PSF: William O. Douglas

RETIRED FOR PRESERVATION

PSF
Box 144

PSF: Douglas

THE WHITE HOUSE
WASHINGTON

11-27-37

Memorandum for Mr. McIntyre:

Chairman Douglas dictated the following memo over the 'phone:

"Mr. Jerome N. Frank, of New York City, is agreeable to an appointment on the Commission. I am very enthusiastic to have Frank. Frank would like to know that if there is available at some future time an appropriate Federal Judgeship that he would be given consideration, as he is interested in permanency of tenure in the Federal Government, as he has to leave a very good law practice and does not want to return to it if he comes down.

"John Haines, of C.E. Barney & Co., Member of the New York Stock Exchange, is a very good prospect. I am planning to have a conference with Haines, if agreeable, in the very near future, to size him up further.

"At the present time I feel that Frank and Haines would be an excellent combination and I will report the results of my conference with Haines in a few days."

PSF: Douglas
W.O.

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON

ICE OF THE CHAIRMAN

File personal

February 5, 1938.

The President

The White House

My dear Mr. President:

In view of your interest in a recent compilation prepared by Goodbody & Company, purporting to set forth certain values for public utility securities, I have had our Public Utilities Division investigate and analyze the results of this study.

The "Goodbody Study" represents an attempt to measure the assets and earning power underlying holding company securities. The physical assets of the subsidiary operating companies which form the base of the whole security structure have been revalued on the basis of figures derived from averaging the detailed property accounts of 120 public utility operating companies. Earnings were then computed on the assumption of a 6% rate of return on the property values so calculated. The calculated values and earnings based thereon were substituted for book values and actual earnings of each individual company in arriving at Goodbody's computed values and earnings applicable to the securities of the holding companies listed in the study.

The calculated asset figures were derived from an averaging process of the detailed property accounts of one hundred and twenty public utility operating companies examined.

To clarify just how the averaging process was developed, I have obtained from the files of the Public Utilities Division a copy, which I am inclosing, of the Goodbody Market Letter and indicated in red pencil the portion which shows, by specific illustration, how the method was employed.

The method is admittedly only for test purposes and does not profess to develop "original cost" or "prudent investment valuations" for any given company. The application of average computations to specific cases has the usual weakness that is inherent in any averaging process. For that reason, I believe that the "Goodbody Study" does not necessarily indicate the extent of "write-ups" or "water" present in the various holding-company systems. It would however indicate the companies where inflated values probably exist and thus serve as a rough, though not accurate, measure of their extent. In other words it does not necessarily give a reliable measure of such inflation.

The study was designed primarily to warn investors in a general way of the companies whose earnings in the future might be less than in the past. I believe it is of value in distinguishing the better holding companies from the poorer ones from the point of view of investors who are contemplating putting their money into holding company securities.

The following appears to be the way in which they may be classified on the basis of the "Goodbody Study."

Making the best showing:

North American Company
Columbia Gas & Electric Company
American Gas & Electric Co. (Electric Bond & Share System)
United Gas Improvement Company

Making the next best showing:

Niagara Hudson Power Company
Electric Power & Light Co. (Electric Bond & Share System)
National Power & Light Co. (Electric Bond & Share System)
Engineers Public Service Co. (formerly Stone & Webster System)
Commonwealth & Southern Corporation
American Water Works & Electric Company, Incorporated

Making a poor showing:

United Gas Corporation (Electric Bond & Share System)
North American Light & Power Co. (North American System)
United Light & Power Company
Central & South West Utilities Co. (Middle West System)
American Power & Light Co. (Electric Bond & Share System)
Standard Gas & Electric Company

I shall be happy to supply any other additional information you may desire.

Yours faithfully,

Wm O Douglas

William O. Douglas,
Chairman.

Inc.

This letter is not to be deemed a solicitation of orders or a prospectus.

MONTHLY MARKET LETTER

Utility Valuation Yardsticks

January 17, 1938

GOODBODY & CO.

Members

New York Stock Exchange
New York Curb Exchange
Chicago Board of Trade
New York Cotton Exchange
Chicago Stock Exchange
Detroit Stock Exchange
Pittsburgh Stock Exchange
Commodity Exchange, Inc.
New York Cocoa Exchange, Inc.
New York Produce Exchange
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60 East 42nd Street

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S. E. C.
PUBLIC UTILITIES DIVISION
RECEIVED
JAN. 25 1938

Private Wire System Connecting

Buffalo, N.Y. [illegible], Conn.
Geneva, N. Y. [illegible], Conn.
Jamestown, N.Y. [illegible], Mass.
Niagara Falls, N.Y. [illegible]
Olean, N. Y. [illegible], Mich.
Jersey City, N.J. [illegible], Pa.
Paterson, N.J. [illegible], Pa.
Passaic, N. J. Chicago, Ill.
Hartford, Conn. Toronto, Ont.
[illegible], Mass.

DATE
DISPOSITION

Information presented herein, while obtained from sources we believe to be reliable, is not guaranteed.

BUSINESS AND PRICE INDICES

	Times's Business Index	Annalist Commodity Index	Closing Dow, Jones averages: 30 Industrials	20 Rails	40 Bonds
Jan. 17, 1938	80.8	84.9	112.49	31.81	91.45
Dec. 16, 1937	85.0	85.9	123.75	31.68	93.42
Nov. 17, 1937	93.7	88.9	127.54	32.73	93.19
Oct. 18, 1937	100.2	91.4	125.73	30.55	94.26
Sept. 15, 1937	106.6	94.7	162.85	41.45	98.41
Aug. 16, 1937	111.2	94.8	189.34	53.62	101.26
July 15, 1937	110.1	95.4	179.71	53.83	101.63
June 16, 1937	107.1	93.2	165.86	43.57	101.18
May 14, 1937	109.0	93.0	169.15	47.76	101.18
Apr. 16, 1937	107.4	94.1	180.75	60.26	101.47
Mar. 16, 1937	106.9	95.1	189.95	63.06	102.61
Feb. 15, 1937	102.3	92.5	188.39	57.37	104.23
Jan. 18, 1937	105.2	92.7	184.95	55.[illegible]	105.89
1937 High	111.2	95.6	194.40	64.46	105.89
1937 Low	84.3	85.0	113.64	28.91	91.54
1936 High	106.8	91.2	184.90	59.89	106.01
1936 Low	89.9	79.6	143.11	40.66	98.92

January 17, 1938.

It is a new year, and the world presents a ghastly picture of unworkable ideas and policies, of nature thwarted by the temporary rise to power of the masses and of individual men with almost unprecedented political powers, greedy and itching for more. It is a unique picture for this generation. Consequently, it has a most important bearing on investment and speculative advices.

We must appreciate fully the awe- and fear-inspiring changes that are occurring not only on our own political, economic, and social front, but also throughout much of the world. We must expect that it is going to be very difficult to convince those who have lived through the honeymoon stage and the early marriage era of this country that those days can never be recalled, that an investment program fit for the 1920's and all earlier years can no longer be followed if capital is to be preserved. A policy of buying a cross-section of the market, putting it away, and forgetting about it is as *passé* as the horse and buggy.

Now let's see why any long-term investment program does not seem at all feasible for the years just ahead and that only a short range policy, six months or so, is all that seems logically possible at best. Basically, it is because we are shifting from a free economy to a managed economy — just as some half the world's population has completely shifted to a managed economy. Can we, or anybody, tell at all accurately or with reasonable probability what the earnings of any company or the price of its common stock will be for the next year or the year after, under a political system which is constantly—trendwise—trespassing on corporate management's freedom of action, which gradually, but persistently, in its *primary* aim of seeking more power for the Federal Government, is deadening the hopes and ambitions of the country's brains, which for tax and many other reasons scares capital away from venturing into new projects or from expanding old plants, which through a policy of an unbalanced budget and a political philosophy that believes the national income should be distributed widely is causing those with capital to prefer safety rather than assume the risks of profits, and which broadly, as a result of all its policies, puts a premium on inferiority and a discount on superiority?

If business is to be good or normal in any country, somebody must spend money on the capital goods industries. In this country, it appears that something like $3,000,000,000 to $5,000,000,000 of new money issues is necessary annually to secure fairly good business or better. In the 1920's, it came from private sources. For the past 4⅔ years, it has come largely from the Government, either directly or indirectly from a forcing process through the consumers' goods industries. Does any intelligent person suppose that, after 4⅔ years of shrinking, private capital will now come forward confidently? Do not most business men, at least, the so-called monopolists, know that they are in *somewhat* the same position now as the Jews of Germany were several years ago—scapegoats? Isn't it self-evident that there is a world-wide tendency, including this country, to centralize and give more power to Governments? By giving this power to Governments, doesn't it mean more control over business because growth of power means use of power? All this dampens business confidence increasingly. Doesn't it follow then that the burden of stimulating business must fall more and more on Government action? If so, then any investment policy must depend largely on what the Government does or does not do. Under such conditions, how can you have a long-term investment program? As a consequence of all the above, will not safety supersede appreciation as by far the most important consideration investment-wise? If so, won't *most* common stocks sell *gradually* at lower and lower levels in relation to earnings—say, eventually, at 5 to 10 times earnings instead of 10 to 25 times?

The decline in business over the past four months has probably been more drastic, percentage-wise, than for any comparable period in our history. This fact raises a presumption that business is apt to improve moderately before growing worse. Firmness in commodity and high grade bond prices in the past month helps to increase that feeling or hope. Although there is little evidence as yet in business figures to substantiate any such opinion, we think some upturn businesswise may occur in this first quarter, barring unexpected political developments. At least in sporadic cases, wage scales may decline and labor conditions generally should show improvement from the employers' viewpoint. Politically the news is likely to be more appetizing, as the Senate may be expected to assume a reasonably independent attitude in legislative matters. Inflation psychology, already aroused by the President's budget message and his comments on a rearmament program, may readily grow in this first quarter—if not as a result of actual developments, then from a spreading conviction that Government spending must increase fairly soon. Thus, businesswise, laborwise, politically and inflationwise, we think the news or its anticipation will supply a sufficient stimulus for a rally in stock prices over the next month. However, this does not mean any change in our advices to investors.

UTILITY VALUATION YARDSTICKS

It has been believed for many years that the property valuations of some utility companies were carried at too high a figure on their books. In the past few months, the President has advocated the use of a so-called "prudent investment" theory in valuing public utility properties, and only very recently in his Jackson Day address, the Chief Executive, it appears to us, further alluded to this theory when he said: ". . . . Thousands of investors have lost money in buying holding company securities which had blue sky above them instead of tangible assets behind them. That evil of utility holding company control will not grow in the days to come, because this Government has now passed laws to prevent similar occurrences in the future, but we have not yet corrected the existing evils that flow from mistakes of the past. We cannot condone their continuance." This thought was reiterated in his Press Conference of January 14th, last. Moreover, it is common knowledge that the Federal Power Commission has espoused such a theory, for immediately following a recent Supreme Court decision in regard to the Pacific Gas & Electric Co., Acting Chairman Seavey of the F.P.C. announced that the Commission would use the Prudent Investment Plan for valuing the property of 292 electrical utilities. We fear the possibility that the Courts will accept ultimately this valuation method.

Therefore, now that the whole matter of valuation is receiving current Federal consideration, it is important that utility holding company stockholders, particularly, should know how vulnerable their respective positions might become. For, even though the actual outcome is clouded, stockholders should realize that the results of the adoption of "prudent investment" could reflect themselves in two ways: (1) A possibility that the actual asset value (as finally allowed) behind each share of stock might vary considerably from the price which they paid for the security; (2) a possibility that a ceiling on earnings, based on a fair rate of return at or below present levels, might be imposed on those assets. Certainly, they are justified in seeking impartial guidance in this matter.

Under this "prudent investment" theory, as we understand it, the original cost of the various elements of a utility's physical property (plus the use of reasonable judgment in determining certain values open to question) is by far the major factor in arriving at a proper rate base upon which to predicate a fair rate of return. Two other important factors usually considered are depreciation and working capital. If State Commissions and Courts should hold that 6% was a fair rate of return† the effect on the earnings of some utility companies might be quite adverse where rates were reduced so that earnings were equal to only 6% on a rate base determined through the use of the "prudent investment" theory.

It is to be noted that even if the "prudent investment" valuation theory should be accepted throughout this country, the rate of return allowed on such valuation would probably vary as between States or sections. Due to local or sectional differences, some companies would be allowed somewhat higher or lower returns, depending on how much is necessary to attract capital to the enterprise.

Up to the present time, utility stockholders have remained almost completely in the dark as to what this "prudent investment" method might mean to them in dollars and cents when translated specifically into a possible effect on their own security holdings, especially if these securities were the preferred or common stocks of holding companies. But now, probably for the first time, there is available to the small and large investor a rather unique method for testing, under some assumptions as to "prudent investment" and a fair rate of return, asset values and earning power behind his securities. We emphasize that the method is only for test purposes and does not give us the original cost or prudent investment valuations for any given company.

Such a method, call it a yardstick if you will, has heretofore not been generally used, possibly for the following reasons: (A) Utility executives have generally believed that their local conditions were "different" enough to make such a method inapplicable to their situation. (B) The enormous amount of work required to develop the method has discouraged efforts to attempt it. (C) Only in very recent months have there been available for public inspection, in the files of the Federal Power Commission, reports of operating companies with sufficient detail from which to work up the necessary data. Nevertheless, because we felt that these objections, while valid within limits, were not insurmountable and believed that the implications of the study would be helpful to investors, we proceeded to set up two yardsticks with which to test asset values and earning power of certain companies as shown in the following table.

† Considering the liberal trend of Court opinion, we have allowed in our computations a 6% rate of return which may be low temporarily for some companies. In 1934 the case of *Dayton Power & Light* vs. *Ohio Public Utilities Commission* (292 U. S. 290), Mr. Justice Cardozo held that a return set at 6½% was adequate. However, in 1935 in the case of *West Ohio Gas Company* vs. *Public Utilities Commission of Ohio* (294 U. S. 63), the dissenting opinion of the Supreme Court held that a 4.91% return upon reproduction value determined as of March 31st, 1928 was not unreasonable. These and other cases that could be cited show there is considerable leeway in what the Courts may judge to be a fair return.

Notes:

A 1936 figures were used by us, for the most part, in developing the results shown here.

B In compiling the figures for this column the following exceptions were made: Where the adjusted plant account was higher than the present one, the asset equity figure was based on the present plant account. This assumes improbability of official valuations being sanctioned higher than those based on present book figures.

C Where the present return was less than 6% on the present rate base (as determined by us) and the adjusted plant account was higher than the present one, then a 6% return was allowed on the present base; where the adjusted plant account was lower than the present one, and 6% on the assumed adjusted rate base showed an earning equity higher than the present earnings equity, the higher figure was allowed.

D d—deficit.

E In the case of North American Light & Power Co., our figures are after adjusting for reorganization of Illinois Power & Light Corp.

A	B	C	D	E	F	G	H	I	K
				Total of Individual Accruals to Parent Company as computed by us from its Ownership of Securities and Surplus in its Respective Subsidiary Operating Companies (Which We Have Analyzed), per Share of Parent Company Stock Specified.					
				ASSET EQUITY			EARNING EQUITY		
					Determined by us, as explained in text, after applying to various elements of plant average unit costs derived from analysis of approximately:			After allowing 6% return on our rate base which we derived from plant account adjusted by us as explained in text, by applying to various elements of plant average unit costs obtained from analysis of approximately:	
Name of Company	Issue	Latest 12 months Consolidated Earnings per Share	Approx. Market Price of Stock	As determined by us from reports of Individual Companies	120 Operating Companies See Note B	20 Selected Low Cost Companies See Note B	As determined by us from reports of Individual Companies	120 Operating Companies See Note C	20 Selected Low Cost Companies See Note C
American Gas & Electric Co.	6% Cum. Pfd.	$28.26	110⅝	$ 558.00	$ 427.00	$331.00	$ 33.30	$ 21.70	$ 12.73
	Common	2.56	26⅝	37.00	26.50	18.90	2.18	1.26	0.54
American Power & Light Co.	$6.00 Cum. Pfd.	6.36	34⅝	144.50	91.80	51.30	5.87	4.13	2.56
	$5.00 Cum. Pfd.	6.36	28	144.50	91.80	51.30	5.87	4.13	2.56
	Common	0.54	5⅝	17.80	d 13.30	d 37.00	0.25	d 0.78	d 1.70
American Water Works & Electric Co.	$6.00 Cum. Pfd.	22.14	87	246.60	102.50	78.80	23.73	7.18	6.09
	Common	1.38	11⅜	12.50	0.22	d 1.81	1.51	0.10	0.01
Boston Edison Co.	Com. $100 Par	8.86	122	169.60	169.60	156.10	8.38	8.38	8.38
Central & S. W. Utilities Co.	$7.00 Cum. Prior Lien Pfd.	16.27	95–99	205.00	146.80	28.20	15.32	7.12	1.59
	$7.00 Cum. Pfd.	9.06	30½–32	74.20	17.75	d96.60	8.17	0.17	d 5.16
	Common	0.08	1⅝	d 2.04	d 4.28	d 8.80	0.05	d 0.27	d 0.48
Columbia Gas & Electric Corp.	6% Cum. "A" Pfd.	13.96	79	327.00	253.00	220.00	13.52	16.07	12.88
	5% Cum. Pfd.	13.96	64⅝	327.00	253.00	220.00	13.52	16.07	12.88
	5% Cum. Conv. Pref.	64.29	58⅝	1,815.00	1,233.00	963.00	60.60	80.10	55.50
	Common	0.57	8⅝	17.10	11.29	8.62	0.55	0.76	0.31
Commonwealth Edison Co.	Com. $25 Par	2.21	26⅝	29.30	29.30	29.30	1.70	1.63	1.63
Commonwealth & Southern Corp.	$6.00 Cum. Pfd.	10.62	37½	210.00	140.00	64.80	8.90	9.43	4.13
	Common	0.21	1⅜	4.64	1.53	d 1.84	0.13	0.15	d 0.08
Consolidated Edison Co. of N. Y.	$5.00 Cum. Pfd.	16.90	95	333.00	320.50	259.00	17.77	20.05	16.98
	Common	2.17	23⅜	48.10	40.22	30.80	2.53	2.83	2.19
Detroit Edison Co.	Com. $100 Par	8.38	103½	119.60	118.10	91.60	8.39	8.15	6.57
Electric Power & Light Corp.	$7.00 Cum. Pfd.	12.33	38	274.00	230.00	141.60	10.06	15.25	10.52
	$6.00 Cum. Pfd.	12.33	36	274.00	230.00	141.60	10.06	15.25	10.52
	$7.00 Cum. 2d Pfd.	32.54	35	1,360.00	954.00	138.00	31.54	79.60	35.80
	Common	1.10	11⅝	29.80	19.91	d 0.13	0.60	1.76	0.70
Engineers Public Service Co.	$5.00 Cum. Conv. Pfd.	8.80	48⅝	179.00	170.00	117.00	7.53	5.65	4.47
	$5.50 Cum. Pfd.	8.80	53	179.00	170.00	117.00	7.53	5.65	4.47
	$6.00 Cum. Pfd.	8.80	62	179.00	170.00	117.00	7.53	5.65	4.47
	Common	0.76	3	16.92	15.05	3.04	0.48	0.05	d 0.21
National Power & Light Co.	$6.00 Cum. Pfd.	31.86	58	360.00	234.20	160.50	25.00	10.00	6.26
	Common	1.32	7⅜	13.30	8.10	3.10	0.97	0.21	0.01
Niagara-Hudson Power Corp.	5% Cum. 1st Pfd.	25.42	73	463.00	460.00	285.50	19.37	28.20	10.48
	5% Cum. 2d Pfd.	76.14	66	1,360.00	1,337.00	693.00	55.60	86.55	20.44
	Common	0.88	8	13.96	13.72	6.56	0.54	0.90	0.17
North American Co.	6% Cum. Pfd. $50 Par	32.01	51⅜	396.00	360.00	282.00	27.60	25.96	19.57
	Common	2.05	19⅜	24.35	21.90	16.30	1.74	1.62	1.17
North American Light & Power Co. See Note E	$6.00 Cum. Pfd.	6.54	37	88.60	49.90	47.70	8.53	8.25	4.68
	Common	0.03	1⅜	d1.83	d3.91	d 4.02	0.14	0.12	d0.73
Public Service Corp. of New Jersey	8% Cum. Pfd.	15.01	140	182.00	166.50	122.00	15.30	7.72	5.27
	7% Cum. Pfd.	15.01	123	182.00	166.50	122.00	15.30	7.72	5.27
	6% Cum. Pfd.	15.01	108⅝	182.00	166.50	122.00	15.30	7.72	5.27
	$5.00 Pfd.	15.01	97⅝	182.00	166.50	122.00	15.30	7.72	5.27
	Common	2.60	33	24.00	19.75	6.70	2.67	0.45	d 0.26
Southern California Edison Co.	Common	2.26	24	29.00	29.00	20.70	2.37	2.07	1.67
Standard Gas & Electric Co.	$7.00 Cum. Pr. Pr. Pfd.	8.86	22⅜	297.00	168.50	28.00	8.55	d 3.86	d 6.11
	$6.00 Cum. Pr. Pr. Pfd.	8.86	21⅜	297.00	168.50	28.00	8.55	d 3.86	d 6.11
	$4.00 Cum. Pfd.	1.28	9⅜	109.50	29.40	d 58.80	1.09	d 6.57	d 7.97
	Common	d0.95	4⅜	14.30	d 13.80	d 44.30	d 1.02	d 3.70	d 4.19
United Gas Corp.	$7.00 Cum. 1st Pfd.	24.67	98	396.00	334.00	317.00	24.28	22.20	21.85
	Common	0.22	4⅜	0.56	d 3.17	d 4.26	0.20	0.08	0.06
United Gas Imp. Co.	$5.00 Cum. Pfd.	39.50	103	436.00	412.00	394.00	37.85	25.07	20.30
	Common	1.14	10⅜	11.08	10.31	6.47	1.08	0.66	0.51
United Light & Power Co.	$6.00 Cum. Pfd.	8.36	25⅜	167.00	110.00	34.20	7.51	3.00	0.83
	Common	0.41	3⅜	6.68	d 3.14	d 16.25	0.26	d 0.52	d 0.89

But, the relationship of subsidiary operating companies to holding companies must be understood first. As a rule, the holding company does not generate or sell any electric power of its own, it is merely a directory company—a "holding company". The bulk of its assets usually consist of securities of its subsidiary operating companies. Thus, it is evident that the value of the parent company securities depends mainly upon an appraisal analysis of a portfolio, item by item, of subsidiary company securities (representing for the most part the parent's ownership of practically all the assets it possesses). The results of this, in more technical language, are referred to as the "total of individual accruals to the parent company from its ownership of securities and surplus in its respective subsidiary operating companies." And moreover it is obvious that the value of these securities making up the holding company portfolio depends upon the value of the most important assets of the subsidiary companies. Therefore an analysis of these most important assets was necessary.

These consist of their plant and property accounts (usually 75% to 85% of their total assets). Thus, the values found for these assets, when translated, first, into what is behind the securities of subsidiary operating companies in respect to the proportion owned by the parent company, and then, further translated into what is behind each share of parent company stock shown in the tabulation, is referred to as the "asset equity" accruing to the individual security shown. In simpler words, we use the term "asset equity" to mean the value of the assets (such as generators, transmission lines, net working capital, etc.) which we found in back of, or belonging to, each share of the stock shown in the tabulation. Similarly, the term "earning equity" means the earning power of these assets which we found in back of each such share (according to our assumptions).

In developing our yardstick valuation method we took each type of equipment (such as miles of transmission lines) and totaled it for our group of 120 companies, and divided this total by the aggregate investment of those companies in this particular item. Thus, we arrived at average unit values. In the case of transmission lines, the average unit value was expressed in dollars per mile of line (according to size). We then went back and multiplied these values by the corresponding number of units of each company. Suppose it had been found that the total miles of a certain size of transmission line for all 120 companies was 100,000 miles and the corresponding aggregate book value of these transmission lines was $500,000,000. Then the average unit value would have been $5,000 per mile. Applying this to Company A, having 100 miles of this size of transmission line on the books at $550,000, we would obtain as our appraisal value, 100 × $5,000 = $500,000, instead of the $550,000 as shown. Similarly the other types of equipment belonging to Company A would be appraised, after which all the sundry appraisals would be totaled to obtain our final yardstick value for this company. Thus each operating company had its various kinds of property appraised at values which we found generally prevailed in the industry.

The first yardstick was derived from a study of about 120 operating companies (equivalent to approximately two-thirds of the electric power industry), while the second yardstick was derived from a study of about 20 selected operating companies (including one from each holding company system studied) whose equipment appeared to be lowest in cost. While neither of the two valuations we arrived at should be considered a prudent investment valuation for any given company, our lowest figures may be taken as a rough guide as to the worst that probably could be expected if the prudent investment method should be applied.

The important columns in the table for serious consideration are, first of all, Column *F* and Column *G* under "Asset Equity". Column *F* shows what effect a comparatively mild adjustment to the book value of fixed property (or plant) of subsidiary operating companies would have on the specified securities of the parent holding company. We arrived at these adjusted values by applying yardstick, or average unit, values derived from the group of 120 companies.

Column *G* on the other hand, shows what effect a more radical revaluation of the book value of fixed property or plant of subsidiary operating companies would have on these same parent company securities. Again we arrived at these adjusted values by applying our second set of yardstick or average unit values derived from the group of 20 selected "low cost" companies. Once more we should warn our readers that this is in no way to be construed as representing "prudent investment", for it is obvious that this method bears no relation to what would be called for in an examination of original costs and "prudent investment" resulting therefrom for any particular company. But it is our judgment that the application of the "prudent investment" theory would result in asset equity figures per share for any company within the range established by Column *E* (which we developed for comparative purposes to reflect, in so far as we were able, the present book values of the operating companies we studied) and Column *G*—with the distinct possibility that the figures would fall within the Column *F*—Column *G* range.

The next columns in the table for serious consideration are Column *I* and *K*, under "Earning Equity". Here we have shown what the maximum earnings could be for holding company preferred and common stocks, if a 6% return were all that would be allowed on a rate base similar to that which we have used as described. In other words, if we assume that a 6% return were all that State Commissions or Courts would allow, then in Column *I* can be found our interpretation of the results of this assumption when applied to a rate base derived from the valuations we developed for use in Column *F*. Likewise, Column *K* represents the results of this assumption when applied to the valuation which we developed for use in arriving at Column *G*.

This then is what this study should mean to you. Take the preferred stock of American Power & Light. In Column *E* is found $144.50 which is our computation of the total of the parent company's asset equities (applicable to this security) in the subsidiaries we analyzed. This figure should be compared with the corresponding figure in Column *F*, namely $91.80, which is our computation of parent company's asset equities under our first method of revaluation based on our analysis of some 120 companies. In Column *G* is found $51.30 which we computed from applying our more drastic valuation test method (based on our analysis of some 20 "low cost" companies). Skipping over to Column *I*, we see that American Power & Light could earn as a maximum, under our assumptions, only $4.13 on its preferred stocks, if we allowed a 6% return on a rate base derived from our first method of valuation, which we used in getting Column *F*. Column *K* shows $2.56 as the earnings equity figure we found for the preferred stock. This was developed from our assumption of a 6% return on a rate base derived from our more drastic test method of valuation (which we used in getting Column *G*).

The principal purpose of this study was to attempt to show which properties might be subject to rate reductions and how much share earnings might be reduced under our assumptions, because of too high earnings, as tested by what might be considered a fair return on our valuations. We do not say that the valuations given by us in Columns *F* and *G* or that the maximum earnings allowable on these valuations in either Columns *I* or *K*, using a 6% rate of return as fair, are, in either case, just what the Commissions or Courts will allow. But we do say that this study should give warning in a general way of the companies whose earnings in the future may be less than in the past two years.

Perhaps you may be interested to know that this study has required the entire attention of several members of our statistical staff for some months. Consequently, you will appreciate that there are a great many details involved which we could not give in this communication. Furthermore, in a compilation of this size and complexity, you can appreciate that errors of arithmetic may have crept into our work despite our best efforts to the contrary. However, we feel that any such errors should not substantially vitiate the specific conclusions reached by you.

Of course you will appreciate that there are other important factors to be considered in appraising the utility situation besides the valuation question, such as trend of Government competition, taxes, wages, growth potentialities, adequacy of depreciation charges, etc. Our own judgment on utility preferred and common shares is evidenced by the fact that for months, we have not included any shares from this group in our monthly letter tables of stocks.

OUR INVESTMENT POLICY

For the average long term individual investor (meaning not over six months), we suggest that 25% of total investment funds should be in gold shares, and the balance should be in cash or in very carefully selected good grade bonds, if yield is essential or insisted upon.

However, if this program of eliminating all common stocks except gold shares has not yet been completed, we would defer further liquidation until a rally, which we expect will occur over the next month.

TABLE 1

HIGH GRADE DOMESTIC CORPORATION BONDS

	Approx. Jan. 14th Close	Call Price	Yield About %	1936 Interest Coverage
A.T.&T.deb.3¼s, '61 or '66	101	107½	3.20	a5.53
*A. T. & S. Fe gen. 4s, '95	109	N.C.	3.65	c2.04
*Ches. & O. ref. 3½s, '96	96	100sf	3.65	c4.63
Colum. Ry.Pr.&Lt.1st4s,'65	107	107½	3.65	a3.59
Consol. Edison deb. 3¼s,'46	104	102¾	2.75	a3.05
Genl.Mtrs.Acc't.deb. 3s,'46	103	103	2.65	b2.86
†*Narrag. El. 1st 3½s, '66	103	107½	3.30	a3.21
*Penn. R.R. gen. 4¼s, '84	100	N.C.	4.25	c1.33
*Phila. El. 1st ref. 3½s, '67	106	107½	3.20	a3.89
Shell Un. Oil deb.3½s, '51	100	102½	3.50	c10.29
*Sth'n Cal. Ed. ref. 3¾s, '60	105	107½	3.50	a2.73
Stand.Oil of N.J.deb.3s,'61	101	103	2.95	c15.00
Texas Corp. deb. 3½s, '51	106	103	3.05	c15.00
*Un. Pac. deb. 3½s, '71	94	103 '41	3.90	c2.19

a 12 months ending September 30, 1937.
b 12 months ending August 31, 1937.
c Estimated 1937 interest coverage.
* Legal in New York State. † Unlisted.

TABLE 2

GOOD GRADE BONDS

Public Utilities				
Am. G. & E. deb. 5s, 2028	107	106	4.65	v2.04
Columbia Gas deb. 5s, '61	95	104	5.35	p2.13
Fed. L. & Tr. 1st 5s, '42	100	102	5.00	h2.13
Ill. Pw. & Lt. 1st ref.5s,'56	90	105	5.90	h1.36
J'sey Ct.Pr.&Lt.1st4½s,'61	103	104	4.30	p1.94
N.Y. St. El. & G.1st 4½s,'80	97	102½	4.65	p1.42
No. Ind. P. Ser.1st4½s,'70	94	104	4.85	c1.85
Ohio Edison 1st 3¾s, '72	98	110	3.85	g2.48
Ohio Pub. Serv. 1st 4s,'62	100	107½	4.00	p2.40
Penn. Pr.&Lt. 1st 4½s, '81	100	105	4.25	g2.29
Saguenay Pw.1st'A'4¼s,'66	101	105	4.20	c1.80
Industrials				
Allied Stores deb. 4½s, '50	91	100	5.50	a4.75
Armour & Co. 1st 4s, '55	93	102½sf	4.60	e5.27
B. F. Goodrich 1st 4¼s,'56	98	105	4.40	q3.35
G'dy'r T.&R.1st&coll.5s,'57	104	102	4.65	k4.11
Int. Agr. 1st & Coll. 5s, '42	100	103	5.00	b4.06
McCrory Stores deb.5s,'51	100	105	5.00	c10.60
Mead Corp. 1st 6s, '45	99	104	6.05	j3.20
Rep. Steel Gen'l 4½s, '56	87	104 '41	5.65	t3.61
U.S. Rub. 1st&Ref. 5s, '47	105	105	4.45	m4.57
Wheel'g Steel 1st 4½s, '66	92	102½sf	5.05	r4.14
Yngston. Sh.&T. 1st 4s, '61	100	102½sf	4.00	a4.02
Railroads				
Atl. Coast Line gen.4½s,'64	73	N.C.	6.60	c1.49
Can'd'n Pac. perpet'l deb.4s	88	N.C.	w4.54	c1.39

	Approx. Jan. 14th Close	Call Price	Yield About %	1936 Interest Coverage
C.,C.,C.&St.L. ref.,4½s,'77	70	105 '47	6.70	c1.15
Gr. Nor. gen. 4½s, '76	90	N.C.	5.10	c1.61
Louisiana & Ark. 1st 5s, '69	71	103	7.30	c1.46
L.&N'shvl 1st&ref.3¾s,2003	80	102½sf	4.75	c1.77
Pere Marq'tte 1st 4½s, '80	75	105	6.20	c1.55
So. Pac. O. L. 1st 4½s, '77	74	105	6.35	c1.04

a Year ending Jan. 31, 1938, estimated.
b Year ending June 30, 1937.
c Estimated 1937 interest coverage.
e Fiscal year ending October 31, 1937.
g 12 months ending November 30, 1937.
h 12 months ending June 30, 1937.
j 6.18 times 1st 36 weeks 1937.
k 8.14 times 1st half 1937.
m 4.42 times 1st half 1937.
p 12 months ending Sept. 30, 1937.
q 4.71 times 1st half 1937.
r 5.20 times 1st 9 months 1937.
s 6.05 times 1st 9 months 1937.
t 3.56 times 1st 9 months 1937.
v 12 months ending October 31, 1937.
w Current yield.

TABLE 3

SECOND GRADE AND SPECULATIVE INTEREST PAYING BONDS

	Approx. Jan. 14th Close	Yield About %	1936 Interest Coverage
Bklyn-M. Tr. Coll. Tr. 4½s, '66	61	8.00	p1.68
Certaint'd Prod. deb. 5½s, '48	63	11.35	a
Childs Co. deb. 5s, '43	65	13.75	j1.68
Cities Service deb. 5s, '50	59	11.30	h1.27
Colo. Fuel & Iron inc.mtg. 5s, '70	60f	m	m
Colo. & South'n gen. 4½s, '80	44	10.40	s1.37
Con. Coal Mtg.cum. income 5s,'60	54f	r	r
Cont'l Gas & El. deb. 5s, '58	80	6.80	c1.63
Elec. Pwr. & Lt. deb. 5s, 2030	71	7.05	c1.47
Fed. Lt. & Tr. deb. 6s, '54	84	7.70	b2.13
Gen'l Water Works 1st 5s, '43	77	11.10	c1.51
B. F. Goodrich deb. 6s, '45	97	6.55	u3.35
Ill. Pwr.&Light deb. 5½s, '57	83	7.15	b1.36
Intern't'l Tel.&Tel. deb. 4½s&5s	n	n	ks2.00
Nat'l Pwr. & L. deb. 5s, 2030	75	6.70	q1.46
New England G. & E. deb. 5s, '50	57	11.45	t1.19
N.Y. Central ref. imp. 4½s,2013	61	7.40	s1.15
N.Y., Chi., St.L. ref. 5½s, '74	69	8.15	s1.38
S'eastern P.&L. deb. 6s, 2025	95	6.30	q1.38
So. Pacific deb.4½s,'68, '69 or '81	63	7.30	s1.04
So. Ry. dev. & gen'l 6½s, '56	61	11.75	s1.07
Walworth Co. 1st 4s, 1955	65	7.75	g2.46

a Earned charges fully on cash basis 1936 and 1.77 times 1st 9 months of 1937. b 12 months ending June 30, 1937.
c 12 months ending October 31, 1937. f Flat.
g 1st 9 months 1937 earned charges 3.71 times.
h 1.26 times 1st 9 months 1937.
j Earned charges 1st 9 months 1937 1.87 times.
k Excluding Postal Telegraph and Spanish subsidiary operations.
m Covered fixed interest 9.63 times in fiscal year ending June 30, 1937. Earned 17.34% on this issue. Paid 5% interest April 1937.
n 4½s, 1952 @ 59 yield 9.65% to maturity. 5s 1955 @ 63 yield 9.15% to maturity. 4½s due June 1, 1939 @ 90 give current yield of 5.00%.
p Fiscal year ending June 30, 1937.
q 12 months ending November 30, 1937.
r Paid 1% 1936, 3% 1937. Arrears 4%. Earned 4.2% on issue 1936. 1937 estimate indicates full 5% by fair margin.
s Estimated 1937 interest coverage.
t 12 months ending September 30, 1937.
u 4.71 times 1st half 1937.

TABLE 4

MISCELLANEOUS BONDS

(1) Convertible Bonds

(For price appreciation over long term)

	Approx. Jan. 14th Close	Yield About %	1936 Interest Coverage
uAllis Chalmers conv.deb. 4s, '52	105	3.81	v
hConsol. Oil conv. deb. 3½s, '51	99	3.54	j10.40
kNat. Dairy deb. w.w. 3¾s, '51	100	3.75	j5.45
cN. Y. Cent. conv. sec. 3½s, '52	83	3.92	j1.15
gPenn. R.R. conv. deb. 3¼s, '52	88	3.69	j1.33
mPhelps Dodge, c'v. deb. 3½s, '52	106	3.30	q

The above represent Current Yields

(2) Speculative Bonds

(Defaulted issues for the long pull)

Chi., Milw., St. P. Gen'l 4s, '89	35f	a	*
Chi. & N. West'n 1st ref. 5s, 2037	12f	a	*
Chi., Rock Island Gen. 4s, '88	19f	a	*
Den., Rio Gr'de ref. imp. 5s, '78	9f	a	*
K.C. Ft. Scott & Memp.ref.4s,'36	27f	a	*
Mo. Pac. 1st & ref. 5s, '77-'81	23f	ar	*
Mobile & O. Mont.Div. 1st 5s,'47	20f	a	*
N. O. T. & M. 1st 5½s, '54	36f	ar	*j1.18
Seaboard Air Line ref. 4s, '59	8f	a	*

* In process of reorganization. a Interest in default.
c Convertible into common stock @ $60 per share to April 30, 1947. f Flat.
g Convertible into common stock @ $50 per share to April 1, 1952.
h Convertible into common stock @ $25 per share to 1941, increasing prices thereafter.
j Estimated 1937 interest coverage.
k Carries warrants for purchase of 10 shares of common @ $25 per share.
m Convertible into common @ $50 per share. 1937 earnings estimated $4. per share.
n 10 months ending October 31, 1937.
q No funded debt in 1936. Earnings would have covered present fixed charges over 16 times.
r Paid earliest defaulted coupon August 10, 1937.
u Convertible into common stock @ $75 per share through Sept. 1, 1939, increasing prices thereafter. 1937 earnings estimated $4.25 per share.
v No funded debt 12/31/36. Earnings last year would have covered present fixed charges about 4 times.

TABLE 5

DIVERSIFIED LIST SECOND GRADE DIVIDEND PAYING PREFERRED STOCKS

Stocks Listed in Order of Prices

	Approx. Jan. 14th Close	Dividend Rate	Yield About %	Earned Year Ended 12-31-36
†Universal Leaf Tob.	142	8.00	5.63	$o26.17
†P. Lorillard Co.	133	7.00	5.26	35.90
†So. Porto Rico Sugar	129	8.00	6.20	n50.75
†Am. Sugar Refin.	110	7.00	6.36	9.67
**Ohio Oil	109	6.00	5.50	14.38
†J. I. Case (7%)	107	7.00	6.54	30.28
kAnchor Cap	105	6.50	6.14	14.78
Armour Del. (gtd.)	100	7.00	7.00	h22.00
Pure Oil	98	6.00	6.12	21.30
Colgate Palmolive Peet	95	6.00	6.32	16.10
†eHershey Chocolate	93	f5.00	5.38	14.69
Skelly Oil	93	6.00	6.45	73.16
**Gen. Tire & Rubber	88	6.00	6.82	b46.12
cTide Water Associated Oil (4½%)	84	4.50	5.36	16.32
iWesson O. & Sn'drift	74	4.00	5.41	j11.53
†U. S. Smelt. ($50)	65	3.50	5.38	11.66
Allied Stores	51	5.00	9.80	a14.49
g20th Century Fox Film	31	1.50	4.84	7.68
†Deere & Co. ($20)	24	1.40	5.80	p7.48
mButler Bros.	21	1.50	7.14	

a Year ended Jan. 31, 1937.
b Year ended November 30, 1936.
c Convertible into common at $27.50 per share up to July 1, 1939.
e Each sh. conv. into 1 sh. common. f Includes $1.00 extra.
g Convertible into common on the basis of 1¼ shares of common for each share of preferred.
h Year ended Oct. 31, 1937.
i Each share conv. into 1 share common.
j Year ended Aug. 31, 1937.
k Each share conv. into 2.22 shares common.
m Each share conv. into two shares of common stock through Dec. 1, 1938; thereafter and through Dec. 1, 1940 into 1¼ shares of common for each share of preferred.
n Year ended Sept. 30, 1937.
o Year ended June 30, 1937.
p Year ended Oct. 31, 1936.
** Admitted to trading on N. Y. Curb.
† Non-callable.

TABLE 6

DIVERSIFIED LIST OF LONG-TERM COMMON STOCK INVESTMENTS

(Consideration being both Yield and Appreciation)

$100 to $50—Group I.				
Liggett & Myers B.	$100	a4.00	4.00	$7.25
**Aluminum Co. of Amer.	82			8.65
**Aluminum Ltd.	71			2.51
Amer. Tobacco B.	71	5.00	7.04	3.71
*Newmont Mining	68	a3.00	4.41	3.80
Amerada	66	2.00	3.03	2.52
Beth. Steel	64	b5.00	7.81	2.09
Corn Products	64	3.00	4.69	3.86
United Fruit	64	a3.00	4.69	4.88
**Cons.Min.&Smlt.Can.Ltd.	62	af1.00	1.61	g2.37
eNoranda Mines Ltd.	60	bf3.25	5.41	4.14
**Colts Patent Fire Arms.	57	b1.62	2.84	b4.13
Underwood Elliott	57	a3.75	6.57	5.06
Dome Mines	56	b4.50	8.04	4.26
**Lake Shore Mines	52	af4.00	7.69	c4.15
$50 to $25—Group II.				
International Nickel	50	a2.00	4.00	2.40
Procter & Gamble	50	a2.00	4.00	c4.08
Standard Oil of N. J.	50	a1.00	2.00	3.73
General Amer. Trans.	44	b3.50	7.95	2.92
Penick & Ford	44	b1.50	3.41	3.52
McIntyre Porc'p'n Mines	42	2.00	4.76	j4.46
Texas Corp.	42	a2.00	4.76	4.10
Kennecott Copper	41	a2.00	4.88	2.36
**Gulf Oil	40	a1.00	2.50	2.90
F. W. Woolworth	40	2.40	6.00	3.36
*Heyden Chemical	38	2.00	5.26	3.56
Anaconda	35	b1.75	5.00	1.83
Continental Oil	32	a1.00	3.12	2.05
Standard Oil of Calif.	32	a1.00	3.12	1.79
Continental Insurance	31	a1.60	5.16	k1.72
Fidelity-Phenix Ins.	31	a1.60	5.16	k1.76
**International Pet. Ltd.	30	af1.50	5.00	c1.81
Phelps Dodge	29	b1.60	5.51	n1.65
*Hudson Bay Mining & Smelting Co., Ltd.	27	bf1.75	6.48	1.34
Central Aguirre Assoc.	26	a2.00	7.69	m3.42

$25 to $00—Group III.

	Approx. Jan. 14th Close	Dividend Rate	Yield About %	Earned Year Ended 12-31-36
Interchemical Corp.	24	2.00	8.33	3.02
Seaboard Oil	24	1.00	4.17	2.00
eBrit. Am. Oil Ltd.	21	af1.00	4.76	1.41
Burroughs Add. Mach.	19	ab1.00	5.26	1.39
**Imperial Oil Ltd.	19	af .50	2.63	.95
Sperry Corp.	19	b1.20	6.31	1.32
Curtiss Wright "A"	18	.50	2.78	.88
National Cash Register	17	a1.00	5.88	1.76
Shell Union Oil	17	b1.00	5.88	1.36
Barnsdall Oil	16	1.00	6.25	1.01
Campbell, Wyant & Cannon	15	a1.00	6.67	3.04
Cluett, Peabody	15	1.00	6.67	1.84
Socony-Vacuum	15	b .80	5.33	1.38
Ohio Oil	14	b1.00	7.14	.70
Pure Oil	13	b .25	1.92	1.63
**Eagle-Picher Lead	12	b .40	3.33	.74
Colgate Palmolive Peet	11	.50	4.04	1.27
**Wright Hargreaves	8	a .40	5.00	j .72
**Teck-Hughes	5	af .40	8.00	j .46

a Not including extras. b Paid last year.
c Year ended June 30, 1937.
e Listed on Toronto Stock Exchange.
f Payable in Canadian funds.
g After depletion and adjusted to 5 for 1 split up.
h Year ended Jan. 1, 1937. i Year ended Aug. 31, 1937.
j Year ended Mar. 31, 1937.
k Net Investment income.
m Year ended July 31, 1936.
n After depletion.
* Listed N. Y. Curb. ** Admitted to trading on N. Y. Curb.

TABLE 7

COMMON STOCKS YIELDING APPROXIMATELY 5% or BETTER

(Appreciation Secondary)

Stocks Listed in Order of Prices

Amer. Tobacco B	71	5.00	7.04	3.71
Corn Products	64	3.00	4.69	3.86
United Fruit	64	a4.00	6.25	4.88
Sterling Products	58	a4.20	7.24	5.05
Dome Mines	56	a4.50	8.04	4.26
**Lake Shore Mines	52	ab6.00	11.54	f4.15
Loew's Inc.	51	a7.50	14.70	h8.47
Reynolds Tob. B	45	3.00	6.67	2.93
McIntyre P'rcup. Mines	42	2.00	4.76	i4.46
F. W. Woolworth	40	2.40	6.00	3.36
Chesapeake & Ohio	37	ag5.80	15.67	5.72
Bristol-Myers	33	a2.60	7.88	3.31
General Foods	33	2.00	6.06	2.71
**Internat'l Pet. Ltd.	30	ab2.50	8.33	f1.81
Amer. Sugar Refining	29	2.00	6.90	2.67
So. Porto Rico Sugar	27	a3.05	11.29	e2.87
Swift International	26	a2.50	9.62	3.13
Cent. Aguirre Asso.	26	a3.38	13.23	c3.95
Sutherland Paper	21	a1.80	8.57	2.54
**Imperial Oil Ltd.	19	ab1.25	6.57	.95
Borden	19	1.60	8.42	1.80
National Dairy	15	1.20	8.00	2.01

a Including extras paid last year.
b Payable in Canadian funds.
c Year ended July 31, 1937. e Year ended Sept. 30, 1937.
f Year ended June 30, 1937.
g Stock dividend of $2.00 paid last year in new 4% non-cumulative preference stock.
h Year ended Aug. 31, 1937. i Year ended Mar. 31, 1937.
** Admitted to trading on N. Y. Curb.

TABLE 8

STOCKS FOR LONG TERM HOLDING

(With Emphasis on Appreciation Possibilities)

Stocks Listed in Order of Prices

	Approx. Jan. 14th Close	Dividend Rate	Yield About %	Earned Year Ended 12-31-36
**Aluminum Ltd.	71	.....	.....	2.51
Newmont Mining	68	a3.00	4.41	3.80
Amerada	66	2.00	3.03	2.52
Beth. Steel	64	b5.00	7.81	2.09
**Colts Patent Fire Arms	62	b1.62	2.61	c4.13
Intern'l Nickel	50	a2.00	4.00	2.40
Stand. Oil of N. J.	50	a1.00	2.00	3.73
Gen'l Amer. Trans.	44	b3.50	7.95	2.92
Kennecott Copper	41	a2.00	4.88	2.36
**Gulf Oil	40	1.00	2.50	2.90
Anaconda	35	b1.75	5.00	1.83
Fairbanks-Morse	31	a1.00	3.22	3.81
Phelphs Dodge	29	b1.60	5.51	g1.65
U. S. Rubber	28	.....	.....	3.31
United Aircraft Corp.	25	b1.00	4.00	.76
Seaboard Oil	24	1.00	4.17	2.00
Western Pac. 1st, 5s, '46	20	f.....	.....	e.....
Foster Wheeler	19	.....	.....	d1.87
Chicago & E. Ill. 5s, '51	17	f.....	.....	e.....
Barnsdall Oil	16	1.00	6.25	1.01
Socony Vacuum	15	b .80	5.33	1.38
*Bell Aircraft	14	.....	.....	.07
Wabash 4½s, '78	14	f.....	.....	e.....
Chi., Mil. S.P. & P. 5s, '75	13	f.....	.....	e.....
Pure Oil	13	b .25	1.92	1.63
St.L.-S.Fr. 4½s, '78 Ctfs.	13	f.....	.....	e.....
N.Y., N.H. & H. 4s, '57	12	f.....	.....	e.....
Paramount Pictures	12	.....	.....	1.18
*Lockheed Aircraft	10	.....	.....	.15
Seaboard Airline 6s, '45	10	f.....	.....	e.....
Chi., Rock I. & P. 4s, '34	9	f.....	.....	e.....
Mo. Pac. 4s, '75	8	f.....	.....	e.....
Denver & Rio Gr. 5s, '55	7	f.....	.....	e.....
Int'l Tel. & Tel.	7	.....	.....	.63
Chi. & N.W. cv. 4¾s, '49	6	f.....	.....	e.....
Mo. Pac. Ser. A 5½s, '49	6	f.....	.....	e.....
Chi., Mil., St.P.&P. 5s, 2000	5	f.....	.....	e.....
Int'l Gt. North'n adj. 6s, '52	5	f.....	.....	e.....
Chi., Rock I.&P. cv. 4½s, '60	5	f.....	.....	e.....

a Not including extras. b Paid last year.
c Year ended Jan. 1, 1937. d Deficit. e In receivership.
f Interest in default. g After depletion.
* Listed N. Y. Curb. ** Admitted to trading on N. Y. Curb.

TABLE 9

STOCKS FOR MODERATE TERM HOLDING

	Approx. Jan. 14th Close	Dividend Rate	Yield About %	Earned Year Ended 12-31-36
Dome Mines	56	g4.50	8.04	4.26
**Lake Shore Mines	52	ab4.00	7.69	c4.15
McIntyre Porc'p'n Mines	42	2.00	4.76	e4.46
Alaska Juneau	12	a .60	5.00	1.52
**Wright Hargreaves	8	a .40	5.00	f .72
hLit. LongLac GoldM's. Ltd.	5.40	bg .40	7.40	.30
hPamour Porc'p. Mines Ltd.	3.90	.....	.....	.03
hMcLeod-Cockshutt G.M.	1.40	.....	.....	.....
hKirkl'd Lake G.M.Co.Ltd.	1.35	bg .09	6.66	.06
hBeattie Gold Mines Ltd.	1.28	bg .05	3.90	.11
hHard R'k Gold Mines Ltd.	1.21	.....	.....	.....
*hBankfield Cons. Mines Ltd.	.65	.....	.....	.....

a Not including extras.
b Payable in Canadian funds.
c Year ended June 30, 1937.
e Year ended Mar. 31, 1937.
f Year ended Aug. 31, 1937.
g Paid last year.
h Listed Toronto Mining Exchange.
** Admitted to trading on N. Y. Curb.

Information presented herein, while obtained from sources we believe to be reliable, is not guaranteed.

January 17, 1938

The following securities were added to or eliminated from our current monthly market tables:

TABLE 1

Additions	Eliminations
Shell Union Oil deb. 3½s, '51	

TABLE 2

Public Utilities

Additions	Eliminations
Jersey Central Pr. & Lt. 1st 4½s, '61	Ark. Pr. & Lt. 1st ref. 5s, '56
New York State El. & Gas 1st 4½s, '80	East. Gas & Fuel 1st & Coll. 4s, '56
Ohio Public Service 1st 4s, '62	Tidewater Pr. 1st 5s, '79
Penn. Pr. & Lt. 1st 4½s, '81	

Industrials

Additions	Eliminations
B. F. Goodrich 1st 4¼s, '56	B. F. Goodrich deb. 6s, '45

TABLE 3

Additions	Eliminations
B. F. Goodrich deb. 6s, '45	Erie ref. 5s, '67 or '75

TABLE 4

Speculative Bonds

Additions	Eliminations
	Central of Georgia Consol. 5s, '45

TABLE 6

Additions	Eliminations
Sperry Corp. (The)	United Air Lines Trans. Corp.

TABLE 8

Additions	Eliminations
Newmont Mining Corp.	Boeing Airplane Co.
	North American Aviation, Inc.
	Ohio Oil Co. (The)

TABLE 9

Additions	Eliminations
Alaska Juneau	

Reasons for eliminations or additions furnished to clients on request.

PSF: W.O. Douglas

Douglas

Hyde Park, N. Y.,
February 21, 1938.

Memorandum for Hon. W. O. Douglas:

Thanks for yours of February 18th. I will take it up as soon as I get back to Washington. I will call you on Thursday or Friday.

F. D. R.

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON

THE CHAIRMAN

February 18, 1938

The Honorable Marvin H. McIntyre
The Nelson House
Poughkeepsie, New York

My dear Mac:

I wonder if you would be so kind as to hand on to the President the enclosed memorandum. It is a matter of some importance to us which I had intended to take up with the President before he left, but the pressure of other work prevented.

With warmest regards and best wishes, I am

Yours faithfully,

Bill

William O. Douglas
Chairman

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON

CE OF THE CHAIRMAN

February 18, 1938

MEMORANDUM

TO: The President

FROM: Chairman William O. Douglas

RE: Federal Licensing Act for Corporations

We feel here at the Commission that it would be desirable to have a Federal licensing or incorporation act for corporations.

Our idea is that such Act should be applicable to all corporations engaged in interstate commerce whose securities are so widely held and whose assets are sufficiently large as to make them subjects of national concern.

It would also be our idea to require such corporations to file with the government at regular intervals, periodical reports on their financial condition and to keep such information current. In that connection it is also our feeling that the government should be empowered to establish accounting standards applicable to such corporations.

The reasons why we feel such a simple statute would be desirable are the following:

The Securities Act of 1933 and the Securities Exchange Act of 1934 are directed, in large measure, towards securing the public dissemination of financial information concerning corporations whose securities are bought and sold by the investing public. Marked progress towards this end has been made under the Securities Exchange Act with respect to securities listed on national securities exchanges. Adequate information regarding the great mass of securities publicly held but traded only on the over-the-counter markets is at present largely lacking. Such information is required only of companies which voluntarily subject themselves to the requirements of the Securities Act by offering new securities to the public. Even information thus made available is required to be kept current only in the case of a limited class of large corporations which have registered an issue of securities under the Securities Act since August 25, 1936.

This disparity between the treatment accorded to listed and that accorded to unlisted securities works an unjust discrimination against the national securities exchanges and against the issuers of listed securities. It also deprives the investor in the over-the-counter markets of a much needed protection. It has been conservatively estimated that financial and other pertinent information with respect to some 57,000 security issues traded in the over-the-counter markets is not now required to be filed with this Commission. Furthermore, the inability of this Commission to secure adequate information regarding securities traded only over-the counter greatly hampers the Commission in its task of ensuring to the investing public a free and fair over-the-counter market.

A corporation licensing law of the character I have mentioned would serve to correct the inequity presently existing between the exchange and the over-the-counter markets. It would also go far towards restoring greater investor confidence in the capital markets -- a matter of major concern, in my view. Furthermore, it would provide a repository of information useful as a basis for determining the precise extent to which the business and financial practices of large corporations are proper subjects of further Federal regulation.

As you know, Senator O'Mahoney has sponsored for sometime a bill for Federal incorporation. Our interest is at present restricted to the few phases which I have mentioned above. What else might be included in such a bill we do not purport to say. But would it be agreeable to you if the Commission or myself officially sponsors such a measure, limited as above?

Wm. O Douglas

PSF: W. O. Douglas

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON

OFFICE OF THE CHAIRMAN

file

November 14, 1938

Memorandum to: The President
The White House

From: William O. Douglas

Ed Eicher, who is back from the wars in Iowa, has just talked with me. His personal plans are in such shape that he could, if it still meets with your approval, start work at the Securities and Exchange Commission immediately.

When I last discussed with you the prospect of his appointment to this Commission to fill the vacancy caused by the resignation of John Hanes, it was, as I recall, contemplated that he come on to this Commission the first part of January. But in view of the fact that he is now free from all pressing commitments, and that we could use him right away, I wanted to bring the matter to your attention in case you felt that his appointment at this time would be wholly appropriate.

Wm O Douglas

PSF: Wm. O. Douglas

Douglas
Gen. 2

Memo to Senator O'Mahoney
From the President
May 17th 1939

In re-O'Mahoney's plans on taking of testimony on the
Insurance phase of TNEC

Memo to Leon Henderson attached--May 19, 1939

Also attached memo to the President--April 12, 1939
From William O. Douglas
Re-Insurance Investigation

See: TNEC folder-Drawer 2-1939 for the above correspondence
and other correspondence relating to the Temporary
Nat'l Economic Committee.

PSF: W.O. Douglas ~~Gov~~

Hyde Park, N. Y.,
June 27, 1939.

Dear Bill:-

The thought behind the ball game between the Nine Young Men and the Cabinet is an excellent one, even though you eliminate General Watson, Admiral McIntire and Colonel Early.

I come back with a counter proposal, however. The Cabinet insists that the Chief Justice pitch and Mr. Justice McReynolds catch. Our battery will be The Secretary of State, Pitcher, and The Secretary of the Interior, Catcher. Except for the Secretary of the Navy, who is away, these are our oldest members -- and, incidentally, it gives some advantage to the Supreme Court because an experienced battery counts and yours will be about ten years older than ours.

We also suggest that no substitutes be put in -- and we suggest further that the Umpires be the President and the Speaker of the House. This seems fair. Finally, we insist that your "Nine" waive in advance any judicial authority over umpires' decisions, and that in publicity after the game no minority opinions will be filed.

So far so good!

As ever yours,

Honorable William O. Douglas,
Supreme Court of the United States,
Washington, D. C.

Supreme Court of the United States
Washington, D. C.

CHAMBERS OF
JUSTICE WILLIAM O. DOUGLAS

THE WHITE HOUSE
JUN 24 9 AM '39
RECEIVED

June 23, 1939

My dear Mr. President:

I have just received the original of a cartoon drawn by Herbert Block and published a month or so ago. It is entitled "The Nine Young Men". It shows the members of this Court in a huddle in the corridors of the Supreme Court Building. One of the more spirited, whose identity is not disclosed, is saying, "Let's phone the cabinet members and see if we can get up a ball game."

I did not want to take this matter up officially without first sounding you out informally on the proposition.

Of course, all "ringers" should be excluded. I refer especially to General Watson, Admiral McIntyre and Steve Early.

Yours faithfully,

Wm O Douglas

The President

W.O. Douglas
PSF: Douglas

file
personal

Confidential
Private

THE WHITE HOUSE
WASHINGTON

November 21, 1939.

MEMORANDUM FOR

MR. JUSTICE FRANKFURTER:

I am secretly disturbed to find that one so young as Mr. Justice William O. Douglas has so soon taken advantage of the old subterfuge of quoting from obiter dicta of his colleagues and law school professors, expressed through letters, editorials in the New Republic and 1937 speeches by a recent Harvard Law School don.

Because of your seniority, I suggest that you hold a seminar for Bill, asking him to apply the vivid rules of life in place of the musty rules of law and get him to answer in language which even the President can understand the simple query "Do Baptists play poker?"

In the utmost confidence, in view of your recent assertion to me that you are about to take a freshman course in that ancient and honorable game, you will perhaps be good enough, again in the utmost confidence, to tell me whether we can muster five votes for the game as the Court is now constituted. I am deeply interested because, as you know, there is a vacancy in your honorable body.

F.D.R.

Supreme Court of the United States
Washington, D. C.

CHAMBERS OF
JUSTICE WILLIAM O. DOUGLAS

November 15, 1939.

My dear Mr. President:

I have your letter of November 11, in which you ask for an advisory opinion on the question "Do Baptists play poker?". I have made a hurried search of the subject of advisory opinions and have come across a very respectable authority which would seem to permit it in a very limited class of cases. The authority on which I rely is Mr. Justice Frankfurter, who, while professor of law at Harvard University, published a casebook on Federal Jurisdiction and Procedure, where I find, on page 72, the following:

S. Res. 103, 75th Cong., 1st Sess.
81 Cong. Rec. 3597 (1937).

Resolved, That the Supreme Court of the United States is requested to adopt such amendments to its rules and procedure as to enable the Congress of the United States, on a majority vote of both Houses of the Congress, to request and receive from the Supreme Court of the United States advisory opinions as to the constitutionality of legislation pending before, and being considered by, the Congress of the United States.[1]

[1]This resolution was introduced by Senator Schwellenbach on March 29, 1937, following the publication of a letter from Mr. Chief Justice Hughes to Senator Wheeler who used the letter in his opposition to President Roosevelt's proposed legislation with reference to federal judges who reach the age of 70 years. A part of the letter was as follows (Hear. on S. 1392,

Sess. Comm. on the Jud., 75th Cong., 1st Sess., (1937) 488, 491):

"My dear Senator Wheeler: In response to your inquiries, I have the honor to present the following statement with respect to the work of the Supreme Court:

. . . . . .

I understand that it has been suggested that with more justices the Court could hear cases in divisions. It is believed that such a plan would be impracticable. A large proportion of the cases we hear are important and a decision by a part of the Court would be unsatisfactory.

I may also call attention to the provision of article III, section 1, of the Constitution that the judicial power of the United States shall be vested 'in one Supreme Court' and in such inferior courts as the Congress may from time to time ordain and establish. The Constitution does not appear to authorize two or more Supreme Courts or two or more parts of a supreme court functioning in effect as separate courts.

. . . . . ."

An editorial in the New Republic characterized the quoted portion of the letter as "an advisory opinion run riot, . . . the final step in the usurpation of judicial power--a statement in advance to Congress of the kind of laws which the Court intends to condemn. In giving this advance notice, the Chief Justice violates every precedent of his own tribunal against the giving of advisory opinions." (April 7, 1937, at p. 254.) See the remarks of Senator Minton, March 31, 1937, 81 Cong. Rec. 3763; and the letter from Solicitor General Reed to Senator Ashurst, post, p. 624.

Compare the opinion given by Mr. Justice Johnson, with the approval of other members of the Court, to President Monroe, 1 Warren, The Supreme Court in United States History (2d ed. 1928) 595-596. "This, of course, was extra-official, but it is safe to say that nothing of the sort could happen today." --Hughes, The Supreme Court of the United States (1928) 31.

Thus spoke Professor Frankfurter in 1937.

In reliance on that eminent authority, research will be at once started on the question which you propound. The results of that research will be forwarded to you with as much dispatch as possible, together with further observations on other phases of your letter of November 11.

Yours faithfully,

Wm O Douglas

The President,
The White House.

Supreme Court of the United States
Washington, D. C.

CHAMBERS OF
JUSTICE WILLIAM O. DOUGLAS

November 10, 1939.

My dear Mr. President:

In answering your letter of September 28, 1939, so soon, I am probably violating some judicial precedents. For the period of gestation for judicial pronouncements is at least a couple of months.

I have reservations as to your proposal to make the contest football rather than baseball. My reservations arise because of the awful prospects which that calls up in the mind. Take, for example, that salty, triple-threat backfield of yours. Even within the rules of the game, the destruction to the morale and physical well-being of our team, of which it would be capable, is quite appalling. Offsetting your backfield, of course, is the "right" side of your line which would probably be calling for time out rather continuously and would rather settle the contest in the locker room than on the field. But the "left" side of your line would more than make up for that by covering each side of center equally well.

So viewing it objectively, I have great fear of the consequences to our team -- not that it will be "licked" but that it will be obliterated. In sum, I fear that the contest would settle more than the issue of judicial supremacy.

You suggest that you can give us some additional men of ability. You mention one possibility. What the merits of the charges against him may be I do not profess to know. But his reputation at present in the eyes of the public leaves something to be desired. Hence, I am not sure that he should now be "tapped". After all, it took baseball some little time to live down the alleged goings-on of the old White Sox.

The President,
The White House.

Your intimation that you and I share the receipts goes far towards swinging the balance the other way. That appeals to me not because of any personal advantage involved but because of the sheer pleasure in seeing one or two of your linesmen sweating for once for somebody else. But even that passing satisfaction does not still the humanitarian impulse to keep our team from getting out of its own class.

So I wonder if it might not be better to test the skill at poker. You can furnish the deck, thus ruling out all marked cards - which have not been unknown. And with some feeling I can say (and General Watson may be willing to confirm it) that with me by your side you are pretty certain to win. Yet in saying that I do not want to leave the impression that no one on this side tops me in that ancient, wily game. We do have a few fancy dealers and some who always seem to get the wild cards.

Yours faithfully,

Wm O Douglas

Supreme Court of the United States
Washington, D. C.

CHAMBERS OF
JUSTICE WILLIAM O. DOUGLAS

September 19, 1939.

The President,
The White House.

My dear Mr. President:

My neglect in answering your letter of June 27 has been due to my absence from the city; not to any waning interest in the proposed ball game between the Nine Young Men and the Cabinet.

I like your counter proposal. Certainly it has some phases to which no possible objection by any fair-minded person could be made. By reason of their temperaments and experience, the President and the Speaker of the House are eminently qualified to be the umpires.

The Cabinet's insistence that this "Nine" waive any judicial authority over umpires' decision is also wholly agreeable to me. But I fear that the point cannot be won without a tussle. As you are well aware, the issue of judicial supremacy has a long history. To be sure, there is nothing in the Constitution about it. But it came to pass anyway. Some, like Frank Hogan, are fearful lest we get back to the Constitution and away from what has been said about the Constitution. But that is another good reason for pressing your point. In sum, I am for the proposal, tussle or no tussle.

The Cabinet's insistence that in publicity after the game no minority opinions be filed will be attacked as a curtailment of freedom of speech. But, as I read your proposition, there will be no cloture during the game. Hence, your suggestion is wholly agreeable to me, though it will also be denounced as a body blow to judicial supremacy.

That disposes of the minor phases of your counter proposal. The major one remains; viz., who will constitute the battery for this Nine? Your tribute to the skill of our proposed battery doubtless is based not only on our proposed catcher's ability to stop anything, but also on our proposed pitcher's great change in pace -- slow balls, fast balls, curves, spit balls, etc. That was a tribute genuinely deserved. Furthermore, as you have said, the proposed battery does have a rich experience.

But I would be derelict in my responsibilities if I did not mention one item which you referred to so casually as to lead me to think that I should call it to your attention for further consideration. That is the question of the age of our battery. Age brings experience; it also brings physical frailty. Pitching and catching are quite strenuous. We have no substitutes or replacements. Suppose one -- or even both -- of our battery gave out completely!! You could, of course, replace them. Yet some of the "Yes, but" group will say, "Why take the chance? If, instead, younger men constituted the battery, that risk would be avoided. By using your candidates for pitcher and catcher in the outfield, they could be preserved for many, many years!!"

That will be the argument against your proposal. And I thought I ought to call it to your attention now, lest, having started with a nice, friendly ball game, we be charged with concocting (or we unwittingly end up with) a court plan.

Yours faithfully,

Wm O Douglas

file personal

November 11, 1939

Dear Bill:

As a fellow manager of two athletic associations and as my partner in splitting the gate receipts, I begin to wonder whether your Nine Old Men still have that dreadful inferiority complex which settled upon them during the athletic season of 1937.

Here is my club rarin' to go -- ready last spring to stage the World Baseball Series between the Administrative Oligarchy and the Judicial Hierachy. At the very end of the baseball season when I had started my team throwing passes and kicking goals, your aggregation is still haggling over the game.

Now the same sort of thing develops again. My football team is closing an undefeated, untied season and I have started them into strict training for ice hockey. The ground is getting too hard for football anyway because neither your team nor mine can stand the frost.

Ice hockey is different. The enclosed rinks are nicely heated and the artificial ice is soft -- and anyway, I have trained my team so that when they fall down, they skid and don't bump. Can you say as much for your Nine Old Men?

That idea of reducing the contest to poker would be all right in view of the enormous salaries drawn down by your people. At least you could afford to lose.

But, I ask you, do Baptists play poker?

As ever yours,

Mr. Justice William O. Douglas,
Washington, D. C.

fdr/tmb

September 28, 1939.

Dear Bill:-

I deeply regret that your team of the Nine Young Men has seen fit to wait until the baseball season is over before appearing to face my Cabinet. Last week my Cabinet team, having won the Federal pennant for the 1939 baseball season, put on football uniforms and, with the assistance of the three new Administrators, awaits all comers. If the Supreme Court is ready to take on the Gridiron Game, I suggest that its nine members be supplemented by former Senior Judge Manton and any other Circuit Court Judge of similar ability.

In view of the fact that modern football had not been invented at the time your team was in college, you may prefer a game of soccer with the Cabinet team. Every member of my team is a soccer!

As ever yours,

Honorable William O. Douglas,
Supreme Court of the United States,
Washington, D. C.

W.O. PSF: Bill Douglas Folder file

UNITED STATES
DEPARTMENT OF THE INTERIOR
OFFICE OF PETROLEUM COORDINATOR
FOR NATIONAL DEFENSE
WASHINGTON

May 19, 1942.

My dear Mr. President:

Here is a report that has just reached my desk on "The Transportation of Petroleum to Eastern United States", that has been prepared by the Transportation Division of the Office of Petroleum Coordinator. It has some more or less pretty maps that may intrigue you.

Sincerely yours,

Harold L. Ickes

Petroleum Coordinator for War.

The President,
The White House.

Enc.

File
Personal.

Supreme Court of the United States
Washington, D.C.

PSF: Douglas Folder
W.O.
5-42

THE WHITE HOUSE
JUN 12 9 08 AM '42
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CHAMBERS OF
JUSTICE WILLIAM O. DOUGLAS

June 1942

My dear Mr. President:

I talked with Jimmie Byrnes about the matter we discussed last Sunday. Jimmie promised to think it over. And as I told Mac on the telephone before I left, I think Jimmie has some slants on the problem which you should have directly from him.

I think your basic idea has merit. But my present feeling is that if I tied into it, I probably should resign from the Court. I think that Jimmie was inclined to that view. So was the C.J. with whom I discussed the matter quite personally. The thought was that if the work was to be effective, the one who did it should be able to work officially with some authority and responsibility.

As you know, I think the war effort is the first and only business of the day. Since last December I have often thought that I should enter the army or the navy. Except for such a major war move, I thought I should stay on the Court for the reasons I gave you. But unless I resign from the Court and take an administrative post I am inclined to the view that any real undertaking on my part to iron out difficulties between department heads and others who have authority and who in many instances have a real hostility would not prove to be helpful and might injure the Court.

But I will think the matter over some more while I finish up my Oregon and California assignments during the next two weeks. Of course I want to be helpful. My present view however is that if your tentative suggestion was to work out, it should be done through specific designation of say three or four men on a permanent

basis with definite authority
and responsibility. Then they
ought to be able to do what
department heads ought to
do on their own 90% or more
of the time without any
intercession. If that group
really clicked, I think you
would get definite relief. And
it is very, very important
that you get it

As ever —
Bill