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The Present Level of Stock Prices

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Authority Points Out Favorable and Unfavorable Factors Affecting the Stock Market. Analyzes Current Equity Prices From the Historical Approach, From the Appraisal Method, and From Prediction of Future Developments. Concludes That the Speculator May Well See Higher Prices, but the Long-Term Investor Should Significantly Lighten His Holdings.

If the stock market advances a short distance farther it will reach the highest levels in 15 years. This apparently imminent event makes it timely to examine the facts and prospects behind the market with a somewhat careful and critical eye. In this article we shall write not as a technical market analyst, but as a student of security values and also as a close observer of the behavior of the security markets for more than 30 years.

Benjamin Graham

This long experience crystallizes into an attitude or philosophy which can be expressed in two somewhat subtle rules, viz:

1. Be skeptical of the popular reasoning behind any spectacular move in the stock market—but don't be too sure this reasoning is wrong.

2. The broad pattern of market action in the past is the best guide to the future—but it is not an infallible guide.

A useful way to reach a conclusion—or an impasse—as to the soundness of the present market level would be to list and compare the more important factors that are favorable or unfavorable to a continued advance. The following suggest themselves:

Favorable

1. Inflationary factors, including the huge cash holdings of the public.
2. Low interest rates.
3. Improvement in corporate working capital.
4. Certainty of lower tax rates.
5. The prospective "restocking boom."
6. The prospective high level of business activity associated with the full-employment philosophy.

Unfavorable

1. The historically high market level.
2. The absence of a really substantial recession in stock prices since April, 1942.
3. The virtual disappearance of bargain opportunities from the

market, and the disproportionately great advance in stocks of poorer grade since 1941.

4. The prospect of a considerably higher tax burden than prewar.

5. Current and prospective labor troubles.

6. Political uncertainties—both domestic and international.

It may seem strange that the sudden end of the war, with the precipitate termination of war business and the resultant problems of reconversion, are not listed among the unfavorable factors. But it is reasonably clear that the physical tasks of reconversion are proving much less protracted than was feared, that financial losses due to contract cancellations will not be serious, and that peace is in itself no real threat to corporate earning power. In present market discussions the once-feared problems of reconversion appear to be concentrated in the area of labor policy—an aspect which until recently had received little anticipatory notice. This point illustrates aptly our general thesis that economic events rarely unfold in the way stock-market people forecast them.

By the simple listing of arguments pro and con, given above, we achieve no more than the obvious demonstration that there is much to be said on both sides of the market. However, these factors are by no means of equal weight, and they apply to different areas of stock-market evaluation. Some of them relate to (a) the general pattern of market behavior, others to (b) the fundamental method or formula for appraising common stocks, and others to (c) the field of future expectations. We shall group the favorable and unfavorable arguments together as they belong under each of these successive headings. As will be seen, our conclusions will vary somewhat as we pass from one approach to the next.

In identifying the past and present levels of stock prices we shall concentrate on the Dow-Jones Industrial Average. While this is not necessarily the best index of the movement of the stock market, it is sufficiently representative for the purposes of this study. In addition, it has the important advantage of permitting us to relate directly the earnings and dividends of the Dow-Jones unit over a period of years to its price fluctuations. The record for the 30 years 1915-1944 is set forth in the attached table, along with certain economic data of major consequence. (The Dow-Jones Average now represents substantially the sum of 1/15 of a share of each of 30 leading companies. Hence, it is equivalent to about two shares of the average issue included.)

A. The Stock Market Pattern

A simple and powerful argument against the present level of stock prices is presented by the stock market's own history. The Dow-Jones Average has sold above 185 at only two periods in its 50-year record—the first in 1927-1931 and the second in 1937. In the latter case the 185 level proved close to the top (194), following which the average declined about 50% in 12 months. In the great bull market of the 1920s the present level proved to be at the half-way mark; the average advanced to 381 in 1929, and then tumbled to the abysmal figure of 41 in the next three years.

If the market's present position resembles that of either 1927 or 1936 it should clearly be avoided by both investors and speculators. The significance of the 1937 analogy is obvious, but it should be realized also that most of those who remained in the market after it reached 185 in 1927 were destined to regret their policy. For although they **could** have doubled their capital and then gotten out at the peak, the very psychology that kept them in the market at

185 was almost certain to prevent them from escaping in time.

A subsidiary argument of considerable weight against the present market is the absence of any wide corrective reaction (say, more than 15%) since the turn of the tide in April, 1942. This, we believe, is without precedent in the history of stocks—except that **after** a 20% set-back in early 1926, the market then advanced fairly steadily for 3½ years until it met its doom. In one sense this carries a two-edged argument, since technicians may claim that the bull market should have at least one respectable recession, with a subsequent advance to a still higher level, before its major trend is reversed. Whether or not this reasoning is persuasive, there would seem to be real danger of at least a good-sized technical setback in the market at some time in the next few months.

It is natural to refer to the market's action after World War I, but this may not be particularly relevant or useful. After moving irregularly in the last year of the conflict, and hesitating after the Armistice, the market entered upon a one-year advance which carried the average from 80 in November, 1918, to 120 in November, 1919. This rise accompanied a speculative boom in commodities and inventories, which culminated in a market collapse and a deep depression. The level of stock prices was much lower throughout those years than at present, although the actual earnings on the Dow-Jones unit were considerably higher in World War I than in the last war.

Of somewhat different import than the preceding argument is the fact that bargain issues have practically disappeared from the stock market. If we define "bargain issues", for our purpose as those selling for substantially less than their net working capital, we find that present situations of this type are substantially limited to a few aircraft manufacturing and machine tool companies—in addition to the investment trust and insurance company shares which have regularly sold at substantial discounts. Experience shows that when really cheap issues are scarce the general market is high; but, of course, we do not present this as an infallible principle.

A similarly unfavorable indication is provided by the very great percentage advance in low-priced stocks since 1941; also by the large number of new stock offerings at nominally low but intrinsically unattractive prices. (This might be referred to facetiously as "the current high price of low-priced stocks.") Secondary stocks in general have increased both their earnings and market price in recent years a good deal more than have the leading issues comprised in the Dow-Jones Average. These advantages are related to the absence of competition under war conditions, and they may well prove temporary.

The inflation argument really belongs as the direct counterpoise to the bearish implications of stock market history. If the dollar is to lose a good part of its buying power, then it may properly be claimed that future stock prices need not be governed by their historical upper limits which were expressed in better dollars. (Obviously, for example, the level of French stocks at a 4¢ franc in 1926 was much higher than it was under the 19¢ franc in 1914.) Even though stocks may not advance as much as the dollar value falls, it would still be true that inflation will break the logical or historical link between past and future market levels.

Inflation may be called a fact to the extent of the 40% advance in the index of wholesale prices between August, 1939, and the present. What will happen to wholesale prices from now on is, of

course, a matter of opinion. The writer would reiterate the view, expressed in these columns in December, 1943 [Dec. 2, 1943, p. 1] that the odds are against large-scale inflation growing out of lack of faith in the dollar. At that time it was our view that, even though inflation was not probable, the prudent investor should guard against it in part by owning common stocks in addition to Government bonds. This advice was grounded on the conviction that stock prices (the Dow-Jones Average being at 129) were not intrinsically too high without regard to inflation; hence the investor would not be paying anything except through some mental wear-and-tear, for the recommended insurance. Now that the market is about 50% higher this argument of "cost-free insurance against inflation" can hardly apply.

Allied to the general pattern of market movements is the general pattern of speculative thinking. We are impressed by the fact that the speculative attitude appears to have changed greatly in the past three years, while the underlying facts and expectations are not much different than could have been forecast at the end of 1942. In its broad outlines, the war went about as anticipated; its effects on the position of corporations and on the public's holdings of cash have also proved in line with projections. Experience indicates that when the market shows belated and rather spectacular recognition of conditions that have been in the wood for a long time, there is added reason for caution.

Consequently, taking all the market - pattern arguments together we should conclude that their net weight is unfavorable to the stock market, and would justify a selling policy. But this is only one facet of the question.

B. The Valuation of the Industrial Average by Formula

It is by no means customary for investors to decide whether stocks are high or low by first making an independent appraisal of the issues and then comparing the valuations found with the market price. The writer, however, uses this method as one of the tools of his trade—and he finds considerable support for this practice in the widening extent to which such appraisals are being relied upon, in estate and gift tax cases, in corporate reorganization and recapitalization proceedings, in merger negotiations, etc.

The general theory of appraisal can be quickly summarized. It consists of estimating future earning power, capitalizing this at an appropriate rate, and making generally minor adjustments for asset values or special conditions. Contrary to first impression, this method is perhaps better applicable to a group of stocks—such as the Dow-Jones Average—than it is to individual issues, even though we are unable to make the selective distinctions as to future prospects which are so much stressed in stock market policy. The fact is that we are on safer ground in forecasting broad developments, and allowing individual variations to cancel out, than in attempting to differentiate between more or less favorably situated issues.

Although, in theory, it is only expected **future** earnings that are to be capitalized, in practice there is a strong tendency to accept past average earnings as the best guide to the future. This permits application of a definite formula. If we studied the record of the Dow-Jones Average since 1915, we would be somewhat surprised to note that the earnings have an obstinate tendency to fluctuate around $10 per unit. This is brought out clearly when we select the years in which general business conditions were about

"normal" as measured by the Cleveland Trust Co. — Leonard Ayres Index. (These are 1915, 1924 and 1940. See our table.) What has changed definitely over the years is not the earning power of the industrial group, but rather the rate at which this earning power has been capitalized.

This brings us to the most important bullish element which rests on established fact—namely, the reduction in the long-term interest rate. Between 1924 and 1943, this has fallen from about 5% to 2½% on first-grade industrial bonds. It may be argued that if earnings of $10 on high-grade industrials were worth about $100 in 1924, they should now be worth about $200—thus giving formal justification to the present market levels.

However, as the multiplier advances, we would be inclined to pay a fair amount of attention to asset values, especially since low interest rates tend ultimately to depress the percentage earned on invested capital. Our own formula would give 25% weight to asset value. On this basis, the "average earning power" of $10, the multiplier of 20, and the asset value of about $110 per unit, combine to yield an appraisal value of $178 for the Dow-Jones Industrials.

Needless to say, these appraisal methods are not as precise in their dependability as they are in their mechanics. We would consider that the net import of our appraisal is rather neutral. It suggests that the Dow-Jones Average is not necessarily high, in terms of intrinsic value factors, but also that it is obviously not on the low side. We should not ignore the fact, however, that in bull markets stocks tend to sell considerably above their normal or appraisal value. For this reason a neutral verdict on present prices, from the appraiser's standpoint, might logically be construed as rather encouraging to the speculator, though not truly so to the investor.

C. Prospective Developments Affecting Stock Values

In giving this section about one-third of our over-all attention, we are probably showing a bias against the common practice of attaching decisive importance to future expectations, as regards 4—The present level of stock — both the general market and individual stocks. If we really knew what the future will bring that is all we would have to know; but since stock market people can only guess the future and since they have the embarrassing habit of guessing wrongly, it seems best not to lay too much stress upon forecasts.

Optimism as to future earnings rests on the expectation both of a shorter-term restocking, or "catching up," boom and a longer-term expansion in national income to levels far above pre-war figures. It seems practically certain that we have a period of very good business ahead of us, after reconversion is fairly well completed and manufacturers can meet the enormous pent-up demand for durable goods. It is doubtful if total volume will be as large as it was during the war; but with substantially lower tax rates, the earnings on the Dow-Jones Average might easily reach $16 or more.

If this prospect materializes, it may seem to afford justification of a considerably higher price than 185 for the average. As against this rather obvious conclusion, we raise the question whether the market may not take as cautious a view of the restocking boom as it did of war earnings. Both are essentially temporary in their nature, and the market might surprise us by looking, say, two years ahead, to the end of the restocking boom, just as it persisted in looking ahead to the end of the war.

If we could assume that we are now entering a **permanent** full-employment economy, we could assume also that we shall have a permanently high level of business and presumably a permanently higher level of stock prices. To us, this appears to be a dangerous assumption on which to base market policy. Upon analysis, we find only two substantial facts which support the hope of a "permanent boom." These are, first, the huge increase in the public's holdings of cash assets, and, second, the great psychological emphasis now placed on the necessity for sustained full employment. We may hope that this new faith will move away the peaks and valleys of the business cycle, but we cannot avoid some unwilling skepticism on this point.

It would be one of the many paradoxes of modern economics if we did experience a permanently higher level of business activity stemming primarily from the public's increased cash assets. For this cash is only monetized government debt, and it represents at bottom an enforced resort to traditional but unsound methods of financing the war. According to the copy-book maxims, this enormous debt should bring us grief and not prosperity. Yet in our strange world, where the primary problem appears to be how to sell goods rather than how to produce them, this new "fiat wealth" of the country may actually contribute significantly to higher levels of business activity.

Peering into the crystal ball, we should be inclined to forecast average national income and corporate profits well above the prewar figure. This may well be found to justify an **average** price of stocks even higher than the present apparently dangerous levels. But this is only a guess, and it does not carry any implication that we shall be able to avoid sharp fluctuations of business activity and sharp declines in the stock market.

The three factors listed and not yet touched upon—relating to taxes, labor problems, and working capital—are subsidiary to the general viewpoint just expressed. Lower taxes in themselves would not justify higher stock prices than before the war, for a 40% corporate tax is more than twice as heavy as the burden of 1939. There is much talk about cutting corporate taxes to zero or a minor figure, but this appears to us to be neither a political nor a fiscal possibility.

In a thorough-going analysis, the factors of corporate working capital and corporate tax burdens would prove to be rather unexpectedly joined. The working capital of non-financial companies has about doubled in six years, increasing from $25 to, say, $48 billions. Nearly all of this expansion is found in the holdings of U. S. Government securities. On the surface, this appears very favorable to corporations. But there is another side to which little attention has been given. Out of a total increase of nearly $250 billions in government debt, non-financial corporations have been able to add only some 10% to their assets. What is the amount of their offsetting **liability**, represented by their effective share of of the debt burden? Both at low and at high points, corporation taxes and personal income taxes have been about equal; and in the current tax-bill discussions there has been a definitely expressed intention to grant equal relief in lower taxes to both classes of taxpayer.

This suggests the disconcerting thought that corporations may really have to bear about a 50% share of the government debt burden. If this is so, the visible increase of $25 billion in corporate current assets is completely submerged by the invisible increase of $125 billion in their share of the nation's liabilities.

In terms of balance sheet figures this concept appears fantastic, but it is not so extraordinary to assume that corporations will pay an extra $2 billion per year in income taxes to represent their share of the government's interest charges. With a doubled national income, and a corresponding tripling in corporate profits before taxes, this added tax burden can be met with a smile. It still remains a paradox, however, that we can virtually close our eyes to the assumption by corporations of $100 billion of hidden liabilities because we are optimistic as to the future level of business activity and profits.

Labor disturbances are now receiving more attention than any other matter affecting stock values. On this point past history is reassuring. We know of no period in which strikes have exerted a pronounced and continued effect upon the market level. The prospect of wage encroachments must, however, be taken into account. Up to 1929, business was generally able to pay increased wages out of increased productivity or higher selling prices; since 1929, there appears to have been a tendency for wage and tax costs combined to cut profit margins. The chances seem to favor a rising ratio of wages to national income. Consequently it is doubtful if earnings on stocks will increase as much as the level of business activity, unless corporate income taxes should be virtually abolished. (The reader will note in our table that the Dow-Jones earnings were only a shade larger on a $78 billion national income in 1940 than they were on a $38 billion national income in 1915, and they were slightly **lower** on the $161 billion income of 1944.)

There remains the political element—both domestic and international—which is more likely to show itself in Wall Street psychology than in financial or business statistics. We shall not venture to predict what these forces will be, when they will affect stock prices, or to what extent. The market is at present complacent on these questions, but we greatly doubt that it will remain so indefinitely. Anyone with a feeling for history could hardly avoid the conviction that the next ten years are likely to be more interesting than tranquil.

This discussion of factors bearing on future earnings and values leads to very mixed conclusions, with the weight of the argument perhaps in favor of appreciably higher average earnings and dividends for stocks than in the prewar period. The danger of considerable fluctuation in business conditions and market levels has, however, by no means vanished.

Summary

The three different approaches used in judging the present level of stock prices have yielded diverse indications. From the first, or historical, approach the market appears distinctly on the high side and vulnerable to a substantial setback. Contrariwise, our second category—that of appraisal based on figures and formula—about supports the present level, and suggests that the familiar bull-market enthusiasm *might* well carry prices considerably higher. Our *third* approach, through guesses and projections as to future developments, supplies plenty of material but no definite verdict.

What is the net significance of this analysis for the speculator and the prudent stock investor? Let us define the speculator as one who seeks to profit from market movements, without primary regard to intrinsic values; the "prudent stock-investor" as one who (a) buys only at prices amply supported by underlying value, and (b) who determinedly

reduces his stock holdings when the market enters the speculative phase of a sustained advance.

This speculative stage, we are convinced, is now at hand. Hence, the principles of the prudent investor will require him to lighten significantly his holdings of common stocks—the precise selling policy to depend, of course, on his individual position and methods. For the stock speculator we can say little that is helpful. We think he has a fifty-fifty chance—or perhaps a little better—of seeing the market attain substantially higher than present heights, subject to the probability of intervening reactions. But his chance of eventualy holding on to the profits he makes beyond the current level, we should term no better than in former bull markets—and that is none too good.

DOW-JONES INDUSTRIAL AVERAGE

	Earns.	Divs.	Aver. Mkt. Price	Price-Earns. Ratio	*Nat'l Income (billions)	Wholesale Price Index	F. R. B. Index of Industrial Product'n
1915	$10.59	$2.20	74	7.0	$38	70	--
1916	18.62	4.27	95	5.1	45	86	--
1917	21.90	5.63	88	4.0	53	118	--
1918	16.18	5.64	81	5.0	58	131	--
1919	13.77	4.07	100	7.2	66	139	72
1920	6.74	3.44	90	13.4	73	154	75
1921	0.00	2.96	73	--	58	98	58
1922	8.20	3.38	93	11.2	61	97	73
1923	11.38	3.94	95	8.3	71	101	88
1924	10.52	4.27	100	9.5	71	98	82
1925	13.54	4.17	135	9.9	75	104	90
1926	14.44	6.35	153	10.6	80	100	96
1927	13.18	5.54	176	13.3	79	95	95
1928	15.36	5.92	226	14.7	81	97	99
1929	19.31	7.06	311	16.1	83	95	110
1930	10.06	7.44	236	23.4	69	86	91
1931	2.68	6.73	139	--	55	73	75
1932	.31	4.09	65	--	40	65	58
1933	2.57	3.03	84	--	42	66	69
1934	4.68	3.28	98	20.9	50	75	74
1935	6.78	4.12	120	17.7	56	86	87
1936	9.98	7.07	162	16.2	65	81	103
1937	11.41	8.15	166	14.5	72	86	113
1938	6.07	4.84	132	21.8	64	79	89
1939	9.33	6.30	143	15.3	71	77	109
1940	10.88	7.05	135	12.4	78	79	125
1941	11.46	7.50	122	10.6	97	87	162
1942	9.22	6.50	107	11.6	122	99	199
1943	9.74	6.50	135	13.9	149	103	239
1944	10.07	6.40	143	14.2	161	104	235

* Source: 1915-1928 U. S. Dept. of Agriculture.
1929-1944 U. S. Dept. of Commerce.

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Should Security Analysts Have a Professional Rating?

Introductory Statement

In 1942, the Committee on Standards of the New York Society of Security Analysts proposed to the membership that a rating or professional title be established for security analysts. This rating was designated tentatively as "Qualified Security Analyst" or "Q. S. A." The proposed machinery included the following: A Board of Qualifiers was to be set up by the Society and cooperating agencies—e.g., the Association of Stock Exchange Firms, insurance companies, investment counsel, etc. The Board would confer the rating upon applicants who met designated standards, including those relating to:

a—Character
b—Education and experience
c—Passing of an examination.

The latter test might be waived for suitable reasons. Application for the rating would be on a voluntary basis and would be motivated by the desire for prestige and practical advantage. Eventually, however, it might be expected that the Q. S. A. rating would become necessary for those doing the work of a senior security analyst having direct or indirect contact with the public.

No final action has been taken on the Committee's findings. The following articles analyze the arguments for and against the proposal. The Editors will welcome expressions of opinion from the members.

The Affirmative Case

By BENJAMIN GRAHAM

The issues involved in this rating proposal are comparatively simple and may be argued largely by analogy. Some fifty years ago, trained accountants were wrestling with a similar idea, and at that time the difficulties and drawbacks of the proposed C. P. A. designation no doubt appeared quite serious to many of them. Today the need for a professional rating in

that field and in many others is taken for granted. It takes no prophet to predict that once we surmount the initial hurdles involved in a rating for security analysts, the procedure will establish itself firmly and will come to be considered as indispensable to the public interest.

For purposes of this discussion, a security analyst is defined as one whose function it is to advise others respecting the purchase and sale of specific securities. This definition would exclude the following:

(1)—Junior statisticians or analysts who merely assemble data.

(2)—Business or financial analysts and economists who do not deal with specific security values.

(3)—Teachers and students of theory as such.

Strictly considered, this definition would also exclude stock market analysts since they ordinarily do not advise about specific securities. The writer believes, however, that ultimately, if not now, market analysis will be regarded as a special department of security analysis and that every competent market analyst will be grounded in security analysis.

In any event, by security analysts in this context are meant those giving advice or suggestions on security transactions to customers (and partners) of brokerage houses, investment bankers, banks and trust companies; those engaged in investment counsel; and those having similar functions on the staff of investment companies, insurance companies, other corporations, philanthropic organizations, and the like. The field is wide and undoubtedly includes several thousand practitioners in this country.

Advantages of a Rating System

The advantages of a rating system may be summarized thus: Those dealing with a Q. S. A. will know he has met certain minimum requirements in regard to knowledge of his field and has professional competence. They will know also that to retain his designation of Q. S. A., the analyst will have to observe rules of ethical conduct which no doubt will become increasingly definite and stringent as time unfolds. These benefits will apply both to the direct employers of security analysts and to the clients of such employers.

The analyst who qualifies for the rating will have the obvious advantages of prestige, improved ability to get a job, and the chance for higher pay. In addition, he is likely to develop a more professional attitude towards his work and a

keener interest in maintaining and advancing the standards of his calling.

Answers to Some Possible Objections

It would seem advisable to list the various objections advanced against the proposed rating and to comment briefly on them. These objections apply both to the underlying soundness of the idea and to its practical application.

Objection 1—It is basically impossible to distinguish between qualified and non-qualified analysts, since skill in this field rests largely on judgment rather than on specific knowledge or technique. Good judgment can not be tested by ordinary examinations.

Answer—While judgment plays an important role in security analysis, it requires the aid of well-established methods and of specialized knowledge and experience. More and more emphasis is being laid on sound techniques in analysis—by employers, by teachers, by those entering the field, and by the work of this Society.

Technical ability and adequate information may, of course, be determined by suitable tests, and this applies also to some of the more obvious judgment factors entering into security analysis.

Objection 2—The Q. S. A. rating may mislead the public, because it indicates but can not guarantee that its holder is a capable analyst.

Answer—This objection has a certain validity, but no more than the observation that an M.D. may be a poor doctor. As in similar fields, the Q. S. A. rating will purport to guarantee only that the holder has met certain minimum tests—not that he possesses maximum abilities. The chance of misconception is smaller here than in other fields because the typical analyst is employed by an executive with considerable practical knowledge of his own, and not by unsophisticated members of the general public.

Objection 3—The Q. S. A. rating is a step in the direction of privilege for some and limited opportunity for others. It is a closed shop or cartel development.

Answer—There is no reason why the Q. S. A. rating should be denied to anyone who deserves it and wants it. It might result in the exclusion of unqualified practitioners from the field, but this would not be unfair or unsound. The right of every individual to practice his chosen trade is subject to the higher right of society to impose standards of fitness where these are advisable.

Objection 4—The plan has administrative difficulties. Who would judge the competence of others and by what right? Who would give the necessary time to the task?

Answer—This rating proposal involves no more difficulties than are found in similar requirements imposed in other fields. Suitable people will be found to act as Qualifiers, as they are found for the Character Committees of the Bar Associations, for the Board of Psychiatric Examiners, etc. Public-spirited analysts of reputation will devote time to this task as to other non-profit work.

The initiation of the program presents certain special problems. It might appear presumptuous for some analysts to pass on the qualifications of others of similar experience and standing. This hurdle might be overcome, if advisable, by waiving the examination at the outset for those with practical experience of not less than ten or fifteen years. With the passage of time, a constantly larger percentage of analysts will have been subject to the test.

The level of competence necessary to qualify for the rating will have to be determined by the Board of Qualifiers. If precedent in other fields is followed, it will probably be set rather on the low side at first and gradually raised thereafter. It is the writer's personal view that the test may be equivalent to that given for students completing a full year's college or graduate school course in Security Analysis. Character and experience requirements would be set up separately, but some interchange of credit for academic work as against business experience would be advisable.

Conclusion—There is in this discussion no desire to minimize the practical difficulties faced by the rating proposal. However, it does not seem that these problems are essentially different from those met in the fields of accounting, law, medicine, and other professions. If these analogies appear too elevated, we can point to the licenses or Certificates of Fitness required, in various areas, for real estate brokers, insurance salesmen, and customers' brokers employed by Stock Exchange houses. It is hard to see why it is sound procedure to examine and register customers' brokers but not sound to apply corresponding standards to security analysts. The crux of the question is whether security analysis as a calling has enough of the professional attribute to justify the requirement that its practitioners present to the public evidence of fitness for their work. The publication of this Journal is in itself an assertion of pro-

fessional status for security analysts. It would seem to follow, almost as an axiom, that security analysts would welcome a rating of quasi-professional character, and will work hard to develop this rating into a universally accepted warranty of good character and sound competence.

The Negative Case

By LUCIEN O. HOOPER

Mr. Graham's admirably prepared statement concisely outlines the details of the proposal. His answers to those objections which he attempts to rebut are presented fairly. However, there always are two sides to every question.

From the beginning, a number of members of our Society have opposed the suggestion to establish a professional rating for security analysts. The opposition has not been merely against this plan, but against any plan. Our objections are fundamental and basic.

Who Wants It, and How Much?

Unless our employers, the investing public, or some governmental regulative body force regimentation upon us, we earnestly desire to remain free from this unnecessary formalism. The life of an analyst is complicated enough without the addition of any unnecessary appurtenances.

Those who employ security analysts, and the investors the profession serves, have evinced practically no interest in this proposal. The idea has been advanced in a more or less perfunctory manner, rather than with unremitting enthusiasm, by a comparatively small number of more serious-minded members of the New York Society of Security Analysts, Inc. The mass of the membership has been indifferent. It has been casually rather than keenly interested. There has been no spontaneous response to the rating proposal either from within or from without the profession. This, in itself, is important because the success of the plan depends on its general acceptance and on the profession's enthusiastic determination to make it work.

It is not a matter of record that the Securities & Exchange Commission, the New York Stock Exchange, the Association of Stock Exchange Firms, or financial institutions have shown even an academic interest. It is not charged that the practices of the profession are honeycombed with abuses which need immediate and radical correction. Nor can it be contended that the mere