

#78 CURRENT PROBLEMS OF THE INVESTOR  
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OUTLINE OF OCTOBER 30TH LECTURE

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THE INVESTOR'S APPROACH TO BONDS AND PREFERRED STOCKS

A - Recommendations made in Lecture I

B - General discussion of Bonds and Preferred Stocks. Their paradoxical features, as to form:

- 1 - Preferred stocks legally partnership interest but actually a watered down creditor's claim.
- 2 - Bondholder has superior legal rights, but he rarely uses them to sue for his money. His rights are a club rather than a weapon.
- 3 - Bonds are not much superior to Preferreds in very prosperous or unprosperous cases. Their superiority is real in middle-ground cases.
- 4 - Income Bonds are theoretically the soundest form, but are least satisfactory group in actual market performance
- 5 - Unsecured (debenture) bonds of industrials now have better investment rating than mortgage bonds.
- 6 - Convertible securities are very attractive in form but on the whole tend to act badly in the market.
- 7 - Conclusion: Investment policy cannot rely on form of a senior security but on its substance.
- 8 - New offerings have a tendency to decline excessively in weak markets.  
Moral: They are unattractive at time of issue, but may be quite attractive later.

~~C - Terms and advantages of U.S. Savings Bonds. Comparison with high-grade corporate issues. Risks in high-grade bonds, if interest rates advance. (Current examples.)~~

D - Medium-grade issues. Their disadvantages for average investor outweighs their advantages.

E - Undervalued Bonds and Preferred Stocks. For aggressive investors only. Wide opportunities recently in (a) real estate issues, (b) reorganization railroads, (c) public utility holding companies. Examples - Choctaw & Memphis Os, Cities Service Pfd., Trinity Building bonds.

F - Convertible Issues. They present good opportunities, but caution is needed. (Current examples) Examples from recent past (Fairchild, Eversharp) show possibilities and risks of convertibles.

G - Brief resume of factors in analysis of investment grade bonds and preferred stocks

- 1 - Overall Earnings Coverage
- 2 - Stock Value Ratio or "Cushion".
- 3 - Working Capital (Industrials)
- 4 - Property Values (Utilities, Investment Co. Issues).