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THE ROLE OF INSTITU- TIONAL INVESTORS IN THE STOCK MARKET

COMMITTEE ON FINANCE
UNITED STATES SENATE
RUSSELL B. LONG, *Chairman*

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FOR THE USE OF THE
SUBCOMMITTEE ON FINANCIAL MARKETS
LLOYD BENTSEN, *Chairman*



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THE ROLE OF INSTITUTIONAL INVESTORS IN THE STOCK MARKET

I. Introduction

The depressed state of the U.S. stock market for the past several years cannot be easily explained by the state of the economy or by passing psychological factors. Between 1968 and 1972, our gross national product was up 33 percent, personal income was up 36 percent and personal savings were at an all time high. Yet stock prices as measured by key, unweighted indexes are off 50 percent from their 1968 peak. If the state of the economy itself cannot explain what is happening in the overall securities market, it certainly cannot justify what is happening to individual stocks. The stocks of many individual firms which are well managed and show good earnings are selling at unrealistically low "price-earnings" ratios (between 5 and 10) while others are trading at 40-100 times earnings.

Government officials have been so puzzled by the depressed state of the U.S. stock market while the economy has been booming that they felt compelled to make public pronouncements that "there are bargains out there", or "now is the time to buy." Yet individual investors have not responded to these exhortations of confidence and have been sitting on the sidelines, or selling. "It is a well-celebrated fact that individuals have for years—since 1959, in fact—been net sellers of stock (leaving aside for the moment, their holdings of mutual funds)", a recent article in *Fortune* states. Even the mutual fund business is badly depressed. In the past year, for the first time in 30 years individuals redeemed more mutual fund shares than they bought.

A recent Arthur D. Little survey, as reported in the May 4, 1973 *Wall Street Journal*, further confirmed the public's loss of confidence in the conduct of the security markets. The "most damning" finding in the Little report is that many investors think the market is "manipulated"; 70% of investors and 64% of noninvestors shared this view regarding "manipulation." A key aspect of the "manipulation" charge centered upon "unfair advantages and access by institutions." The New York Stock Exchange recently reported that the number of shareholders in the United States had declined by 800,000 since the previous shareholder census, *the first such decline on record.*

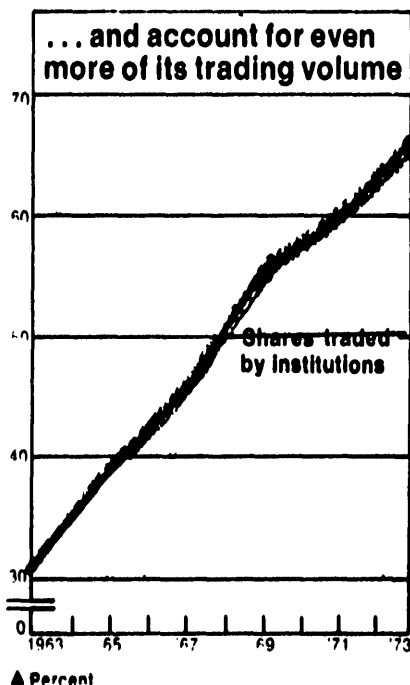
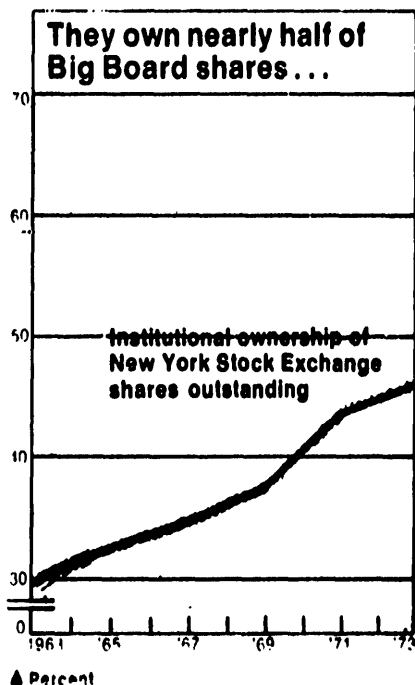
While the current depressed state of the market may be due to a complex of short term forces—the sliding value of the dollar at

home and abroad, the gold fever, rising interest rates, confidence in government, etc., there may well be longer-run institutional factors in the market itself which are more fundamental causes of the problem.

Institutional investors—trust departments of large U.S. banks, insurance companies, mutual funds, pension funds, large endowment funds, foundations—today dominate market transactions, accounting for over 70 percent of the dollar value of New York Stock Exchange trading, compared with 35 percent in 1963.

All these institutions are afforded special tax treatment which is described in section VII of this document. A number of prominent individuals have suggested changes in the U.S. income tax laws as a solution to the problem of institutional domination of the securities markets.

How the institutions dominate Wall Street



II. The Institutional Investors and the "Two Tier" Market

"In the name of playing safe with their clients' money, large institutional investors have been concentrating their activity in an ever-narrowing circle of investment choices", says James Needham, Chairman of the New York Stock Exchange. Who are these institutional investors and on what issues do they concentrate?

According to an article in a recent issue of *Business Week* (reprinted as Appendix A), the 10 leading institutional investors are as follows:

The leading institutional investors:

Most of the top 10 are banks

Institution	Investment portfolios [billions of dollars] *
Morgan Guaranty Trust	\$27.2
Bankers Trust	19.9
Prudential Insurance	18.3
First National City Bank	17.2
U.S. Trust of New York	17.0
Metropolitan Life Insurance	16.5
Manufacturers Hanover Trust	10.9
Mellon National Bank & Trust	10.5
Investors Diversified Services	9.7
Chase Manhattan Bank	9.2

*Excludes real estate investments

Data: Money Market Directories, Inc.

These 10 institutional investors hold \$156.4 billion in their portfolios. Chairman Paul Kolton of the American Stock Exchange estimates that total equity holdings of financial institutions today are \$310 billion, with banks holding \$170 billion, mutual funds \$45 billion, insurance companies \$42 billion, and with foundations investment counsellors and smaller institutions holding the rest. This \$310 billion—36 percent of the total amount outstanding (\$1,160 billion)—is disproportionately concentrated in the “big” stocks—those having the highest market value. Individual investors are disproportionately concentrated in the small companies. Thus, there has been created a “two tier” market which is more fully described in the July, 1973 *Fortune* article, reprinted as Appendix B.

Morgan Guaranty appears to be the largest institutional investor (\$27.2 billion) with Bankers Trust (\$19.9 billion) not far behind. According to *Fortune*, Morgan has a history of investing in growth stocks, and because of its performance (a compounded return better than 13 percent over the 10 years ending in 1972), “Morgan has become the player that everybody in the game watches”. “Its influence clearly extends beyond the sum it manages”. How does Morgan play the game? Morgan has been quoted as expressing the philosophy that “We are not traders, we are investors. We do not buy stocks with the idea of selling them at a specific price objective. We do not buy with the idea of selling high and buying back low”. Obviously,

if Morgan did swing its \$27 billion in holdings for quick speculative gain, it would create havoc in the market. As a result, Morgan itself appears to pursue a "two tier" strategy. It invests a considerable portion of its holdings in big companies—by Morgan's definition, those that have at least \$500 million in both market value and revenues. There are only about 300 such companies in the country. The second tier is reached through "pools of money" that Morgan apparently sets up and in which its pension accounts participate. These monies are invested in small companies that Morgan believes to be "comers."

This strategy may be quite rational for a bank with \$27 billion in stock holdings, but if other institutions play the game the same way as they apparently do, it may provide growth in the "top tier" and pre-empt large sums of capital needed in the lower tier. The "herd mentality" of institutional investors creates problems for small and medium size firms, which may be performing well enough, but which are not viewed as "comers" by the large institutional investors or whose stock is "dumped" by the institutions. Indeed, it may be impossible for such institutions to have adequate knowledge of the many companies which deserve investment opportunities. There is some evidence that stocks of certain firms—Clorox, Tropicana, Kresge, Skyline, Winnebago to mention a few—have taken nose dives because of institutional dumping.

James Lane, President of Chase Manhattan's investment management subsidiary, has been quoted as saying that "there is some rationality to the market and its divergence into two tiers." Chase, of course, is one of the large institutional investors, and is known to have supported the stock of certain companies when others were pessimistic about their future. But others express real concern over the "two tier" market. James M. Roach, former chief executive of G.M., worries about "the deplorable state of our capital markets—at the precise time in our nation's history when we face an extraordinary need for capital and for strong vigorous capital markets".

III. The Concentration Issue: American Zaibatsu

The spectre of growing domination of the stock market by the trust departments of a few large U.S. banks could bring the American economy closer to the industrial banking structure of other nations, most notably Japan. If the trend continues, the major U.S. banks could become the American analogue of the zaibatsu, a powerful family-controlled commercial combine of Japan.

The institutional investor typically concentrates its holdings in a relatively few large corporate issues. Fourteen of the largest 20 U.S. banks have IBM as their number one holding and three others have IBM as their number two holding.

There may be a lot of "self fulfilling price increases" and "snowballing" declines as institutions adopt a "follow-the-leader" investment strategy. While the risk factor may explain a certain divergency in the p-e ratios of stock, it may well be that many stocks have overblown p-e ratios while others are understated simply because large institutional investors favor some and not others. This, of course, raises a number of issues including conflict of interest.

A 1968 staff report of the House Banking and Currency Committee found substantial interlocking relationships between 49 major banks surveyed and major corporations. The study compared the stock holdings of these banks' trust departments with the Fortune list of 500 largest industrial corporations and found 176 separate instances involving 147 companies in which these 49 banks held 5 percent or more of the common stock of an individual company. The study found interlocking directorships between the banks and the corporations even more substantial. The banks held a total of 768 interlocking directorships with 286 of the 500 largest industrial corporations in the country—an average of almost three directorships for each corporation board on which bank representation was found. Appendix C summarizes the Banking Committee findings for the largest institutional investors. The staff report concluded:

"In addition, there are a number of serious conflict of interest problems that arise from extensive interrelationships between banks and other corporations. Included is the problem of managing an employee benefit fund for the sole benefit of the beneficiaries of the fund and at the same time maintaining numerous business relationships including loans, deposit accounts, and representation on the board of directors with the corporation which created the fund."

On the other hand, there may be sound economic or performance reasons for such large institutional investors to hold the stocks of large institutions. But what are the effects of such concentration on the medium size and smaller company? Appendix D provides a listing of stock issues that have been withdrawn from registration between January and July of this year. It gives some idea of the magnitude of the problem many American firms are experiencing as a result of not being on the "chosen" list. Are there any unsound noneconomic reasons, such as particular relationships among the institutions themselves, for the concentration in the "blue chips"? The following table shows the concentration in "blue chips" stock by large U.S. banks.

	Morgan Guaranty	Bankers Trust	First National City	Chase Manhattan	Manufacturers Hanover	Mellon Bank	First National of Chicago	Continental Illinois
Assets managed as of late 1972 (\$000,000)	27,437	18,877	17,157	16,176	16,931	9,799	8,421	8,167

Largest U.S. companies by market value: 12/31/72 (\$000,000)

	(\$000,000)	Rank	Rank	(\$000,000)	Rank	(\$000,000)	Rank	(\$000,000)	Rank	(\$000,000)	Rank
IBM	10,000	(1)	(1)	10,000	(1)	10,000	(1)	10,000	(1)	10,000	(1)
GENERAL ELECTRIC	8,000	(2)	(2)	8,000	(2)	8,000	(2)	8,000	(2)	8,000	(2)
WALMART	7,000	(3)	(3)	7,000	(3)	7,000	(3)	7,000	(3)	7,000	(3)
AMERICAN SALES	6,000	(4)	(4)	6,000	(4)	6,000	(4)	6,000	(4)	6,000	(4)

PROCTER & GAMBLE	5,140	306	(8)							80	(20)	
COCA-COLA	4,872	289	(12)	338	(6)							
DU PONT	4,447					(15)						
FORD	4,117								78	(15)		
AMGEN	3,910	681	(3)	(2)	484	(4)	388	(4)	141	(8)	62	(16)
MOBIL	3,829	386	(15)	(13)			(3)		88	(18)		
JOHNSON & JOHNSON	3,383			(7)	281	(14)		148	(8)			
STANDARD OF CALIF.	3,248			(17)			(7)					
WELLS FARGO	3,114	274	(18)	(6)	345	(5)	(12)	183	(11)	82	(13)	
AMERICAN HOME PROD.	2,578	339	(11)	(11)				79	(15)	96	(11)	

Each bank's other major holdings

Disney (8)
Polaroid (7)
Schlumberger (9)
American Express (14)
Kresge (16)
Penny (17)
Philip Morris (19)
McDonald's (20)

Disney (4)
Polaroid (9)
Burroughs (12)
Lilly (14)
Sony (16)
PepsiCo (19)
Westinghouse (20)

Phillips Petroleum (10)
Kresge (12)
Penny (13)
Atlantic Richfield (16)
Caterpillar (17)
Coring Glass (18)
Lilly (19)
Texas Instruments (20)

I.T.T. (8)
Standard (10)
Polaroid (11)
Atlantic Richfield (14)
Warner Lambert (16)
Kresge (17)
Union Carbide (18)
American Cyanamid (19)
Bristol-Myers (20)

Lilly (9)
Scherer-Plough (10)
Baxter Labs (14)
Caterpillar (16)
Coring Glass (17)
I.T.T. (18)
American Express (19)
Hewlett-Packard (20)

Gold O. (11)
General Reinsurance (3)
Acoia (4)
Mellon National (5)
Heinz (9)
Kresge (10)
Disney (14)
Caterpillar (15)
First National City (17)
Nasco Chemical (20)

Standard (10)
Caterpillar (3)
Federated Dept. Stores (4)
First Chicago (5)
Whirlpool (10)
Beatrice Foods (12)
Zenith (16)
TRW (17)
Household Finance (18)
American Hospital Supply (20)

Standard (10)
McDonald's (9)
Polaroid (10)
Burroughs (12)
Philip Morris (15)
First National City (17)
AMF (18)
BankAmerica (19)

Each bank's top twenty holdings (\$000,000)	10,034	Not available	8,158	Not available	3,123	3,578	2,804	1,761
As a % of its total common stocks	47%	Not available	52%	Not available	40%	50%	43%	31%

Harris Trust	First National of Boston	Northern Trust	Chemical Bank	Bank of America	Bank of New York	Cleveland Trust	Grant Bank	St. Louis Union Trust	1,000 Investment Cos. (Vickers data)
6,970	6,842	6,882	6,532	6,503	4,941	4,516	4,338	4,294	78,888

(1988,000) Rank (1988,000) Rank (1988,000) Rank (1988,000) Rank (1988,000) Rank (1988,000) Rank (1988,000) Rank (1988,000) Rank (1988,000) Rank

100	100	100	100	100	100	100	100	100	100
95	95	95	95	95	95	95	95	95	95
90	90	90	90	90	90	90	90	90	90
85	85	85	85	85	85	85	85	85	85
80	80	80	80	80	80	80	80	80	80
75	75	75	75	75	75	75	75	75	75
70	70	70	70	70	70	70	70	70	70
65	65	65	65	65	65	65	65	65	65
60	60	60	60	60	60	60	60	60	60
55	55	55	55	55	55	55	55	55	55
50	50	50	50	50	50	50	50	50	50
45	45	45	45	45	45	45	45	45	45
40	40	40	40	40	40	40	40	40	40
35	35	35	35	35	35	35	35	35	35
30	30	30	30	30	30	30	30	30	30
25	25	25	25	25	25	25	25	25	25
20	20	20	20	20	20	20	20	20	20
15	15	15	15	15	15	15	15	15	15
10	10	10	10	10	10	10	10	10	10
5	5	5	5	5	5	5	5	5	5
0	0	0	0	0	0	0	0	0	0

1,474	3,324	1,388	1,983	988	1,688	1,987	1,388	Not available	12,451
30%	62%	27%	42%	25%	46%	34%	45%	Not available	Not available

- I.T.T. (7)
- Tampax (9)
- Burroughs (10)
- Hercules (12)
- Motrolite (15)
- Schenck-Pough (17)
- Standard (Ind.) (18)
- Dow (20)
- Dow (10)
- Corning Glass (12)
- Monsanto (14)
- First National City (15)
- I.T.T. (16)
- Becton Dickinson (20)
- American Express (2)
- Caterpillar (10)
- Quaker Oats (11)
- J.P. Morgan (12)
- First Chicago (13)
- Standard (Ind.) (14)
- Warner Lambert (15)
- Commonwealth Edison (16)
- Norton Simon (17)
- General Mills (18)
- First National City (8)
- Government Employees Ins. (13)
- Philip Morris (16)
- Heilbrunn (17)
- MGIC Investment (18)
- BankAmerica (5)
- Starting Drug (11)
- Standard (Ind.) (14)
- Union Carbide (17)
- Pacific Gas & Electric (18)
- Dow (19)
- American Express (9)
- Bristol Myers (12)
- Standard (Ind.) (14)
- Southern (16)
- Connecticut General Ins. (19)
- Gillette (20)
- Dow (4)
- Standard (Ind.) (10)
- Sherrill-Williams (12)
- Lubrizol (14)
- Colgate-Palmolive (15)
- Lincoln National (18)
- Warner Lambert (20)
- Rohm & Haas (2)
- Campbell Soup (9)
- Pfizer (11)
- Aramco (14)
- Rorer (15)
- Amchem (15)
- Weiss Markets (16)
- Smith Kline & French (18)
- Emery Industries (20)
- Anheuser-Busch (1)
- Relston Purina (3)
- Mallinckrodt Chemical (4)
- Southern (6)
- American Express (9)
- Panney (12)
- Brown Group (15)
- Dyn (16)
- Emerson Electric (17)
- Interco (20)
- Philip Morris (8)
- Polaroid (10)
- Burroughs (11)
- I.T.T. (12)
- McDonald's (13)
- Kresge (16)
- MGIC Investment (18)

Seven major banks hold \$112 billion worth of securities, most of it concentrated in large growth corporations. The individual investor has no knowledge of how the decisions to buy or sell stocks are made by these banks. What are the real relationships between the trust departments and the loan departments of these banks? Is it healthy to have a relatively few individuals at the top echelon of these banks control such vast sums of money? Is there a "herd mentality" under which banks tend to "follow a leader" or act in the same way because they depend on relatively few key placed individuals for their portfolio advice? What about interlocking directorates among the banks, their depositors and their portfolio holdings?

These are serious questions which the Subcommittee may wish to pursue. They are particularly relevant in the context of pension legislation. Approximately \$1 billion a month of pension funds are channeled into the securities market, mainly through institutional investors. This sum is likely to grow enormously with pension reform legislation. Do the managers of the pension fund portfolios consider the performance of the chosen few stocks to be synonymous with the interests of the American worker? What effect does the concentration on the glamour stocks have on the industrial base of this country and therefore on the millions of Americans employed in small and medium sized firms?

Mr. James Roche former GM chairman puts the issue this way in a recent address before the Securities Industry Association on "Corporate America's Stake in Sound Securities Markets".

"It may be true that much of the capital which individual investors have withdrawn or withheld from the market has been entrusted to institutions which are themselves investors. But institutional investors do not serve the same function in our capital markets as masses of individual investors. There is no substitute for the interest, pride, and satisfaction that come from a personal investment in a particular enterprise. Then too, institutions tend to invest their portfolio funds in the securities of only a limited number of companies. This is dramatically illustrated by the current market situation . . . institutions now account for nearly 70% of the volume of trading on the New York Stock Exchange. Thus, they carry an awesome responsibility for the stability and operation of our capital markets. But their trading is largely concentrated in a few blue chip and large growth stocks. The Weissenberger service recently listed 21 stocks as institutional favorites. Business Week refers to 75 'super glamour' stocks. Institutional concentration in these stocks is so intense that each of the 75 'super glamorous' are selling at more than 30 times last year's earnings, the highest (as of March 31) being sold at over 100 times earnings.

“This situation may be reassuring to the companies favored by the institutions, but it by no means satisfies the needs of the nation. Our system depends upon the health and vitality of thousands of companies, small as well as large.

“It depends also upon the goodwill and confidence of the nearly 32 million individuals who own shares in our corporate structure. It depends too upon the confidence of those millions of people who while not direct shareholders have vital interests through their insurance and pension programs. Our system cannot flourish solely on the basis of the health and strength of 75 glamour companies or even of Fortune’s 500 companies, nor can it survive without the support of individual investors. Every large corporation depends upon hundreds or thousands of small enterprises, as suppliers of components, as generators of ideas and products, as employers of labor, as producers of income for their owners and shareholders who buy our products. Both individual investors and these smaller companies supply an essential quality to American life—a quality we can ill afford to lose.”

IV. Effect on Brokerage Houses

As the individuals stay on the sidelines and as a few large institutions take over the main trading activities, the brokerage business as we have known it in this country, suffers radical changes. Many hundreds of small brokerage firms have gone out of business; others have merged.

The consequences of this are felt across the nation as smaller firms are denied capital and individual investors are without familiar advice from their brokers. Remaining brokers often cannot read the minds of the few key individuals managing the large pension funds, etc., so they are at a loss to recommend stocks to clients as traditional indicators (such as price-earnings ratios) lose relevance in a cartelized market structure.

Institutional investors have various types of affiliations with broker-dealers. Many institutional investors have in recent years affiliated through ownership with broker-dealers that execute and/or clear securities transactions. There appears to be a real danger of excessive reliance by the institutions on a few large brokerage houses.

V. Foreign Takeovers

With bargain basement prices for lower tier stocks and with huge amounts of floating devalued dollars all over the world, foreign ownership of American companies has increased dramatically. It is a national policy not to discourage foreign investment in the United States. That is one thing. But it is an entirely different issue if the two tier market, and the devalued U.S. dollar invite “steals” of American

companies by foreign bargain hunters who have more dollars (because of our chronic balance of payments deficit) than they know what to do with. There have been reports that an American bank has helped a foreign company take over Gimbel Bros., Inc. through a Euro-dollar transaction from the bank's subsidiary. This kind of operation could flourish and in the long run it may cause more balance of payments drain than the benefits of a Euro-dollar reflow.

The business pages of American newspapers and magazines have been filled with stories of European attempts to take over United States companies.

The following developments during the spring and summer of 1973 provide a few examples:

—Brown and Williamson Tobacco Corporation, the U.S. subsidiary of British American Tobacco, the largest manufacturer of tobacco products in the world, made a \$23-per-share bid for all of the shares of Gimbel Bros., Inc., the department store chain. This British offer halted a tender offer by Loews Corp., for a portion of Gimbel's shares at \$16 each.

The financing for the Brown and Williamson tender offer was arranged through a Euro-dollar loan by the London office of the Morgan Guaranty Company to Brown and Williamson.

—Slater Walker Securities, a London merchant banking firm, has bid for control of Franklin Stores Corp., a discount-and-apparel-store chain, for nearly \$22 million.

—Nestle Alimentana S.A., the Swiss-based multinational food-products concern, purchased the Stouffer Corporation from Litton Industries for about \$100 million.

—The Norwegian shipping magnate Hilmar Reksten, and Britain's P and O Steam Navigation Co. have offered to purchase the Texas-based Zapata Corp., a shipping, oil and real estate conglomerate. Reksten reportedly bid \$38 per share for the company stock at the time the stock was selling at \$24.

—Liquifin AG, a subsidiary of a large Italian industrial concern, offered to purchase for cash 52% of Ronson Corporation stock for \$8.50 a share. Ronson stock had closed the day before at slightly over \$6. The move by Liquifin triggered a strong response from the Ronson president and board of directors who unanimously urged stockholders to reject the offer and even took the matter to court. The Ronson management took out a full page advertisement in the June 8, 1973 *Wall Street Journal* to urge its stockholders to reject the offer.

The extent to which the two-tier stock market system has artificially stimulated the foreign takeover of U.S. firms is one of the major questions which the Subcommittee on Financial Markets may wish to study.

What steps are needed to "satisfy the needs of the nation", in the words of Jim Roche, to bring the individual investor back into the market and to generate capital formation for the thousands of well-managed American enterprises which form an integral part of the industrial backbone of this nation?

Various proposals and studies have been made.

VI. The Securities and Exchange Commission Study

Public Laws 90-483 and 91-410 directed the SEC to undertake an economic study of institutional investors and their effects on securities markets, the interests of issuers of securities, and the public interest. The study found little reason to fear the ". . . imminent domination by institutional investors of ownership of the nation's industry—without ruling out such a longer-term eventuality." It should be noted however, that the study covered a limited period of time before 1970 and the findings may be dated now, even if originally valid. The initial conclusions and recommendations of the SEC study are summarized in Appendix E.

A theme of the SEC study is that present reporting requirements and the Commission's present monitoring capacity do not afford the data or permit the continuing review necessary to evaluate the effects of institutional investment.

One indication of increasing concern on the part of the SEC is the statement of the recently departed SEC Chairman G. Bradford Cook who warned that the individual investor already has acquired the status of an "endangered species" and expressed concern about the growing institutionalization of the stock market.

The former Chairman told the Economic Club of Chicago that the Commission plans to ask Congress to pass an "Institutional Disclosure Act," which would give SEC authority to require all types of institutional investors—banks, insurance companies, pension funds, and others—to disclose holdings and transactions in securities over which they have investment authority. He said institutions might be required to report holdings as of the end of each quarter and their past quarter's block transactions. Block transactions might be those involving 1,000 shares or 1 percent of the shares outstanding, whichever is less.

The disclosure of institutional holdings would inform small investors of "institutional concentration" and "aid the Commission in meeting its responsibility to assure orderly and equitable markets." Cook felt institutions would want to provide this information to demonstrate that their market behavior is fair and proper. It could be provided without undue burden from computer records presently maintained by most institutions, he argued. The Commission might assemble and

collate such data, but the data should be of sufficient interest to corporations and market participants that a private collating effort might be profitable.

He expressed growing concern about the exodus of the individual investor from the market. He described the present market as "two-tiered," with large, internationally established growth stocks commanding all the attention and exhibiting high price-earnings ratios, while smaller, less established companies sell at ratios well below the levels of the past, despite record earnings gains. Financial institutions generally concentrate their activity in a relatively narrow range of established stocks. The activity of the individual investor brings trading interest and liquidity to the broad range of other stocks. "If the market-making capital for these smaller stocks continues to run dry, the effects on the over-the-counter market will hinder the ability of smaller and newer companies to raise new capital," Cook pointed out.

The current difficulties in our equity market may be accentuated by a current ceiling on dividends and the use of monetary policy to stem inflation resulting in higher interest rates, the former Chairman suggested. The SEC might explore removing this ceiling so that equities can compete more fairly with debt. The former Chairman further expressed the view that Congress should consider the benefits of an incentive to investment in small, young companies, but he made no specific recommendations.

Concessions such as those allowing deferral of taxes on pension fund participation until the benefits are paid out, and then providing for capital gains treatment on the income and appreciation may well encourage a participant to rely on his pension and avoid making direct market investments, he concluded.

The former Chairman again stressed that SEC is trying to combat the alienation of the small investor by cracking down on the misuse of inside information, bolstering the financial stability of the brokerage industry and expanding opportunities for small investors by pushing the development of the central securities market. That market is designed to put small investors on a more equal footing with institutions by allowing them to execute trades at the best prices available anywhere in the country, he added.

VII. Institutional Investors and U.S. Tax Laws

As former SEC Chairman Cook acknowledged, the issues raised by the growing dominance of institutional forces cannot be divorced from U.S. income tax laws. First of all, U.S. tax laws deal with all the institutions who invest in the market—pension funds, banks, insurance companies, foundations et al. Second, capital gains (and loss) provisions certainly affects market forces—and overall investment—in an im-

portant way. Some observers have claimed that the capital gains tax "locks in" capital that would otherwise be churning into new investment opportunities. A "liberalization" of the capital gains tax is recommended by some as a key to getting the individual back into the market, stimulating capital formation by American business and additional revenues for the Federal Treasury.

Those institutions investing in securities markets include both taxable and tax-exempt entities. Tax exempt entities (such as pension trusts) are generally permitted to exclude from tax all realized gains on investments in securities. Taxable entities are accorded a different benefit, that of capital gain treatment. In addition some institutions (such as life insurance companies) receive tax treatment designed to recognize the particular nature of their business. This special tax treatment generally encourages an increased flow of funds into these institutions by individuals.

The benefit to an institution occurs when its taxable ordinary income is reduced through special tax provisions available to the institution generally. This enables investment income to be offset by any special deductions or to be completely sheltered from tax by specific exclusions or deferral provisions. In addition, institutional investments in securities as well as certain other capital investments become advantageous because of preferential capital gain rates which are applicable to investments generally.

The tax laws provide preferential treatment on any gain received from the sale or exchange of certain types of assets (referred to as "capital assets"), which includes securities. Under present law, in the case of an individual (other than a dealer in securities) or a trust, if a security is held more than 6 months and thereby qualifies for long-term capital gain treatment, only one-half of the gain realized is included in taxable income and taxed at regular tax rates. Thus, long-term capital gains are, in effect, subject to tax at a rate that is one-half the marginal tax rate. Where an individual's or trust's marginal tax rate is over 50 percent, an alternative capital gains rate is available which allows up to \$50,000 of long-term capital gains to be taxed at a 25-percent rate.

In the case of corporations, the entire amount of a corporation's excess net long-term capital gains over net short-term capital losses can be taxed either at an alternative rate of 30 percent or at the regular corporate tax rate. Since the corporate tax structure is not graduated (as is the case for individuals) but is computed on the basis of a marginal tax of 22 percent of taxable income and a surtax of 26 percent of that part of the taxable income which exceeds \$25,000, usually only those corporations with taxable incomes in excess of \$25,000 (on which the tax rate would be 48 percent) will benefit by using the alternative tax.

Present law also provides a minimum tax on specified tax preference income, which includes capital gains, of both individuals and corporations. In general, this minimum tax amounts to 10 percent of the sum of the individual's or corporation's tax preference income to the extent it exceeds \$30,000 plus the regular income tax of the individual or corporation for that year, subject to certain other modifications.

Described below is a brief summary of the tax treatment accorded the various institutions which may invest in the securities markets.

In general, financial institutions are taxed in the same manner as regular corporations. However, commercial banks and certain savings and loan associations are accorded special treatment with respect to their bad debt reserves.

Present law allows taxpayers, in general, to compute deductions for business bad debts by either deducting specific bad debts when they become worthless or by deducting a reasonable addition to a reserve for bad debts. Taxpayers (other than financial institutions) who use the reserve method for bad debts generally must compute their addition to the reserve on the basis of their own experience with bad debts using a 6-year moving average (the current year and the 5 preceding years). Financial institutions have generally been allowed more generous bad debt reserve treatment. However, the Tax Reform Act of 1969 substantially limited this special treatment.

COMMERCIAL BANKS

Prior to 1969, commercial banks were able to build up their bad-debt reserves on the basis of an industry-wide 2.4-percent figure of outstanding loans not insured by the Federal Government in lieu of their actual experience (which on the average would have built up a bad debt reserve of only 0.2 percent of outstanding noninsured loans). This preferential treatment was provided in view of the catastrophic losses suffered by commercial banks during the depression years and was devised as a means to allow banks to build a sufficient reserve to cover any large future losses. In view of their actual experience (that is the average loss of about 0.2 percent), Congress believed it was appropriate to reduce the 2.4-percent figure that banks were permitted to use prior to 1969. The Tax Reform Act of 1969 gradually reduced the allowable deductions for additions to bad debt reserves of commercial banks over an 18-year period until 1988, at which time the special percentage method will be withdrawn completely, and they will be required to base their deductions for additions to bad debt reserves on their actual losses for the current and 5 preceding years, following the procedure generally used by other taxpayers. In fiscal year 1970, 14,554 banking institutions reported gross income of \$37.1 billion, on which they paid \$1.4 billion in Federal taxes.

PENSION TRUSTS

The Internal Revenue Code provides an exemption from tax for trusts which are part of qualified pension, profit-sharing, and stock bonus plans established by employers for their employees. These trusts are established to accumulate funds to make future benefit payments to employees and their beneficiaries. There is legislation pending before the Senate which would significantly increase the flow of funds into pension trusts.

Qualified plans and trusts must be for the exclusive benefit of employees and their beneficiaries, and it must be impossible under the trust instrument for any trust funds to be used for any other purpose. Also, a qualified plan cannot discriminate in favor of officers, shareholders or highly compensated employees. Additionally, the trust must be created or organized within the United States and must be valid under local law. Notwithstanding the tax-exempt status of a qualified trust, a trust may become subject to a tax on income from a business enterprise which is not related to the purpose of the trust.

Treasury estimates that Federal revenues are reduced by \$4 billion annually through deferral of employee income and exemption for pension trust income. Employer contributions to qualified pension funds currently approximate \$15 billion.

REGULATED INVESTMENT COMPANIES

The Internal Revenue Code provides that Regulated Investment Companies (any domestic corporation, with certain exceptions, registered under the Investment Company Act of 1940, including mutual funds and certain common trust funds) meeting specified requirements as to asset diversification, capital structure, and operations, and which distribute at least 90 percent of their ordinary income to shareholders are treated as "conduits" and taxed only on their undistributed income.

The shareholders of these institutions are then taxed on the income so distributed, and in certain cases, on the capital gains retained by the company which are deemed to have been distributed. In this case, a shareholder is permitted to increase the basis of his stock to properly reflect this tax payment. In fiscal year 1970, 660 regulated investment companies reported \$2.6 billion in gross income on which they paid \$114,000 in Federal taxes.

MUTUAL SAVINGS BANKS, SAVINGS AND LOAN ASSOCIATIONS, ETC.

Prior to 1969, mutual savings banks, savings and loan associations and cooperative banks (referred to as "mutual institutions" although including some stock companies) were permitted to compute additions

to their bad debt reserves on the basis of their actual experience or one or two alternative formulas, whichever produced the greater addition to the reserve. The Tax Reform Act of 1969 repealed one of the alternative methods and revised the second method; that is, it reduced the deduction available under the second method which was 60 percent of taxable income, with certain modifications, to 40 percent over a 10-year period. In general, this special provision is available only to those institutions primarily engaged in the business of home mortgage financing. In fiscal year 1970 mutual savings banks and savings and loan institutions reported gross income of \$15.3 billion, on which they paid \$218 million in Federal taxes.

INSURANCE COMPANIES

Life insurance companies.—Life insurance companies are generally subject to tax at the ordinary corporate rates on their income from all sources. Present law does provide, however, that in certain cases a life insurance company may defer the taxation on a portion of its gains from operations.

The net investment income of a life insurance company, investment yield, is allocated between the policyholder's account and the life insurance company.

The portion of the investment yield allocated to the policyholder's account is tax-free. These amounts are used to satisfy the company's contract liability requirements including allocations to life insurance reserves, pension plan reserves and certain additional obligational items.

The investment yield allocated to the life insurance company is subject to current taxation at regular corporate tax rates. For this purpose, the net long-term capital gains are includible in taxable investment income. However, these gains are excluded if the life insurance company uses the alternative capital gains tax rate.

The investment income allocable to policyholders is permitted to accumulate tax free until distributed. In the case of insured death benefits, no Federal income tax whatsoever is levied. In fiscal year 1970, 1,795 life insurance companies reported gross income of \$49.9 billion, on which they paid \$1.2 billion in Federal taxes.

Other insurance companies.—In general, other insurance companies are taxable at ordinary corporate rates. For this purpose, taxable income includes investment income and underwriting income. (Premiums earned on insurance contracts during the taxable year less losses incurred and expenses incurred). Total income is reduced by amounts set aside for losses, expenses or reserves. In fiscal year 1970, other insurance companies reported gross income of \$34.3 billion, on which they paid Federal taxes of \$167 million.

REAL ESTATE INVESTMENT TRUSTS

Real estate investment trusts (REIT's) which comply with the requirements of the Internal Revenue Code provide a conduit through which income from equity and mortgage investments in real estate, and from stock and securities, can be distributed to investors without being subjected to a tax at the trust level. In computing taxable income, qualifying REIT's are permitted a deduction for dividends paid, including capital gain dividends, to their shareholders.

In general, to qualify for this deduction a REIT must distribute at least 90 percent of its net income to its shareholders. A REIT also must have at least 100 shareholders, and at least 75 percent of its gross income must be from specified real estate investments. Up to 25 percent of REIT income may be from dividends, interest and gain from the sale of stock or securities, and up to 25 percent of the value of REIT assets may be in securities. In fiscal 1970, 292 returns reported gross income of \$395 million and paid Federal taxes of \$262,000.

POOLED INCOME FUNDS

Present law provides that a taxable trust which meets certain requirements and thereby qualifies under the Internal Revenue Code as a pooled income fund is allowed a deduction for amounts that are set aside for charity. Under a pooled income fund arrangement, a person transfers property to a public charity and retains an income interest in the property for the life of one or more beneficiaries living at the time of the transfer. A public charity, in turn, places the property in an investment pool and pays the donor (and any other designated beneficiary) the income attributable to the property for life.

Although the trust is not exempt from income tax, it is entitled to deduct amounts set aside for charitable purposes to the extent of the fund's long-term capital gain income. Accordingly, since capital gains are normally allocable to the public charity remainderman, the long-term capital gain income of the trust is not subject to tax. In the case of short-term capital gain income, the trust is entitled to a deduction only for amounts that the trust actually pays out as a charitable contribution during the year. Thus, the trust is subject to tax on the amount of any short-term capital gain income unless the amount of this gain is paid out to charity during the year. In fiscal 1970, 5,221 pooled income fund returns reported gross income of \$25.6 million, on which they paid \$1.5 million in Federal taxes.

EXEMPT ORGANIZATIONS

Under present law, certain types of organizations which meet various requirements under the Internal Revenue Code are generally exempt from Federal income tax. These organizations may be corpora-

tions or trusts and principally include charitable, religious, and educational institutions, social welfare organizations, civic leagues, and social clubs.

Although the investment income derived from certain passive sources such as dividends, interest, certain rents, royalties, and capital gains is not subject to tax, any income that is unrelated business income is subject to tax at regular individual or corporate rates. Generally, unrelated business income means income which is derived from regularly carrying on any trade or business that is not substantially related to the purpose for which the organization received its exemption. Although this income is subject to tax, various restrictions are imposed as to the extent to which an exempt organization may engage in business activities which are not related to its exempt purpose.

In addition to the tax on unrelated business income, certain tax-exempt organizations which are classified as private foundations are subject to a 4-percent excise tax on their net investment income which is generally defined to include interest, dividends, certain rents, royalties, and net capital gains. For fiscal year 1972, it is estimated that the 4 percent excise tax will yield approximately \$50 million in Federal revenues.

Appendix A

**Business Week article entitled "Are the Institutions Wrecking
Wall Street?"**

[From Business Week, June 2, 1973]

ARE THE INSTITUTIONS WRECKING WALL STREET?

"Like the curator of the National Zoo," said G. Bradford Cook, in his last days as chairman of the Securities & Exchange Commission, "I feel constrained to warn: The individual investor has acquired the status of an endangered species."

The individual investor is virtually gone from Wall Street these days—his place taken by the mutual funds, insurance companies, pension funds, and bank trust departments that buy and sell shares in colossal lots.

It is these institutions that dominate the nation's securities markets today, and if their dominance is forcing some long overdue changes in the basic structure of Wall Street, it is worrying a great many people who do not like what the institutions are doing with their enormous resources.

It is a fact that institutions trade stocks in such huge quantities that they accentuate price swings in the market—all the more so because institutions increasingly limit their investing to a relative handful of stocks. What has emerged is a highly volatile market in a few issues, a lackluster market in most issues—and a closed door to many of the companies that want to take their shares public. Beyond all that—and one prime reason the small investor has deserted the market—are allegations that institutions, because of their huge holdings, are privy to inside information of which the small investor is left ignorant. One example: While institutions got the word about Equity Funding and took to the boats, not one single wirehouse warned retail clients to bail out.

The current state of Wall Street—stock prices down sharply, dozens of brokerage houses in financial distress, the flow of new issues down to a trickle—has spotlighted the dominance of the institutions. But the concern would be there even if Wall Street were booming, because the growing might of the institutions, and the way they use that might, have such profound implications for the future of not only the securities industry, but of U.S. business in general.

"The swing to institutional dominance," says John C. Whitehead, chairman of the Securities Industry Assn. and a Goldman, Sachs partner, "has changed the character of the markets, endangered their

valuation capability, and demolished their liquidity." James M. Roche, until recently chief executive of General Motors Corp., frets about "the deplorable state of our capital markets—at the precise time in our national history when we face an extraordinary need for capital and for strong, vigorous capital markets." Roger G. Kennedy, vice-president for financial affairs at the Ford Foundation, says: "I don't believe you can call this a problem, because problem means an abnormality, something that will go away."

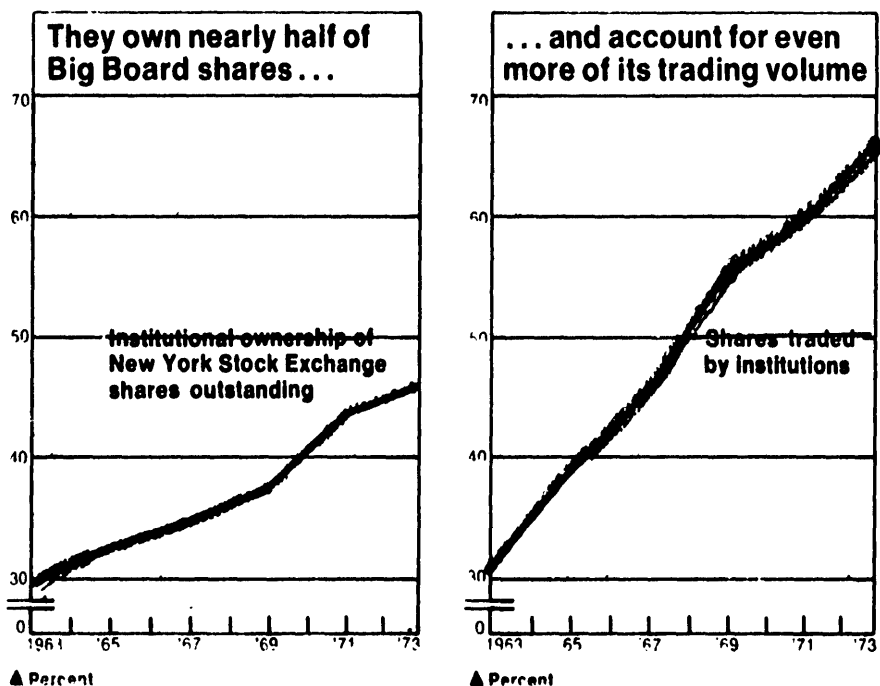
But the institutional domination of Wall Street will not go away. Rather, it is becoming more intense every day.

"In 1963," says Whitehead, "institutional investors accounted for 35% of the dollar value of New York Stock Exchange trading volume. That percentage today is over 70%. In some stocks, 90% of volume is institutional." President Paul Kolton of the American Stock Exchange estimates the total equity holdings of financial institutions today at \$310-billion. (Banks hold \$170-billion of that, mutual funds \$45-billion, insurance companies \$42-billion, foundations, investment counsellors, and smaller institutions the rest.) Robert Soldofsky, professor of finance at the University of Iowa, calculates the institutional total will grow to \$714-billion by 1980, and to \$5-trillion by the end of the century.

THE PASSING OF THE 'PRIVATE CLUB' EXCHANGE

There is a positive side to institutional dominance. The institutions have smashed the stock exchange's fixed commission rules that reward inefficiency by requiring all brokers to charge the same commission on a trade. Price competition is forcing Wall Street to change dramatically from what it used to be—a *mélange* of thousands of firms, most of them small, poorly capitalized, and badly managed. Tomorrow's Wall Street will mostly feature big, well-capitalized, professionally managed houses. The institutions, by seeking stock exchange membership, are forcing the exchanges themselves to change. No longer are exchanges the private clubs they had been. The institutions are forcing the exchanges to reexamine their basic operating practices, and the exchanges of the future—or, perhaps, the single, central, automated exchange of the future—will be more efficient than exchanges have been in the past.

How the institutions dominate Wall Street



But there is a price tag on all these changes, and it may prove to be a very high one. "If institutional dominance continues on its present course," warns Whitehead, "we can look forward in another decade to complete dominance of our markets and of our corporations by a relatively small handful of institutions—the kind of industrial society that currently exists in Europe and Japan."

The outstanding characteristic of markets overseas is their extraordinary lack of liquidity. In the U.S. today, such illiquidity is fast becoming the rule in the overwhelming majority of stocks. "In the name of playing safe with their clients' money," says chairman James Needham of the NYSE, "large institutional investors have been concentrating their activity in an ever-narrowing circle of investment choices."

To C. V. Wood, Jr., president of McCulloch Oil Corp. and chairman of the newly formed Committee of Publicly Owned Companies, this ever-narrowing circle consists of "70 sacred cows." President Paul Hallingby, Jr., of White, Weld & Co. thinks that "there are 200 or 300 stocks today in which liquidity is impressive." But a Boston executive puts the figure at only "25 to 40."

Morgan Guaranty Trust Co., with the biggest and often the boldest of the bank trust departments, holds 569 different stocks in its vaults, while the Ford Foundation owns 250 issues and Kennedy says, "I wish it were 1,000. If we could find that many well-managed companies that were well researched and carefully studied, we'd be in them."

Less important than what the institutions hold, though, is what they are buying today. Notes Whitehead: "One of our largest banks received over \$1-billion in retirement and pension fund money to invest last year. It placed 65% of that in just seven stocks, another 20% in eight others, and the balance in just 15 more."

TWO-TIER WOES AND REWARDS

So there is a two-tier stock market today. In the top tier, says Hallingby of White, Weld, the interest comes from individuals as well as institutions. In the lower tier, by contrast, "we've got the institutions absent and the individual disinterested."

The vast majority of stocks—90% or more—fall into the bottom tier, and with the institutions disinterested and the public absent, the price performance of these stocks has been simply awful. Wood's Committee of Publicly Owned Companies notes that in the 12 months that ended last March, the price of an average NYSE share declined by 23%, while the average decline of an American Stock Exchange share was 33%. Fully 75% of listed companies increased earnings, but only 5% increased price/earnings ratios.

"Between 1968 and 1972," says Whitehead, "our gross national product was up 33%, personal income was up 36%, and personal savings were at an all-time record. Yet stock prices, as measured by key, unweighted indexes, are off 50% from their 1968 peak."

The two-tier market rewards a few companies lavishly. Because they are institutional favorites, they are free to tap the market for additional equity financing, to use their stock for acquisitions, and to reward key people with valuable stock options. It penalizes a great many companies—shutting the door to additional equity financing and making stock options relatively worthless. Because there is market interest in only a relative handful of stocks, newer, smaller companies are finding it increasingly difficult to go public at all. And because the rewards of becoming an institutional favorite are so great, there is a temptation to do almost anything to achieve it—from cooking the books to lavishing favors on the analysts who recommend stocks and the money managers who buy them.

Whitehead was chairman of a Wall Street committee that provided technical advice to the group that did the study, and he observes that all the data came from 1969 and earlier. "Now there are new facts and figures," he remarks, "facts and figures that didn't exist in 1969, and they are both impressive and alarming."

Morgan Guaranty owns more common stock than any other institution on the face of the earth—\$2 billion worth of IBM, \$1.1 billion of Kodak, \$500-million or more of Avon, Sears, and Xerox. And Morgan executives insist that they have figures showing that their bank still invests for the long haul—that it turned over only 11.5% of its \$27-billion portfolio in 1972.

But Morgan also has figures showing that the average mutual fund turned over nearly half of its portfolio last year, and most institutions seem to be going after short-term trading profits more than ever before. That is worrisome because when the institutions trade, they do so in such enormous lots. Charles S. La Follette, senior vice-president of finance at Crown Zellerbach Corp., is concerned about “the pandemonium that would take place if, for example, three institutions sold all their Polaroid or Xerox.”

Foreign investors seem particularly disturbed by this trend. In London, Duncan FitzWilliams of the Foreign & Colonial Investment Trust complains that U.S. institutions “are no better than the old odd-lotters. There are huge swings. If you get many institutions to sell one stock, it falls 20 points in one day.”

There is nothing really inexplicable about the transformation of institutions, over the last decade, from investors to traders—and the growing tendency of institutions to trade just a very limited number of issues. “The funds all follow the recommendations of a few well-known research advisers,” says Robert H. Lentz, vice-president and chief counsel of Litton Industries, Inc. A thoughtful answer also comes from Sidney Homer, now a limited partner at Salomon Bros., but for years its leading theorist: “There are strong structural reasons why institutions tend to go one way or the other massively and almost in unison. They talk together. They know what the others are thinking and doing. They know their fellows can dominate near-term market trends. Furthermore, if their mistakes are shared with the best people in the biggest institutions, they are not censured as severely as if their mistakes arose from bucking a generally accepted opinion.”

THE CORPORATION'S HOMEMADE PROBLEM

While there is thus a reasonable rationale behind institutional movements and institutional portfolio concentration, it is of small comfort to the many corporations presently suffering. It is of equally small comfort that, in many cases, the problem is of the corporation's own making.

Company pension plans are the fastest-growing sector of all the fast-growing institutional groups. Already, they account for around 10 percent of total U.S. equities; by the end of the century, in the estimate of Professor Soldofsky of Iowa, they will account for 26 percent, or \$2.36-trillion.

Meanwhile, in their eagerness to contribute less of their earnings to their employee plans, corporations press their pension fund managers for pie-in-the-sky performance. In one tabulation of the instructions given managers by 40 corporations, 25 were insisting on "performance"; many ask their managers to outperform the S&P by 25% or more, a goal which would have called for a gain last year of nearly 20%.

To Roger Kennedy of the Ford Foundation, such aims appear unrealistic: "We see a total return of 9% or 10% a year as just fine: We think we'll be lucky to get 9% over the next five years."

But the demand for high performance is there, with banks competing against each other for pension fund business—and against insurance companies and investment advisory services as well. The failure to perform can result in the loss of valuable business, so portfolio managers struggle to outdo—or at least stay even with—their rivals. The result is the herd mentality that grips institutions today—presenting corporations with a plethora of problems.

Among the worst of these is the present worthlessness of previously prized stock options. Says McCulloch Oil's Wood: "My executives hold stock options between \$12 and \$25 a share, but the price of the stock is now less than \$10. They've lost part of their compensation, and I don't know what to do about it. You can't give them new options until their old ones have expired. It has affected their morale, of course, but thank God everyone else has been whacked in the same way."

Indeed they have, unless they are lucky enough to own options in an institutional darling. "Employees have knocked their brains out to improve our profit position," laments Robert V. Luongo, senior vice-president finance for Pennsylvania's Fischer & Porter Co., instrument and control manufacturers, who finds that rewarding them through stock options is now "hardly incentive." "We can no longer say, 'Hey guys, you've done a great job, here's another stock option.' They'll just come back and say that they haven't been able to exercise their last ones. Some of our people are in their fourth year of holding on to options. They say, 'Don't offer us any more incentives.' We may have to turn around and compensate them through direct salary."

Institutional fascination with just a few issues is dangerous in other ways. When a stock falls out of institutional favor, it can plummet like a stone—with a disturbing impact on the over-all tenor of the market. A classic case is Levitz Furniture Corp., which plunged from \$47 to \$33 in less than a half-hour last Sept. 29—a fall of nearly 30%. Virtually all the selling was by institutions as it was when Wrigley was hit for 30 points in one day, and when Handleman Co. lost 51% of its value in a single trade.

Because of this "air-pocket syndrome," institutions often cannot get out of stocks they want to sell, and despite the enormous resources of the institutions, many are literally starved for liquidity—locked into stocks they cannot dispose of without suffering heavy losses. It is painfully apparent that a substantial share of the assets of some of the biggest institutions are frozen—especially when the market is as depressed as it has been the past four months.

Perhaps the most disturbing aspect of this is that innumerable pension funds, which look rich on paper, would look considerably poorer if the stocks they are invested in ever had to be sold: many would even be actuarially unsound.

Most of the bank money in the market represents pension fund assets, and most banks have been as guilty as anyone in running with the pack—in narrowing their investing to just a few high-multiple issues.

People have come up with plenty of ways of dealing with institutional dominance—from breaking up the institutions into smaller units to limiting the amount of an individual issue that an institution can own, or the amount it can sell. Speaking in New York last week, Donald T. Regan, chief executive of Merrill Lynch and vice-chairman of the New York Stock Exchange, warned that "some restrictive formula about institutional sales may have to be worked out. If the number and amount of blocks dumped on the market at one time were reduced, large price swings would be minimized. That protection could only be realized at the cost of putting a limit on the institutions' right to instant liquidity. It may not be too high a cost."

NEW FACTS AND FIGURES

The conventional wisdom on Wall Street is that institutions are a stabilizing force in the market because they are mature, sophisticated investors, armed with plenty of solid research—in for the long haul and not likely to act precipitously. But much of that conventional wisdom is based on a report on institutional investors completed by the Security & Exchange Commission two years ago, and already sadly out of date.

A somewhat similar problem is noted by William A. Buzick, Jr., chairman of Consolidated Foods Corp. He complains that "institutional investors can trade in and out of our stock, and some institutions are less investors than traders. Many of them will sell off a profitable stock to buy something else they see as a bargain." The result of this institutional practice can be, for many companies, a lackluster stock price.

"This," Buzick observes, "goes to the intangible of morale within the company. You have stock purchase plans and pensions, but more than that you've got pride. You want to see your contributions recognized."

WHEN THE P/E RATIO IS TOO LOW

The agony is even more intense for the company that wants to tap the stock market for money. Batten, Barton, Durstine & Osborn, one of the world's largest advertising agencies, made plans last May (when ad agency stocks were selling at an average 15 times earnings) to go public in the fall. By October, however, the average multiple was down to 10. It has now sunk to 7, and the agency, says chief executive Tom Dillon, has shelved its plan for going public. In Dillon's words, "There are maybe 20 people in the agency who are aching a bit" through not being able to become stockholders.

Many companies, today, hardly know where to turn for expansion funds: President William T. Gimbel, of Los Angeles' Reliance Steel & Aluminum Co., says company executives now spend "70% or 80% of our time" hunting for cash because they can't raise money in the stock market. Reginald Jones, chairman of General Electric Co., recently examined price/earnings ratios of the Standard & Poor's 425 industrials and came up with some rather startling conclusions: 18 companies, with a composite multiple of 47, accounted for an increase equal to all the growth—\$111-billion—of the stocks in the index between 1965 and the end of 1972.

"This means that, taken together," says Jones, "the composite stock market valuation of the other 407 companies hasn't increased, during that period, by a dime . . . and the aggregate multiple of these other 407 stocks was only in the nine to 10 range, at the high." Concluded Jones: "The great disparities in valuations cause concern about the ability of the basic industrial backbone of our economy to attract the risk capital needed to continue the economy's growth."

Wood of McCulloch gives a good explanation of the risks of raising equity capital with a low p/e stock: "If a company selling at 10 times earnings sells equity, it has to make a 10% return on that equity to avoid dropping earnings per share. If it's selling at 20 times, by contrast, it only needs to produce a 5% return. If it's selling at 30 times, only 3.3%. You don't mind taking the risk of selling new equity when your multiple is 20 or 30, but nobody in his right mind is going to raise capital through equity when his stock is selling at 10 times." Today, of course, most stocks are selling at 10 times earnings or less.

Speaking specifically of McCulloch, Wood says: "We had planned to raise \$25-million in equity this year. We can't afford to sell equity now—so we'll have to raise that money another way. These days,

though, a company has only one other choice: to ruin its debt/equity ratio, and once you do that lenders want so many sweeteners you'd better be selling stock."

Wood raises still another problem. "We have fears of being acquired," he says. "When your company gets down to selling around book, it scares the hell out of you. You're bound to be nervous."

Big Board Chairman Needham worries about low multiples bringing a rash of takeovers from abroad. Joseph E. Cole, chairman of Cleveland's Cole National Corp., is concerned about a rash of companies closing down—and resultant unemployment. Cole, who is also finance chairman of the Democratic Party, predicts that "companies are going to have to shut down operations, putting people out of work—unless the small investor can be brought back to the market and companies can raise capital."

Without the individual investor, most business and financial executives agree, the capital markets cannot do their job. Furthermore, it also seems generally agreed, the individual will not return as long as he has his present feelings about the domination of the markets by institutions. Former SEC Chairman Cook referred to the "frequently expressed feeling" that "the cards are stacked against the individual in the market: that institutions get all the good research, the best prices, and—sometimes—inside information." Moreover, quantitative research proves that this is not just a gut feeling. The great majority of investors, recent surveys show, still believe that the stock market has good long-term potential, and even that it remains a good hedge against inflation—though some statistics might indicate otherwise. But they also believe it is being manipulated against them—partly through the unfair advantages of the institutions.

A FIGHTING CHANCE FOR INDIVIDUALS?

What can be done to give the individual an equal opportunity—or, at the very least, a fighting chance? The question, clearly, is subject to deep debate—as indeed is the question of whether anything should be done at all. There are those—such as Dr. Richard M. Cyert, president of Pittsburgh's Carnegie-Mellon University, and Dr. James H. Lorie of the University of Chicago, one of the world's most celebrated market theoreticians—who believe it would be wrong to restrict the freedom of institutions. Others, including Morgan Guaranty, doubt that the problem is as pressing as it presently appears.

In Washington, however, in most parts of Wall Street, and among businessmen all over the country surveyed by *Business Week*, there is a strong feeling that something has to be done—and quickly.

On Capitol Hill, a House staffer warns: "What we have is a situation not unlike the 1920s. Institutions are basically just a lot of pooled money--and what we are seeing today is the impact of pooling." Adds John E. Moss (D.-Calif.), chairman of the House subcommittee on commerce and finance: "I don't think we yet know the full impact of the institution on the markets. But this problem is key to what we will be doing to develop a central market system. It raises a serious question of the nature and depth of the auction market, if one continues to exist at all."

The key suggestions, ranked according to the degree of support they appear to enjoy:

1. All institutions should be legally obliged to reveal their holdings, at least quarterly, and to disclose their trading during the quarter.
2. No institution should be allowed to sell more than a given amount of any given stock in any one day.
3. No institution should be allowed to hold more than a small, set percentage of stock in one company.
4. Large institutions should be "broken up."
5. Institutions should be subject to the same restrictions as corporate insiders.
6. Capital gains treatment of small investors should be liberalized, as one means of redressing the balance between individuals and institutions.

There are a number of other suggestions, less widely supported, including limitations--as in commodity markets--on the amount a stock can move in one day; the idea that institutions should--as some are about to on the Philadelphia-Baltimore-Washington exchange--become market makers; a ban on private meetings between corporate managements and institutional shareholders; and a requirement that institutions give 30 days notice of their intention to buy or sell large quantities of any stock in their portfolios.

On Suggestion No. 1 there is near unanimity: This is overdue. Whitehead rather ruefully points out that "the most important recommendation of the SEC's 1971 Institutional Investor Study was that there should be legislation requiring the institutions to disclose their holdings, and their trading, every quarter. How anyone can oppose this sort of essential information gathering is beyond me." One institution that certainly does not oppose it is the Ford Foundation, whose Roger Kennedy says cheerfully: "Sure, we'll disclose as often as you like--every week, if necessary." But Kennedy cautions that too frequent disclosure could conceivably lead to a "follow my leader" type of derby--with everyone, institutions and individuals alike, racing along behind a few favorites. A similar argument is

advanced by Morgan Guaranty: "If brokers know our position, and know Morgan is selling, our holdings can be destroyed. Disclosure would work to our clients' disadvantage."

On balance, however, the benefits of disclosure would appear to outweigh heavily such possible drawbacks. For one thing, the revelation that many large institutions--such as the Ford Foundation and Morgan Guaranty--were *not* trading a given stock would probably serve to discourage panic selling (and panic buying) of a security. For another, disclosure would probably reveal that, in many cases, some distinguished institutions were buying what others, equally distinguished, were selling. (For example: While Morgan Guaranty's holdings of Polaroid were up \$170-million last year, First National City Bank was selling--to the tune of \$55-million.)

For a third reason, many portfolio managers try to follow the leaders, particularly the bank trusts, anyway, relying not on research but on guesswork and rumor as to what the leaders are doing. If they knew what the leaders were doing--and not doing--this argument goes, they would be less likely to react violently to rumors and to dump stocks on the slightest sign of weakness.

Finally, and perhaps most vital, disclosure would increase the confidence of individuals that the markets were not being manipulated by financiers in dark, small, smoky rooms. Says George L. Shinn, new president of Merrill Lynch: "The individual investor feels much more comfortable when he has more knowledge. When people don't know what's happening in the stock market, they either do nothing or they withdraw. We're seeing both symptoms."

Suggestion No. 2--that institutional dumping should be legally limited--is strongly favored, in one form or another, by powerful voices. It is also strongly disfavored by not a few others--notably from the stock exchanges. But in Business Week's survey, the pros seem to outnumber the cons strongly. John Whitehead's firm of Goldman, Sachs--with Salomon Bros., one of the two top institutional brokers--could be expected to suffer from any curbs on institutional trading. Whitehead, nonetheless, sees the situation as so serious that he questions not whether there should be curbs, but what form the curbs should take.

Shinn thinks the question needs more study, but he does think it is reasonable to put limitations both on the size of the blocks and the way they are sold. "The problems with institutions," he says, "is their desire for instant liquidity. They spend weeks or months accumulating blocks and then want to dump them in one day. Curbs should relate to the average daily volume in a stock and probably to its 'float.' "

More drastic are the ideas of the Committee of Publicly Owned Companies, whose Chairman Wood proposes: "Institutions should be kept

from selling more than one-quarter of 1% of any company's outstanding stock in one month. An institution selling that much stock hurts, but we can live with it. It's when they drop those two and three percents that you get problems." Another approach comes from La Follette at Crown Zellerbach. He believes that trading could be limited—but by placing limits on daily price movements, as in the commodities markets.

Kolton of the AMEX goes a long way toward accepting the principle of limits on institutional trading. The key question, he feels, is whether institutions will come to grips with their responsibilities—"to their markets, as well as to their beneficial owners."

"If they'll face these responsibilities," Kolton reasons, "there are a number of ways their impact could be controlled." Among those the Amex might favor: the application to institutions of some of the rules it applies to its own registered traders. For instance, such traders must "stabilize" on 75% of their trades—selling on upticks, buying on downs.

Executives of other exchanges are a lot more enthusiastic about Suggestion No. 3, which would limit the size, or percentage, of institutional holdings. Thomas Phelan, president of the Pacific Stock Exchange, feels that the market is now at a crossroads: "If conditions get any worse, definite limits should be placed on institutional holdings." John G. Weithers, executive vice-president of the Midwest Stock Exchange, is thinking along similar lines: "If you can't get the institutional problem into equilibrium without curbs, curbs are better than not doing it at all."

The Committee of Publicly Owned Companies says bluntly: "The amount of securities of a particular company that an institution or affiliated group of institutions may hold should be strictly limited." Industrialist Jacob O. Kamm, who on June 1 returned to the presidency of American Ship Building Co., does not favor fixing limits on institutional ownership by percentages, but he does believe in legislation that would have another, not dissimilar objective: that of keeping institutions from loading up portfolios with a handful of stocks. The average mutual fund, Robert A. Levy, of Computer Directions Advisors, points out, puts 30% of its assets into 10 stocks, while many funds have more than 50% in only 10 securities.

Speaking for one of the largest institutions, Kennedy of the Ford Foundation mentions that the Tax Reform Act of 1969 imposed some fairly stringent restrictions on foundations. "If we can do it," he says, "so can other institutions." Kennedy does point out that any percentage limitation on ownership might be less beneficial if it were applied equally to companies of all sizes. "In a small company," he says, "an institution may need to own a larger share at the outset to provide the company with needed capital."

BRINGING THEM DOWN TO SIZE

Suggestion No. 4, concerning the size of institutions, has support. "I think the Eisenhower farewell address is an important document," says Kennedy. "I believe that power should be effective—but that it should also be diffused."

There is a strong undercurrent of feeling these days on Capitol Hill, but also out in the business community, that the institutions are just too big—that they should be broken up. Thomas Phelan believes that the size of an institution—as well as the size of its holdings in a company—should be limited. Whitehead notes that the largest U.S. insurance company controls \$33-billion in investable funds—11 times the capital of the entire U.S. securities industry.

Representative Wright Patman (D-Tex.), chairman of the House Banking & Currency Committee, has long been in favor of forcing banks to spin off their trust departments. President Cyert of Carnegie-Mellon does not favor other sorts of restrictions on institutions, but he does feel that the regulation of institutional size may someday become necessary. He is not pushing for such a breakup, but he does say: "If the concern is concentration of power, then we should break up the institutions and bring them down in size, rather than try to regulate their freedom of choice."

Suggestion No. 5. Harold S. Coleman, senior partner of Bruns, Nordeman, the brokerage house, favors another approach: Treat institutions as corporate insiders are treated. As insiders, institutions would be obliged to disclose their holdings in stock, as well as their purchases and sales.

As insiders, they would also be discouraged from taking short-term profits in a stock—though Coleman is not ready to carry his idea that far. Should it happen though, the institutions, as insiders, would be forced to turn over any short-term profits to the company involved. And, as insiders, their responsibilities in regard to the use of information would be a good deal clearer than they are today.

In theory, at least, institutions would take big positions only on a long-term basis. Because they could no longer count on bailing out of a large position in a hurry, they would be encouraged to spread their wealth among a greater array of companies. This should also encourage the smaller investor to return to Wall Street—knowing that the major holders of a company's stock would be subject to a more rigorous set of standards.

As to Suggestion No. 6, the Committee of Publicly Owned Companies wants to get the tax laws changed as one means of bringing more small investors back into the market. "We believe" says the committee, "that the first \$10,000 in capital gains by smaller investors should be exempted."

The Securities Industry Assn. would change the tax laws another way—scaling down the capital gains rate according to the length of time the stock has been held. If the stock were held long enough, the investor would pay only a very modest tax. That, says Whitehead, would unleash more than \$200-billion— money now locked into positions by the potential capital gains tax bite. At the same time, he estimates, it would yield \$20-billion in tax revenues. Meanwhile, the SEC has urged Congress to consider incentives that would encourage investment in small, young companies— the sort of ventures most institutions will not touch.

What all observers are convinced of is what Hallingby of White, Weld calls “the secular trend to institutionalization of savings.”

Unless something quite unexpected happens, the flow of money into pension funds— and so into the banks and insurance companies—will continue to grow at a pretty rapid rate. In other words, the financial clout of the institutions will increase—not decrease—in the years ahead.

At the moment, it looks as if this will be allowed to happen without checks or controls: the securities legislation presently stalled on Capitol Hill does not even touch on the dangers of institutional dominance of the markets: Bradford Cook was well aware of the peril— but, since his resignation, the SEC is paralyzed.

If institutional influence increases uncontrolled, the consequences for the capitalist system may be disastrous. As Roche of General Motors has said, “Institutions do not serve the same function in our capital markets as do masses of individuals, and the *vitality* of these markets— based on the increased participation of the individual in corporate ownership—is the capitalist system's life blood.

“Without this vitality,” Roche goes on, “many of the business enterprises in our nation . . . will be unable to obtain new public financing . . . to modernize . . . to provide the goods, services, and employment opportunities our nation needs; they could be targets for takeovers by foreign capital; they could face problems of crisis magnitude.”

The leading institutional investors:

Most of the top 10 are banks

Institution	Investment portfolios [billions of dollars] *
Morgan Guaranty Trust	\$27.2
Bankers Trust	19.9
Prudential Insurance	18.3
First National City Bank	17.2
U.S. Trust of New York	17.0
Metropolitan Life Insurance	16.5
Manufacturers Hanover Trust	10.9
Mellon National Bank & Trust	10.5
Investors Diversified Services	9.7
Chase Manhattan Bank	9.2

*Excludes real estate investments

Data Money Market Directories, Inc

Appendix B

**Fortune article entitled "How the Terrible Two-Tier Market
Came to Wall Street"**

[From Fortune magazine, July 1973]

HOW THE TERRIBLE TWO-TIER MARKET CAME TO WALL STREET

(By Carol J. Loomis)

To many businessmen the stock market this year has seemed inexplicable, about as bizarre, say, as Watergate. The market has ignored the large, and often sensational, earnings gains being reported by corporations, and has gone relentlessly down. More than that, it has gone down with a great unevenness, much as a giant popover might lose steam.

On the one hand, the prices and price-earnings ratios of a few dozen institutional favorites—known around as “the Vestal Virgins”—have fallen only moderately. In fact, some of these stocks, among them Eli Lilly (at about forty times estimated 1973 earnings) and Avon (at about fifty-two times), were recently selling very near their highest p-e ratios ever. In contrast, the great majority of stocks have sunk to levels that suggest they have become virtual pariahs. In the early months of this year, Wall Street was already talking about a “two-tier market” of remarkable proportions. By May, stocks that had seemed cheap at March prices had collapsed still further—many to levels of four or five times expected 1973 earnings—and the situation was being described as unique in stock-market history.

The description is probably accurate, though a bit difficult to check out. What can be said with certainty is that there has been no comparable situation in recent history. This conclusion emerges from a special statistical study of price-earnings ratios that Fortune made for this article. Covering the period since 1948, the year before the great postwar bull market got under way, the study embraced 382 companies, most of them prominent members of the business community. It ascertained their p-e ratios at the end of every year through 1972 (the year-end price was measured against that year's earnings) and also at the end of the first quarter of 1973. Then for each period a “frequency distribution” analysis was done; that is, Fortune determined how many of those 382 companies had p-e ratios under 5 at the end of each period, how many had a p-e between 5 and 10, and so on up the scale.

The results show clearly that 1973 has been an extraordinary year in the market, to be ranked with such aberrant years as 1948 and 1961.

In 1948 stocks were so out of favor that a company was a real high-flyer if its p-e was above 10. The median p-e for those 382 stocks that year was an incredibly low 5.8. In contrast, 1961 was a euphoric time when a p-e ratio below 10 was an oddity; the median was way up at 19.4.

TWO EXTREMES AT ONCE

But those were periods when the whole market was carried to extremes. The market this year has been something else, a case of two extremes at once, and in between them a very deflated median. Specifically, at the end of 1973's first quarter, before the severe declines of April and May, the median p-e for those 382 stocks was 11.5, the lowest level since 1957. And in a pattern not otherwise seen during the twenty-six years under examination, 128 stocks had a p-e below 10 and thirty-four stocks had a p-e above 30. Moreover, because the stocks in that upper tier were so highly valued by the market, they absorbed a far greater proportion of investment dollars than the number of companies represented there would indicate.

No doubt, then, there is today a two-tier market of major dimensions, as shown in the chart on page 44. No doubt, also, that this situation is raising some new and very serious economic questions. The basic questions concern the country's capital markets, which have in the past demonstrated an outstanding ability to delivery equity capital to broad range of companies. The two-tier market suggests, however, that the range is narrowing and the universe in which investors are willing to sink their money is shrinking. If this situation persists, how are the great majority of companies to raise the equity capital they may need? Beyond that, what happens to the new company seeking equity capital for the first time? Optimistic answers to these questions are hard to come by.

Inevitably, these questions also lead to others about the role of the institutions in the stock market. The two-tier market owes its existence to the actions, and the nonactions, of both institutional and individual investors. But market conditions at the moment suggest that control of the situation lies in the hands of the institutions, and that the two-tier market will disappear only if they—and in particular those giants, the bank trust departments—decide to swerve from the investment policies on which they have leaned very heavily in the last few years. The power of the institutions to shape events seems right now more awesome than ever before—and also more subject to attack.

Already, of course, all sorts of companies in the lower tier of the market have expressed outrage at the low valuations placed on their stocks. Their very specific complaints have lately been joined by others focusing on the broader problem. Two notable protests came

recently from Reginald H. Jones, chairman of General Electric, and James M. Roche, retired chairman of General Motors. Jones was brought to worry about the ability of "the industrial backbone" of the economy to attract risk capital, and Roche warned that "our system cannot flourish solely on the basis of the health and strength of seventy-five glamour companies."

Even the Chairman of the New York Stock Exchange, James J. Needham, who would not normally think it his business to tout some stocks over others, was pushed to doing just about that. "It is certainly pertinent to inquire," he said deplorably in a speech, "why the large institutions persist in tightening their concentration in a favorite [few] stocks while ignoring hundreds of other choice investment opportunities."

INFLATION IS THE THIEF

That does sound like a pertinent line of inquiry to follow, and its pursuit should probably begin with a look at the bear market in which stocks have been trapped. This market, it would appear, reflects investors' growing recognition of certain negative points about stocks that were described by Fortune in an October, 1971, article, "A Bad New Era for Common Stocks." Its thesis was that inflation is robbing stocks of their value. For one thing, the "cost-push" inflation of the late 1960's put enormous pressure on corporate profits. Even now, with inflation more of the "demand-pull" variety and corporate profits booming, investors are obviously looking ahead with apprehension, fearing both a return to a cost-push era and a descent into a recession.

Second, inflation had by 1970 raised interest rates to very high levels and had forced investors to begin reconsidering what returns they expect from stocks. Historically, those returns, taken over the long term and on the average, have worked out to about 9.5 percent, including both capital gains and dividends. As long as interest rates were at much lower levels than 9.5 percent, which was the case during most of the postwar period, an expectation of such a return on stocks shaped up as very satisfactory. But with the yields of high-grade utility bonds above 9 percent, as they were for a time in 1970, or between 7.5 percent and 8 percent, as they have been recently, a return of 9.5 percent on stocks scarcely seems adequate compensation for the added risks that stocks involve.

The logical reaction of investors is to mark down the prices of stocks to levels that suggest future returns will comfortably exceed the rates available on bonds (although one investor's conception of what stock premium is "comfortable" may differ from another's). It would appear that investors have recently been in the process of making such a markdown.

WHY THE DIVIDEND CEILING HURTS

At least a small part of the markdown can surely be attributed also to the government's ceiling on dividends, which until it was modified significantly last month, had limited annual increases, in general, to 4 percent a year—a number both less than the recent rate of inflation and less than the 6.4 percent rate of growth in total corporate dividends in the decade before the ceiling was installed. It can be argued, of course, that what investors do not get in dividends they will instead get eventually in capital gains. But many investors do not find that argument persuasive; they prefer the certainty of dividends to the uncertainty of capital gains (even though these gains get a preferential tax treatment). Any development that reduces the importance of dividends in the total return is regarded as adverse.

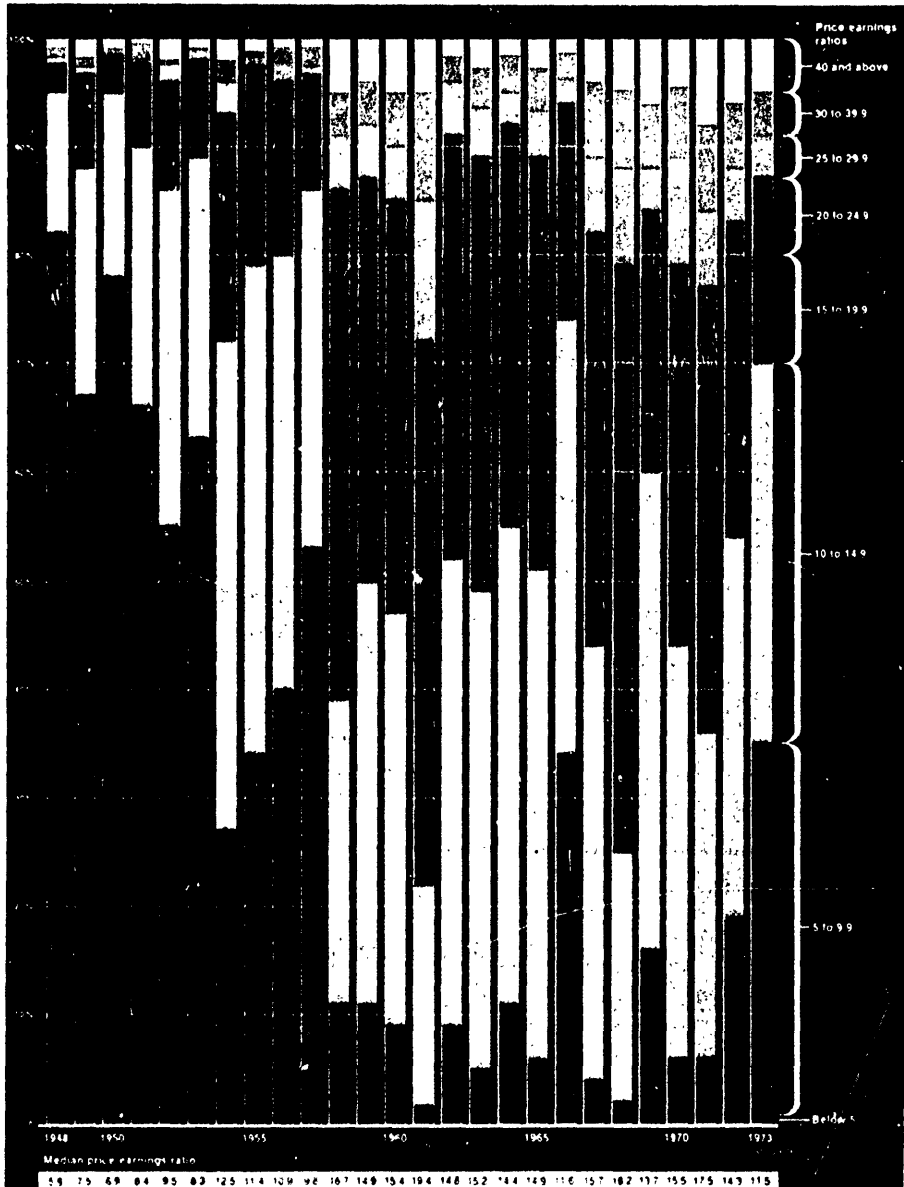
For all these reasons—doubts about profits and the economy, unhappiness about dividends, an awareness of what high interest rates mean—it is probably correct to say, as so many pundits have been saying, that a crisis of confidence has gripped the stock market. It seems much more doubtful that the crisis is also related to other developments, such as Watergate, the weakness in the dollar, and the sorry state of the brokerage industry. These developments seem peripheral, and in the case of the dollar, also closely tied to the basic problem of inflation. What investors are worried about is clearly something very fundamental, and also very resistant to correction.

Since the specter of inflation has been around for some time, it seems reasonable to wonder why stock prices so resolutely ignored its destructive effects through 1972. In other words, why only now the bear market? There are a couple of possible replies to that question. One is that it has simply taken the market a long time to comprehend that high rates of inflation, and with them high rates of interest, may be here to stay. The second reply is an attack upon the validity of the question itself. It all depends, it would appear, on which bear market it is you're talking about.

In the thinking of many investors, the bear market began this year, in January, when both the Dow-Jones industrial average and the Standard & Poor's 500 index hit their peaks; from those peaks until the end of May, the Dow-Jones average fell by 14 percent, the S. & P. index by 13. But those declines, though they probably come close to describing what happened to the total *dollars* invested in the market, delineate the bear market only up to a point. The problem with both the Dow-Jones and S. & P. indicators is that they are heavily affected by what happens to a limited number of large companies, whose experience may or may not reflect what is happening to all companies in the market. The S. & P. index, in particular, reflects the fortunes of companies that are both large and richly valued in the market;

I.B.M. alone, though it is but one stock out of 500 in the index, carries the weight of forty stocks.

To get a fix on what has been happening to the more typical company, it is necessary to look at an average that is both unweighted and broad based. This description happens to fit, among others, the average compiled by a stock-market service called Indicator Digest. Its procedure is simply to maintain an average of prices of all stocks on the New York Stock Exchange. That average peaked not this year but in late 1968! By mid-January of 1973, when the better-known averages peaked, the Indicator Digest average was already down 36 percent. In the next few months it proceeded to fall more than twice as fast as the S. & P. average. By the end of May the Indicator Digest average was down 54 percent from its 1968 high.



	Morgan Guaranty	Bankers Trust	First National City	Chase Manhattan	Manufacturers Hanover	Mellon Bank	First National of Chicago	Continental Illinois
Assets managed as of late 1972 (\$000,000):	27,437	19,877	17,157	16,176	10,931	9,799	8,421	8,167

Largest U.S. companies by market value: 12/31/72 (\$000,000)

	(\$000,000) Rank	Rank	(\$000,000) Rank	Rank	(\$000,000) Rank	(\$000,000) Rank	(\$000,000) Rank	(\$000,000) Rank
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PRAXER & GUMBLE	2,145	(8)						88	(20)	
COCA-COLA	2,072	(12)		308	(6)					
DU PONT	2,447					(15)				
FORM	2,017							76	(15)	
AMON	7,910	(4)	(2)	404	(4)		200	(4)	141	(8)
MOORE	7,320	(15)	(13)			(3)		60	(18)	
JOHNSON & JOHNSON	7,303		(7)	101	(14)		140	(8)		
STANDARD OF CALIF.	6,740		(17)			(7)				
MERCK	6,014	(16)	(6)	346	(5)	(12)	103	(11)	82	(13)
AMERICAN HOME PROD.	6,378	(11)	(11)				79	(15)	66	(17)

Each bank's other major holdings:

Disney (8)	Disney (4)	Phillips Petroleum (10)	I.T.T. (8)	Lilly (9)	Gulf Oil (1)	Standard (Ind.) (1)	Standard (Ind.) (1)
Polaroid (7)	Polaroid (9)	Kresge (12)	Standard (Ind.) (10)	Schering-Plough (10)	General Reinsurance (3)	Caterpillar (3)	(Ind.) (1)
Schlumberger (9)	Burroughs (12)	Penney (13)	Polaroid (11)	Baxter Labs (14)	Alcoa (4)	Federated Dept Stores (4)	McDonald's (9)
American Express (14)	Lilly (14)	Atlantic Richfield (16)	Atlantic Richfield (14)	Caterpillar (16)	Mellon National (5)	First Chicago (5)	Polaroid (10)
Kresge (16)	Sony (16)	Caterpillar (17)	Warner Lambert (16)	Corning Glass (17)	Heinz (9)	Whirlpool (10)	Burroughs (11)
Penney (17)	PepsiCo (19)	Corning Glass (18)	Kresge (17)	I.T.T. (18)	Kresge (10)	Beatrice Foods (12)	Philip Morris (15)
Philip Morris (19)	Westinghouse (20)	Caterpillar (17)	Union Carbide (18)	Express (19)	Disney (14)	Zenith (16)	First National City (17)
McDonald's (20)		Texas Instruments (20)	American Cyanamid (19)	Hewlett-Packard (20)	Caterpillar (15)	TRW (17)	BankAmerica (19)
			Bristol-Myers (20)		First National City (17)	Household Finance (18)	
					Naico Chemical (20)	American Hospital Supply (20)	

Each bank's top twenty holdings (\$000,000)	10,034	Not available	6,150	Not available	3,123	3,578	2,804	1,761
As a % of its total common stocks.	47%	Not available	52%	Not available	40%	50%	43%	31%

Harris Trust	First National of Boston	Northern Trust	Chemical Bank	Bank of America	Bank of New York	Cleveland Trust	Girard Bank	St. Louis Union Trust	1,000 Investment Cos. (Vickers data)
6,970	6,842	6,882	6,532	6,803	4,641	4,516	4,330	4,284	79,000

(2000,000) Rank (2000,000) Rank (2000,000) Rank (2000,000) Rank (2000,000) Rank (2000,000) Rank (2000,000) Rank (2000,000) Rank (2000,000) Rank

	88 (9)								
	88 (13)								
88 (5)				91 (16)	88 (4)				
				88 (12)					
				84 (9)					
				47 (15)					
				42 (20)					
				48 (14)					
88 (11)	148 (11)								
	88 (17)	88 (20)			88 (7)				

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I.T.T. (7)	Dow (10)	American Express (2)	First National City (8)	BankAmerica (5)	American Express (9)	Dow (4)	Rohm & Haas (2)	Anheuser-Busch (1)	Philip Morris (8)
Tampax (8)	Corning Glass (12)	Caterpillar (10)	Government Employees Ins. (13)	Sterling Drug (11)	Bristol-Myers (12)	Standard (Ind.) (10)	Campbell Soup (9)	Buch (1)	Polaroid (10)
Burroughs (10)	Monsanto (14)	Quaker Oats (11)	Philip Morris (16)	Standard (Ind.) (14)	Standard (Ind.) (14)	Sherwin-Williams (12)	Pizer (11)	Purina (3)	Burroughs (11)
Mercator (12)	First National City (15)	J. P. Morgan (12)	Halliburton (17)	Union Carbide (17)	(Ind.) (14)	Atlantic Lubrizol (14)	Richfield (14)	Mallinckrodt Chemical (4)	I.T.T. (12)
Mobrola (16)	I.T.T. (15)	First Chicago (13)	MGIC Investment (18)	Pacific Gas & Electric (18)	Squibb (16)	Colgate-Palmolive (15)	Rorer-Amchem (15)	Squibb (8)	McDonald's (13)
Echering-Frough (17)	Becton Dickinson (20)	Standard (Ind.) (14)		Dow (10)	Polaroid (18)	Lincoln National (18)	Weis Markets (16)	American Express (9)	Kresge (16)
Standard (Ind.) (18)		Warner-Lambert (15)			Connecticut General Ins. (19)	Warner-Lambert (20)	Smith Kline & French (18)	Green Group (15)	MGIC Investment (18)
Dow (20)		Commonwealth Edison (16)			Gillette (20)		Emery Industries (20)	Olin (16)	
		Norton Simon (17)						Emerson Electric (17)	
		General Mills (18)						Interco (20)	
1,474	3,324	1,388	1,983	886	1,980	1,987	1,360	Not available	12,481
30%	62%	27%	42%	25%	46%	34%	45%	Not available	Not available

This striking divergence between a broad-based and unweighted average and the more selective averages suggests that the foundations of the two-tier market have been under construction for some time. It may also suggest that the two-tier market is not a temporary phenomenon.

THE INDIVIDUAL HAS KEPT HIS COOL

Of all the groups that have had a hand in this market's construction, individual investors have probably played the most complicated role. It is a well-celebrated fact that individuals have for years—since 1959, in fact—been net sellers of stock (leaving aside, for the moment, their holdings of mutual funds). They remain, however, by far the biggest holders of stock, owning at the end of 1972 close to three-fourths of the total amount outstanding, worth about \$850 billion. That leaves about \$310 billion held by institutions and disproportionately concentrated, so studies have found, in the “big” stocks—those having the highest market value. Individual investors, perforce, are disproportionately concentrated in the smaller companies.

Their involvement with such stocks means that individuals have almost certainly taken a beating in this bear market, and it might be supposed this experience would have pushed their net sales of stock to new highs. All of those reports about the withdrawal of the individual investor from the market would also suggest that is true. But in fact, those reports appear to be greatly exaggerated. Federal Reserve figures for individuals (a category that includes nonprofit institutions, such as foundations and colleges) show that their biggest burst of selling came in the boom market of 1968, when they unloaded more than \$12 billion of stock. Since then they have sold at a much more moderate rate, averaging \$6.5 billion annually. Figures for the first quarter of 1973, though these are preliminary, show more of the same: no acceleration in selling at all.

It is possible, of course, that individuals stepped up their selling this spring, though if they did, much of the blame can possibly be given to margin calls, which increased enormously in the second quarter. In a fair number of cases—about a third of the total, one big brokerage firm says—margin calls were not being met. Even those margin customers staying in the market were not trading their holdings to any extent, nor were investors with cash accounts. In that respect, there is truth in all that talk about a flight from the market. Among other reasons, individuals were probably on the sidelines because of a reluctance, known to be ingrained in many investors, to sell at a loss. Any other way of selling has been hard to find lately.

A STUNNING REVERSAL IN MUTUAL FUNDS

With their direct holdings of stock, therefore, individual investors have stuck pretty much to the pattern of gradual selling they began to follow in 1959. But with their holdings of mutual funds, they have recently begun doing something entirely new. The investment world has long been used to a situation in which individuals were steady net buyers of mutual funds, with their purchases in many years going a long way to offset their net sales of regular stock. But last year, for the first time in at least thirty years, individuals redeemed more mutual-fund shares than they bought.

This reversal is surely related to the funds' inferior results in the last few years. Since 1968 the average fund, as tracked by Wiesenberg Services, has not paid off even as well as a 3 percent savings account. Just as surely this reversal is also related to certain alterations in regulatory policies and commission rates that have reduced the incentive brokerage firms and their salesmen used to have to sell mutual funds.

In any case, the changed circumstances of the funds are a major fact to be reckoned with in the stock market. As recently as 1969, the funds, more often than not playing the role of "anxious buyers," put \$2.5 billion into stocks. Forced to meet redemptions, they turned into "anxious sellers" last year and took \$1.9 billion out of the market. That meant a swing of \$4.4 billion, and the negative impact on the market is difficult to overestimate. This year the swing may be extended still further. In the first quarter the funds were siphoning money from the market at an annual rate of \$2.9 billion.

These pieces of gloom relate, of course, to the whole universe of mutual funds, and it should be realized that some funds—those relatively few with good records to talk about—have been taking in large chunks of money this year. And into what kind of stocks was this money being put? Growth stocks mainly, with high p-e ratios mainly—in other words, all of those inhabitants or near neighbors of the upper tier. Meanwhile, the funds hit with the biggest redemptions were those that have put their faith in the lower tier and have little but weak records to show for it. As these funds sold off stocks this spring to raise cash, the lower tier got pushed still lower.

ROOMING WITH DAVEY JONES

While all this was going on, certain institutions that are rather like rich relatives of the mutual funds—the life-insurance and casualty-insurance companies, state and local government pension funds, and the biggest stock buyers of all, private noninsured pension funds (normally called "corporate" pension funds)—were accumulating

money as they always do and were stoutheartedly funneling huge amounts of it into stocks. Their buying in the first quarter, in fact, as at a quite high annual rate of \$14.5 billion (the record is \$18.2 billion, set in 1971), about half of that flowing from the corporate pension funds.

But seemingly these buyers were doing almost nothing to support the lower tier. That point is difficult to prove with precision, since these institutions are not required to report publicly the details of their quarterly purchases and sales. FORTUNE, however, in a good many interviews with institutional buyers this spring, could find very few who were going into lower-tier stocks, or who even seemed to be thinking hard about doing so. And the market itself, of course, counts as evidence; had anyone been giving the lower tier much support, its stocks would not now be rooming with Davy Jones.

It is clear that these institutions do not see in the lower tier those same "choice investment opportunities" that Jim Needham does. Yet Fortune's study of price-earnings ratios shows clearly that a whole army of stocks are at levels that in the postwar period have come to be considered "cheap." Furthermore, if one focuses on *companies* rather than *stocks*, a good case can be made that there are excellent values around.

All sorts of companies, in cyclical industries mainly, that could recently be bought at book value (or lower) have for at least several years averaged a return on book value of, say, 11 percent or better and have reasonable expectations of maintaining (or improving) that return. An investor who buys into such a company at no more than book can also figure to earn 11 percent (or better) on his investment, both on the money with which he originally buys a piece of the action and also on every dollar of his earnings that the company retains and puts back to work in the company.

IGNORING AN 11 PERCENT PROPOSITION

If such a company pays a 6 percent dividend (which might be the case in today's market), the reinvested earnings will produce an average though not necessarily steady, earnings growth of 5 percent and a corresponding growth in book value. This growth may or may not be recognized simultaneously in the stock market. In any case, the investor owns a property whose underlying value is gaining at an average rate of 5 percent a year and that gain, combined with the 6 percent dividend, produces the 11 percent total return. The list of companies that look able to deliver 11 percent would run pretty long today. To name just a few of them: Brown Group, Colonial Stores, Goodyear, W.T. Grant, Grey Advertising, Indian Head, Kentucky Utilities, Marine Midland Banks, Munsingwear, Phelps Dodge.

An 11 percent return is a meaningful standard for several reasons. It exceeds bond interest rates by a margin that many investors would consider "comfortable." It is considerably above the 9.5 percent or so that investors, as a whole, have historically found it possible to earn on stocks. Most significantly, perhaps, it exceeds by quite a lot the annual rate of return that large institutions have shown themselves able to earn on stocks, on the average, over the last ten years.

The average for the 300 large pension funds whose performance is monitored by the brokerage firm of A.G. Becker has been 9.5 percent (and for the last five years only 7 percent). The average for the equity mutual funds followed by Wiesenberger was 9.2 percent for ten years (and only 4.8 percent over the last five years). Moreover, most institutions today, having been sobered by those performance numbers and also battered by a couple of post-1968 bear markets, are very restrained about their expectations for returns in the future. Few seem confident these days of doing better than 10 percent.

Yet the interest of these institutions in that 11 percent proposition appears almost nonexistent. Their attention, instead, is on the companies whose returns on capital are considerably higher—say, 14 percent and up—and whose earnings growth is considerably less subject to cyclical bumps and potentially much faster—perhaps 10 percent or more. These are the "good businesses" of the world, and could all stocks be bought at the same multiple of earnings, these are the ones that everyone would want to own. But the prices of these stocks have been affected relatively little by the bear market that has ravaged the rest of the list, and they can be had only at upper-tier prices. The question then becomes: is it rational for the institutions to stay with these expensive stocks when so many others can be bought at greatly reduced prices?

There are arguments on both sides of that question, and they are best looked at in terms of two forces that dominate the market: the corporate pension funds, which own about \$110 billion of stocks (out of total assets of about \$150 billion) and earlier this year were adding to stockholdings at a \$7-billion annual rate; and the bank trust departments, which manage about 80 percent of all corporate pension-fund dollars. The banks also manage an estimated \$240 billion for individuals. These assets, however, do not get the flow of "new money" that the pension funds do, nor turn over as rapidly in the market.

There is vigorous competition for the pension funds' business. Insurance companies and investment advisers would like to steal business away from the banks. The banks down the line would like to steal from the Big Two, Morgan Guaranty (\$16.6 billion in employee-benefit assets at the end of 1972) and Bankers Trust (\$15 billion). And Bankers Trust, of course, is gunning for Morgan. It so happens

that Morgan has a history of investing in growth stocks, and it has outperformed most big banks; some of its accounts have had, with their stock portfolios, a compounded return better than 13 percent over the ten years ending with 1972. Because of its performance and its size, Morgan has become the player that everybody in the game watches. Its influence clearly extends beyond the sums it manages.

Morgan operates under certain constraints that set a rather special pattern. In total, the bank manages \$27 billion, about \$21 billion of it in stocks, and it fervently wishes to keep most of that in a relatively few stocks in which it has maximum confidence. As a result, it needs big companies in which to invest—those whose stocks can absorb, say, \$50 million or more without going into orbit. “Big” companies, by Morgan’s definition, are those that have at least \$500 million in both market value and revenues; companies of that size, of which there are perhaps 300 in the country, qualify for large, direct investments by the pension funds that Morgan manages. Smaller companies usually are reached through pools of money (rather like mutual funds) that Morgan sets up, and in which its pension accounts participate.

Morgan’s employee-benefit accounts recently had \$13.3 billion in stocks, of which about \$9 billion (or 68 percent) was in fifty big companies. That makes an average investment of \$180 million per company. The remaining \$4.3 billion was invested in more than 550 companies of assorted sizes, for an average around \$7.8 million. In that assortment were 182 relatively small companies (generally with under \$100 million in market value and revenues) that Morgan believes to be comers and that are held in a \$970-million pooled account. There are varying ways to look at all these numbers. Morgan thinks of them as showing that its arms are wide open to smaller companies. Others would no doubt be struck by the degree of concentration in a relatively few stocks.

When Morgan invests in a big stock, it has every intention of staying in that stock, if not forever, at least for a long time. “We are not traders, we are investors,” goes the Morgan pitch for new pension-fund business. “We do not buy stocks with the idea of selling them at a specific price objective. We do not buy with the idea of selling high and buying back low.” Morgan’s belief in these principles is undoubtedly strong, but it should be noted that the bank really has no alternative strategy open to it. You cannot swing \$27 billion around from flower to flower. For that matter, you cannot easily swing even a few billion dollars around.

So Morgan and other big banks are constantly looking for what Wall Street has come to call “one-decision stocks” —i.e., stocks that can be bought and put away, with an expectation that they will produce at least some earnings growth in almost any kind of economic situation and will, over the long term, though not necessarily over any given short-term period, outperform the market as a whole.

Warren Buffett, a well-known and very successful private investor whose own preferences run strongly to investing in low-p-e “value” situations, thinks that Morgan’s strategy is quite rational—for the bank. “Morgan is sort of like a large conglomerate which must make decisions for the long term as to what kind of businesses it wants to be in. Would it be right for a conglomerate to sell its most profitable, best business just because it has a chance to pick up a not-so-great business at a cheap price? I doubt it. So I think, with all that money it’s got to worry about, Morgan is probably handling things about as well as it can. Which doesn’t mean, of course, that what they’re doing is necessarily right for *me*.”

IT’S RATIONAL BECAUSE IT WORKED

Nor does it mean that what may be rational for a giant like Morgan, or even for a few of its biggest competitors, is necessarily rational for all the smaller banks that are today playing follow-the-leader, and that could instead, if they chose to, go hunting for bargains. Nor are the tactics of any big bank necessarily rational for its clients, the pension funds. These investors are not obligated to place their money with giant institutions whose policies are significantly determined by the huge amounts of money they have to manage. They could instead manage their money themselves, or place it with smaller institutions with greater investment flexibility.

The trend, however, is not in that direction. In the competition for pension-fund money, the banks, as a whole, are probably gaining ground at the moment. Those banks identified with a growth strategy—Morgan, clearly, but also today First National City and Bankers Trust—are surely gaining more than others. And for one very simple reason: they have had their clients in the right stocks. In other words, what the banks have been doing can also be called rational because it has *worked*.

To be sure, it has worked in part because there has been a steady stream of banks and other institutions jumping into the top-tier stocks and pushing up their prices. In other words, the banks’ bets about market behavior are to some degree self-fulfilling. But to identify that as the only reason for success would be unfair. For it is also true that most of the top-tier companies have, as businesses, performed during recent years in the superior way they are supposed to.

To illustrate that point by an example that does not require hindsight, let us consider the profit performance of the fourteen companies in Fortune’s p-e study that had p-e ratios above 30 at the end of 1966. Three of these, Corning Glass, Superior Oil, and Texasgulf, had an earnings decline in the five tough years of inflation and recession that followed. But the fourteen stocks as a whole had a median annual

earnings growth of 8.8 percent. In contrast, the earnings growth of the S. & P. 500, even though it is heavily weighted by I.B.M. and a few other stocks that were among those fourteen, was less than 1 percent annually.

Focusing on comparisons of this sort recently, James Lane, president of Chase Manhattan's investment-management subsidiary, said they show "there is some rationality to the market and its divergence into two tiers." Lane's thoughts have a special significance, for during most of that 1966-71 period, Chase was heavily in the "wrong" stocks and did very badly in performance. Lately, like many other converts, it has been swinging more toward the upper tier.

THE TYRANNY OF QUARTERLY REPORTS

Chase's poor performance cost it a good bit of pension-fund business, and that brings up the final argument as to why the banks' current investment policies may be—for *them*—rational. Corporations today keep constant pressure on their investment managers, demanding from them the superior results that will permit reductions in the annual contributions these corporations must make to their pension funds. Many of the corporate executives who are today most incensed about the low prices of their stocks would no doubt be among the first to yell if their pension-fund managers bought low p-e stocks and did poorly with them. Many corporate executives, while complaining about the tyranny of a stock market that judges companies on the basis of such short-term measurements as quarterly results, today exact quarterly reports from their investment managers, and give these considerable weight in assessing performance.

Under such surveillance, many investment managers adopt strategies that seem to them suited to the game they're in. For example, if a bank buys, say, a Xerox, and that company's earnings go up 12 percent in the next year, its stock price may follow along. A low p-e "value" situation, on the other hand, may stay depressed for a long time before the gains in its earnings and book value begin to show up in its price; and while it may ultimately prove more profitable than the Xerox situation, that will be of small comfort to the bank if it has lost all of its pension-fund accounts.

The game also forcibly suggests to many investment managers that it is a mistake to be unorthodox and that the percentage play is to do what everybody else is doing. One Wall Street professional who talks regularly to bank portfolio managers counts as all too typical a remark made recently to him by one of them: "It doesn't really matter a lot to me what happens to Johnson & Johnson as long as everyone has it and we all go down together."

The few banks that have tried to steer a different course by moving into what they see as bargains in the lower tier have lately found the going rather tough. One such bank is First National of Chicago. Its portfolio, though studded with such standbys as I.B.M. and Kodak, is committed also to cyclical stocks and is less concentrated in the very largest companies than most other big bank portfolios are. As a result, the returns First National delivered its pension accounts last year, though these ran to around 14 percent, did not compare well with the returns of more than 20 percent realized by some of the New York banks.

First National has at least one client, Armour, that is not troubled by this fact. Armour also has pension-fund assets with other banks oriented toward growth stocks, and First National thus supplies some balance that Armour welcomes. But it does not appear that the bank, with its "different" approach, is picking up very many new pension-fund accounts these days. Howard E. Hallengren, who heads the trust department's investments, says the situation is not easy to live with "You get pressures building up to buy major growth stocks. You get them from everyone. From management: 'Why aren't you in the major growth stocks? From customers. In your own department, from portfolio managers.'" But Hallengren says he isn't wavering. "I keep thinking of what one of my old bosses used to say: 'Investment people have to have qualities of courage and patience.'"

While Hallengren waits, he can at least keep telling himself that he has bought his low-tier stocks at prices that can be rationalized. That is clearly more than most top-tier buyers can do. Their thoughts about the intrinsic value of growth stocks—which is admittedly one of the murkier subjects around—tends to be underdeveloped. The bank seem to buy instead mainly on the basis of "feel" and historical price ranges. We buy I.B.M., they say, when it approaches the lower limits of its range; we avoid it at the upper limits. The banks tend also to retreat into arguments that price doesn't mean that much anyway. What counts, they say, is to pick the right companies, and even then, they add, you can get by with an occasional misjudgment. "This is a batting-average game," says one trust officer. "You're going to lose a stock now and then—say, a Litton. But if your universe is a bunch of other very profitable companies, you can stand it."

That is true, of course, only so long as the universe itself is not marked down sharply. Were such a markdown to occur today, it would probably imply a switch from buying to selling by the banks themselves. It is not easy to see this kind of a move taking place right now, but it is always possible. Some market commentators identify weakness in the growth stocks with the end of a bear market, and expect firmly to see these stocks begin to crack.

IS IT HARDER TO BE SUPERIOR?

There can be no doubt, looking at the data that Fortune gathered on the largest holdings of the largest trust departments, that cracks in a few big blocks would do broad damage. Fourteen out of the seventeen banks included in the data have I.B.M., the market's biggest stock, as their No. 1 holding (the other three have it in second place) and better than half have 7 percent or more of their common-stock assets in that one company. (One bank, Chemical, has 13 percent.)

The tendency to bunch their investments in the same few big stocks suggests that the banks have created a kind of neutralized environment in which any one bank will find it extremely difficult to achieve a standout performance. These circumstances should logically prove most adverse to the banks that in the past have done better than others.

Morgan, however, disagrees that superior performance has become harder to achieve; one of its executives describes this premise as another example of the "mythologies" that are forever being created by Wall Street. It is Morgan's contention that the banks will continue to "mix" their stocks in significantly different ways and will continue to disagree about certain important stocks—as, for example, they are now disagreeing about Polaroid. Other banks also react testily to the thought that they have been "neutralized" and predict that the men will keep separating themselves from the boys.

Still, the banks do not feel at ease with the present degree of concentration, since they appreciate all too well the drastic price changes that can take place if a stock goes bad and everybody, as the saying goes, tries to get through the door at once. "Yes," says Quintin Ford, head of trust investments for Bankers Trust, "it does bother me that everybody is doing the same thing." But he finds "solace" in the quality of his research and is none too surprised that research leads other banks to so many of the same stocks.

There is in that statement the roots of a serious thought about the role that the banks are currently playing. It can be argued that they are focusing attention on the differences that exist between good and bad businesses, and are compelling the business world to recognize that smart money is not easily drawn into businesses that produce an inadequate return on capital. Take the top steel companies, for example. Maybe they would be cheap if on their dividends alone they provided investors a good return. But short of that point, why should any informed investor put his money into a business that makes only 5 or 6 percent on its equity capital, and that must, because its capital needs are inexhaustible, continually retain a major part of its stockholders' earnings to reinvest at those preposterously low rates?

COURTING POLITICAL TROUBLE

The two-tier market, however, has created a situation in which not only the bad businesses but also a lot of pretty good ones are in danger of being denied capital, and that puts the banks' concentration in a much more unfavorable light. Indeed, the strongest argument for saying that the banks' policies are irrational is that they probably are politically intolerable. The economic system can stand a lot of things that have been going on in the stock market, but it probably *cannot* stand the institutions all buying the same stocks.

Right now, shock waves from the two-tier market are being felt by venture-capital firms, who can neither in most cases take their investments to the public market nor merge them into bigger companies; those companies do not want to swap their stock when they think it is underpriced. As a result, the venture-capital firms are not freeing up capital with which to move into new investments.

Most larger companies have probably not been pinched for capital yet; they have been helped out by both the strength of profits and the ceiling on dividends. But a capital-spending boom is under way, just when companies have got their debt-equity ratios in decent shape and would like to keep them that way. A time will surely come when a good number of companies will want to sell stock or convertibles, and it is then that a two-tier market will begin to bind.

At such a point Washington could be heard from, and there might be a close race between Wright Patman's Banking and Currency committee and the Securities and Exchange Commission to get into the act first. Patman's committee has long been angry about the concentration of trust assets in the big banks, and there is no reason to think it will remain mute on this new angle. The SEC, meanwhile, approaches almost all problems involving the stock market or Wall Street from the perspective of how these will affect the country's capital-raising mechanism. Obviously it has something to think about here.

WHY US?

The banks certainly do not want any new battles with Washington. Yet they seem curiously unable to take this problem as seriously as they should. Joseph Alaimo, head of pension investments in Continental Illinois' trust department, said recently that there was nothing he would like more than to see the lower-tier stocks rise and do well. But he could not see why Continental Illinois should suddenly desert the investment policies with which it feels comfortable and go down to pull off the rescue. In other words, why us?

One answer may be "who else?" From time to time, market commentators forecast hopefully that foreign money will come pouring into the market. But it is not widely recognized that foreigners were buying U.S. stocks at record rates in the first quarter. They have also lately somewhat depopulated the lower tier by going after several whole companies, including Gimbels, but that is not the kind of help that chief executives of lower-tier companies have in mind.

There is always the possibility that the individual investor will abandon the habits he has formed over the last fourteen years and will once again become a net buyer of stocks. He began his selling, after all, in 1959, just after p-e ratios reached the relatively high levels near which they have since held. Now there is obviously a new p-e situation and maybe the individual might be lured back in. Unfortunately, that scenario would sound more likely if inflation fears were not so great and bond interest rates not so high.

The other answer to "why us?" is that some shopping in the lower tier just might be a pretty smart thing for the banks to do. Certainly they would be better off going voluntarily after the low-tier stocks than being pushed into it by Washington. And just as certainly there are companies down there any bank could live happily with, which is not something that at these price levels, and in this strange market, can be said with quite such conviction about the upper-tier stocks. Who knows? From about any angle, the lower-tier companies could turn out now to be the "right" stocks to buy.

Appendix C

**Excerpts from 1968 House Banking and Currency Staff Report
on Director Interlocks for Large Banking Institutions**

TABLE 1.—*Director and stockholder interlocks of major commercial banks*

Name of bank	Director interlocks		5 percent or more stockholding, total companies
	Companies per bank	Interlocks per bank	
Morgan Guaranty Trust Co.	233	251	270
Chase Manhattan Bank	193	208	158
Bankers Trust Co.	224	259	109
First National City Bank	167	188	229
Manufacturers Hanover Trust	200	257	132
Chemical Bank	278	326	67
Total	+1, 295	1, 489	965

TABLE 2.—*Interlocking relationships between Morgan Guaranty Trust Co., New York, N.Y., and major corporations*

[In order by standard industrial classification ¹]

Classification by SIC code, and name of company	Director interlocks	Employee benefit funds managed by bank	Percent of outstanding stock held by bank ²
Bituminous coal mining—SIC 121:			
Eastern Gas & Fuel Associates	1	1	
Ayrshire Collieries Corp.			6. 7-C
Rochester & Pittsburgh Coal Co.			39. 0-P
Crude petroleum, and natural gas—SIC 131:			
Louisiana Land & Exploration Co.	1		
Belco Petroleum Corp.	1		
Oil and gas field services—SIC 138:			
Westate Petroleum Co.			9. 8-C
Crude petroleum and natural gas—Nonproducers—SIC 139:			
King & Heyne Fifth Oil	1		

See footnotes at end of table, p. 67.

TABLE 2.—*Interlocking relationships between Morgan Guaranty Trust Co., New York, N.Y., and major corporations—Con.*

[In order by standard industrial classification ¹]

Classification by SIC code, and name of company	Director interlocks	Employee benefit funds managed by bank	Percent of outstanding stock held by bank ²
Chemical and fertilizer mineral mining—SIC 147: Texas Gulf Sulphur Co.-----	1	1	12.4-C
Meat products—SIC 201: Wilson & Co., Inc.-----	1	1	-----
Dairy products—SIC 202: Na- tional Dairy Products Corp.-----	1	-----	-----
Canning and preserving fruits, vegetables, etc.—SIC 203:			
General Foods Corp.-----	1	-----	-----
Campbell Soup Co.-----	2	1	-----
Standard Brands, Inc.-----	1	2	-----
Nonalcoholic beverages—SIC 209:			
Coca-Cola Co.-----	1	1	-----
PepsiCo, Inc.-----	-----	-----	7.2-C
Miscellaneous tobacco products— SIC 213: Conwood Corp.-----	-----	1	7.2-C
Textile mill products—SIC 221:			
Burlington Industries, Inc.-----	-----	1	14.5-C
West Point Pepperell.-----	1	-----	-----
Bates Manufacturing Co.-----	-----	-----	43.4-C 44.1-P
Textile knitting mills—SIC 225:			
Vanity Fair Mills, Inc.-----	-----	-----	11.9-C
Apparel—SIC 231:			
Jonathan Logan, Inc.-----	-----	-----	8.9-C
Bobbie Brooks, Inc.-----	-----	-----	8.2-C
Lumber and wood products, except furniture—SIC 231: United States Plywood-Champion Papers, Inc.-----	-----	1	9.8-C
Furniture and fixtures—SIC 251:			
General Interiors Corp.-----	-----	-----	11.0-C
Paper and allied products—SIC 262:			
Mead Corp.-----	2	-----	-----
Scott Paper Co.-----	1	1	18.4-P
Union Camp Corp.-----	2	-----	-----
Longview Fibre Co.-----	-----	-----	5.1-C
Hudson Pulp & Paper Corp.-----	-----	1	5.3-P
-----	-----	-----	15.2-C
-----	-----	-----	27.6-P
P. H. Glatfelter Co.-----	-----	2	5.3-C

See footnotes at end of table, p. 67.

TABLE 2.—*Interlocking relationships between Morgan Guaranty Trust Co., New York, N.Y., and major corporations—Con.*

[In order by standard industrial classification ¹⁾

Classification by SIC code, and name of company	Director interlocks	Employee benefit funds managed by bank	Percent of outstanding stock held by bank ²
Newspapers, periodicals and books—SIC 271:			
Time, Inc.....		1	8.1-C
McGraw-Hill, Inc.....			9.9-P
New York Times Co.....		1	5.6-P
Dow Jones Co., Inc.....	1		9.7-C
Simplicity Pattern Co., Inc.....			15.8-P
Harcourt, Brace & World, Inc.....	1		11.4-C
John Wiley Sons, Inc.....	1	1	6.0-C
Chemicals—SIC 281:			
Olin Mathieson Chemical Corp.....		1	6.8-C
Celanese Corp.....			7.5-C
			5.9-C
American Cynamid Co.....	1	1	
Air Reduction Co., Inc.....	1	1	
Stauffer Chemical Co.....	1	1	
Drugs—SIC 283:			
Bristol-Myers Co.....	1		
Merck & Co., Inc.....	1	2	
Smith, Kline & French Laboratories.....	1	1	
Mead, Johnson & Co.....	1		
Soap, detergents and cleaning preparations—SIC 284:			
Procter & Gamble Co.....	1		
Avon Products, Inc.....	1		6.5-C
Chesebrough-Pond's, Inc.....	1		14.1-C
Max Factor & Co.....			8.8-C
Lanvin-Charles of the Ritz, Inc.....			9.1-C
Agricultural chemicals—SIC 287:			
O. M. Scott & Sons Co.....	1		
Miscellaneous chemical products—SIC 289: Betz Laboratories, Inc.....			
			7.5-C
Petroleum refining—SIC 291:			
Continental Oil Co.....	2	1	
Cities Service Co.....	1	1	
Atlantic Richfield Co.....	1		
Tires and inner tubes—SIC 301:			
B. F. Goodrich Co.....	1	1	

See footnotes at end of table, p. 67.

TABLE 2.—*Interlocking relationships between Morgan Guaranty Trust Co., New York, N.Y., and major corporations—Con.*

[In order by standard industrial classification ¹]

Classification by SIC code, and name of company	Director interlocks	Employee benefit funds managed by bank	Percent of outstanding stock held by bank ²
Footwear, except rubber—SIC 314: Endicott Johnson Corp.....		1	10.5-C
Cement, hydraulic—SIC 324: Northwestern States Portland Cement Co.....	1	1	
Concrete, gypsum, asbestos, and plaster products—SIC 326: Johns-Manville Corp.....	1	2	
Owens-Corning Fiberglas Corp.....	1	1	
Vulcan Materials Co.....	1	1	
Lenox, Inc.....			5.4-C
Blast furnaces, steel works, and rolling and finishing mills—SIC 331: United States Steel Corp.....	2		
Bethlehem Steel Corp.....	2		
Abex Corp.....	1	1	
Carpenter Steel Co.....	1	2	
Washburn Wire Co.....	1		
General Steel Industries, Inc.....	1	1	
Smelting and refining of nonfer- rous metals—SIC 333: Kaiser Aluminum & Chemical Corp.....			5.7-P 6.6-C
Kennecott Copper Co.....		3	17.5-C
American Smelting & Refin- ing Co.....	1		15.5-C
American Metal Climax, Inc.....			8.7-C
Phelps Dodge Corp.....	1	1	6.0-C
General Cable Corp.....	1		
Revere Copper & Brass, Inc.....			7.9-C
Scovill Manufacturing Co.....	1	3	11.5-C
St. Joseph Lead Co.....	1	2	7.4-C
International Nickel Co. of Canada.....	3		
Alcan Aluminium, Ltd.....			5.1-C
Metal cans—SIC 341: Continental Can Co.....	1	6	

See footnotes at end of table, p. 67.

TABLE 2.—*Interlocking relationships between Morgan Guaranty Trust Co., New York, N.Y., and major corporations—Con.*

[In order by standard industrial classification ¹]

Classification by SIC code, and name of company	Director interlocks	Employee benefit funds managed by bank	Percent of outstanding stock held by bank ²
Cutlery, handtools, and general hardware: SIC 342:			
Gillette Co.....	2		
McKinney Manufacturing Co.....			6.9-P
Cole National Corp.....			6.1-C
Heating apparatus—SIC 343:			
American Radiator & Standard Sanitary Co.....	1		
Miscellaneous fabricated metals—SIC 349:			
Duriron Co., Inc.....			6.3-C
Hico Corp. of America.....	1		
Farm machinery, construction, mining, and materials handling machinery and equipment—SIC 352: Deere & Co.....			
		1	8.0-C
Metalworking machinery and equipment—SIC 354: Chicago Pneumatic Tool Co.....			
			14.5-C
General industrial machinery and equipment—SIC 356: Ingersoll-Rand Co.....			
	1		
Office, computing, and accounting machines—SIC 357: Litton Industries, Inc.....			
			6.2-P
Service industry machines—SIC 358:			
Carrier Corp.....			5.6-P
			16.5-C
Trane Co.....	1		11.9-C
Electric transmission and distribution equipment—SIC 361:			
General Electric Co.....	3		
Cutler-Hammer, Inc.....		2	17.6-C
AMP, Inc.....			7.5-C
Superior Electric Co.....			6.7-C
Household appliances—SIC 363:			
Singer Co.....	1	1	
Whirlpool Corp.....		1	5.6-C
Still Man Manufacturing Corp.....			36.7-C
Schick Electric, Inc.....	1	1	

See footnotes at end of table, p. 67.

TABLE 2.—*Interlocking relationships between Morgan Guaranty Trust Co., New York, N.Y., and major corporations—Con.*

[In order by standard industrial classification ¹]

Classification by SIC code, and name of company	Director interlocks	Employee benefit funds managed by bank	Percent of outstanding stock held by bank ²
Radio and television receiving sets—SIC 365: Andrea Radio Corp.-----	1		
Communications equipment—SIC 366:			
Raytheon Co.-----	1	1	
Texas Instruments, Inc.-----	1		
Gulton Industries, Inc.-----	1	1	
Sigma Instruments, Inc.-----	1		
Motor vehicles and equipment— SIC 371:			
General Motors Corp.-----	3	2	
Ford Motor Co.-----	2		
Chrysler Corp.-----	1		
Aircraft and parts—SIC 372:			
Ling-Temco-Vought, Inc.-----			5. 6-P
Boeing Co.-----	1		
TRW, Inc.-----			5. 5-C
Railroad equipment—SIC 374:			
Pullman, Inc.-----	1		
Instruments for measuring—SIC 381: Conrac Corp.-----			5. 5-C
Optical instruments and lenses— SIC 383:			
Polaroid Corp.-----			5. 5-C
Xerox Corp.-----			9. 7-C
Toys, amusements, sporting, and athletic goods—SIC 394: Ameri- can Machine & Foundry Co.-----	1		
Railroad transportation—SIC 401:			
Pennsylvania RR. Co.-----	1		7. 2-C
Southern Pacific Co.-----	1		
Atchison, Topeka & Santa Fe Ry. Co.-----	1		
Northern Pacific Ry. Co.-----	1		
Canadian Pacific Ry. Co.-----	1		
Pittsburgh, Fort Wayne & Chicago Ry.-----	1		
Public warehousing — Sic 422:			
Merchants Refrigerating Co.-----	1		
Deep sea transportation—SIC 441:			
United States Lines Co.-----	1		

See footnotes at end of table, p. 67.

TABLE 2.—*Interlocking relationships between Morgan Guaranty Trust Co., New York, N.Y., and major corporations—Con.*

[In order by standard industrial classification ¹]

Classification by SIC code, and name of company	Director interlocks	Employee benefit funds managed by bank	Percent of outstanding stock held by bank ²
Air transportation—SIC 451:			
United Air Lines, Inc.....			8. 2-C
American Airlines, Inc.....	1	1	7. 5-C
TWA, Inc.....		2	7. 4-C
Freight forwarding—SIC 471:			
Consolidated Freightways, Inc.....			9. 4-C
Telephone communications—SIC 481:			
American T. & T. Co.....	1		
General Telephone Co. of Indiana.....			7. 5-P
Puerto Rico Telephone Co.....		1	23. 8-P
Rochester Telephone Corp.....			40. 0-P
General Telephone Co. of Michigan.....			20. 0-P
Electric companies and systems— SIC 491:			
Consolidated Edison of New York, Inc.....	1	1	7. 0-P
Niagara Mohawk Power Corp.....	1	1	
Florida Power & Light Co.....		1	10. 0-P
			5. 3-P
Long Island Lighting Co.....			5. 8-P
Gulf States Utilities Co.....	1		
Louisiana Power & Light Co.....			7. 1-P
Central Louisiana Electric Co., Inc.....			6. 0-P
Texas Electric Service Co.....			6. 3-P
Kansas City Power & Light Co.....			5. 0-P
			6. 5-P
Oklahoma Gas & Electric Co.....			13. 1-P
New York State Electric & Gas Corp.....			11. 9-P
Florida Power Corp.....			5. 8-P
Pennsylvania Electric Co.....			10. 0-P
Gas companies and systems—SIC 492:			
Columbia Gas System, Inc.....	1	1	
Texas Eastern Transmission Corp.....			6. 7-P
Panhandle Eastern Pipe Line Co.....		1	5. 8-P

See footnotes at end of table, p. 67.

TABLE 2.—*Interlocking relationships between Morgan Guaranty Trust Co., New York, N.Y., and major corporations—Con.*

[In order by standard industrial classification ¹]

Classification by SIC code, and name of company	Director interlocks	Employee benefit funds managed by bank	Percent of outstanding stock held by bank ²
Gas companies and systems—SIC—			
Continued			
New Jersey Natural Gas Co.	1	1	-----
Laclede Gas Co.	-----	-----	6.3-P
Combination gas and electric com- panies—SIC 493:			
Rochester Gas & Electric Corp.	-----	-----	7.7-P
Iowa Illinois Gas & Electric Co.	-----	-----	7.5-P
Montana Power Co.	-----	1	5.0-P
Water supply companies and sani- tary services—SIC 494: Phila- delphia Suburban Water Co.			
-----	-----	-----	10.0-P
-----	-----	-----	9.5-P
Groceries and related products—			
Wholesale trade—SIC 504:			
Super Value Stores, Inc.	-----	-----	7.9-C
Filigree Foods, Inc.	-----	-----	17.9-C
Zausner Foods Corp.	1	-----	-----
Farm products—Raw material wholesale trade—SIC 505:			
Standard Commercial Tobacco Co., Inc.	-----	-----	6.1-C
Limited price variety and general merchandise stores—SIC 533:			
W. T. Grant Co.	1	1	10.3-C
S. H. Kress Co.	1	-----	-----
Grocery and miscellaneous food stores—SIC 541: Great Atlantic & Pacific Tea Co., Inc.			
-----	1	-----	-----
Apparel and accessories stores, ex- cluding shoes—SIC 561: Aber- crombie & Fitch Co.			
-----	1	1	-----
Jewelry stores—SIC 597: Tiffany & Co.			
-----	-----	-----	11.9-C
Life, accident, and health insur- ance—SIC 631:			
Prudential Insurance Co. of America	1	-----	-----
Metropolitan Life	1	-----	-----
New York Life	1	-----	-----

See footnotes at end of table, p. 67.

TABLE 2.—*Interlocking relationships between Morgan Guaranty Trust Co., New York, N.Y., and major corporations—Con.*

[In order by standard industrial classification¹]

Classification by SIC code, and name of company	Director interlocks	Employee benefit funds managed by bank	Percent of outstanding stock held by bank ²
Life, accident, and health insurance—SIC 631—Continued			
Aetna Life.....	1		
Mutual Life of New York.....	1		
Penn Mutual.....	1		
American National Insurance.....	1		
Fire, marine, casualty, and surety insurance—SIC 633:			
Continental Insurance Co.....	1		
Insurance Co. of North America.....	1		
Great American Insurance Co.....	1		
Glens Falls Insurance Co.....	1		
Federal Insurance Co.....	1		
Insurance agents, brokers, and and service—SIC 641: Marsh & McLennan, Inc.....			
		1	6.4-C
Real estate—Operators and lessors—SIC 651:			
Century Properties.....			15.0-C
Select Theatres Corp.....	1		99.9-C
			99.9-P
Massachusetts Real Estate Investment Trust.....	1		
Holding companies—SIC 671:			
Northwest Bancorporation.....			5.9-C
Miscellaneous investing institutions—SIC 1679: Continental Mortgage Investors.....			
			10.9-C
Advertising—SIC 731: Grey Advertising, Inc.....			
			6.5-C
Business services, not elsewhere classified—SIC 739:			
Allied Maintenance Corp.....			5.5-C
A. C. Neilson Co.....			5.3-P

¹ The Standard industrial classification designates the principal products manufactured or the major services furnished by each company. These classifications were prepared by the technical committee on standard industrial classification, under the sponsorship and supervision of the Office of Statistical Standards of the Bureau of the Budget, Executive Office of the President.

² The letter "C" designates a common or capital stock issue. The letter "P" designates an issue of stock other than a common or capital stock issue. Where more than 1 "P" appears under 1 bank's holdings, in most cases this indicates the holding of several different kinds of preferred stock.

TABLE 3.—*Interlocking relationships between Chase Manhattan Bank, New York, N.Y., and major corporations*

[In order by standard industrial classification ¹]

Classification by SIC code, and name of company	Director interlocks	Employee benefit funds managed by bank	Percent of outstanding stock held by bank ²
Gold and silver ores—SIC 104: International Mining Corp.....	1	1	-----
Metal mining nonproducers—SIC 107: Bristol Silver Mines.....	1	-----	-----
General building contractors—SIC 151: Stone & Webster, Inc.....	1	-----	-----
Universal Oil Products Co.....	-----	-----	13.5-C
Canning and preserving fruits, vegetables—SIC 203: General Foods Corp.....	2	-----	-----
Sugar—SIC 206: Sucrest Corp.....	1	-----	-----
South Puerto Rico Sugar Co.....	1	-----	-----
Cigarettes and tobacco—SIC 211: R. J. Reynolds Tobacco Co.....	1	-----	-----
Textile mill products—SIC 221: Burlington Industries, Inc.....	1	1	-----
Apparel—SIC 231: Jonathan Lo- gan, Inc.....	-----	-----	5.2-C
Lumber and wood products, ex- cept furniture—SIC 241: Geor- gia-Pacific Corp.....	1	-----	-----
Furniture and fixtures—SIC 25: Diebold, Inc.....	-----	-----	7.0-C
Paper and allied products—SIC 262: International Paper Co.....	1	-----	-----
Scott Paper Co.....	1	-----	-----
Lily-Tulip Cup Corp.....	1	2	-----
Newspapers, periodicals, and books—SIC 271: New York Times Co.....	1	-----	-----
Industrial inorganic and organic chemicals, etc.—SIC 281: Celanese Corp.....	1	3	-----
Hercules, Inc.....	-----	-----	6.3-C
Rohm & Haas Co.....	-----	-----	6.0-C
General Aniline & Film Corp.....	1	-----	-----
Chemetron Corp.....	1	-----	-----
Air Products & Chemicals, Inc.....	-----	-----	9.6-C
Wyandotte Chemicals Corp.....	-----	-----	8.3-C
Commercial Solvents Corp.....	1	1	5.1-C

See footnotes at end of table, p. 74.

TABLE 3.—Interlocking relationships between Chase Manhattan Bank, New York, N.Y., and major corporations—Continued

[In order by standard industrial classification ¹]

Classification by SIC code and name of company	Director interlocks	Employee benefit funds managed by bank	Percent of outstanding stock held by bank ²
Pharmaceuticals—SIC 283:			
Richardson-Merrell, Inc.....		4	10.4-C
G. D. Searle Co.....			5.5-C
A. H. Robins Co.....			7.8-C
Paints, varnishes, lacquers, enamels—SIC 285: National Lead Co.....			
	1	1	
Soap, detergents, and cleaning preparations—SIC 284: Colgate-Palmolive Co.....			
	1		
Petroleum refining—SIC 291:			
Standard Oil Co. of New Jersey.....	2	1	
Standard Oil Co. of Indiana.....	1	1	
Tires and inner tubes—SIC 301:			
Goodyear Tire & Rubber Co.....	1		
Armstrong Rubber Co.....			5.6-C
Cement, hydraulic—SIC 324:			
Lehigh Portland Cement Co.....	1	2	
Blast furnaces, steel works, and rolling and finishing mills—SIC 331:			
United States Steel Corp.....	2		
National Steel Corp.....			6.2-C
Youngstown Sheet & Tube Co.....	1	1	
Allegheny-Ludlum Steel Corp.....	1		5.2-C
Smelting and refining of non-ferrous metals—SIC 333:			
Anaconda Co.....	2	1	
Reynolds Metals Co.....			5.5-C
American Smelting & Refining Co.....	1		
Cerro Corp.....	1		
Fansteel Metallurgical Corp.....	1		
Arwood Corp.....		1	74.9-P 9.5-C
Titanium Metals Corp. of America.....			
	2		
Chile Copper Mining Co.....	1		
Miscellaneous fabricated metal products—SIC 349: H. H. Robertson Co.....			
			9.7-C

See footnotes at end of table, p. 74.

TABLE 3.—*Interlocking relationships between Chase Manhattan Bank, New York, N.Y., and major corporations—Continued*

[In order by standard industrial classification ¹]

Classification by SIC code, and name of company	Director interlocks	Employee benefit funds managed by bank	Percent of outstanding stock held by bank ²
Engines and turbines—SIC 351:			
Cummins Engine Co., Inc.....	1	.....	9.6-C
Farm machinery, construction, mining and materials handling machinery and equipment—SIC 352:			
Otis Elevator Co.....	1	.....
Bucyrus-Erie Co.....	1	1	.....
Metalworking machinery and equipment—SIC 354: United Engineering & Foundry Co.....	1	.....
Special industry machinery, ex- cluding metalworking machin- ery—SIC 355:			
Harris Intertype Corp.....			7.6-C
Cherry-Burrell Corp.....			7.2-P
Miehle-Gross-Dexter, Inc.....			7.3-C
Office, computing, and accounting machines—SIC 357:			
Addressograph-Multigraph Corp.....			8.5-C
Veeder Industries, Inc.....	1	.....
Service industry machines—SIC 358: Worthington Corp.....	1	.....
Electric transmission and distri- bution equipment—SIC 361:			
General Electric Co.....	1	.....
Essex Wire Corp.....	1	.....
Household appliances—SIC 363:			
Singer Co.....	1	1	.....
Whirlpool Corp.....	1	1	.....
Sunbeam Corp.....			8.5-C
Studebaker Corp.....	1	1	.....
George D. Roper Corp.....			7.1-C
Communication equipment—SIC 366:			
Sperry Rand Corp.....			5.1-C
Texas Instruments, Inc.....		1	8.9-C
Varian Associates.....			11.0-C
Beckman Instruments, Inc.....			8.7-C
International Telephone & Telegraph.....	1	.....

See footnotes at end of table, p. 74.

TABLE 3.—*Interlocking relationships between Chase Manhattan Bank, New York, N.Y., and major corporations—Continued*

[In order by standard industrial classification¹]

Classification by SIC code and name of company	Director interlocks	Employee benefit funds managed by bank	Percent of outstanding stock held by bank ²
Motor vehicles and equipment— SIC 371: Chrysler Corp.....	1		
Aircraft and parts—SIC 372:			
Boeing Co.....		1	8.7-C
United Aircraft Corp.....	1		6.2-C
Gyrodyne Co. of America, Inc.....		1	6.6-C
Ship and boat building—SIC 373:			
Newport News Shipbuilding & Dry Dock Co.....	1		
Optical instruments and lenses— SIC 383: Bausch & Lomb, Inc.....			9.4-C
Toys, amusement, sporting, and athletic goods—SIC 394: Ameri- can Machine & Foundry Co.....	1	1	
Railroad transportation—SIC 401:			
Pennsylvania R.R. Co.....	1		5.6-C
Potomac R.R. Co.....	1		
Western Maryland Ry. Co.....	1	1	
Wabash R.R. Co.....	1		
Detroit, Toledo & Ironton R.R. Co.....	1		
Trucking, local, and long dis- tance—SIC 421:			
Consolidated Freightways, Inc.....			8.8-C
Pacific Intermountain Ex- press Co.....			9.8-C
Roadway Express, Inc.....			8.9-C
Merchants Fast Motor Lines, Inc.....			6.1-C
Ryder System, Inc.....			7.9-C
Deep sea transportation—SIC 441: Moore & McCormack Co., Inc.....	1	1	8.5-C
Air transportation—SIC 451:			
Pan American World Airways.....		1	6.7-C
TWA, Inc.....		1	7.8-C
Eastern Air Lines, Inc.....			6.4-C
Northwest Airlines, Inc.....			11.0-C
Western Air Lines, Inc.....			6.7-C
Piedmont Aviation, Inc.....	1		

See footnotes at end of table, p. 74.

TABLE 3.—*Interlocking relationships between Chase Manhattan Bank, New York, N.Y., and major corporations—Continued*

[In order by standard industrial classification ¹]

Classification by SIC code, and name of company	Director interlocks	Employee benefit funds managed by bank	Percent of outstanding stock held by bank ²
Telephone communication—SIC 481:			
American Telephone & Telegraph Co.....	2	-----	-----
Southern New England Telephone Co.....	1	-----	-----
New York Telephone Co.....	1	-----	-----
Bell Telephone Co. of Pennsylvania.....	1	-----	-----
Radio broadcasting and television—SIC 483:			
CBS, Inc.....	-----	-----	5.9-C
ABC, Inc.....	1	1	-----
Communication Services—SIC 489: Communications Satellite Corp.....			
	1	1	-----
Electric companies and systems—SIC 491: Consolidated Edison of N. Y., Inc.....			
	1	-----	-----
Gas companies and systems—SIC 492:			
Panhandle Eastern Pipe Line Co.....	-----	-----	5.6-C
North Carolina Natural Gas Corp.....	-----	-----	5.0-C
Brooklyn Union Gas Co.....	1	-----	-----
Department stores—SIC 531:			
Federated Department Stores, Inc.....	1	-----	-----
Allied Stores Corp.....	1	3	-----
R. H. Macy Co., Inc.....	1	2	-----
Limited price variety and general merchandise stores—SIC 533:			
F. W. Woolworth Co.....	1	-----	-----

See footnotes at end of table, p. 74.

TABLE 3.—*Interlocking relationships between Chase Manhattan Bank, New York, N.Y., and major corporations—Continued*

[In order by standard industrial classification¹]

Classification by SIC code, and name of company	Director interlocks	Employee benefit funds managed by bank	Percent of outstanding stock held by bank ²
Grocery and miscellaneous food stores—SIC 541:			
Safeway Stores, Inc.....		1	6.7-C
Grand Union Co.....	1		
Purity Stores, Inc.....			25.4-C
International Basic Economy Corp.....	1	1	11.0-C 3.4-P
Apparel and accessories stores—SIC 561:			
J. C. Penney Co.....			5.1-C
Franklin Stores Corp.....			17.6-C
Eating and drinking places—SIC 581: Automatic Retailers of America, Inc.....			
			5.1-C
Drug and proprietary stores—SIC 591: White Cross Stores, Inc.....			
			6.3-C
Retail trade, not elsewhere classified—SIC 599: Hammond, Inc.....			
			19.5-C
Life, accident, and health insurance—SIC 631:			
Metropolitan Life.....	1		
Equitable Life Assurance.....	4		
Aetna Life.....			5.0-C
Travelers Insurance.....	2		
Jefferson Standard Life.....	1		
American General Insurance Co.....			7.0-C
Fire, marine, casualty, and surety insurance—SIC 633:			
U.S. Fidelity & Guaranty Co.....	1		
Continental Insurance Co.....	1		
American Reinsurance Co.....		1	6.7-C
Insurance agents, brokers, and service—SIC 641: Crum & Forster.....			
		2	5.3-C

See footnotes at end of table, p. 74.

TABLE 3.—Interlocking relationships between Chase Manhattan Bank, New York, N.Y., and major corporations—Continued

[In order by standard industrial classification ¹]

Classification by SIC code, and name of company	Director interlocks	Employee benefit funds managed by bank	Percent of outstanding stock held by bank ²
Real estate—operators and lessors, exclusive developers—SIC 651: American National Trust.....			5. 3-C
Real estate, subdividers, develop- ers, etc—SIC 655:			
Arvida Corp.....	1		
Great Southwest Corp.....	1		
Holding companies—SIC 671:			
Pennsylvania Company.....	1		
Miscellaneous investing institu- tions—SIC 679: Virginia Coal & Iron Co.....	1		

¹ The standard industrial classification designates the principal products manufactured or the major services furnished by each company. These classifications were prepared by the Technical Committee on Standard Industrial Classification, under the sponsorship and supervision of the Office of Statistical Standards of the Bureau of the Budget, Executive Office of the President.

² The letter "C" designates a common or capital stock issue. The letter "P" designates an issue of stock other than a common or capital stock issue. Where more than one "P" appears under one bank's holdings, in most cases this indicates the holding of several different kinds of preferred stock.

TABLE 4.—Interlocking relationships between Bankers Trust Co., New York, N.Y., and major corporations

[In order by standard industrial classification ¹]

Classification by SIC code, and name of company	Director interlocks	Employee benefit funds managed by bank	Percent of outstanding stock held by bank ²
Iron ores—SIC 101: Hanna Min- ing.....	2		
Crude petroleum and natural gas— SIC 131: Canadian Export Gas & Oil, Ltd.....	1		
General building contractors— SIC 151: Fluor Corp., Ltd.....		1	12. 1-C

See footnotes at end of table, p. 79.

TABLE 4.—*Interlocking relationships between Bankers Trust Co., New York, N.Y., and major corporations—Continued*

[In order by standard industrial classification ¹]

Classification by SIC code, and name of company	Director interlocks	Employee benefit funds managed by bank	Percent of outstanding stock held by bank ²
Food products—SIC 20 (combine 202, 203, 204, and 205):			
National Dairy Products			
Corp.....	2	1	-----
Deltown Foods, Inc.....	-----	1	12.6-C
Campbell Soup Co.....	1	-----	-----
H. J. Heinz Co.....	1	-----	-----
General Mills, Inc.....	-----	3	5.0-C
National Biscuit Co.....	2	2	5.0-C
Ward Foods, Inc.....	-----	1	12.5-C
Sugar—SIC 206: American Sugar Co.....	1	-----	-----
Cigarettes—SIC 211: Philip Mor- ris, Inc.....	2	1	-----
Miscellaneous tobacco products— SIC 213: Block Bros. Tobacco Co.....	-----	-----	10.5-P
Textile mill products—SIC 221:			
Collins & Aikman Corp.....	1	1	-----
Huyck Corp.....	1	-----	-----
American Manufacturing Co.....	1	-----	-----
Floor covering mills—SIC 227:			
Bigelow-Sanford, Inc.....	1	3	-----
Apparel—SIC 231: Bali Co., Inc.....	1	-----	-----
Paper and allied products—SIC 262:			
International Paper Co.....	2	1	25.5-P
Crown Zellerbach Corp.....	1	2	5.1-P
Federal Paper Board Co., Inc.....	1	1	-----
Printing and allied industries— SIC 275: American Bank Note Co.....			
-----	1	1	-----
Industrial inorganic and organic chemicals, plastic materials and synthetic resins, synthetic rub- ber and other manmade fibers except glass—SIC 281:			
Union Carbide Corp.....	1	-----	-----
Celanese Corp.....	1	-----	-----
Agricultural chemicals—SIC 287:			
International Minerals & Chemi- cal Corp.....	1	-----	-----

See footnotes at end of table, p. 79.

TABLE 4.—*Interlocking relationships between Bankers Trust Co., New York, N.Y., and major corporations—Continued*

[In order by standard industrial classification ¹]

Classification by SIC code and name of company	Director interlocks	Employee benefit funds managed by bank	Percent of outstanding stock held by bank ²
Petroleum refining—SIC 291:			
Mobile Oil Corp.....	1	2	
Continental Oil Co.....	2		
Tires and inner tubes—SIC 301:			
B. F. Goodrich Co.....	1		
Concrete, gypsum, asbestos, and plaster products—SIC 326:			
Owens-Corning Fiberglas Corp.....	1		
Flintkote Co.....			8.7-P
Blast furnaces, steel works, and rolling and finishing mills—SIC 331:			
Abex Corp.....	1		
Bundy Corp.....			11.0-C
Smelting and refining of nonferrous metals—SIC 333:			
St. Joseph Lead Co.....	1		
Foote Mineral Co.....	1		
Magma Copper Co.....	1	1	
Metal cans—SIC 341: American Can Co.....			
	2	5	
Cutlery, hand tools, and general hardware—SIC 342: Emhart Corp.....			
	1		
Farm machinery, construction, mining, and materials handling machinery and equipment—SIC 352:			
Otis Elevator Co.....	1	2	
Bucyrus-Erie Co.....	1		
General industrial machinery and equipment—SIC 356: Resistoflex Corp.....			
			13.1-C
Office, computing, and accounting machines—SIC 357:			
International Business Machines Corp.....	2	1	
Pitney-Bowes, Inc.....	2		
Service industry machines—SIC 358: Carrier Corp.....			
	1		

See footnotes at end of table, p. 79.

TABLE 4.—*Interlocking relationships between Bankers Trust Co., New York, N.Y., and major corporations—Continued*

[In order by standard industrial classification ¹]

Classification by SIC code, and name of company	Director interlocks	Employee benefit funds managed by bank	Percent of outstanding stock held by bank ²
Electric transmission and distribution equipment; electrical industrial apparatus; lighting and wiring equipment—SIC 361:			
Consolidated Electronics Industries Corp.....	1	1	-----
Thomas & Betts Co.....	-----	1	6. 3-C
Standard Motor Products, Inc.....	1	1	-----
Communication equipment, electronic components and accessories—SIC 366: Western Electric.....	2	-----	-----
Motor vehicles and motor vehicle equipment—SIC 371:			
Rockwell Standard Corp.....	1	1	-----
Purolator Products, Inc.....	1	1	-----
Aircraft and parts—SIC 374:			
General Dynamics Corp.....	-----	1	6. 2-C
Grumman Aircraft Engineering Corp.....	1	1	-----
Fairchild Hiller Corp.....	1	-----	-----
Thiokol Chemical Corp.....	1	-----	-----
Ship and boat building and repairing—SIC 373: Newport News Shipbuilding & Dry Dock Co.....	1	-----	-----
Railroad equipment—SIC 374:			
ACF Industries, Inc.....	1	8	-----
Instruments for measuring, controlling, and indicating physical characteristics—SIC 381:			
Neptune Meter Co.....	1	1	-----
Honeywell, Inc.....	-----	2	7. 5-C 8. 2-P
Optical instruments and lenses; ophthalmic goods; and photographic equipment and supplies—SIC 383: American Optical Co.....	1	-----	-----
Watches, clocks, clock-work operated devices and parts—SIC 387:			
General Time Corp.....	1	-----	-----

See footnotes at end of table, p. 79.

TABLE 4.—*Interlocking relationships between Bankers Trust Co., New York, N.Y., and major corporations—Continued*

[In order by standard industrial classification ¹]

Classification by SIC code, and name of company	Director interlocks	Employee benefit funds managed by bank	Percent of outstanding stock held by bank ²
Railroads—SIC 401:			
Delaware & Hudson Co.	1		
Delaware & Hudson RR. Corp.	1		
Public warehousing—SIC 422:			
Bush Terminal Co.	1		
Telephone communication—wire or radio—SIC 481: Cincinnati & Suburban Bell Telephone Co.			
	2	1	
Electric companies and systems— SIC 491: Holyoke Water Power Co.			
	1		
Gas companies and systems—SIC 492: Florida Gas Co.			
	1	1	
Combination companies and sys- tems, electric and gas—SIC 493:			
Consumers Power Co.	1		
Baltimore Gas & Electric Co.	1		
Department stores—SIC 531:			
Allied Stores Corp.	1		
Grocery and miscellaneous food stores—SIC 541:			
Grand Union Co.		1	12.8-P 5.0-C
Penn Fruit Co., Inc.	1		
Shoestores—SIC 566: Melville Shoe Corp.			
	1	1	11.0-P 9.4-C
Jewelry stores—SIC 597:			
Tiffany & Co.	1		
Kay Jewelry Stores.	1		
Life, accident, and health insur- ance—SIC 631:			
Prudential Insurance Co. of America.	1		
Metropolitan Life.	1		
Connecticut General Life.	1		6.4-C
Mutual Life of New York.	1		
Lincoln National Life.	1		7.7-C
Guardian Life of America.	1		
Citadel Life Insurance Co. of New York.	1		
Financial Life Insurance Co.	1		

See footnotes at end of table, p. 79.

TABLE 4.—Interlocking relationships between Bankers Trust Co., New York, N.Y., and major corporations—Continued

[In order by standard industrial classification ¹]

Classification by SIC code, and name of company	Director interlocks	Employee benefit funds managed by bank	Percent of outstanding stock held by bank ²
Fire, marine, casualty, and surety insurance—SIC 633:			
Great American Insurance Co.	1	-----	
Federal Insurance Co.	1	-----	
Real estate—Operators and lessors, except development—SIC 651: Furman-Wolfson Corp.			5. 0-C
Miscellaneous investing institutions—SIC 678: RAC Corp.	1	-----	

¹ The standard industrial classification designates the principal products manufactured or the major services furnished by each company. These classifications were prepared by the Technical Committee on Standard Industrial Classification, under the sponsorship and supervision of the Office of Statistical Standards of the Bureau of the Budget, Executive Office of the President.

² The letter "C" designates a common or capital stock issue. The letter "P" designates an issue of stock other than a common or capital stock issue. Where more than one "P" appears under one bank's holdings, in most cases this indicates the holding of several different kinds of preferred stock.

TABLE 5.—Interlocking relationships between First National City Bank, New York, N.Y., and major corporations

[In order by standard industrial classification ¹]

Classification by SIC code and name of company	Director interlocks	Employee benefit funds managed by bank	Percent of outstanding stock held by bank ²
Metal mining—nonproducers—SIC 107: Apex Minerals Corp.			5. 3-C
Bituminous coal and lignite mining—SIC 121: Blue Diamond		1	15. 0-C
Crude petroleum and natural gas—SIC 131: Panoil Co.		1	5. 2-C
General building contractors—SIC 151: Stone & Webster, Inc.	1	-----	
Canning and preserving fruits, vegetables—SIC 203: General Foods Corp.	2	2	-----
Grain mill products—SIC 204: General Mills, Inc.	1	-----	

See footnotes at end of table, p.86.

TABLE 5.—*Interlocking relationships between First National City Bank, New York, N.Y., and major corporations—Con.*

[In order by standard industrial classification ¹]

Classification by SIC code, and name of company	Director interlocks	Employee benefit funds managed by bank	Percent of outstanding stock held by bank ²
Alcoholic and malt beverages—SIC			
208: National Distillers and Chemical Corp.....	1	2	12.4-P 16.4-P
Cigars—SIC 212: Consolidated			
Cigar Corp.....			6.3-C
Textile mill products—SIC 221:			
Wyomissing Corp.....	1	2	
Paper & Allied Products—SIC			
262:			
St. Regis Paper Co.....	2	1	
Kimberly-Clark Corp.....	1		
Boise Cascade Corp.....			18.5-P
Potlatch Forests, Inc.....	1		
Building paper and building board			
mills—SIC 266: Upson Co.....	1		
Newspapers, periodicals, and			
books—SIC 271:			
McGraw-Hill, Inc.....			5.8-P
Charles E. Merrill Books, Inc.....			12.8-C
Prentice-Hall, Inc.....			8.7-C
Wadsworth Publishing Co., Inc.....			10.0-C
Allyn Bacon, Inc.....			7.5-C
Harcourt, Brace & World, Inc.....			7.6-C
American Book Co.....	1		
Meredith Publishing Co.....	1		
Doubleday & Co.....			23.4-C
Industrial inorganic and organic			
chemicals—SIC 281:			
Monsanto Co.....	2	2	
W. R. Grace Co.....	3		
Allied Chemical Corp.....	1	1	
Celanese Corp.....			5.6-P
Koppers Co., Inc.....	1		
Hooker Chemical Corp.....			6.0-P
Drugs—SIC 283:			
Bristol-Myers Co.....	1		
Upjohn Co.....			6.1-C
Soap, detergents, and cleaning			
preparations—SIC 284:			
Procter & Gamble Co.....	1		
Colgate-Palmolive Co.....	1	2	

See footnotes at end of table, p. 86.

TABLE 5.—*Interlocking relationships between First National City Bank, New York, N.Y., and major corporations—Con.*

[In order by standard industrial classification ¹]

Classification by SIC code, and name of company	Director interlocks	Employee benefit funds managed by bank	Percent of outstanding stock held by bank ²
Petroleum refining—SIC 291:			
Standard Oil of New Jersey.....	1	1	-----
Mobil Oil Corp.....	2	-----	-----
Phillips Petroleum Co.....	-----	6	6.6-C
Sinclair Oil Corp.....	2	1	-----
Glass and glass products—SIC 321:			
Owens-Illinois, Inc.....	1	-----	-----
Corning Glass Works.....	2	4	8.5-C
Concrete, gypsum, asbestos and plaster products—SIC 326:			
Johns-Mansville Corp.....	2	-----	-----
Blast furnaces, steel works, and rolling and finishing mills—SIC 331:			
United States Steel Corp.....	1	-----	-----
Dayton Malleable Iron Co.....	-----	-----	7.8-C
Smelting and refining of non- ferrous metals—SIC 333:			
Anaconda Co.....	2	2	-----
Reynolds Metals Co.....	-----	-----	7.5-P
Kaiser Aluminum & Chemical Corp.....	-----	-----	7.6-P
Kennecott Copper Corp.....	2	-----	-----
Phelps Dodge Corp.....	1	1	-----
Scovill Manufacturing Co.....	-----	1	15.8-P
Arwood Corp.....	1	-----	-----
Metal cans—SIC 341: American Can Co.....	2	1	-----
Farm machinery, construction, mining and materials handling machinery and equipment—SIC 352: Dresser Industries, Inc.....			
-----	1	-----	-----
Metalworking machinery and equipment—SIC 354: Kearney & Trecker Corp.....			
-----	-----	-----	6.5-C
Special industry machinery, ex- cluding metalworking machin- ery—SIC 355:			
Ritter Pfaudler Corp.....	1	-----	-----
Hobart Manufacturing Co.....	-----	-----	8.0-C

See footnotes at end of table, p. 86.

TABLE 5.—*Interlocking relationships between First National City Bank, New York, N.Y., and major corporations—Con.*

[In order by standard industrial classification ¹]

Classification by SIC code, and name of company	Director interlocks	Employee benefit funds managed by bank	Percent of outstanding stock held by bank ²
General industrial machinery and equipment—SIC 356: Ingersoll- Rand Co.....	1	-----	-----
Office, computing, and accounting machines—SIC 357:			
International Business Ma- chines Corp.....	1	-----	-----
National Cash Register Co.....	2	1	-----
Service industry machines—SIC 358:			
Carrier Corp.....	-----	-----	11. 5-P
Tecumseh Products Co.....	-----	-----	15. 8-P
Electric transmission and distribu- tion equipment—SIC 361:			
General Electric Co.....	1	-----	-----
Westinghouse Electric Corp..	1	2	6. 6-P
Serval, Inc.....	-----	-----	7. 5-P
Radio and television receiving sets—SIC 365: Magnavox Co.....	1	-----	-----
Communication equipment—SIC 366: International Telephone & Telegraph.....	1	1	-----
Motor vehicles and motor vehicle equipment—SIC 371:			
Ford Motor Co.....	1	-----	-----
Borg-Warner Corp.....	1	1	-----
Eaton, Yale & Towne, Inc.....	-----	-----	11. 7-P
Mack Trucks, Inc.....	-----	-----	14. 8-P
Aircraft and parts—SIC 372:			
Boeing Co.....	1	3	-----
United Aircraft Corp.....	2	-----	-----
TRW, Inc.....	-----	-----	6. 2-P
Railroad equipment—SIC 374:			
ACF Industries, Inc.....	1	1	-----
Optical instruments and lenses— SIC 383:			
Bell & Howell Co.....	1	-----	-----
Xerox Corp.....	2	-----	5. 0-C

See footnotes at end of table, p. 86.

TABLE 5.—*Interlocking relationships between First National City Bank, New York, N.Y., and major corporations—Con.*

[In order by standard industrial classification¹]

Classification by SIC code and name of company	Director interlocks	Employee benefit funds managed by bank	Percent of outstanding stock held by bank ²
Toys, amusement, sporting goods, etc.—SIC 394: American Ma- chine & Foundry Co.....			8.7-P
Jewelry, silverware, plated ware, etc.—SIC 391: Oneida, Ltd.....		1	5.5-C
Railroad transportation—SIC 401:			
Southern Pacific Co.....	1		
Union Pacific RR. Co.....	1		
Great Northern Ry. Co.....	1		
Northern Pacific Ry. Co.....	1		
Local and suburban passenger transportation—SIC 411:			
Trans-Caribbean Airways, Inc.....	1		
D.C. Transit System, Inc.....	1		
Public warehousing—SIC 422:			
Merchants Refrigerating Co.....	3		10.2-C
Services incidental to water trans- portation—SIC 446: Coastal Ship Corp.....			11.2-C
Air transportation—SIC 451:			
United Air Lines, Inc.....			7.4-P
Pan American World Airways.....	1	2	
Telephone communication—SIC 481:			
American Telephone & Tele- graph Corp.....	1		
Southern New England Tele- phone Co.....	1		
Commonwealth Telephone Co.....			19.1-P
New Jersey Bell Telephone Co.....	1		
New York Telephone Co.....	1		
Rochester Telephone Corp.....			10.0-P 7.1-P
Hawaiian Telephone Co.....			5.0-P 9.6-P
Wisconsin Telephone Co.....	1		
Ohio Bell Telephone Co.....	1		
Radio and TV broadcasting—SIC 483: ABC, Inc.....	1		

See footnotes at end of table, p. 86.

TABLE 5.—Interlocking relationships between First National City Bank, New York, N.Y., and major corporations—Con.

[In order by standard industrial classification ¹]

Classification by SIC code and name of company	Director interlocks	Employee benefit funds managed by bank	Percent of outstanding stock held by bank ²
Communications services, not else- where classified—SIC 487: Com- munications Satellite Corp.....	1	-----	-----
Electric companies and systems— SIC 491:			
Consolidated Edison Co. of New York, Inc.....	2	1	6. 1-P
Southern California Edison Co.....			8. 2-P
Virginia Electric & Power Co.....			5. 0-P
Northern States Power.....			9. 1-P
			5. 8-P
			8. 0-P
Long Island Lighting Co.....	1	-----	8. 2-P
Gulf States Utilities Co.....			7. 2-P
Texas Power & Light Co.....			15. 3-P
Connecticut Light & Power Co.....			5. 8-P
Narragansett Electric Co.....			5. 3-P
Ohio Power Co.....			11. 3-P
Louisiana Power & Light Co.....			7. 4-P
Dallas Power & Light Co.....			9. 0-P
Texas Electric Service Co.....			5. 3-P
Kansas City Power & Light Co.....			12. 5-P
Florida Power Corp.....			5. 1-P
			9. 5-P
Arizona Public Service Co.....			11. 8-P
Hawaiian Electric Co., Inc.....			13. 1-P
			5. 0-P
			25. 3-P
Gas companies and systems—SIC 492:			
Panhandle Eastern Pipe Line Co.....		4	9. 5-P
Southwest Gas Corp.....			8. 3-P
Intermountain Gas Co.....	1	1	-----
Washington Gas Light Co.....			6. 9-P
Northern Illinois Gas Co.....			7. 9-P
Tenneco, Inc.....			10. 9-P
			11. 5-P
			5. 8-P
			6. 2-P
Colorado Interstate Gas Co.....			10. 3-P

See footnotes at end of table, p. 86.

TABLE 5.—*Interlocking relationships between First National City Bank, New York, N.Y., and major corporations—Con.*

[In order by standard industrial classification¹]

Classification by SIC code, and name of company	Director interlocks	Employee benefit funds managed by bank	Percent of outstanding stock held by bank ²
Combination gas & electric systems—SIC 493:			
Public Service Electric & Co Co.....			7.3-P
Consumers Power Co.....	1	4	
Rochester Gas & Electric Corp.....	2		
Montana Dakota Utilities Co.....			6.0-P
Department stores—SIC 531:			
Mercantile Stores Co., Inc.....	2	1	
Mail order houses—SIC 532:			
Sears, Roebuck & Co.....	1		
Vending machine operators—SIC 534: Canteen Corp.....	1		
Grocery and miscellaneous food stores—SIC 541:			
Food Fair Stores, Inc.....			6.1-P
Jewel Companies, Inc.....		2	6.0-C
Apparel and accessories stores, except shoes—SIC 561: J.C. Penny Co.....	2		
Shoe stores—SIC 566: Melville Shoe Corp.....			8.0-P
Life, accident, and health insur- ance—SIC 631:			
Metropolitan Life.....	2		
New York Life.....	2		
Northwestern Mutual Life Insurance Co.....	1		
Travelers, Inc.....	1		
Mutual Life of New York.....	1		
United States Life Insurance Co.....	1		
Fire, marine, casualty, and surety insurance—SIC 633:			
Great American Insurance Co.....	1		
Federal Insurance Co.....	3		6.7-C
Real estate—operators and lessors, except developers—SIC 651:			
City Investing Co.....	1	1	
General Real Estate Shares.....			7.2-C

See footnotes at end of table, p. 86.

TABLE 5.—Interlocking relationships between First National City Bank, New York, N.Y., and major corporations—Con.

[In order by standard industrial classification ¹]

Classification by SIC code, and name of company	Director interlocks	Employee benefit funds managed by bank	Percent of outstanding stock held by bank ²
Holding companies—SIC 671:			
First Bank Stock Corp.....	1	-----	-----
Marine Midland Corp.....	1	-----	-----
Advertising—SIC 731: Foote,			
Cone & Belding, Inc.....	-----	1	7. 6-C
Business services—not elsewhere			
classified—SIC 739: Planning	-----	-----	-----
Research Corp.....	-----	-----	5. 9-C

¹ The standard industrial classification designates the principal products manufactured or the major services furnished by each company. These classifications were prepared by the Technical Committee on Standard Industrial Classification, under the sponsorship and supervision of the Office of Statistical Standards of the Bureau of the Budget, Executive Office of the President.

² The letter "C" designates a common or capital stock issue. The letter "P" designates an issue of stock other than a common or capital stock issue. Where more than one "P" appears under one bank's holdings, in most cases this indicates the holding of several different kinds of preferred stock.

Appendix D

**Corporate Issues Withdrawn From Registration Between
January and July 1973**

STATEMENTS WITHDRAWN FROM REGISTRATION JANUARY 1-31, 1973

The following list shows those statements which have been withdrawn from registration during the month of June. Those marked with an asterisk (*) indicate statements which have not been officially withdrawn, but application for withdrawal has been filed with the SEC.

Company	Issue	Underwriter	Date withdrawn
Adams Laboratories, Inc.....	225,000 shares common.....	L. M. Rosenthal & Co.....	(*)
BBDO International, Inc.....	770,000 shares common.....	Dean Witter & Co.....	Jan. 4
Beaver Lake Co.....	252 units of limited partnership interest; 252 partnership notes.	Mitchum, Jones & Templeton.....	(*)
Boston Educational Research Co.....	225,000 shares common.....	D. H. Blair Securities.....	(*)
(68) Cambridge Coffee, Tea & Spice House, Inc.	\$750,000 debs/83.....	None.....	Jan. 24
Caribbean Management.....	150,000 shares common; 150,000 warrants.	Vaisman & Co.....	Jan. 8
Century Laboratories.....	300,000 shares common.....	None.....	(*)
Clarkson Industries.....	200,000 shares common.....	W. E. Hutton & Co.....	Jan. 9
Colonial Flock Corp.....	145,000 shares common.....	M. R. Safir & Co.....	Jan. 10
Construction Ventures.....	200,000 shares common; 400,000 warrants.	Buttonwood Securities.....	Jan. 8
Craddock-Terry Shoe Corp.....	300,000 shares common.....	F. S. Moseley & Co.; Wheat, First Securities.	Jan. 17
Craftsman Press, Inc.....	6,000 units.....	Ferris & Co.....	(*)
Data Recall Corp.....	400,000 shares common.....	Oppenheimer & Co.....	(*)
Datamac Inc.....	125,000 shares common.....	DeRand Investment Corp.....	Jan. 3
Deguire Discount Centers.....	200,000 shares common; 100,000 warrants.	Custodian Security Brokerage.....	Jan. 24

STATEMENTS WITHDRAWN FROM REGISTRATION JANUARY 1-31, 1973—Continued

Company	Issue	Underwriter	Date with- drawn
El Chico Corp.....	280,000 shares common.....	Eppler, Guerin & Turner.....	(*)
Emerald Forest Inc.....	100,000 shares common.....	Ferkauf, Roggen Inc.....	Jan. 9
Envirometrics Inc.....	200,000 shares common.....	Maynard, Merel & Co.....	Jan. 30
Evans-Mathis Furniture.....	320,000 shares common.....	Eppler, Guerin & Turner.....	Jan. 17
F-Tre Industries Inc.....	150,000 shares common.....	None.....	Jan. 11
Fischer & Porter Co.....	400,000 shares common.....	Blyth Eastman Dillon.....	(*)
Forest City Enterprises.....	327,488 shares common.....	Smith, Barney & Co.....	(*)
Hobart Furniture Co.....	150,000 shares common; 75,000 warrants.....	Custodian Security Brokerage.....	(*)
Image Systems, Inc.....	472,507 shares common; 472,507 warrants.....	None.....	Jan. 18
Institute for Scientific Information, Inc.....	342,232 shares common.....	Andersen & Co.....	(*)
Interactive Data Corp.....	300,000 shares common.....	C. E. Unterberg, Towbin.....	Jan. 18
Jetco, Inc.....	323,820 shares common.....	Filor, Bullard & Smyth.....	Jan. 3
Laco Gas Exploration.....	\$18,000,000 debs/80; 540,000 shares common.....	White, Weld & Co.; Hornblower & Weeks.....	(*)
Medical Scientific International Corp.....	154,700 shares common.....	Wheat, First Securities; First Equi- ty Corp. of Florida.....	(*)
Micronics Industries.....	\$600,000 debs/82.....	Custodian Security Brokerage.....	Jan. 16
Neptunian Mariculture Industries, Inc.....	440,000 shares common.....	Mayflower Securities.....	(*)
Off the Bolt, Inc.....	200,000 shares common.....	Morgenstern Securities.....	(*)
Orient World, Inc.....	200,000 shares common.....	Gotham Securities.....	(*)
Pavelle Corp.....	600,000 shares common.....	Sterling Grace & Co.....	(*)

Polyrok, Inc.	225,000 shares common	Herbert Young	(*)
Princeton Chemical Research	350,000 shares common	Agio Capital Corp	Jan. 18
Publishers' Broadcasting	652,706 shares common	Paul C. Kimball & Co	(*)
Quantor Corp	200,000 shares common; 200,000 warrants.	Birr, Wilson & Co	Jan. 8
Shelter Partnership of America	4,000 units of limited partnership interest.	Kidder, Peabody & Co.; Piper, Jaffray & Hopwood.	(*)
Shoreco International Inc	245,000 shares common	Bernard Herold	(*)
Southeastern Modular Industries Inc.	\$2,000,000 debs/87	Delphi Capital Corp	Jan. 16
Stock-It Corp	150,000 shares common; 75,000 warrants.	Custodian Security Brokerage	(*)
Stretch & Sew	350,000 shares common	Bateman Eichler	(*)
Times Square Stores	410,000 shares common	Bear, Stearns & Co	(*)
Tipco, Inc.	200,000 shares common	Faherty & Swartwood	Jan. 4
Trafalgar International Develop- ment Inc.	250,000 shares common	Merkin & Co	Jan. 19
United Consolidated Industries	230,000 shares common	Legg, Mason & Co	(*)
Uranium King Corp	1,218,778 shares common	None	Jan. 10
Whittaker Corp	\$25,000,000 debs/92	Smith, Barney & Co.; Goldman, Sachs & Co.	(*)
Wiederkehr Wine Cellars	180,000 shares common	Eppler, Guerin & Turner	Jan. 16

STATEMENTS WITHDRAWN FROM REGISTRATION FEBRUARY 1-28, 1973

The following list shows those statements which have been withdrawn from registration during the month of February. Those marked with an asterisk (*) indicate statements which have not been officially withdrawn, but application for withdrawal has been filed with the SEC.

Company	Issue	Underwriter	Date withdrawn
Aberdeen Manufacturing	306,732 shares common	N. Y. Hanseatic	Feb. 12
Accudyne Corp.	180,000 shares common	Securities Unlimited of Beverly Hills.	Feb. 22
Acorn Building Corp.	250,000 shares common	Manley Bennett McDonald	Feb. 16
Air Florida, Inc.	400,000 shares common	Executive Securities	(*)
American Classic Industries	265,000 shares common	Anderson & Strudwick	Feb. 9
American Program Bureau	26,500 shares common; 31,800 warrants.	None	Feb. 6
Argus, Inc.	300,000 shares preferred	do	Feb. 28
B. E. C. Enterprises, Inc.	200,000 shares common	Maynard, Merel & Co.	(*)
Biomedical Computer Services, Inc.	500,000 shares common	None	Feb. 13
Bon Terre Petroleum	do	do	Feb. 26
Century Building Systems	130,000 shares common; 130,000 warrants.	P. F. Stanton	(*)
Collision Devices, Inc.	200,000 shares common	Maynard, Merel & Co.	(*)
Crane Bio-Medical Instruments, Inc.	100,000 shares common	Granite Securities; Mutual Investors of Rhode Island.	Feb. 9
Crowell-Leventhal, Inc.	120,000 shares common	Frank & Drake	(*)
Dorsett Corp.	455,000 shares common	White, Weld & Co.; Robert Fleming, Inc.; Kleinwort, Benson, Inc.	Feb. 28

Ecological Science Corp.....	1, 449, 681 shares common.....	None.....	Feb. 23
Edco Financial Services.....	100, 000 shares common.....	Securities Unlimited of Beverly Hills.....	Feb. 26
El Chico Corp.....	280, 000 shares common.....	Eppler, Guerin & Turner.....	Feb. 22
First National Realty & Construction Corp.....	\$3,800,000 debs/87; 114,000 shares common.....	None.....	Feb. 16
Fischer & Porter Co.....	400, 000 shares common.....	Blyth Eastman Dillon.....	Feb. 8
Gaynor-Stratford Industries, Inc.....	153, 440 shares common.....	Shearson, Hammill & Co.....	(*)
Global Vision, Inc.....	515, 000 shares common.....	Laidlaw & Co.....	(*)
Graphic Systems, Inc.....	300, 000 shares common; 300, 000 warrants.....	S. D. Fuller & Co.....	Feb. 5
Halifax Engineering, Inc.....	150,000 shares common.....	Proctor Cook & Co.....	Feb. 16
Homogeneous Metals, Inc.....	175,000 shares common.....	M. Griffith, Inc.....	Feb. 8
International Fruit Products Investment Corp. of Florida.....	100,000 shares common.....	Chartered New England.....	(*)
LDA Credit Corp.....	93,361 shares common.....	None.....	Feb. 15
Lancer Mobile Homes, Inc.....	150,000 shares common.....	Cotzin, Woolf.....	(*)
Leasco Industries, Inc.....	357,143 shares common.....	Birr, Wilson & Co.....	(*)
Lockeford Vinter Corp.....	150,000 shares common.....	Delphia Capital Corp.....	Feb. 5
McRae Industries.....	266,666 shares common.....	First California.....	(*)
Magnusonic Devices, Inc.....	130,161 shares common.....	None.....	Feb. 7
Manley Industries, Inc.....	250,000 shares common.....	Grimm & Davis.....	Feb. 23
Maryland Environmental Systems, Inc.....	300,000 shares common.....	Stifel, Nicolaus.....	(*)
Mediclinic Corp.....	140,000 shares common.....	Blinder Robinson.....	(*)
Metroflight, Inc.....	\$3,500,000 debs/88; 301,000 shares common.....	L. M. Rosenthal & Co.....	(*)
Mogul Corp.....	400,000 shares common.....	Dewey Johnson & George.....	(*)
Modular Housing Systems.....	43,800 shares common.....	None.....	(*)
Modular Industries of America, Inc.....	498,533 shares common.....	do.....	Feb. 26
National Mobile Park.....	250,000 shares common.....	H. E. Simpson Securities.....	(*)
	150,000 shares common.....	Frank Ginberg.....	Feb. 23

STATEMENTS WITHDRAWN FROM REGISTRATION FEBRUARY 1-28, 1973—Continued

Company	Issue	Underwriter	Date with- drawn
Neptunian Mariculture Industires, Inc.	440,000 shares common	Mayflower Securities	Feb. 16
Pavelle Corp.	600,000 shares common	Sterling Grace	Feb. 22
Philips, Appel & Walden	300,000 shares common	First Equity Corp. of Florida	Feb. 5
Port Penn Marina Co.	\$3,669,000 of limited partnership interest.	None	Feb. 2
Prudential Funds, Inc.	2,045,200 shares common	do	Feb. 14
Riviana Foods, Inc.	400,000 shares common	Goldman, Sachs; Walston & Co.; Rotan Mosle, Inc.	(*)
Serio Exploration Co.	4,000 units of participations	Vance Saunders	Feb. 22
Shoppers Voice, Inc.	375,000 shares common	None	Feb. 14
Thomas Holmes Corp.	497,296 shares common	Herzfeld & Stern	Feb. 14
Tool Research & Engineering	100,000 shares common	None	Feb. 23
United Cos. Financial	299,472 shares common	Dominick & Dominick; Howard, Weil, Labouisse & Friedrichs.	Feb. 13
Universal Cap Corp.	200,000 shares common; 200,000 warrants.	Dopler & Co.	(*)
Video Tape Network, In	100,000 shares common	A. C Kluger & Co.	Feb. 26
Victor F. Weaver, Inc.	250,000 hares common	W. E. Hutton & Co.; Janney, Montgomery Scott.	Feb. 8
Weigh-Tronix, Inc.	530,805 shares common	Kirkpatrick Pettis, Smith, Polian	Feb. 16

STATEMENTS WITHDRAWN FROM REGISTRATION MARCH 1-30, 1973

The following list shows those statements which have been withdrawn from registration during the month of March. Those marked with an asterisk (*) indicate statements which have not been officially withdrawn, but application for withdrawal has been filed with the SEC.

Company	Issue	Underwriter	Date withdrawn
Air Florida, Inc.	400,000 shares common	Executive Securities	Mar. 28
Air Trac Corp.	200,000 shares common	Dargy & Co.	Mar. 23
American Bancshares, Inc.	300,000 shares common	Walston & Co.	Mar. 16
American Modular Development	150,000 shares common	D. H. Blair	Mar. 30
American Television & Communications Corp.	500,000 shares common	Paine, Webber	(*)
Argo Industries Corp.	120,000 shares common	Howard Lawrence & Co.	Mar. 16
Au-Ag Corp.	1,500,000 shares common	Birr, Wilson & Co.	(*)
Biomedical Computer Services, Inc.	450,000 shares common	Woolard & Co.; Engler & Budd	(*)
Booth, Inc.	375,000 shares common	Eppler, Guerin & Turner	Mar. 16
Calumet Industries, Inc.	300,000 shares common	Butcher & Sherrerd	Mar. 5
Century Building Systems	130,000 shares common; 130,000 warrants.	P. J. Stanton	Mar. 1
Climatrol Corp.	300,000 shares common	Suplee-Mosley Inc.	(*)
Coca-Cola Bottling Co. of Mid-America, Inc.	350,000 shares common	Kidder, Peabody & Co.; Scherck, Stein & Franc.	(*)
Colonial Flock Corp.	145,000 shares common	M. R. Safir & Co.	Mar. 12
Compumatics, Inc.	175,000 shares common	S. D. Lunt & Co.	Mar. 1
Contech, Inc.	250,000 shares common	None	Do.
Data Recall Corp.	400,000 shares common	Oppenheimer & Co.	Mar. 9
Diversified Mortgage Investors	\$25,000,000 debentures/85	Hornblower & Weeks	(*)

STATEMENTS WITHDRAWN FROM REGISTRATION MARCH 1-30, 1973—Continued

Company	Issue	Underwriter	Date with- drawn
Equitable Financial Corp.....	\$5,000,000 debentures.....	Development Securities.....	Mar. 14
Eresbo Inc.....	400,000 shares common.....	Bache & Co.....	(*)
Fastrack International.....	310,000 shares common.....	Smith, Jackson & Co.....	Mar. 1
Global Vision, Inc.....	515,000 shares common.....	Laidlaw & Co.....	Mar. 20
Great West Land Mining.....	800,000 shares common.....	E. H. Coltharp.....	(*)
Health Systems, Inc.....	170,000 shares common.....	B. J. Lerner & Co.....	Mar. 7
Hylton Enterprises, Inc.....	400,000 shares common.....	E. F. Hutton & Co.....	(*)
Javelin Corp.....	258,750 shares common.....	E. F. Hutton & Co.; Piper, Jaffray & Hopwood.	(*)
Jorges Carpet Mills, Inc.....	450,000 shares common.....	A. G. Edwards & Sons.....	Mar. 21
Judson Bigelow, Inc.....	100,000 shares common.....	Leyner, Dreskin & Co.....	Mar. 7
Junior Spice, Inc.....	340,000 shares common.....	None.....	Mar. 14
Laco Gas Exploration, Inc.....	\$18,000,000 debs/80; 540,000 shares common.	White, Weld & Co.; Hornblower & Weeks.	Mar. 5
Land & Sea Association.....	4,000 units of limited partnership interest.	Weis, Voisin & Co.....	Mar. 15
Mariculture Growth Industries, Inc.....	150,000 shares common.....	Kordich, Victor & Neufeld.....	(*)
Maritime Group, Inc.....	325,000 shares common.....	Bear, Stearns & Co.....	(*)
Meridan Industries, Inc.....	1,266,897 shares common; 938,000 warrants.	None.....	Mar. 20
Mobile Development Corp.....	200,000 shares common.....	Margolis & Co.; Snodgrass & Co....	Mar. 7
Modular Cities, Inc.....	150,000 shares common.....	None.....	Mar. 27
Modular Industries of America, Inc.....	250,000 shares common.....	H. E. Simpson.....	Mar. 9

National Research & Development Corp.	100,000 shares common	Vaisman & Co.	(*)
Odec, Inc.	800,000 shares common	Lepercq, de Neufelize	Mar. 7
Orient World, Inc.	200,000 shares common	Gotham Securities	Do.
Polyrok, Inc.	225,000 shares common	Herbert Young & Co.	Mar. 9
Princeton Applied Research Corp.	150,000 shares common	Clark, Dodge & Co.	Mar. 14
Quasar Microsystems, Inc.	22,500 shares common; 10,000 warrants.	None	Mar. 13
R. H. Cosmetics Corp.	150,000 shares common	do	Mar. 9
RMI Ltd.	1,174 units of limited partnership interest.	do	Mar. 21
Republic Development.	400,000 shares common	Goldman, Sachs & Co.; Manley, Bennett, McDonald.	Mar. 13
Riviana Foods, Inc.	400,000 shares common	Goldman, Sacks & Co.	Mar. 12
Rockwood Industries, Inc.	300,000 shares common	Andresen & Co.	(*)
Rothschild Partnership Fund.	5,000 units of limited partnership interest.	Dain, Kalman & Quail	(*)
Stouffer Corp.	4,300,000 shares common	Merrill Lynch; Hornblower & Weeks.	Mar. 26
Stradford of Texas, Inc.	298,152 shares common	None	Mar. 7
Sunbanc Corp.	300,000 shares common	Christian Paine & Co.	Do.
Syncor Industries Corp.	200,000 shares common	I.R.E. Investors	(*)
System Development.	400,000 shares common	Smith, Barney & Co.	Mar. 14
Teradyne, Inc.	270,000 shares common	Lehman Brothers	(*)
Versa Technologies, Inc.	222,500 shares common	Loewi & Co.	Mar. 7
Wilson Learning Corp.	330,000 shares common	Margolis & Co.	(*)

STATEMENTS WITHDRAWN FROM REGISTRATION APRIL 1-30, 1973

The following list shows those statements which have been withdrawn from registration during the month of April. Those marked with an asterisk (*) indicate statements which have not been officially withdrawn, but application for withdrawal has been filed with the SEC.

Company	Issue	Underwriters	Date withdrawn
Advance Biofactures Corp.....	115,000 shares common.....	S. D. Cohn & Co.....	(*)
American Minerals Fund.....	2,000 units of limited partnership interest.	None.....	Apr. 3
American Minerals Fund Oil Income Program.	10,000 units of limited partnership interest.	Western American Corp.....	Apr. 4
American Television & Communications Corp.	500,000 shares common.....	Paine, Webber.....	Apr. 9
Analytical Systems, Inc.....	300,000 shares common.....	Carlton-Cambrige.....	Apr. 20
Atco Chemical Industrial Products.	321,900 shares common.....	None.....	Apr. 25
Automated Communications.....	300,000 shares common.....	John Salek & Co.....	Apr. 17
Automated Optics, Inc.....	250,000 shares common.....	None.....	(*)
Business Exchange, Inc.....	165,000 shares common.....	J. Shapiro & Co.....	Apr. 5
Michael Butler Associates.....	250,000 shares common.....	C. B. Richard, Ellis.....	(*)
C. & R. Clothiers, Inc.....	300,000 shares common.....	New York Securities.....	(*)
Caldwell Development.....	400,000 shares common.....	Dominick & Dominick.....	(*)
Cardinal Income Securities.....	2,500,000 shares common.....	Goldman, Sachs; Hayden Stone; Interstate Securities.....	(*)
Cigol International Ltd.....	\$30,000,000 debs/83; 1,200,000 shares common.	Bear, Stearns; Hornblower & Weeks; Nesbitt Thomson; Pierson, Heldring & Pierson.	(*)
Collectors Coin Co.....	125,000 shares common.....	Doherty & Co.....	Apr. 17

Combyte Corp.....	do.....	M. R. Safir & Co.....	(*)
Colmar Systems, Inc.....	300,000 shares preferred; 300,000 warrants.	Suplee-Mosley.....	(*)
Continental Illinois Corp.....	\$100,000,000 notes/79.....	Halsey, Stuart; Goldman, Sachs.....	(*)
Courthouse Industries, Inc.....	296,819 shares common.....	Janney Montgomery Scott.....	Apr. 5
Crowell-Leventhal, Inc.....	120,000 shares common.....	Frank & Drake.....	Apr. 18
Dental Communications.....	200,000 shares common.....	Lexington Capital; Dopler & Co.....	Apr. 10
Epic Ltd. Partnership No. 1.....	720 units of limited partnership interest.	Consolidated Securities.....	(*)
Excel Investment Co.....	400,000 shares common.....	Dean Witter; Dain, Kalman & Quail.	Apr. 25
Food Corp. International.....	1,000,000 shares common.....	Paine, Webber.....	Apr. 10
Franzia Bros. Winery.....	455,000 shares common.....	W. E. Hutton; Bateman Eichler.....	Apr. 18
Freed's, Inc.....	\$2,000,000 debs/83; 325,000 shares common.	Dominick & Dominick.....	(*)
Frigitemp Corp.....	250,000 shares common.....	Loeb, Rhoades & Co.....	Apr. 5
GCO, Inc.....	150,000 shares common.....	Darwood Associates.....	(*)
Giant Mascot Mines Ltd.....	1,000,000 shares common.....	Loeb, Rhoades & Co.....	(*)
Growth Industries, Inc.....	100,000 shares common.....	Mutual Investors of Rhode Island.....	Apr. 5
Health Learning Systems.....	250,000 shares common.....	Kohlmeyer & Co.; Havenfield Corp.....	Apr. 25
Health Sciences, Inc.....	175,000 shares common.....	S. D. Cohn & Co.....	(*)
Hemisphere Pictures, Inc.....	150,000 shares common.....	Kahn, Peck & Co.....	Apr. 23
Huskin Co.....	170,000 shares common.....	Meis & Co.....	(*)
I. M. S. International, Inc.....	434,464 shares common.....	White, Weld & Co.....	(*)
Javelin Corp.....	258,750 shares common.....	E. F. Hutton & Co.; Piper, Jaffray & Hopwood.	Apr. 9
Kapoho Land Ltd.....	2,000 units of limited partnership interest.	None.....	Apr. 18
Lease & License Ltd.....	312,500 shares common.....	S. D. Fuller & Co.....	Apr. 5
Lightron Corp.....	410,000 shares common; 410,000 warrants.	None.....	Apr. 10

STATEMENTS WITHDRAWN FROM REGISTRATION APRIL 1-30, 1973—Continued

Company	Issue	Underwriter	Date with- drawn
Loom Treasurers, Inc.....	265,000 shares common.....	Clark & Clark Securities.....	(*)
Manaco Enterprises, Inc.....	3,269,368 shares common.....	None.....	Apr. 5
National Shows, Inc.....	140,000 shares common.....	Rittmaster, Lawrence.....	(*)
O. E. M. Medical, Inc.....	200,000 shares common.....	Danes, Cooke & Keleher.....	Apr. 16
Out Island Inn Ltd.....	88 condominium units.....	None.....	Apr. 24
Pine Street Oil Corp.....	800 units of limited partnership interest.	Kelly & Morey.....	Apr. 5
Purepac Laboratories.....	170,000 shares common.....	Allen & Co.....	(*)
Regrave Information Resources.....	100,000 shares common.....	Raskin Rogers.....	Apr. 16
S. Riekes & Sons.....	300,300 shares common.....	Salomon; Eppler, Guerin & Turner.....	(*)
Sammons Communications.....	1,000,000 shares common.....	Merrill Lynch.....	(*)
Shop Vac Corp.....	275,000 shares common.....	Sutro & Co.....	Apr. 16
Southwest Forest Industries.....	200,000 shares preferred.....	White, Weld; Merrill Lynch.....	(*)

STATEMENTS WITHDRAWN FROM REGISTRATION MAY 1-31, 1973

The following list shows those statements which have been withdrawn from registration during the month of May. Those marked with an asterisk (*) indicate statements which have not been officially withdrawn, but application for withdrawal has been filed with the SEC.

Company	Issue	Underwriter	Date withdrawn
Advanced Memory Systems.....	463, 500 shares common.....	E. F. Hutton & Co.; Hambrecht & Quist.	May 29
Allied Tube & Conduit.....	550, 000 shares common.....	Drexel Burnham & Co.....	May 7
American Affiliates.....	300, 000 shares common.....	Thomson & McKinnon.....	(*)
American Investment Properties Trust.	2, 480, 000 shares common.....	None.....	May 15
American Motor Inns.....	153, 723 shares common.....	Loeb, Rhoades & Co.....	
		Legg, Mason & Co.....	May 24
American Pharmacal Laboratories, Inc.	120, 000 shares common.....	None.....	May 25
Brougham Industries.....	250, 000 shares common.....	Brown, Allen & Co.....	(*)
Caldwell Development.....	400, 000 shares common.....	Dominick & Dominick.....	May 22
Carvel Corp.....	323, 863 shares common.....	Allen & Co.....	May 29
Castlewood International.....	346, 800 shares common.....	Oppenheimer & Co.....	(*)
Cinevest Production.....	540, 000 shares common.....	Allen & Co.....	May 11
Cobblers, Inc.....	330, 000 shares common.....	Sutro & Co.....	(*)
Coca Cola Bottling Co. of Mid-America.	350, 000 shares common.....	Kidder, Peabody & Co.; Scherck, Stein & Franc.	May 15
Computer Hardware Consultants & Services.	382,860 shares common.....	D. H. Blair & Co.....	May 4
Craftsman Press.....	\$1,500,000 debentures; 150,000 shares common.	Ferris & Co.....	(*)

STATEMENTS WITHDRAWN FROM REGISTRATION MAY 1-31, 1973—Continued

Company	Issue	Underwriter	Date with-drawn
Cro-Med Bionics	500,000 shares common	Delphi Capital Corp	(*)
Crouse-Hinds Co	400,000 shares common	Merrill Lynch	May 29
Currency Detection Systems, Inc	70,000 shares common	None	May 11
DLG Enterprises Co	185,000 shares common	Charles Beck & Co	(*)
Daisy Corp	718,700 shares common	None	May 1
Denton Service Corp	120,000 shares common	Grimm & Davis	(*)
Diversified Mortgage Investors	\$50,000,000 debentures	Hornblower & Weeks	May 1
Farm House Foods	300,000 shares common	Bacon, Whipple & Co	(*)
Flambeau Products	250,000 shares common	Clark, Dodge & Co.; Robert W. Baird & Co.	(*)
Fox Grocery Co	423,000 shares common	Hornblower & Weeks	May 17
Fox Ledge Housing & Development Corp.	200,000 shares common	Grimm & Davis	(*)
GCO, Inc	150,000 shares common	Darwood Associates, Inc	May 4
Gemeinhardt Corp	225,000 shares common	Bacon, Whipple & Co	(*)
Genesys Systems, Inc	325,000 shares common	J. H. Kern & Co	(*)
Gulf Group, Inc	400,000 shares common	Bear, Stearns & Co	May 29
Hallmark Group Cos	880,997 shares common; 383,774 warrants.	Stifel, Nicolaus & Co	(*)
Hecla Mining	637,674 shares common	White, Weld; Bache; Hornblower & Weeks; E. F. Hutton; Dean Witter.	May 3
Home Income Shares	4,000,000 shares common	Blyth Eastman Dillon; Shearson, Hammill; G. H. Walker.	(*)
Home Sew Industries	135,000 shares common	Leonard Bros	May 22
Humark Films, Inc	125,000 shares common	First Harvard	(*)
Huskin Co	170,000 shares common	Meis & Co	May 1

I.M.S. International	434,464 shares common	White, Weld & Co	May 4
Jewelcor, Inc	279,000 shares common	None	(*)
Kalama Chemicals, Inc	345,000 shares common	Sutro & Co	(*)
Walter Kidde & Co	\$65,000,000 debs/98	Goldman, Sachs & Co	(*)
LCA Corp	1,449,275 shares common	None	May 10
Litroniz, Inc	415,000 shares common	do	May 21
Loom Treasures, Inc	265,000 shares common	Clark & Clark Securities	May 4
Mack Land Investors	\$13,000,000 debentures 260,000 shares bene. int.	Shearson, Hammill & Co	(*)
Marland Environmental	140,000 shares common	Blinder, Robinson	May 16
Measured Marketing Services, Inc	398,000 shares common	duPont Glore Forgan	May 18
Metrocare Enterprises	960,000 shares common	Shearson, Hammill; Hornblower & Weeks.	May 11
Murphy Oil Co	433,993 shares common	Morgan Stanley & Co	May 21
National Talca Corp	200,000 shares common	A. T. Brod & Co	May 21
Premier Corp	600,000 shares common	Clark, Dodge & Co	May 11
Primate Imports Corp	100,000 shares common	Parish Securities	May 29
Realco, Inc	100,000 shares common	J. Shapiro Co	May 24
S. Riekas & Sons	300,000 shares common	Eppler, Guerin & Turner	May 1
A. H. Robins Co	1,300,000 shares common	Goldman, Sachs & Co	May 4
Rototron Corp	125,000 shares common	Ginberg & Co	(*)
Silo, Inc	275,000 shares common	Drexel Burnham & Co	May 24
Southern States Cooperative	\$1,500,000 debs/83; 10,000 shares preferred; 1,500,000 shares common.	None	May 2
Southwide, Inc	450,000 shares common	J. C. Bradford & Co	May 15
Synercap Corp	150,000 shares common	Charles Beck & Co	(*)
TLC Corp	200,000 shares common	M. R. Safir & Co	May 15
Tamms Industries	150,000 shares common	W. E. Burnet	May 10
Technogenics General	150,000 shares common	Cotzin Woolf & Co	May 15
Tylok Assembly Systems	350,000 shares common	M. E. Hand	Do.
Videorecord Corp. of America	250,000 shares common	M. R. Safir & Co	May 18

STATEMENTS WITHDRAWN FROM REGISTRATION JUNE 1-29, 1973

The following list shows those statements which have been withdrawn from registration during the month of June. Those marked with an asterisk (*) indicate statements which have not been officially withdrawn, but application for withdrawal has been filed with the SEC.

Company	Issue	Underwriters	Date with-drawn
Advanced Computer Supplies, Inc.	100,000 shares common	Lineberger, Lowe & Co.	(*)
Advanced Terminal	200,000 shares common	None	June 7
Allegheny Pepsi-Cola Bottling Co.	600,000 shares common	Salkin, Welch	(*)
American Indemnity Co.	399,350 shares common	Hornblower & Weeks; Moroney, Beissner.	June 11
American Monitor Corp.	200,000 shares common	City Securities	(*)
Art Investment & Management Corp.	150,000 shares common	Somerset Equities	June 7
Bond Shares of America	1,600,000 shares common	Loeb, Rhoades & Co.; Kohlmeyer & Co.; Mitchum, Jones & Templeton; Rotan Msle, Inc.	June 19
Brougham Industries	250,000 shares common	Brown, Allen	June 28
CMF Mattress Co.	275,000 shares common	McKinney Rose	June 26
CVI Laser Corp.	200,000 shares common; 200,000 warrants.	Doherty & Co.	June 25
Cambridge Coffee, Tea & Spice House.	\$1,000,000 debs/83	None	June 11
Cassette Players Corp.	300,000 shares common	A. J. Carno & Co.	(*)
Cheese Villa, Inc.	135,000 shares common	Bernard Aronson, Taeni	June 7
Computer Communications	\$2,000,000 debs	Collins Securities	(*)
Crutcher Resources Corp.	100,000 shares common	None	June 18

Desa Industries, Inc.....	400,000 shares common.....	Hayden Stone, Inc.....	June 6
Digionic Data Corp.....	150,000 shares common.....	A. J. Carno & Co.....	June 5
Electro-Med Health Industries, Inc.....	220,000 shares common.....	Mayflower Securities.....	June 27
Essex Oil & Gas Co.....	450,000 shares common.....	Collins Securities.....	(*)
Ferguson Oil & Gas.....	500,000 shares common.....	None.....	June 27
Field Equities Corp.....	150,000 shares common.....	Christian-Paine & Co.....	June 1
Filtertext, Inc.....	200,000 shares common.....	Rowles, Winson.....	June 27
First National Bancorp.....	120,000 shares common.....	None.....	June 19
Flamboyant Leisure Industries, Inc.....	230,000 shares common.....	A. J. Carono & Co.....	June 5
Four Phase Systems, Inc.....	600,000 shares common.....	Blyth Eastman Dillon.....	June 28
Franklin Mint Corp.....	120,000 shares common.....	C. E. Unterberg, Towbin.....	June 12
Giant Mascot Mines.....	1,000,000 shares common.....	Loeb, Rhoades & Co.....	June 7
Glacier General Assurance Co.....	800,000 shares common.....	Drexel Burnham & Co.....	(*)
Great Things, Inc.....	88,000 shares common.....	Midland Securities.....	June 11
Great West Land Mining Co.....	800,000 shares common.....	E. H. Coltharp.....	June 7
Health Screening Centers, Inc.....	120,000 shares common.....	A. J. Carno & Co.....	(*)
Hessee Industries, Inc.....	200,000 shares common.....	Wm. C. Roney.....	June 19
Inland Plastic Materials, Inc.....	110,000 shares common.....	Bourse Securities.....	June 21
Kalama Chemicals, Inc.....	345,000 shares common.....	Sutro & Co.....	June 13
Kayot, Inc.....	\$3,000,000 debentures.....	Piper, Jaffray & Hopwood.....	(*)
Kenwood Furniture.....	500,000 shares common.....	Max Zerkin.....	(*)
Larasan Investment Associates.....	11,980 units of limited partnership interest.....	Larasan Real Estate Investment.....	June 4
Lens Protection Services, Inc.....	100,000 shares common.....	Great Northern Investors; I. Ross & Co.....	(*)
Meisel Photochrome.....	400,000 shares common.....	Rauscher Pierce Securities.....	June 19
Mid-America Insurance Investors Corp.....	500,000 shares common.....	R. G. Dickinson & Co.....	June 6
Midwestern Winemakers.....	300,000 shares common.....	None.....	June 27
Modern Animal Care, Inc.....	do.....	Todd & Co.....	(*)

STATEMENTS WITHDRAWN FROM REGISTRATION JUNE 1-29, 1973—Continued

Company	Issue	Underwriter	Date with-drawn
National Accommodations	320,000 shares common	duPont Glore Forgan	June 4
National Architectural Products Corp.	630,000 shares common	Wertheim & Co.; Kidder, Peabody & Co.	June 13
National Shows, Inc.	140,000 shares common	Rittmaster Lawrence	June 29
Neuwirth Income Development Corp.	1,750,000 shares common	Edwards & Hanly	(*)
Other Telephone Co.	85,100 shares common	John G. Kinnard	June 25
Prime Florida Real Estate Investment.	300,000 shares beneficial interest	First Investors	June 28
Prince George Land & Development Corp.	500,000 shares common	Max Zerkin	(*)
Pullman Bank & Trust	202,358 shares common	Hornblower & Weeks	June 11
Raintree Partners Ltd.	6,798 units of limited partnership interest.	None	June 14
Recycling Corp. of America	100,000 shares common	A. J. Carno & Co.	(*)
Resers Fine Foods	240,000 shares common	Laidlaw-Coggeshall	(*)
Robinson Furniture	300,000 shares common	C. E. Unterberg, Towbin	(*)
Sheer Financial Corp.	1,000,000 shares common	R. W. Pressprich & Co.	June 28
Scholl, Inc.	500,000 shares common	Goldman, Sachs & Co.	(*)
Security Pacific Senior FHA Partnership.	1,490 units of limited partnership interest.	Duane Berentson Investments; Horton, Geib & O'Rourke.	(*)
Servitech, Inc.	231,667 shares common	None	June 19
Signetics Corp.	715,000 shares common	Lehman Bros.	(*)
Southern National	100,000 shares common	E. F. Hutton & Co.; Interstate Securities.	(*)

Texas International Airlines, Inc....	800,000 shares common; 400,000 warrants.	Laird Inc.; Rotan Mosle, Inc.....	(*)
Western Tele-Communications, Inc.	2,500,000 shares common.....	White, Weld & Co.; Dean Witter & Co.	June 29
Wilson Learning Corp.....	330,000 shares common.....	Margolis & Co.....	June 21
Wisconsin Real Estate Investment Trust.	1,300,000 shares of beneficial interest.	W. E. Hutton & Co.; Milwaukee Co.	(*)

Appendix E

**Summary of Securities and Exchange Commission Findings and
Recommendations**

SEC Findings and Recommendations

Public Laws 90-438 and 91-410 directed the SEC to conduct an economic study of institutional investors and their effects on securities markets, the interests of issuers of securities, and the public interest. Before summarizing the findings and recommendations of the Commission's study, it should be noted that the study covered a limited period of time before 1970 and the findings may be dated now, even if they were valid then. The initial conclusions and recommendations of the SEC study were as follows:

Part One: *Background Studies of Institutional Investors and Corporate Stock.*—The Commission (which had never undertaken a study of this type) contracted with the National Bureau of Economic Research to devise methodology and statistical techniques to cope with the dearth of accurate information. "An important result of these is to allay fear expressed . . . of imminent domination by institutional investors of ownership of the nation's industry—without ruling out such a longer-term eventuality." Institutions have increased their share of outstanding equity securities, partly through the relative growth of institutions more heavily dependent on the equity markets and partly from shifts toward increased equity investment by other types of institutions. However, the increase has been relatively slow-paced over time. Institutions as a group (excluding endowments, foundations, and various minor types of institutionally managed portfolios) increased their share of total stock outstanding from less than 7 percent to approximately 19 percent between 1900 and 1952. A more comprehensive definition of "institution" yielded figures of 24 percent in 1952 and 26 percent in 1958. Individual holdings amounted to 71.7 percent of all outstanding equity securities in 1958 and 71.8 percent in 1968. [This finding may be somewhat misleading and is certainly dated. A study prepared by the Research Department of the New York Stock Exchange states ". . . data for a number of institutional categories have not been included since no basis exists for estimating these holdings . . . the inclusion of all these groups would raise the total of institutional holdings to, perhaps, 45% of the NYSE list . . ." in 1972.]

Institutional holdings, however, tend to be concentrated in the shares of larger, publicly traded corporations. In this aspect, the pace of "institutionalization" grew during the 1960's. Three surveys by the NYSE of the ownership of securities listed on the exchange showed

that from 1962 to 1965 and 1970 institutional holdings increased from 31.1 percent to 35.5 percent and 39.4 percent respectively. Institutional investors were net purchasers on a cash basis of corporate stock from individuals over most of the postwar period. Over the same period, institutional investors concentrated their purchases and holdings in the more stable securities of larger corporations while individual investors sought higher returns from somewhat more risky stocks.

During the decade of the 1960's the rate at which corporate assets were valued and earnings capitalized generally increased and a significant portion of returns to equity investors over the period was accounted for by these increases. Should returns over the next few decades be less than those since 1950, more rapid increases in the institutionally-held shares could be expected.

Present law does not contain adequate reporting requirements to afford the SEC an opportunity to monitor institutional investment. Legislation is needed to require greater disclosure of holdings. In addition, the SEC needs economic research capability to continuously monitor institutional investment.

Part Two: Institutions as Investment Managers.—Competitive pressures for improved investment performance have changed the environment for institutional investors. Performance consciousness has led many institutional investors to adopt more aggressive investment strategies and resulted in the rapid growth of exotic investment vehicles (hedge funds, offshore funds, etc.). The Commission concludes that improved disclosure of investment returns, portfolio volatility, and short term trading is needed from the managers of most types of professionally managed portfolios.

A second concern reflected in the study was an accelerating trend during the last half of the 1960's toward the integration (or diversification) of formerly specialized functions into multi-purpose financial service organizations. Certain types of combinations among financial institutions may have important implications for concentration of power in the American economy. Incentives for the integration of financial services derive from both economic and regulatory factors. An important stimulus to the recent wave of combinations between equity management and brokerage functions is the fixed, minimum brokerage commission. Efforts to maintain brokerage commissions at noncompetitive levels for large, primarily institutional investors have had profound effects on the structure of the Nation's securities markets. They also have conferred important competitive advantages, reflected in part in lower direct fees, on institutional managers who are either directly affiliated with brokerage firms or who benefit from

well developed reciprocal practices involving the use of brokerage to purchase a number of other services provided by the brokerage industry.

Related to the combination of management and brokerage functions are current economic pressures toward institutional membership on stock exchanges. The Commission believes it cannot ignore indefinitely the asymmetry that results when some persons manage institutional portfolios and belong to major exchanges while others so engaged are prohibited from stock exchange membership.

Part Three: Impacts of Institutional Investing on Securities Markets.—The SEC study attempted to assess the impact of institutional investing upon the stability of prices in the secondary equity markets, upon the structure of those markets, and upon the securities industry that services those markets. Data collected on institutional trading indicated that trading by institutional investors is related to or coincident with relatively few of the large price changes that occur in the securities markets. Other analyses of random large position changes by institutions indicate that, even on an inter-day basis, institutional trading appeared to offset price movements about as frequently as it contributed to them. The study did not individually examine institutional transactions and does not discount the possibility during the period studied that one or more institutions trading at particular times in particular securities did impair price stability or otherwise act contrary to public interest. The study did not discover any basis in terms of price stability for imposing generalized limitations on the volume of institutional trading or on the size of institutional transactions.

The study found that institutional investors affect market structure in a number of ways including increased volume of trading, the negotiated nature of many institutional transactions, the fixed minimum commission rates that stock exchanges impose on institutional transactions. The fixed minimum stock exchange commission on large orders, for example, has led to the growth of complex reciprocal relationships between institutions and broker-dealers. These relationships, the study notes, tend to aggravate potential conflicts of interest, to be anti-competitive in nature, and to impede the development of a central market system for securities trading.

Part Four: Impacts of Institutional Investors on Corporate Issuers.—The study also undertook to analyze certain aspects of the impact of institutional investors on portfolio companies, defined as companies whose equity securities are held by institutions or held for the benefit of persons whose investments are managed by institutions. Direct purchases of equity securities from corporate issuers (or from under-

writers) is distinguished from institutional participation in the secondary markets. While institutional purchases of outstanding equity securities in the secondary markets tend to involve securities of larger companies, institutional participation in purchases of new issues examined in the study tended to involve financing smaller enterprises. The study found no evidence that institutions as a group have been receiving significant preferential treatment in the primary equity market or that their participation in that market has been so limited as to cause concern regarding a scarcity of access to capital by newer, smaller enterprises.

Institutional investment in non-public offerings is a rather significant factor in enabling companies, particularly less well established companies, secure financing. However, under the law, such securities cannot ordinarily be sold without registration. Accordingly, these securities are ordinarily not equal in value to securities which are freely tradeable. Two consequences flow from this differential: (1) restricted securities are generally issued at a substantial discount, a portion of which represents additional cost to the corporate issuer in obtaining financing; and (2) it is often difficult for the institutional investor holding restricted equity securities to place an appropriate valuation on them, raising serious problems for measuring performance.

The study indicates that: (1) In limited instances, institutions, particularly banks, have the potential economic power, if they were to act together, to control or at least influence a number of portfolio companies, especially large corporations; and (2) institutions generally report, however, that they do not participate in corporate policy decision-making or other corporate affairs preferring instead simply to dispose of their holdings if a corporation pursues policies with which the institution disagrees.

The study cites two important qualifications to these findings: First, the study found it rare that a single institution will have holdings in a company substantially large enough to give it clear economic control over the corporation. Influence over a portfolio company depends on the existence of other types of relationships including creditor relations or the aggregate of institutional power emanating from concerted action. Second, where institutions are able to perceive substantial benefits by participation in corporate affairs, their participation may be both substantial and critical. The study states that this is the case in instances of transfers of control where institutions can benefit from market action.

A fundamental question confronting institutional, corporate and government policy makers, the study states, is the question whether the existence and use of potential economic power held by institutions

can be reconciled with the obligations of financial managers to their own beneficiaries and with the rights and interests of other investors in portfolio companies, and concluded that additional disclosure requirements for institutional equity holdings are warranted.

Federal securities law has long recognized the special status of persons having access to the centers of corporate authority or possessing the power to influence the exercise of that authority. Yet in practice, however, many large institutional shareholdings are excluded from disclosure under existing law. Sections 13(d) and 16(a) of the Securities Exchange Act of 1934 require the disclosure only of large holdings of shares which are beneficially owned. Institutions frequently hold and manage large blocs of corporate shares without having beneficial ownership of such shares.

The Commission recommends that consideration be given to requiring all institutions to state their policies on involvement in corporate affairs with greater specificity than is now required of investment companies. This type of disclosure would focus the obligation of institution investors to act in the interest of their beneficiaries.

The study found a need for additional regulations in the area of corporate takeover. Some institutions have received both preferential economic benefits and preferential informational benefits in connection with transfer efforts.

