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"SOME PRESENT-DAY ASPECTS OF OUR CAPITAL MARKETS"

ADDRESS

of

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## SOME PRESENT-DAY ASPECTS OF OUR CAPITAL MARKETS

Those of us who have been called upon to examine corporate financing during the past few years have, I am sure, been struck by the fact that while there has been a comparatively large amount of senior financing, there have been very few common and preferred stock issues outside of the investment company field and the promotional fields. 1/ Beyond question, this has been the outstanding characteristic of the new issue market during this period. In fact, the trend has already continued for so long that it may be well to examine into some of the probable causes with the hope, perhaps, of finding some clue as to the life expectancy of this cycle.

One of the most pressing questions for the future is, "Have we stopped putting equity money into American business?" If the answer is in the affirmative, we have indeed a grave problem. Few will disagree that, at least relatively speaking, equity money is dynamic and debt money is static. Industrial growth must, over the years, be fostered by equity investment. Debt must be serviced regularly, in good years and in bad. It should not, therefore, be assigned the task of taking the risks of development and expansion, which is the proper function of equity money. A management which must support a heavy debt structure cannot afford to take even the reasonable business risks which inevitably accompany all progress. Excessive caution can never be the handmaiden of industrial progress.

If it were necessary to state in the fewest possible words the reasons why equity securities play such a relatively unimportant role in present day financing, the explanation might run something like this: issuers will not (or cannot) sell them; underwriters will not underwrite them, unless they are of outstanding quality; and investors will not (or cannot) buy them. This explanation of course over-simplifies the problem, but it provides a convenient frame for our discussion.

It will not be possible to discuss in detail all the factors which have combined to discourage or prevent the issuance of equity securities. Nevertheless, I should like at least to list what seem to me to be the more important ones.

In the first place, of course, the demand for funds to invest in plant, equipment and working capital has been relatively small during the last decade. Second, by far the larger proportion of this limited demand has been supplied through what is known as "internal financing". 2/

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1/ According to data collected by the Research and Statistics Subdivision of the Commission, new issues of corporate bonds (including rails, utilities, industrials and miscellaneous) during the period 1934 through 1940, totaled \$15,717 million. New issues of corporate preferred and common stock during the same period amounted to \$1,135 million and \$818 million respectively.

2/ This development has been extensively discussed by the Temporary National Economic Committee. See particularly TNEC Hearings Pt. 9 and Monographs Nos. 17 and 37, especially page 56.

Many of our companies have been able to finance investments of this sort simply by reinvesting depreciation allowances or by plowing back earnings, instead of paying them out in dividends. Third, even where resort to outside financing was necessary, 3/ the low cost of money made borrowing much more attractive than the sale of equity securities. It became the fashion to raise new capital through the issuance of bonds (or, more recently, through term loans at banks) rather than through the public distribution of preferred or common stocks, which sell on a much higher yield basis and cost more to distribute. 4/ Finally, even with the current pickup in earnings, and the urgent need of many businesses for additional capital for plant expansion for defense and other purposes, the capital structure of many companies has been such as to preclude the issuance of equity securities.

The last item in this list is the one in which you and we are probably most interested, and I should like to spend a little time on that item. During the '20's, of course, bond and preferred stock issues were frequently predicated upon inflated values which, to the extent that they bore any relation to earnings, reflected over-optimistic estimates of future earnings of the enterprise in question. Since 1933, many such enterprises -- or at least those which did not go to the wall -- have been subjected to a drastic reappraisal on the basis of necessarily revised investment standards. Even if current earnings are at a satisfactory level, a company cannot find a market for its junior securities if it is bonded up to the hilt, or perhaps even beyond it. Nor can a company sell additional common stock if heavy arrears on its preferred stocks make common dividends a shadowy possibility of the remote future. In cases of this sort it can truthfully be said that, before we can go forward, we must go back, and correct the mistakes that were made fifteen or twenty years ago.

For companies which are actually insolvent or unable to pay their debts, the reorganization provisions of the Bankruptcy Act afford a means of obtaining relief. Or if the unsound capital structure happens to belong to a public utility holding company or one of its subsidiaries, the Holding Company Act of 1935 provided machinery for revamping it, on either a compulsory or voluntary basis. Under that Act very substantial progress has been made in the direction of revising capital structures so as to permit common stock financing. But the machinery provided by these two statutes is not available to many companies whose unsound capital structures make it impossible to obtain necessary financing on reasonable terms. Cases of this sort present a much harder problem. But it is one which must be solved.

Of course, the correction of an unsound capital structure necessarily involves a number of difficulties, both legal and practical. I shall mention only one. It is one which has caused a lot of trouble in reorganization proceedings under the Bankruptcy and Utility Acts. Even after it has been decided who the real owners of the enterprise are -- even after the

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3/ New corporate issues for purposes other than refunding during the period 1934-40 yielded \$3,912 million, of which \$2,195 million was intended for investment in plant and equipment and \$1,892 million for increase in working capital and other new money purposes.

4/ See this Commission's reports on "Cost of Flotation for Registered Securities 1938-1939" (March 1941; continued for 1940 in Release No. 572) and on "Cost of Flotation for Small Issues 1925-1929 and 1935-1938" (May 1940).

water has been wrung out -- the problem remains of determining the proper proportions of bonds and stocks. The answer, it seems to me, should be governed by the application of the principles of sound finance. But the problem is unduly complicated by the quite irrelevant consideration of the tax consequences. As you are all well aware, interest paid or accrued may be deducted in determining a company's taxable income for purposes of the federal income tax law. No such deduction may be made for dividends paid on preferred or common stocks.

That this difference in the tax consequences is a deterrent to equity financing can best be shown by giving an example. Suppose the enterprise which comes in to be fitted for a new capital structure has a fair value of \$1,000,000, based on a net income of \$100,000 a year, before interest and taxes. Let us assume that everyone agrees that the nature of the business is such that the requirements of sound finance would dictate an all common stock structure, with no bonds at all. At this juncture, the company's treasurer comes in and points out that if a 5% bond issue in the amount of \$600,000 were placed on the property, the \$30,000 of interest paid in each year could be deducted in determining taxable income. In other words, the company would be taxed on the basis of a net taxable income of \$70,000 rather than \$100,000. At the current corporate income tax rate of 30%, this would represent a saving of \$9000 a year in taxes. This tax disadvantage of equity securities furnishes a powerful argument for issuing additional funded debt instead of stock. In many cases the tax argument has been the winning argument even where the result was a top-heavy, unsound capital structure, which makes future equity financing difficult if not impossible. On this line of reasoning, the present provisions of the Revenue Act would appear to be a strong deterrent to equity financing.

Whatever the reason may be for the relative scarcity of equity financing in recent years, it is certain that during the past decade the savings of individuals in this country have not been going directly into the expansion and development of our industry. Nor is it strange that the investing public as a whole should, after their unfortunate experience of the late '20's, have lost much of their appetite for common stocks. The fact is, of course, that they lost a good deal more than that. They actually lost confidence in their ability to invest their own money directly in any securities, either bonds or stocks. Many of them would probably say that they lost any desire to be investors at all. They would say they merely wanted to "save their savings". The excess of earnings over the cost of living had to be put somewhere and for most people the old sock seemed a little out of date. Therefore they turned to the banks, chiefly because they regarded them primarily as depositories. The net result was that hundreds of millions of dollars in small amounts began pouring in on the savings banks. <sup>5/</sup> In addition many billions of dollars were accumulated by individuals in time and demand deposit accounts with commercial banks; <sup>6/</sup> a large proportion of

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<sup>5/</sup> Savings deposits in savings and commercial banks have grown from \$21,126 million in 1933 to \$25,081 million in 1939. "Savings Deposits and Depositors" - American Bankers Association.

<sup>6/</sup> It has been estimated that the bank deposits of domestic individuals increased by about \$12 billion from the end of 1932 to the end of 1940.

this unprecedented increase in individuals' bank deposits represented un-invested savings of millions of citizens. And then, as savings reached what each individual regarded as a relatively safe level, the money began to pour either into United States Government bonds 7/ or into life insurance companies, 8/ for what was regarded as a long range savings program.

And thus, the American wage earner - indirectly, to be sure - again became an investor. Today, however, he would be very much surprised if you were to stop him on the street and ask him how his ABC 3-1/4s or XYZ 3-1/2s were getting along. He would think you were just a little bit crazy, even if you tried to explain to him that he is indirectly an investor in those securities because his bank or insurance company has invested his money in them. He might tell you that investment is not his headache, but the headache of the bank and the insurance company. And he would be very, very right. These institutions found themselves with more money pouring in than they had every seen before, - money which had to be invested. Yet there were substantial restrictions - imposed both by law and by custom - on the manner in which it could be invested. Banks and life insurance companies invest their funds almost exclusively in mortgages and real estate, government and municipal bonds, and bonds of railroads, public utilities and industrial corporations of the type generally classed as high grade bonds.

In view of the tremendous importance of the life insurance companies as a repository of the savings of the American public, it may be worth our while to see what success they have had with this investment problem. We may take as a fair sample the forty-nine largest legal reserve life insurance companies, which together hold more than ninety per cent of the assets of all legal reserve life insurance companies.

While the assets of these companies increased from less than 19 billions in 1932 to more than 28 billions in 1940, their holdings of mortgages and real estate and of railroad bonds actually declined slightly to a total of about 10 billions. 9/ This decline reflects the practical cessation of urban construction, the wave of foreclosures and moratoria and the difficulties in the farm belt and in the railroad industry.

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7/ According to estimates of the Research and Statistics Subdivision the amount of U. S. Government Securities of all types held by domestic individuals increased by approximately \$2-1/2 billion between the end of 1934 and the end of 1940. By the latter date individuals had invested a net amount of \$2.2 billion for United States Savings Bonds (\$2.6 billion cash payments -- for bonds with a maturity value of \$3.5 -- less redemptions of about \$0.4 billion) from the time when these bonds were first offered in March of 1935.

8/ Admitted assets of all legal reserve life insurance companies rose from about \$20,750 million to \$30,775 million between the end of 1932 and the end of 1940. (Proceedings of the 34th Annual Convention of the Association of Life Insurance Presidents, 1940, page 85)

9/ Figures given in this paragraph are from pp. 84-86 of the printed report of the Proceedings of the Thirty Fourth Annual Convention of the Association of Life Insurance Presidents.

During the same period, their holdings of domestic government, state and municipal securities increased from about a billion to more than 7 billions, but a large part of this increase may safely be attributed to the inability of the companies to obtain an adequate supply of other high grade bonds with a higher yield. 10/ The fact, therefore, that these companies' holdings of utility and industrial bonds increased from less than 2-1/2 billions to more than 5-1/2 billions, though impressive enough, does not indicate fully the pressure which the demand of life insurance companies has exercised on the available supply of high-grade utility and industrial bonds. 11/

While funds available for investment by these life insurance companies have been increasing at the rate of about a billion and a quarter a year, the supply of corporate bonds of institutional grade has very substantially decreased. "Bank quality bonds", so called, are those rated among the first four grades by a majority of the rating agencies. As late as 1931, the several thousand railroad, utility and industrial bonds issues rated among the first four grades amounted to over 25-1/2 billion dollars. As a result of the trend toward conservatism, as well as the effects of the depression on some of the companies formerly included in the list, there has been an enormous shrinkage since 1931, so that now less than fifteen billions of outstanding corporate bonds are rated in the "bank quality" grades. Even taking into account some three billions of bonds which were not publicly distributed and therefore not graded, the total outstanding amount of bank quality corporate bonds is now no more than two thirds of what it was back in 1932. And it seems safe to assume that practically the entire amount is already in the hands of the life insurance companies and other permanent investors.

At this point, it is worth noting that individual investors will ordinarily make their selections from the entire list of securities. The situation has been altogether different in recent years with respect to the insurance companies. On the one hand, their funds available for investment have been increasing at the rate of about a billion and a quarter a year. On the other hand, the supply is artificially limited by the fact that these institutional investors are restricted in their choice by law or custom. It is almost as if the institutions as a whole were limited to the purchase of perfect blue white 10 carat diamonds, when scarcely any are available. And it must be remembered that the banks and fiduciaries are also largely interested in the same class of investments. They joined to create one of the greatest buyers' markets for high-grade bonds that this country has ever seen. The result has been that bank quality corporate bonds have acquired a scarcity value, reflected in yields which are extraordinarily low not only absolutely but also when compared to those on U. S. Government bonds.

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10/ See testimony of John W. Stedman, Vice President of Prudential Insurance Company of America, TNEC Hearings, Pt. 28, p. 15259.

11/ During this period the supply of railroad bonds of institutional quality decreased in amount from \$10,800 million to \$5,900 million.

The intense competition of the institutional investors for the relatively few corporate bonds of bank quality became an overwhelming factor in the market for such issues. The inevitable happened. High grade corporate bonds began to rise. The non-callable issues, which amount to about 650 million dollars in the utility and industrial categories, have for the most part come to sell at heavy premiums above par. Trading in them has substantially dried up, since present holders apparently do not wish to sell a non-replaceable investment medium. <sup>12/</sup> As for the callable issues of utility and industrial bonds, - that is, those which can be called for redemption by the issuer, - the great preponderance of them were selling above their call prices as early as 1936 and trading in them also tended to dry up. Purchasing bonds above call prices is a precarious business, not indulged in to any great extent by institutions which are seeking permanent investments. For that reason, as utility and industrial bonds of bank quality began to rise above their call prices, the pressure of institutional investments on issues which were still selling below their call prices was intensified, causing them in turn to rise. By August of this year only forty-five utility and industrial issues among the first three "grades" - totaling less than one billion dollars - were bid below their call price, <sup>13/</sup> and doubtless a large proportion of these were already in the hands of permanent investors and unavailable in the market place.

As utility and industrial bonds of institutional grade rose above their call prices, another force came into operation. Companies having large outstanding issues of high grade bonds on which they had to pay five and six per cent interest, found that by refunding these issues at lower interest rates they could make substantial yearly savings. Conscientious management had no alternative. An enormous wave of refunding set in. Its magnitude is shown by the fact that for the period 1934-1940, nearly three fourths of the new issues of corporate bonds were for refunding purposes. Insurance companies and banks were the hardest hit. Huge blocks of bonds in which they had invested at comfortable yields were retired at the very time when they were seeking greater, not smaller, outlets for the investment of their funds. Naturally, they became frantic buyers of the new lower yield issues because they had to have something which would bring them income. The inevitable result was to drive prices even higher and yields even lower.

The current wave of refunding may eventually wear itself out, with the gradual exhaustion of the supply of callable bonds which are selling above their call prices, and the replacement of such bonds by refunding issues with a lower yield and a higher call price. . But one unfortunate aspect of this situation is that reduction of yield through refunding operations is a one way street - when and if interest rates go up again, the investor cannot take advantage of the increase by reinvesting in new bonds with a higher yield unless he is willing to sell his low yield holdings at a loss.

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<sup>12/</sup> Much the same condition exists with respect to 2-1/4 billion dollars of non-callable railroad bonds, out of the 4 billion dollars of presently non-callable railroad issues.

<sup>13/</sup> Based on Standard and Poor's "Bond Guide" for August 5, 1941.

Hand in hand with the avalanche of refundings has come another development. The larger insurance companies had always been heavy buyers of bonds through investment bankers. But now, when issues of which they had formerly held merely substantial blocks were called for redemption, they found that they could absorb, either singly or in small groups, the entire refunding issue. The practice of acquiring bonds by direct negotiation with the issuer, rather than through the use of the underwriting machinery, became more and more popular with both issuers and institutional investors. A single insurance company or group of insurance companies would subscribe to or bid for whole issues of new bonds, thus effecting a saving of all or a substantial portion of the one, two or three points which would otherwise have gone to the investment banker. The beneficiary of this saving might be either the borrower or the lender or both, depending, it would seem fair to assume, upon the balance of bargaining power. The importance of this practice is shown by the fact that the volume of bonds sold by this method amounted to over \$800,000,000 in 1940, and aggregated almost \$3,600,000,000 for the period 1934-1940. 14/

A graphic illustration of the consequences of the changes, as respects the insurance companies and the securities business as well, is provided by two examples, both involving debenture issues of the American Telephone and Telegraph Company, one floated in 1936 and the other last month.

In December, 1936, an issue of \$140,000,000 American Telephone and Telegraph Company debentures were publicly offered. Ten of the largest insurance companies promptly purchased over \$48,000,000 principal amount of these bonds, or almost 35% of the total issue. 15/ One of them purchased about \$7,400,000 of these bonds, but in order to acquire that block it had to make separate purchases from 106 different firms. Another made purchases from 190 different firms to acquire the \$8,900,000 of bonds which it desired.

The recent issue consisted of \$90,000,000 of 2-3/4% debentures. The company on its own initiative insisted on competitive bidding for the issue. Three groups submitted bids. Two were made up of investment bankers and the third was made up of three large insurance companies. The insurance companies were the successful bidders at 101.842. The investment banking syndicates entered bids at 101.017 and 100.236, respectively. The insurance companies' bid was \$8.25 better per bond than the second highest bid and \$16.06 better per bond than the third. The differences for the entire issue amounted to \$748,000 and \$1,400,000, respectively. And from the point of view of the insurance companies themselves, their investment departments were spared the effort necessary to assemble a huge block of bonds from a large number of dealers.

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14/ Figures collected by Research and Statistics Subdivision. The overwhelming majority - considerably more than 90 per cent - of all bonds privately placed were bought by life insurance companies, the remainder being distributed among commercial banks, other insurance companies and other institutional investors.

15/ Compilations of purchases and sales of securities by insurance companies have been published in Poor's Manuals.



Whatever the advantages or disadvantages, either immediate or long term, of direct institutional purchases of high grade bonds, as compared with public distribution of such bonds through underwriters, one thing is increasingly apparent. So long as the savings of the American public continue to pour into our insurance companies in a volume so large in comparison with the supply of investments of institutional quality, both the issuer and the institutional investors who can do so are going to try to short circuit the underwriter. Even the smaller insurance companies are constantly on the lookout for entire issues of bonds of small but sound companies all over the country - issues which might otherwise go into the public market in primary or secondary distribution by way of the underwriting machinery. And so long as investment bankers continue to have a strong preference for underwriting high grade bonds, and for selling them to institutional investors, they will be obliged to bid for them against their own prospective customers -- often unsuccessfully. The potential bargaining advantage of the insurance company purchasing for investment includes not only the underwriting spread but various less important items of expense attendant upon purchasing large amounts of publicly offered securities. This present trend is important to us because the funds of American investors, instead of being distributed over the entire list of securities, including equity securities, are in large part going indirectly into high grade bonds at unusually low yields.

I have already mentioned another very logical and somewhat disturbing development which has both arisen from and contributed to the characteristics of the capital markets during the past few years, - namely, the fact that underwriters have indicated a strong preference for participation in the underwriting of high grade bonds. This is logical because, as we have seen, many corporations were not in a position to undertake common and preferred stock financing. Furthermore, high grade bonds are very easy to sell. This means that not only can the underwriter turn a very nice profit by dealing in such securities, but he is almost wholly protected from risk.

In considering this problem, we should bear in mind that underwriters as we know them in this country bear very little resemblance to true underwriters. The true underwriter actually buys an entire issue and sells it out as the opportunity for profit appears. The American underwriter practically never underwrites an issue unless he believes - sometimes with his fingers crossed - that he will be able to dispose of the entire issue almost before the ink is dry on the underwriting contract. Actually he may, and more often than not does, carry his commitment by a short term loan from a banking connection. Because his capital is normally sufficient only to enable him to carry on a merchandising business on a quick turnover basis, and is not investment capital, he is naturally reluctant to risk it except on what appear to him to be sure bets. Of course, once in a while, he is fooled, either as to general market conditions, or as to the public appetite for the particular security. In such cases he really has to work to get rid of the issue, and his limited capital is seriously tied up and sometimes in grave jeopardy.

Not only are most underwriters willing to distribute only high grade bonds, but their customers are primarily institutional investors. The weight of the evidence coming to the attention of the Commission is to the effect that investment bankers and dealers, being human, prefer to

dispose of the issue which they have underwritten by filling a few orders for very large blocks. In this connection, I might refer to an article entitled "The Laugh of the Month", which appeared in the *Nation's Business* 16/ for February, 1940:

"After the Consumers Power bond issue had been syndicated Michigan security dealers complained that their allotments were not large enough. Michigan investors, they said, were being deprived of their right to buy the securities of a local Michigan company.

"Wendell Willkie, whose Commonwealth and Southern Corporation owns Consumers Power, heeded the plea of the Michigan dealers and arranged to have their allotments increased by \$1,000,000. But did the Michigan dealers reserve these bonds for local investment demands? They did not! They promptly called the big insurance companies in Hartford, Connecticut. All of which merely proves that no matter how an issue is syndicated, the bonds are sold where there is a demand for them, regardless of what houses make the offering."

If this is true, the securities distributing machinery of the nation is functioning primarily to serve the needs of the institutional investor.

The unfortunate thing about it is that if its present attitude continues, the underwriting business would seem to be actually helping itself not at all. The only field in which the underwriters can (or feel they can) operate is becoming smaller and smaller. Yet, by confining their activity almost entirely to that field they are getting further and further away from another source of business on which they might rely for a continuing volume of business - the sale of securities, and particularly equity securities, to the individual investor.

To be sure, there is a great deal of work to be done in restoring the confidence of the average investors or, rather, the potential average investors. This kind of confidence is definitely personal. It requires long, careful and conscientious cultivation. Distribution on this basis takes time and effort. New issues of preferred and common stocks will not go out the window over night, and it is highly doubtful whether they should. The investor should be sold on the merits of the issue, on the basis of facts which can be relied upon. Of course, I do not want to be understood as advocating the indiscriminate or high pressure sale of new equity securities to either individual or institutional investors. There are very numerous investors, particularly those of small means, who should not invest more than a portion of their capital in equity securities. None, certainly, should embark on the purchase of newly issued stock on the spur of the moment or under the influences of high-pressure salesmanship and without mature consideration. But the investor with from \$10,000 to \$100,000 in an assorted list of securities is definitely a fair prospect for a small block of a new common stock issue which looks reasonably promising, if the broker or dealer has gained his confidence.

Admittedly, the restoration of investor confidence is a slow job, but so far as we have been able to see, very little has been done to open up this enormous source of legitimate investment capital. There is no magic key. There is only hard and conscientious work ahead.

If this field continues to be ignored by those who are attempting to make a living from the securities business, the consequences for them and for the future growth of business may be serious. Savings will continue to pour into institutions which have only a limited field for investment. The demand for high grade bonds will continue to outrun the supply, and prices will continue to be dislocated. Institutions will have increasing difficulty in earning a sufficient amount of money to meet their commitments. And industry will have little opportunity to obtain equity capital.

I feel strongly that purchases of new issues of equity securities, by institutional investors and particularly by individual investors, on a larger scale than we have seen them during the past decade are essential to our free enterprise economy once the defense emergency has passed. A shrinkage of the functions of the old securities distributing machinery might not be as serious a matter for our economy if some other organization had sprung up to take over the function of providing enterprise with equity capital. Up to the present time, however, the search for such a new organization appears to have been unsuccessful.

Investment companies have sometimes claimed that they provide an easy means by which the funds of numerous individual investors can be made available to enterprise in the form of equity money. Theoretically the assertion is correct. Practically, American investment companies have hitherto done very little in that line. <sup>17/</sup> Conceivably, however, under the pressure of the great need, a far-reaching change of practice may in due time take place in this field.

Conceivably, also, the need might be met by a liberalization of the investment restrictions upon institutional investors. With the safeguards which now surround the issuance of securities and many corporate practices, it may well be that the rigid restrictions of the past are no longer necessary to insure full protection for the policy holder in a life insurance company, for example. It is, at any rate, a subject which is receiving much study both inside and outside of insurance circles at the present time. Certainly the broadening of the base of institutional investment would do much to widen the channel through which capital flows into industry. It might well be accompanied by a legitimate awakening of interest in our securities markets as a whole, and tend to break up the hoarding of savings which now threatens our economy. With the present safeguards existing in your laws and our laws, such an awakening could be only salutary. We have plenty of capital at the present time, but it cannot do us much good unless it flows freely. And today, more than at any time in our history, it is important that it flow freely. It is needed in our national defense effort, and is going to be more acutely needed as that effort is accelerated.

I will concede that I have raised more questions than I have answered. There is no single answer to the problems which we have been considering, for they result not from a single cause but from a whole group of causes. If these problems are to be solved, there is no room for the attitude that if we only stay in the storm cellar long enough, the whole thing will blow

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<sup>17/</sup> See the Commission's report on Investment Trusts and Investment Companies, Part Four, to be released in the near future.

over. It does not look like that kind of a storm. Nor, having found a single contributing cause which appeals to our reason or to our emotions, may we safely put our heads back in the sand and expect the elimination of that one cause to correct the entire situation. The best we can do - and we cannot afford to do less - is for each of us to devote his best talents and energy to seeking out the causes, and to devising ways and means of correcting them. It is through just such free and open discussions as we have been having here during the past three days that the solution is most likely to be found.