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 secure his money. His rights are a club rather than a weapon.
   3 - Bonds are not much superior to Preferreds in very prosperous or unpromising 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. Ironic! 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 hs, 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 bond investment, with rules and tests.
1. Overall Earnings Coverage

2. Stock Value Ratio or "Cushion".

3. Working Capital (Industrials)