

From the Money-Box to the Investment to Measure.

Reflections of a Private Banker.

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The old slogan of the stock exchange which says that you should not put all your eggs in the same basket is valid more than ever in our fast changing time. Yet in the following essay, among all the possibilities of investment, we will deal in the first place with the business of securities. So there will be no question of the utility of the money-box which has merely an educational character anyway. It is true that investments such as good real estate have partly brought in enormous gains to their owners during the post-war years; in most cases they have preserved the capital at least, due to their real value. Therefore, real estate has indeed its justification, but, this not being in my line I prefer to leave this subject to the specialists to deal with. Everybody should keep to what he understands, anyway. So it would not make sense, for example, if a doctor tried to construct his own car, or if a contractor performed an appendectomy on his wife; he better leaves this to the expert. I think we are all agreed on this point. It is therefore all the more astonishing how many and often very wealthy people make precisely the mistake not to consult a specialist when investing their fortune, or what is even worse, to cede the managing of their fortune that may certainly be considered man's most precious property except health, to an unqualified investment counsellor. I know from experience that due to this carelessness a good many wealthy people had to learn in the hard way during the last few years. To some extent they are lost for the stock exchange and the capital market, this indispensable and most important institution where governments and trading companies finance themselves. The economical damage which has been caused hereby cannot even be approximately estimated. And yet securities (shares and bonds) have advantages which cannot be found in any other forms of investment. Suppose, somebody were offered a precious

picture or a well-situated house at a really interesting price. As he does not want to borrow the money, that is, to incur debts, he will have to sell other assets. Yet Mr. So-and-so does not possess anything else but land which is possibly not even developed yet. Like that, month may pass until he can sell it, and in the meantime the unique opportunity is lost. Or a member of the family is taken ill so seriously that Mr. So-and-so should dispose of a large sum at once, or he would like to extend his enterprise, and so on. Now if he has securities he can make a phone call to his bank the next morning and give the order to sell securities up to the necessary amount. As their rates are quoted regularly in the newspapers he knows at any time how much he will get for them. So securities have indeed a great advantage of other forms of investment, i.e. their liquidity. Not without good reason they are called "valeurs mobilières" in the French language.

Among the securities, shares and bonds are known best of course, and there is an old saying on the stock exchange: He who wants to sleep well, must buy bonds, he who wants to eat well, must buy shares. - The matter is not so simple of course, for history has proved that there were times when it was better to have shares, and times when it was better again to have bonds. And the recent past has clearly shown that there are even times when it is best to have neither bonds nor shares. When we came to the conclusion at the Rothschild Bank last year that a heavy recession was imminent at the American stock exchange, our investment committee decided to take the consequences whereupon we sold all American shares on the third of June 1969. Yet the strong demand for capital, increasing inflation, and lack of confidence in the most important currencies have also disturbed the bond market to such a degree that we judged it more cautious not to buy any bonds either for some time to come. Subsequently our decisions have proved right, for the American stock exchange dropped more than 20%, and many bonds fell by 10, 20 and 30% below their issuing rates. In the meantime we have placed the capital of our customers in short-term certificates with which they could bring in a profit of about 10%, whereas most people suffered great losses. May be that we will buy bonds again for our customers one day, all the more, as at the present

time bonds even of first-class debtors bring in attractive profits of  $8\frac{1}{2}\%$  and  $9\%$ . In the long run, however, those who bought good shares - which equal a real value and are not, in contrast to monetary securities like bonds, subject to the creeping inflation - came off far better. Moreover, he who invested his money in shares of especially promising branches like the electrical industry could partly pocket fabulous gains. The share of the "International Business Machines Corp.", for example, noted between  $\$ 57$  and  $\$ 84$  in the year 1959. In 1969 it reached the maximum rate of  $\$ 387$ . The rise of the Xerox share was even more impressive. In 1959 it was quoted at the highest rate of  $\$ 2\frac{1}{2}$  and at the lowest rate of  $\$ 1\frac{3}{8}$ . In the year 1969 the share rose to its climax of  $\$ 115$ . You will object that in these cases it is a question of two branches with an extraordinary great future. But you can also find very impressive examples in much more prosaic industries like the shoe industry or the retail trade. So the share of the Melville Shoe Corp. still noted between  $\$ 10$  and  $\$ 15$  in 1965. In February 1970 it rose to a new peak level of  $\$ 80$  in spite of the common decline of the stock exchange market.

In spite of their character as a real value, shares, due to their great fluctuations can bear large risks, especially if they have been acquired at the wrong moment. To illustrate this statement we are going to avail ourselves of one of the three examples mentioned above. Let us examine the development of the quotation of the IBM shares in the years 1961 and 1962. In 1961 the IBM share came up to a temporary peak level of  $\$ 157\frac{3}{4}$ . In the subsequent decline of the year 1962 the rate fell back to  $\$ 78$ , and the IBM shareholders had to wait for three whole years until they saw the peak rate of  $\$ 157\frac{3}{4}$  again in the year 1964. This example is not even so tragical, however, not for those at least who had the necessary patience and judged the future of the company accurately. Yet there are many shares which took a much longer time for their recovery or which have never recovered at all.

I have inserted this short exposition to point out the importance of being advised by an expert. The only advice and perhaps the most important that I have to give you is the following look out for a serious first-class

investment counsellor. Perhaps somebody of your acquaintance can recommend you a good one. It is true that such recommendations may be dangerous, for nobody likes to confess that he has been badly advised and has lost money on the stock exchange.

This counsellor should be intelligent and dispose of a good vocational education. These experts may be found above all in a serious private bank or in a large bank which disposes of a special department separated from the rest of the enterprise, and which can offer an individual service. Your counsellor should not be too young, or else you run the risk that he has never experienced a crisis or a recession, but that he only knows the prosperity of the last years and therefore does not realize that a peak season cannot last for ever. On the other hand, he should not be too old either; elderly investment counsellors are often but disguised sellers of bonds who besides are not sufficiently at home in modern methods of investment. Your counsellor should have time for you and for the study of the investments. If he is too successful there may be the danger that he becomes a fast careerist, overwhelmed with duties, sessions and honours that soon there will be no time left for the study of investment possibilities. By then he is lost for you, and you had better look for a successor. Your investment counsellor should be ambitious; yet he must not love money beyond measure, but respect it in the first place. He must be in very good health, for his working volume is enormous. On this condition only, he is in a position to read all the newspapers and thousands of reports which he must know in order to judge trading companies. Further he should be well-balanced, for you must never forget that he is active in one of the most difficult professions of the world. He must also be flexible and besides have a good knowledge of men. An American investment banker once expressed his opinion as follows: When a dozen experts have to judge the value of a share and its prospects, each of them will attain to different results. In such a case it happens only too often that each expert would like to revise his judgement shortly after if there were only a possibility. Market values are fixed but to a certain extent by balance sheets; other factors such as greed or fear of men, the influence of a higher power, the weather, discoveries, new trends and fashions and countless other

circumstances are probably just as important, if not more so.

Though this statement is significant it is perhaps somewhat pessimistic. For fundamentally quotation is determined by economical facts and situations above all. Yet it is true that the computer with which certain investment services try to predict the future development of the rates has not been created yet.

Hence every investor needs an investment counsellor who studies untiringly reports and balance sheets of companies and who discovers, time and again, interesting shares with a potential future. The more he studies, and the better his memory is, the greater are his chances to find these shares. Above all he must observe those companies which are active in promising and interesting industries which, owing to excellent scientific research, turn out new and ever improving products, thus creating new markets for themselves again and again. These products must be sold with superior sales methods which make it difficult for any competition to break into the market. Further the company concerned should grow quickly above the average, and, as the most important proof for the efficiency of the management, it should yield returns above the average on the capital invested. For efficiency of the management is the very point that matters, and only a successful management will achieve steeply rising profits above the average during many years. Besides you can look at the matter from the following point of view: Those investment counsellors or investors who choose the companies mentioned, i.e. the companies with the most efficient managers of the world at their head, and who invest in the shares of these companies do not do anything else indeed but make the best people of the world work for themselves. There is no doubt that such a policy must lead to eminent success in the long run.

For all those who only begin to build up a fortune and who for this reason, as can easily be understood, do not dispose of sufficiently large resources yet, I consider investment funds very suitable. Though many banks promise something to everybody in advertisements of a whole page, one may not indulge in the illusion to get really individual advice for 50'000.-

to 100'000.- frs. For this reason the interior funds organized by different banks must be considered most suitable.

According to experience the development of a portfolio does not only depend on the skill of an investment counsellor, but just as much on the mentality of the customer which is of greatest importance. We can maintain without exaggeration that ten accounts of 1'000'000.- frs., paid in by ten people on the first of January, will all look different on the 31st of December. The most agreeable accounts are of course those over which the banker has complete authority. Comparatively simple to manage are those accounts whose owners can be called up at any time. The banker may propose him either the purchase or the sale of a paper, this being very satisfactory since the customer also bears some of the responsibility. A third kind of customers is very difficult, namely those who question every way of acting of their counsellor on principle. These accounts will never develop well, for a confidential relation can hardly arise between too difficult a customer and his investment counsellor, confidence being undoubtedly the basis of this delicate business.

Of course, much could still be said on this subject, but this would exceed the scope of this short essay. Concluding I should like to express the hope that all the readers of this article might find the man depicted above. He will find for you the investments to measure and especially the shares of the most successful companies in time, and he will help you with the important task of managing your capital well.