JAN-JUN
1934.

NOTES ON FIRST WEEKLY MEETING OF
STATISTICAL ORGANIZATION

The original meeting of our statistical organization was held at 3:30 P. M. on Wednesday, January 24, 1934.

Present were Messrs. Lloyd Smith, Fenton, Dorsey, Harold Sands, Cooper, Leaming and McKnight.

Mr. Dorsey opened the meeting with a discussion of the oil industry. He believes that fourth quarter earning reports, which will soon be made public, will be quite favorable, particularly if they are adjusted on a seasonal basis. Earnings for the full year will not amount to much because the industry ran at a very heavy loss in the first six months and the profits of the second six months in most cases did little more than offset the loss. The position of the industry has unquestionably been improved in the last seven or eight months. Crude oil production has been sharply reduced and more recently gasoline inventories have been held down against the normal sharp seasonal rise. Both crude oil and gasoline prices are much higher than at this time last year. He cautioned, however, that practically all of the improvement has been due to the artificial restrictions placed upon the industry by State and Federal government. He summarized his opinion of oil stocks somewhat as follows: This group is unquestionably reasonably priced on current earnings adjusted for seasonal; the general statistical position of the industry has unquestionably been improved in the last six or eight months; barring an unfavorable court decision attacking the constitutionality of the Government's restrictions, this improvement might be expected to continue at least into the peak consuming season; recent action of Secretary Ickes permitting the major companies to pool distress gasoline would likely result in a firming trend in gasoline prices in the near future; practically no further advance in crude oil prices is expected in the near future; although the stocks in the group are, in his opinion, very reasonably priced he is somewhat inclined to believe that they will fail to attract a public following until Spring. The last thought, however, is largely a matter of personal opinion and Mr. Cooper was rather inclined to disagree. All agreed that the market action should be followed very closely to try to determine through reciprocal charts when the group started to evidence a public following. Mr. Dorsey felt that Standard Oil of New Jersey, Continental Oil and Phillips Petroleum were the most attractive stocks in the group.

The chemical industry was briefly discussed and the opinion was expressed that the volume of business and earnings of chemical companies would follow a general business improvement. DuPont is probably the best medium of investment in the industry. Monsanto is a good little company but suffers a very limited market.

The sugar industry is in quite an unsettled condition. It is expected that recent recognition of Cuba will be followed by lowering of the import tariff on Cuban sugar as soon as the President can obtain powers of Congress to do so. This would, of course, be bullish on Cuban sugars. On the other hand, recent disturbances on the Island probably have resulted in a decreased output for the current year, so that there is little likelihood of a substantial increase in earnings of the Cuban sugar companies until the next crop year. One might infer that the decrease in import tariffs on Cuban sugar would be bearish on domestic beet sugar companies. However, there seems to be a general opinion in the trade that some arrangement will be made whereby the beet sugar people will be protected by quotas and price agreements. Such confusion makes it difficult to render a definite opinion on any of the sugar stocks at the moment. In any case, the outlook for various other groups and individual stocks seems to be distinctly clearer and more attractive.

Mr. McKnight discussed the motor industry. He brought out the fact that automobile production has been retarded due to die makers' strikes and technical difficulties with the "knee action" feature on the cars. However, he expressed the opinion that total automobile production in February would be double that of January. That one of the leading industries of the country should be starting such a sharp upturn at this time seems to be quite a significant factor in the broader industrial picture. He stated that some of the automobile companies had contracted last year for more steel than they needed and that there was some carry-over at the end of the year. However, he looked for substantial steel releases within the next few weeks. He stated that orders for new automobiles were coming in at a very satisfactory rate. One could not help but conclude from his discussion of the motor industry that there is no reason for selling motor shares at this time, and that a further upward move might be expected with the sharp up trend in production which will take place in the immediate future. His comments on the motor industry are probably indicative of the trend of business for the better motor accessory companies. Mr. McKnight is working on the different motor companies, trying to determine what two stocks appear most favorable from our viewpoint. Meanwhile, it is suggested that commitments already held in the motor group be maintained, with possible additions to such commitments in Chrysler, General Motors and, more speculatively, Nash.

The railroad situation was discussed. It appears that carloadings are about holding their own at the present time, but due to the anticipated improvement in other industries, it is felt that carloading figures in the future will show an increasingly favorable comparison with last year, particularly as we approach the time of year which corresponds to last year's banking moratorium. Mr. McKnight warned that practically all of the rail shares are priced quite high in relation to current earnings and are probably to a certain extent discounting a part of the improvement in earnings that can be seen in the next few months. Nevertheless, the feeling seems to be that the stock market would probably over-discount as it usually does, and that there was still some profit possibilities in rail stocks. There was considerable difference of opinion as to which stocks are the most attractive and this must be the subject of further study and discussion. Practically all were agreed that Louisville & Nashville and Atlantic Coast Line were attractive and that Great Northern had possibilities from a speculative point of view. It was decided that, generally speaking, the utility group continued to lack any material attraction and for the time being could be side-tracked so that studies could be intensified on groups for which the immediate outlook was more promising.

Mr. Leaming has made quite a survey of the steel industry and in conclusion stated that he estimated steel operations this year would average 50% of capacity and a seasonal peak of 60 or 70% of capacity. He feels that the seasonal rise will start very shortly, that is, within the next couple of weeks. Although the estimated growth in operations is very sharp, there seems to be some question as to the ability of the steel companies to show substantial earnings, due principally to higher NRA costs.* From a trading viewpoint, the steel stocks are probably attractive, but it is hazardous to advise an investment client to purchase the stocks because, if things do not go right with the commitment, he may come back with the logical argument that he had been advised to buy a stock which could not show material earnings even with a very sharp increase in the volume of operations.

In the building group, contracts have been increasing and it is expected they will continue to show sharp increases -- but all due to public works. Very little stimulation is seen as yet in residential building and, barring a slight seasonal rise in the Spring, little is expected from this division until mortgage money becomes considerably easier.

PWA, CWA and a general increase in purchasing power may lend some stimulus to the paint industry. This deserves and will receive further study.

Mr. Fenton gave some rather startling figures on the earnings of U. S. Smelting & Refining Co. The 1933 official estimate of $6.53 a share for the common stock of this Company is exclusive of $1,000,000 appreciation in metal inventory and $1,000,000 additional realized over metal prices prevailing at time of production, both of which have been allotted to "reserve for contingencies". If the $2,000,000 additional is added to profits, the Company actually earned $10.30 a share. He stated that, roughly, 10% of the annual <u>silver</u> production is domestic for which, under the silver purchase order, the Company would receive 64½¢ per ounce as opposed to an average price per ounce during the first 11 months of 1933 of 34.75¢ per ounce. In estimating the domestic silver production for 1934, 10% of the 8-year average production was taken, which amounts to 2,525,600 ounces. Based on this production, the spread between the average price of silver in 1933 and the price to be received on domestic production for 1934, the Company's net will be increased by

* These will be to some extent compensated for by higher prices for most steel products.

$751,400.00 inasmuch as the cost of production is below the average price received during 1933. Approximately 62½% of this Company's <u>gold</u> production is entitled to receive $34.45 per ounce inasmuch as it is mined in Alaska and Utah. It is thought, however, that the total gold production of 330,000 ounces during 1933 will be equalled in 1934, and that the price received will be at least $4.45 more per ounce than the price received in 1933, which would add $1,468,500.00 to the net income of the Company. The additional profit per share for 1934 based on higher prices for silver and gold alone will be $4.19.

He also called attention to the fact that the Company's gold production in Alaska does not get under way until April because of weather conditions, which introduces a seasonal factor into the earnings of this Company.

In concluding the meeting, the intention was expressed that future meetings should take into consideration the technical position of the market, with some discussion of charts. The future meetings must also take into consideration such general topics as Governmental policies, monetary, bank and credit situations, and other general developments which might have some effect on security markets. It was also decided and agreed upon by the group, that conversations in the meeting must be considered distinctly confidential and although this transcript of the meeting does not in itself include anything confidential, it is taken for granted that in the future these notes will be treated in a confidential manner.