

STOCKS AND TAXES

Babson Shows Why Market Does Not Go Up

(By ROGER W. BABSON)

Babson Park, Mass. Dec. 5.—What's the matter with the stock market? I am convinced that much of the answer lies with the tax situation. Present taxes are an aid to higher dividends; but a millstone around the neck of prices. Readers should remember that about one-half of Government income comes from Excise Taxes and about one-half is obtained from Corporation and Personal Income Taxes. Customs Duties, while formerly a large source of income, have now dried up. It is with Corporation and Personal Taxes that investors are directly concerned.



BABSON

EFFECT OF TAXES
Many of us were brought up to believe that stock prices were governed only by good or bad corporation earnings. This is not true today. International complications, fear psychology, and PRINCIPALLY TAXES are now in the picture. Excess profits can amount to as much as 80% and MUST be computed BEFORE normal taxes of 31% are deducted. Profits of many corporations may continue high but the cream is gone. The market can no longer look forward merely to earnings as an incentive for higher prices. The worst feature, however, of the new taxes is their use in putting over social "reforms" and aiding New Dealers to put a ball and chain on merchants, manufacturers, and bankers.

Formerly, corporations could pile up reserves in good years to tide them and their stockholders over lean years. Today, however, under the "undistributed profits" tax of Section 102 of the Revenue Act, there is no "fat" left. Under the present forcing system of social changes many fine "blue chip" companies in the next depression (and one will surely come) will be obliged to go to the Government for help. That's exactly what our present Government wants them to do. Then, in exchange for continuing managerial jobs and providing some interest for bondholders, Government may insist upon working control through taking over the rights of stockholders.

POSITION OF STOCK-HOLDERS

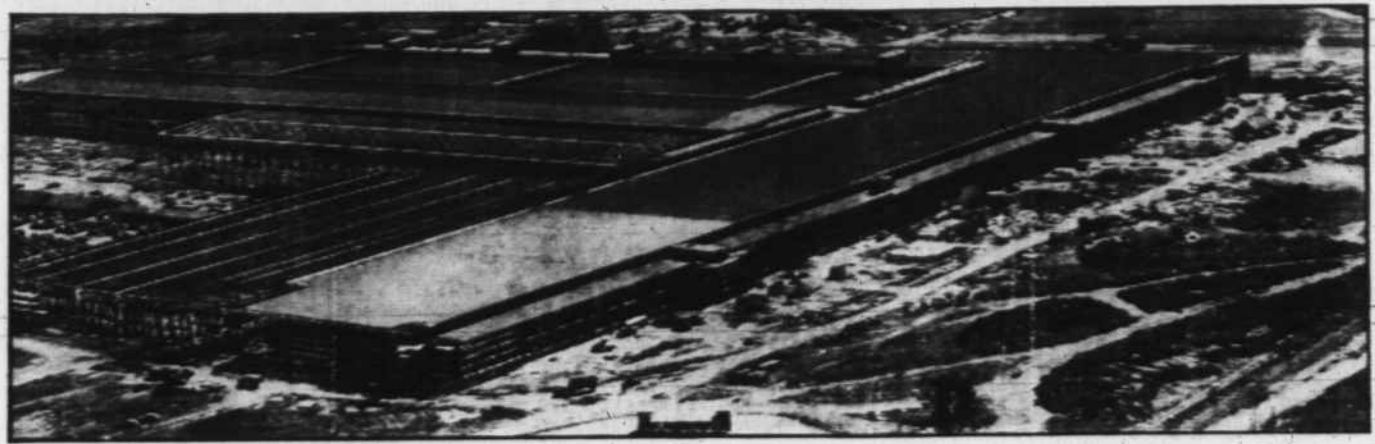
Owners of common stocks providing high returns and relative safety are now in a wonderful position. This applies particularly to those in the lower-income brackets. From the point of view of collecting individual taxes the Government MUST allow corporations to distribute sufficiently high earnings to warrant the payment of generous dividends. Hence, I feel that while there will be a lot more talk about raising corporation taxes, that these corporations will be allowed to raise prices proportionately. This is why Secretary Morgenthau's proposal to limit the profit of corporations to only 6% did not receive any support even in New Deal circles.

Stockholders should not be too concerned about increased personal taxes. In many instances these can be passed on. This is true in the ownership of rentable property, where higher taxes can be overcome by raising rents. Investors are also realizing that currently high yields for stocks are solving their tax problems. Whereas five years ago an investment of \$10,000 might yield 5%, or \$500, today the investor may find his taxes increased by \$300 to \$500. Hence, he looks around for, and insists upon, yields of 8% to 10% for any new investment. Switching of old investments may also have the desired results. Thus, a wide-awake stockholder can have sufficient income to meet his increased tax bill and money left over for his customary spending needs. This very fact, however, keeps down the market prices of these stocks.

WHAT ABOUT BOND AND PREFERRED STOCK-HOLDERS?

Owners of bonds and preferred stocks are confronted with low yields, high prices, and fixed incomes. If this group continues to hang on to these they will be unable to meet their increased taxes unless they drastically cut their personal expenditures. If and when they get wise to the high yields obtainable in common stocks and start switching, a slump should certainly result in prices for many bonds and preferred stocks. This possibility is now hanging over the market and exerting a bearish influence

Huge Ford Bomber Plant in Michigan Takes Form



THIS AERIAL PHOTO shows the huge \$47,000,000 bomber plant the Ford Motor Company is building at Willow Run, near Ypsilanti, Mich. In the foreground is the nearly completed manufacturing section, which forms the lower part of the "L" shaped plant. Only

half of the actual length of the assembly building is shown in the photo. Ford will produce giant four-engine Consolidated B-24 bombers in the Willow Run plant. Construction work has advanced so rapidly a tool room already is in production in the new structure.

along with tax selling and O. P. M. restrictions.

Every investor should, of course, have some funds invested in certain bonds. Many of these can still be bought on a discount basis with resultant high yields. When switching or making new bond commitments buy only first mortgages. Personally, I am not interested in high-priced, low-yield issues. As a rule, I have also steered clear of preferred stocks. They are a "hybrid" investment. Now is the time to forget high-priced bonds and preferreds in favor of good common stocks. The reasons are clearly obvious to every thinking investor. Incidentally, when buying common stocks select those companies which have no funded debt or cumulative preferreds outstanding.

CONCLUSION

I am bullish on selected stocks over the long pull. It may be, however, that there will be no boom in stock prices until taxes come down or dividends increase still more. But whichever of these two factors prevails, stockholders in many companies should continue to sit pretty. My guess is that we are headed for even higher taxes but with the maintenance of present, or even higher, dividend rates with creeping better prices for most common stocks. Stockholders should have courage and remember when investing new money that good high-yielding stocks are a hedge against high personal taxes.

Louisburg College News

The honor roll for the first half semester of the college year was released last week. Sarah Davis, of Louisburg, last year's number one student again led the list. The others on the list, in the order of standing are: Gene Thompson, Franklinton; Martha Ann Stroud, Louisburg; Virginia Spivey, Louisburg; Lilly Hancock, Richmond, Va.; Juanita Cannon, Bolivia; Roy H. Bailey, Fayetteville; Edward F. Smith, Fayetteville; Riley Rowe, Aberdeen; Ira L. Helms, Jr., Scotland Neck; Christine Shearin, Enfield; and Constance Rhodes, Fayetteville.

The officers for the freshman class, recently elected at the college, are Melvin Smiley, Macon, president; Clarke Stokes, Hertford, vice-president; Sallie Weaver, Sanford, secretary; and Billy Andrews, Louisburg, treasurer.

Greene County farmers using inexpensive lamp brooders have found them both satisfactory and economical to operate, reports J. W. Grant, assistant farm agent.

MANN CALLS FOR MORE FARM INCOME

Columbus, Ohio, Nov. 28.—M. G. Mann, of Raleigh, N. C., general manager of North Carolina's two largest farm co-operatives, told more than 5,000 delegates at the twenty-third annual convention of the Ohio Farm Bureau Federation here this afternoon that "something must be done to raise the standard of living in rural America to a point higher than can be achieved on an annual per capita income of \$183."

"Mind you," he said, "this figure is an average for all of our farm people. We find that one-half of the farm people are getting 55 per cent of the total agricultural income, leaving a bare 15 per cent for the other half."

Mr. Mann, who is general manager of the North Carolina Cotton Growers Cooperative Exchange and the Farmers Cooperative Exchange, pointed out that the South, where one-half of the farm population lives, receives only one-third of the national farm income.

Taking government figures State by State, he drew a parallel from the fact that farm income rises or falls in proportion to the degree of co-operation with which farmers work together. "The reason for a per capita income of \$223 in California, \$687 in Iowa and \$524 in Illinois is because that for nearly 100 years farmers in those states have been co-operating one with another," Mr. Mann said, "and the only way Alabama can increase its per capita gross income from \$121, Georgia from \$159, South Carolina from \$154, Mississippi from \$155 and North Carolina from \$179 is through the united efforts of the farmers themselves."

Mr. Mann added that the reason agriculture today stands in such a deplorable condition that the 39 per cent of the people on the farms get less than 10 per cent of the national income and 39 per cent of the nation's farms carry an average mortgage of \$2,657 is "because we have failed to devel-

op an agricultural leadership that was strong enough to go out and meet the leadership of industry and labor and fight for the rights of the farmer."

Mr. Mann also emphasized the importance of farm organizations working together. The Farmers Co-operative Exchange is sponsoring the Farm Bureau Mutual Insurance Service in North Carolina.

Timely Farm Questions

Answered at State College

QUESTION: What type of brooder is best for North Carolina conditions?

ANSWER: Brooders have been devised to meet all situations from where only 40 to 50 are

brooded with a lamp brooder to where many hundreds are brooded with a hot water system. The source of heat may be wood, coal, kerosene, fuel oil, or electricity. The type of brooder to select will depend upon the economy of operation, availability of fuel, and the cost of fuel. Practically all types of brooders have been tested and found satisfactory for North Carolina conditions. Copies of Extension Circular No. 251, "Chick Raising," may be obtained free by writing to the Agricultural Editor, State College, Raleigh.

QUESTION: What is the best means of protecting young orchard trees against damage by rabbits?

ANSWER: Protection can be given by wrapping the trunk of each tree with newspapers or building paper. A repellent wash from where only 40 to 50 are

equal parts of commercial concentrated lime sulphur, either liquid or powdered, and water. Then this wash should be applied with a brush. The wash can be made more effective if fish oil is added.

QUESTION: Do dairy cows provide a profitable sideline?

ANSWER: Fred M. Haig, professor of dairying, says North Carolina is still lagging behind more progressive states in the number of dairy cattle. Nearly one-third of the State's farms do not own a single dairy cow, this being especially true of tobacco

and cotton farms. Thousands of these farms, Professor Haig believes, could grow sufficient feed for five to ten cows without interfering with the production of regular cash crops. This would provide a profitable source of extra cash for these farms and help the food-for-freedom campaign in addition.

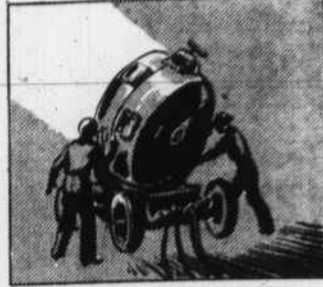
The October volume of general merchandise sales in small towns and rural areas was larger than for any previous months on record, except December of last year.

Help!

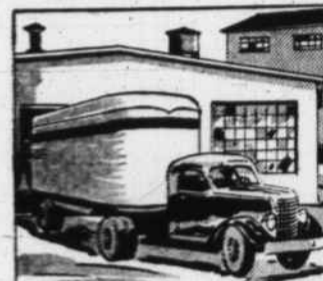
More than 400 companies, all over America, are helping General Electric speed defense work by supplying parts that G.E. would make itself in normal times.



1. Two of these subcontracting firms ordinarily manufacture fishing tackle. Another normally makes watches, and still another makes carpets.



2. For making searchlights alone, subcontractors from five states prepare parts. About 75 companies contribute to building a steam turbine.



3. More than 150 different firms supply parts in a steady, scheduled stream for radio transmitting and receiving equipment for the armed forces.



4. Thus dozens of cities and small towns throughout America are becoming partners with G.E. in helping speed the national defense program.

General Electric believes that its first duty as a good citizen is to be a good soldier. General Electric Company, Schenectady, N. Y.

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CRYSTALIZED PINEAPPLE, lb.
CITRON, pound 47c
SEEDLESS RAISINS, CURRANTS, box . 9c
PITTED DATES, 1/4 lb. Pkg. 15c

DOUBLE FRESH Golden Blend **COFFEE** 2 1-lb. Pkgs. 39c

TRIPLE FRESH Sandwich **BREAD** 2 Loaves 18c

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GREEN CABBAGE, 3 pounds 10c
FANCY GRAPE FRUIT, 4 for 17c
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