't get much help from a broker. On the other hand, if he wants to do a continuous study of the financial and business situation, he could get advice from a broker.

Q What does he get from a broker?

A In the first place, he'd get the information he needs in convenient form—

Q The factual information?

A Yes. He doesn't have to subscribe to Moody's and Standard & Poor's, and so on. He can use the broker's facilities.

Q The broker will tell him about a company's financial condition, its record, dividends, and that sort of thing?

A That's right. He can get all of that data, which is, of course, essential if he wants to do any studying. He can get analyses from the broker—presenting the information in a little better way, perhaps, than he could get it himself by just reading the sources. And he can also get points of view, recommendations, and so on, which may be better, on the whole, than ones he would make up for himself.

Q What about a man with a $100,000 income? Take a man with that much income and considerable savings laid aside —how should he divide his savings among various types of investments?

A I would say that under normal conditions, in the light of the experience of the last 50 years, he would likely aim at anywhere from one half to two thirds of his investment in common stocks as his objective.

Q And the rest?

A The rest could be in insurance savings, to some extent, though generally the insurance savings are not considered a part of your funds today. They do act as a protection. Any combination of Government bonds and tax-free bonds—municipal or State bonds—would do for the rest.

STOCKS FOR $100,000 MAN—

Q What is the kind of stocks that this man should buy on a dollar-averaging basis? Is he going to buy the blue chips? Is he going to buy his stocks in terms of long-term growth?

A That man is probably not going to be such a dollar-averager, because the higher up you are on the income scale, the more variable generally, is the amount of money that you have available for investment. It's not so simple for him to adopt or pursue a dollar-averaging plan. Typically, he invests money as it becomes available. There his selection of stocks will, I suppose, depend on the amount of attention that he is able to give to the subject, his personal equipment, and so forth.

If he wanted to become something of an expert investor, then he would go over into the field of interesting situations, based upon his knowledge and study. They could include "growth" stocks, on the one hand, they could include bargain securities on the other, and special situations of various sorts. If you assume that he doesn't want to give the amount of attention to the business that it requires to do it properly, then actually there isn't too much point in his trying to be selective at all.

. . . "A widow with $50,000—almost an insoluble problem"

That's where a broker can come in handy. He asks the broker from time to time to make up a list of good, representative securities, of the kind that are in the Dow-Jones industrial average, and he would probably do about as well with these as he would in trying to use a rather inexpert way of picking out the things that seem to be good to him from year to year or day to day.

You know, people say there's no point in comparing things with the averages because you don't buy the averages. And I've always added: Why not? There's no particular reason why a person couldn't buy 10 shares or 100 shares of all the stocks in the Dow-Jones averages and actually get their results. People don't do it, for one reason or another, but there's nothing impossible or unsound about it.

Q But for the average fellow who does not have an opportunity or inclination to become expert, to follow the situation very closely, you think that buying the blue chips would be about as good as anything that he could do?

A Yes. He should do that normally. But, as I've said often, he ought, however, to be reasonably sure that he's not paying excessive prices for them.

Q By definition, isn't the growth company one you think of as putting a large part of its profits back into growth instead of paying it out in dividends?

A That should be the idea of a growth company—

WHAT A "GROWTH" STOCK IS—

Q Unless you think of a uranium company—

A Well, that's another type of thing. But basically a growth company is one which (a) will be expanding its business and its profits at more than the average rate, and (b) will in the course thereof be investing a large part of its profits back in the business.

Q When you get into the growth stocks, you get into a situation where a man needs a good deal of knowledge?

A I think so. But even then it's hard to tell how good your knowledge is, because growth stocks lead to the future, and you don't really ever have any knowledge of the future. You may have a more expert guess than the other man, but it's still a guess. And many mistakes have been made in buying growth stocks on the theory that the future will duplicate the past.

Q In trying to buy something for long-term growth, you ordinarily have to recognize, one, that you are taking a chance and, two, you perhaps have to sacrifice income along the way in order to achieve a long-term growth. Isn't that ordinarily the case?

A Yes. The chance is basically related to the point that you pay a higher price for a security in terms of its past and current earnings and dividends than you would for nongrowth securities, and there is always a possibility of disappointment. The company would have to be better than the average company to justify the price you pay for it. Maybe it won't be, but you think it will.

You start with a sacrifice of income generally and you are apt to find it continuing for some years. But that is not particularly important to people if they are right in their estimate of the company's future expansion. The fact that the income is small is not a real sacrifice if you don't need the income to spend.

Q What about a widow who gets her husband's insurance of, say, $50,000? How should she invest it? Or should she leave it all in the insurance company, drawing monthly payments?

A Well, the widow would like, if possible, to earn enough income to pay her living expenses. Naturally there is a great aversion against using up capital. Yet, for most widows of whom we are talking, those particularly within the $50,000-to-$100,000 capital range, that's almost an insoluble problem.

Q You mean with those sums there isn't enough income to leave the capital alone?

A Not if she were dependent upon the income from that money—unless she were living in rather unusual conditions, a very small town, and so forth, where her wants were extremely limited. But the average widow wants to live somewhat in the style to which she was accustomed when her husband was accumulating $100,000 in one way or another, including insurance, and she would find it very difficult to make it do. And that, as you probably know, is one of the most difficult problems that investment counsel have to deal with nowadays.

Q How is it usually resolved—by a compromise?

A Yes, it's usually resolved by a compromise. There's been a tendency through recent years to be bolder and bolder in advice to widows, suggesting that they consider getting up pretty high in the percentage of investments in common stocks on the twin grounds, first, that they do need the income badly and, secondly, that it's not unsound or risky for them to put their money in well-selected or representative common stocks. And that advice was really good advice at a time when one could say with conviction that the price level of common stocks was an attractive one.

Q That's for the widow with $50,000. Now, for the widow drawing a smaller amount, $10,000 or $15,000, you would not suggest that she put any part of it into common stocks?

A I think not. I'm afraid that, when you take into account the psychological factors in that kind of thing, which can create real problems, and compare that with the monetary advantages of a small common-stock investment, the psychological dangers far outweigh the monetary advantages.

WHY PREFERRED STOCK—

Q What do you think of preferred stocks?

A Preferred stocks are a hybrid investment. Theoretically they are all wrong, but that doesn't prevent them from working out all right practically. I say they're all wrong because, for one thing, if they are really a good investment for the investor, they are not a good security for the corporation. The corporation should issue a bond and get the advantage of the income tax saving. If the corporation can't afford to issue a bond for that particular amount of capital, then they're not too good for the investor. That's the way it is in theory.

In practice, however, many corporations issue perfectly good preferred stocks—I think by a wrong policy on their part —and investors can buy them soundly. The history of preferred stocks is not quite as bad as you'd expect it to be. Nevertheless, it turns out that when the market is weak, preferred stocks generally behave quite badly, not nearly so well as bonds would behave if they were in the same general position.

Q What about mortgages as an investment for the individual?

A I've felt that the FHA guaranteed mortgages are per

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. . . "Ordinary man more apt to get poorer by speculating"

fectly sound. We've bought them for insurance companies that I am identified with, and I see no reason why the individual shouldn't buy them, except that they may be a little too much of a nuisance for him to handle. I am not experienced at all in the mortgage field for individual investors. But in principle I don't see why an investor couldn't do quite well with these guaranteed mortgages. I'm convinced that the Government's obligation there is perfectly dependable.

Q Actually, only in rare cases do individuals buy mortgages, corporation bonds and preferred stocks—isn't that generally true?

A Well, it used to be true that bonds and preferred stocks were a standard part of portfolios—and they're still a standard part of portfolios administered by banks for even average investor clients or trust funds. But now the tendency—and I think it's a sound one—is in the direction of dividing the individual portfolio into either Government bonds or tax-free securities on the one hand and common stocks on the other.

Q Going into this current stock market, you've indicated a couple of times that some of your answers would not apply to the market as it is today. Is that right?

A Well, it might not apply. What I meant was that, if one believes that the present market is definitely too high, it would not be sound for an investor to start out by putting a substantial part of his funds in it. There is some question whether he should start dollar averaging when the market is too high.

FOR THE NEW INVESTOR—

Q For the average man who has never invested in stocks, but who now discovers he has a surplus income and feels that he should start building up some equities—should he not start today at the current level of stock prices?

A The best suggestion I can make is that if he were sure that he could follow a dollar-averaging program, he could start today. If he has any doubts on that subject, either because of his financial situation or his psychological situation, I'd advise him to hold off. This is not the most satisfactory time to start in stocks.

Q Might it be better for him to wait anyway, even if he thinks he can keep his program going?

A Well, waiting is a difficult operation itself. While you're waiting, you're wondering how much you're missing, whether you'll ever have a chance to get back at a better time. When the chance does occur, you wonder when is the right moment to start coming in. All those things are difficult decisions to make. It's easier to do the thing mechanically than it is to do it by these judgments.

Q From what you say here and what you've written, you do not advise people to speculate—ordinary people, that is. Isn't that right?

A Well, being against speculation is almost like being against sin. But speculation really is a sin to the untrained member of the public.

Q So that the ordinary man is not going to get rich by speculating on the market?

A No, but more apt to get poorer. The main point is that a man can earn some money by taking a sensible attitude toward investment, but I don't see how a man can earn money by being an untrained speculator. He just doesn't put enough into it to justify his hopes of getting something out of it.

Q Do you have the feeling that we are at a point in history where, again, the market fever is hitting the little people and that speculation with cash savings is possibly going to spread to rather dangerous levels?

A Yes, I'm quite apprehensive about it.

Q Do you think a good many issues are too high now?

A Yes. That is undoubtedly true.

Q This would indicate that there are a good many well-accepted issues which today would appear to be overpriced?

A I think that's so. I think they carry with them some dangers.

Q Do you also feel that there are issues in the market which are underpriced?

A Yes. I think there are considerable numbers of those issues. Actually, among the thousands of issues that are dealt in, quite a number of them are still selling at considerably under what I would consider to be their true value. However, I should add that nearly all of those securities tend most of the time to sell under their true value.

Q So that they would later as well as now?

A Yes. Except at more or less the top of the market.

Q How does one identify these issues?

A The simplest test that I've had is the value of the company as a private business. If you can look at a company and say that at this price for the stock the whole enterprise is selling at a figure which is clearly less than it would be worth to me if it were my business, if I owned it—you can divide the figures by 10 or 100 to make them comparable to the kind of business you are familiar with in private practice—if that test shows that the price is quite low, then it's generally a reasonably good guide to your evaluation of the stock itself. In some cases, the very fact that the company is selling considerably under the working capital alone, with no value given to all the fixed assets, is a prima facie indication that the price is too low.

BUYING ON MARGIN—

Q What is your opinion of an individual buying stocks on margin?

A I would say the average member of the public, who does not make a business of buying and selling securities, makes an error in buying securities on margin—most of the time. It would only be under exceptional circumstances that he would be justified in doing so.

Q Such as?

A Such as the conviction on his own part that the market level is unusually low.

Q Should the man who has considerable money to put into investments, and who has been doing so, should he perhaps compromise at this point and continue buying more carefully?

A No. I think if you take the man you are talking about—he's already been in the market and has a considerable stake in common stocks now—it would be sounder for him to start a selling policy at this stage. It could be on an upward scale, involving small amounts at present, or if he really feels apprehensive, he should sell larger amounts. Nobody can tell him how fast to sell.

Q What does he do when he sells—put his money into Government bonds until the market goes down?

A I imagine that's what he ought to do. He may wait a year, decide he was wrong, and then go back in the market on a dollar-averaging basis again. At least he could say he was wrong intelligently.