Vhen to mount a corporation

[T]HE Graham-Newman Corp. of New York has developed a specialized in-estment business on the theory that uides museums of natural history—ome beasts are worth more stuffed and nounted than on the hoof. As a conse-uence Graham-Newman between 1936 nd 1946 paid to its stockholders in divi-ends more than twice as much (in terms f percentage of 1936 assets) as the vast-ly larger State Street Investment Corp., more than three times as much as Lehman Corp. Graham-Newman's formula runs this way: First, buy into a company priced well below its net current-asset value, provided its past earnings nd future prospects are reasonably good. econd, if the management takes inade-uate interest in the market price of its nares, initiate criticism or even a proxy ght as an alert stockholder. Third, sell ut if the price rises above liquidating lue. Fourth, in the extreme case, where e beast can't be put back on its feet, nish it off and mount it, that is, sell liquidate the business and pocket the

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difference. The last move is usually unnecessary. In the past eleven years, out of 300 investments that might conceivably have involved the mounting-*in-extremis* theory, Graham-Newman has, in fact, mounted only three corporations.

Graham-Newman began as a joint investment venture two decades ago and was incorporated in 1936. President Benjamin Graham hit upon the specialized formula. By means of a proxy fight, he forced several pipeline companies, which the government had squeezed out of Standard's oil trust, to pay out in dividends all cash not needed for operations. For example, after Mr. Graham got going, Northern Pipe reluctantly forked over $70 for every share valued shortly before at $50. Not long after, his concern did a taxidermy job on several textile companies that would otherwise have done business long enough to dissipate liquid assets through operating losses.

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by taking advantage of price spreads between old securities and the new ones for which they are exchangeable, or between senior securities and the packages of common stock into which they are convertible. During the late bull market, the firm found many such opportunities in railroad and utility issues, but today Graham-Newman is again hunting its favorite type of situation. It has bought into aircraft manufacturing, which of late has been cold-shouldered so extensively that some companies are purchasable for half of their net quick assets. Graham-Newman's policy is not to buy into top companies alone but into all companies in any group that give promise of yielding adequate future earnings or liquidating dividends.

Even when it got control, Graham-Newman claims never to have liquidated a business that had an economic reason to exist. When it got hold of American Tube Works—then (1933) the oldest of U.S.

Stephen Greene

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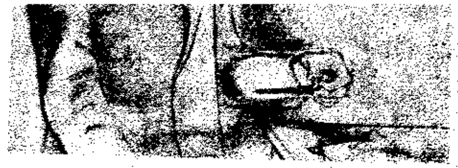
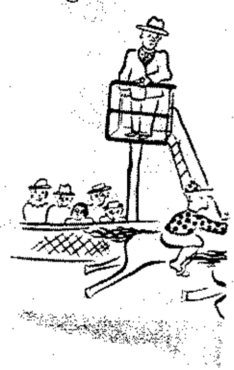


BENJAMIN GRAHAM

There are other reasons for liquidation apart from the profit-and-loss statement. When the Lincoln Warehouse Corp. had in its cash balance money realized from the highly profitable sale of the Manhattan site of the present Lincoln Building, the Iselin and Vanderbilt interests were willing to sell their controlling equity at a discount, thus getting the benefit of capital-gains provisions in the tax law. (If the company's cash had been distributed as dividends, it would have been taxable as income.) Graham-Newman then sold the warehouse business and distributed the excess in the company's treasury, thus clearing for itself $228,000. This $228,000 helped build up Graham-Newman's 1944 dividend distribution to $35.60 a share. Currently, Graham-Newman's largest common-stock investment is a 10 per cent interest in National Transit Co., a Pennsylvania pipeline acquired from the Rockefeller Foundation. Transit has a lot of U.S. bonds, which it will cash for the benefit of stockholders, and a pump subsidiary whose stock it will distribute, assuming government approval. The program is Graham-Newman's.

As a rule, companies are worth more dead than alive only during bearish periods. When most stocks are overpriced, Graham-Newman switches to arbitraging ly that some companies are purchasable for half of their net quick assets. Graham-Newman's policy is not to buy into top companies alone but into all companies in any group that give promise of yielding adequate future earnings or liquidating dividends.

Even when it got control, Graham-Newman claims never to have liquidated a business that had an economic reason to exist. When it got hold of American Tube Works—then (1933) the oldest of U.S. seamless drawn brass and copper-tube mills—it managed operations for a year and a half and increased the company's share of U.S. dealings in the field from 5 to 16½ per cent. The going concern was then sold to Phelps Dodge. Again, by selling the big non-automatic mill of Fall River's Merchants Manufacturing Co., Graham-Newman reduced taxes and put a profitless textile operation into the black. In fact, of its $4,277,000 in gross earnings in the past ten years, only $385,000 represents actual liquidating take.



Benjamin Graham's way with a balance sheet has been a matter of interest not only to Graham-Newman's stockholders. Between 1927 and 1941 he conducted a course on investments at Columbia University, where he is considered the country's top security analyst. With a colleague, Professor David Dodd, he wrote a book, *Security Analysis*, that has become a professional bible. The other half of Graham-Newman's management is Jerome A. Newman, a man as practical as Mr. Graham can be theoretical. It is he who sees that Mr. Graham abides by his own rule of not waiting for the top of the market to dispose of securities.

When the firm found itself running the American Tube Works, Mr. Newman took charge as Board Chairman.

In eleven years Graham-Newman has distributed on each of its shares (which cost some holders only $100) over $189 in cash and rights. Even if tax laws did not require it to pay out the bulk of earnings in dividends, the company would probably do so. Incidentally, its directors feel that large investment companies cannot earn as much on capital as firms small enough to turn on a market dime. Graham-Newman now has total assets of $4 million and since, according to Mr. Graham, that may be close to the optimum, the company has stopped selling shares. It is willing to redeem any outstanding shares whenever asked to, but none have been cashed in since 1943.

Of course, not all companies priced below their scrap value are to be considered cheap. Publicly held concerns are rarely liquidated, and, if there are no earnings, liquid assets will eventually disappear. Of seventy-nine stocks publicly listed by Standard & Poor's as purchasable for less than their net quick-asset value last February, fifty-two were still cheaper by July 15 and maybe dear at that. Graham-Newman does not recommend as a general practice the trick of making money out of companies worth more dead than alive.