

WHAT ABOUT STOCKS?

Babson Believes Them To Be Very Cheap

(By ROGER W. BABSON)

Babson Park, Mass., July 11.—It is not the function of this column to forecast the stock market. It is, however, my duty to give certain facts to readers. This week, these pertain to the stock market.

PRICES VERY LOW

The dividend-paying stocks listed on the New York Stock Exchange, are now selling at less than 14 times their dividends compared with nearly 20 times in August, 1939, and perhaps 27 times in August, 1929. This means that if you shut your eyes and blindly put a little money in every dividend-paying stock, you would get a yield of over 7%. With the exception of the 1917 break, the 1920-21 panic, and the 1931-33 depression, at no time in the past 41 years have good stocks been so cheap in relation to dividends as today.

AFTER THE WAR?

Four main reasons are given for these very low prices:

(1) "Present good business is largely artificial due to the War. There will be a severe and long business slump immediately after the War is over." My answer to this is that the first part of the statement is true; but not necessarily the second part.

A sharp drop may be expected directly after the coming armistice; but it should be short followed by a healthy reconstruction period which may last for some years. In this, the United States and Canada must take a leading part. Of course, unless some great new industry comes into being, the world must someday "pay the piper", but cannot fear of such now being overdone?

FRIGHTENED BY LABOR

(2) "Labor has the upper hand and is taking all the profits." To read the newspapers, one would think that 50% of the workers are out on strike. Statistics, however, show that, at the very worst, less than 1% of the workers have been on strike at any one time—and less than 4% of those engaged in defense work. This percentage is too much and a disgrace; but are we not "making a mountain out of a mole hill"?

Of course, there has been considerable increase in wages in many industries. But why worry from an investment standpoint? Wage workers spend all they get. If your investments are properly diversified, you get back in additional profits from your chain store and other consumer stocks what you lose on your stocks hurt by labor demands. Besides, we investors are at fault if labor leaders win any unjustified strikes. We cowardly stick our heads under the bed clothes and let the labor leaders do all the shouting.

(3) "The U. S. is doing Communistic and nothing can stop it." Let me reply to this by saying that Communism is distinctly on the decline—everywhere except in the newspaper headlines. Even there it is the fault of those supposed to protect your investments. Consider, for instance, the recent strike in Boston of office building elevator and other employes. Many of these buildings are being operated at a loss and are practically owned by the policyholders of insurance companies and savings banks did no picketing nor lifted a finger to protect them.

I forecast that after this War there is sure to be a reaction to the right—not further to the left. This return to common sense would come now if the heads of our insurance companies and banks had the courage and fighting qualities of the labor leaders.

(4) "Taxes will be so high this and following years that the

companies will not have profits to distribute." Those who talk as above are making a great mistake. Most taxes are passed on to the ultimate consumer. The retired person living on fixed interest coupons has his net income cut down by taxes. But—as a rule—this does not apply to men in active business who have their money in well-selected common stocks. They are tax collectors—not tax payers. The ultimate consumer pays the taxes when buying goods.

There is also another reason why I do not worry about taxes. The whole Federal and Dominion tax structure depends upon U. S. and Canadian corporations making good money. Over 50% of all government revenue receipts come from taxes on corporation profits and dividends. These governments have put their heads in a noose! Unless they permit these corporations to make good profits, the governments can get no money to pay their bills. Furthermore, the tax experts are now learning that the only way to collect more revenue is to help these corporations to make even greater profits.

FACE THE FACTS

The simple truth is that none of these excuses are new. Go to your public library and ask for copies of newspapers published 25, 50, 75, or even 100 years ago, and you will find the same wailing and complaining. "Panic ahead!" "Labor becoming unruly!" "Taxes are too high!" etc. The very fact that most businessmen and investors are discouraged and fearful now may be proof that many prices are far too low. These same people were bullish in 1929.

The great majority are wrong all the time. Can we have a worse twenty years than from 1920-1940? These were made up of foreign wars, business depressions, reckless booms, presidential campaigns, and every known trouble. There never were twenty years of American history so crowded with uncertainties. Yet, these twenty years show that if one had invested each month in each of America's 24 chief industries—he would have received an average income of over 5% in dividends during the whole twenty years! Moreover, his real "income", including undeclared earnings, would have been over 7%. I say, if you will properly invest the same amount each month—good years and bad—you should come out all right whatever is ahead!

NATION'S TRAFFIC TOLL FOR FOURTH LISTED AT 124

Death took no holiday for Independence Day but hovered over the nation's highways to reap a traffic toll of 124 lives, only four less than the total fatalities from all causes on last year's Fourth of July.

Airplane crashes, drownings, shootings and other violent forms of death took an additional 65 lives, bringing total fatalities to 189 as reported early Saturday.

Last year's low record of only two deaths from fireworks was repeated, one such fatality occurred in Missouri and another at Conesville, Ind., where a pyrotechnical expert was killed at an authorized fireworks display.

Despite rainy weather which curtailed holiday travel in the East, Pennsylvania led the nation with 18 traffic deaths. One other death also put the Quaker State ahead of all others in total fatalities, Ohio and California both reporting 18 total deaths.

Worst single tragedy was an automobile-train crash at the Long Island Railroad's Mattituck, N. Y. grade crossing, where six automobile occupants were killed and a seventh critically injured.

Deaths by states: Alabama 4, Arizona 1, Arkansas 4, California 18, Colorado 1, Connecticut 2, Florida 5, Georgia 4, Illinois 13, Indiana 8, Iowa 5, Kansas 1, Kentucky 3, Louisiana 3, Maine 1, Maryland 2, Massachusetts 6, Michigan 3, Minnesota 6, Mississippi 3, Missouri 1, New Jersey 2, New Mexico 2, New York 10, North Carolina 7, Ohio 18, Oklahoma 2, Oregon 4, Pennsylvania 19, South Carolina 1, Tennessee 1, Texas 4, Utah 1, Virginia 4, Washington 9, West Virginia 5, Wisconsin 6.

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