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"Conversations with the SEC"

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ANNOUNCER: From the Maryland Center for Public Broadcasting.

WALL $TREET WEEK. Produced Friday, April 23. Your host for WALL $TREET WEEK is Louis Rukeyser. Our panelists are Frank Cappiello, William Waters, and Martin Zweig. Tonight's special guest is Roderick M. Hills, Chairman, Securities and Exchange Commission.

LOUIS RUKEYSER: Good evening. I'm Louis Rukeyser. This is WALL $TREET WEEK. Welcome back. There used to be a cigarette commercial that talked about smoking more but enjoying it less. Well, cigarette commercials, as we all know, have now gone the way of the buggy whip, but that phrase might well be applied to what's going on these days in Wall Street. The stock market is riding high in that heady neighborhood around 1000 on the Dow Jones Industrial Average. In less than a year and a half, it has made fools of the pessimists and completed the most smoking rise in its entire history. Moreover, the volume of trading has been scattering records, too, which means many of those in the business have been turning record profits. It's a sequence of events that should promote a daily ticker tape parade of joy in the heart of every investor and broker. But plainly, it doesn't. And equally plainly, we've got trouble, my friend, right here in Wall Street City. There's a lingering feeling in too many quarters that Wall Street is still going through a season of malaise. The big eyes are angrily at each other's throats arguing, for example, about whether the New York Stock Exchange can even survive another decade and whether or not it should. The little guys are scared and running. By the exchange's count, fully 5 million of them have run right out of the market since 1970. And the Mutual Fund Industry has just reported sadly that last month saw a greater excess of fund shares cashed in over fund shares sold than ever before. The rally for more investors than ever before has been an opportunity to get even and get out. Meanwhile, back at the economy, the glitter of some ever more impressive recovery figures has been tarnished by one of the most embarrassing scandals in American business history, the revelation that scores of firms did business abroad only after making massive secret and possibly illegal bribes and payoffs. The result has been a new black eye for the battered image of the American businessman. Tonight, we're going to be talking with the man who is charged with dealing on our behalf with parts of all these problems. Roderick Hills, who is chairman of the Securities and Exchange Commission, is the chief cop on Wall

Street. We'll see if he can cheer anybody up or whether he thinks the whistles have only begun to blow. But first let's take a look at some of the news that, under ordinary circumstances, might have been looked on as downright cheerful, the record of what actually did happen this past week on Wall Street. And as the Dow Jones Industrial Average indicates, the market came on like Gang Busters the first three days of the week, responding to reports that economic activity was growing faster than expected, but that prices were not. The market then backed off a bit as some grew afraid that the money supply had increased so rapidly that a cut-back was coming. For the week the Dow Average added another 20 points to close just above 1000 at 1000.71. It was the biggest rise in a month for the Dow, and it helped pull up the composite indexes of the New York and American Stock Exchanges and the over-the-counter market. One group of small people who are not scared are the elves who compile our Technical Market Index. Their negativism is slightly diminished from a week ago. In a way, I liked it better when they were gloomier. And speaking of gloomy technicians, all have proved imperfect forecasters lately. We have with us tonight Marty Zweig, who keeps insisting that the market is about to collapse. Marty believes it. For all I know, you believe it. But somehow, the market doesn't seem to believe it. Dr. Zweig, why not?

MARTIN ZWEIG: I don't think the market's going to collapse, Lou. I just think we're going to have an intermediate term decline...

LOUIS RUKEYSER: A hundred, a hundred fifty points...

MARTIN ZWEIG: Yeah, but that's not a collapse. That's roughly what I think. After all, though, the Dow has been very deceiving lately because the breadth of the market is measured by advances and declines or the unweighted price averages peaked over two months ago. The volume actually peaked more than two months ago and so did utility stocks, so all we really had the past two or three months is a lot of churning even though the Dow's made a new high a few times. And I think this churning is indicative of a lack of liquidity in the market. Too many people turned optimistic and did their buying in January and February. And there's a lack of liquidity right now, and it's going to lead to an intermediate term decline even though longer term economic and monetary statistics are pretty bullish.

LOUIS RUKEYSER: So you're sticking to your guns. This is just...

MARTIN ZWEIG: Oh definitely, yeah.

LOUIS RUKEYSER: The market's hanging fire, but is going to...

MARTIN ZWEIG: Yeah. I don't think it's going to be a bear market as long as the money statistics stay good. We'd come down maybe for a couple of months or then go back up again. I'm not a super bear.

LOUIS RUKEYSER: Well, how does that translate into how people ought to act, though.

MARTIN ZWEIG: I think they should stay out of the market if they're out. If they're in, I think they should at least lighten up quite a bit. I'm advising people to stay in cash. I think there will be a good buying opportunity, though, sometime during this year. I don't know if the rise coming off that'll be as explosive as January's, but it ought to be pretty reasonably good buying opportunity later on.

LOUIS RUKEYSER: Frank Cappiello, you haven't called for the decline even of the size Marty has called for, which he says is not a collapse but 100 and 150 points on the Dow. You've been willing to say that the Dow might back off a bit more than it has. Why do you think it hasn't done it yet?

FRANK CAPPIELLO: Well, I think one of the reasons has been, at least in the past 10 days, the fantastic news in terms of corporate earnings, super good inflation news.

The inflation figures are almost too good to be believed. And finally, I guess there's the general euphoria in connection with buying stocks.

LOUIS RUKEYSER: Frank, you've talked about the inflation figures being almost too good to be believed. They've included some unusually good figures on the food side...

FRANK CAPPIELLO: Exactly.

LOUIS RUKEYSER: Apparently, those are not going to continue, so maybe the next few months won't average out as good as the last few. Is Wall Street ready for that or might the market go down when worse inflation figures come in?

FRANK CAPPIELLO: Well, food is one problem. The energy costs are another that I think are artificially depressed. But I think both of those will have a tendency to go up. I think also the market'll have to struggle with rising interest rates at some point over the next say month or two. But, you know, this market again, when we talk about a correction, we're talking about a correction in the Dow. And a correction in the Dow doesn't necessarily mean you're going to be smashed in all stock groups. I personally feel that you should be putting money to work right now because I don't think the correction is worth waiting for. I just don't see anything that bearish coming up.

LOUIS RUKEYSER: Would you put it in other than Dow stocks, then?

FRANK CAPPIELLO: Definitely. Yeah. I think I would put it again in some of the selected growth stocks. IBM is still cheap. I would put it in some electric utility stocks, although the thing that worries me is the thing that Marty commented on. You've had good inflation news. You've had low interest rates, and the utility stocks have done nothing. But I'm inclined to look at the glass as being half full rather than half empty, and I think utility stocks are resting and will go up.

LOUIS RUKEYSER: Well, you two don't seem all that far apart.

FRANK CAPPIELLO: Oh, yes we are. (LAUGHTER)

LOUIS RUKEYSER: The bottom line is far apart because, as Marty says, hang on to your money. How about you, Bill Waters. You haven't been on for a while. So, you can tell us that you knew that everything that has happened the last few weeks was going to happen. What's going to happen next?

WILLIAM WATERS: Well, I tend to agree. One time I was on last fall the market had been up sharp, and I said we're sort of like people running upstairs. You have to pause at the landing. And I think once again we're at that point. We have...the Dow is up almost 20% in the first quarter. Traditionally, the second quarter of the year is down on the Dow. I think eight out of the last ten years, the Dow has been down on the second quarter. People tend to buy in anticipation and sell on news. We're getting fantastic news, but it's gotten a little bit old hat, so I think we're in for a pause with a chance to buy on dips, but I think we're still in a long term bull trend, Lou.

LOUIS RUKEYSER: Well, then you agree with these two fellows that we're probably not going to have an explosive rise at this point.

WILLIAM WATERS: I agree, but long term I still think...

LOUIS RUKEYSER: I just want to know what could happen that would make you fellows admit you were wrong tonight.

(LAUGHTER)

FRANK CAPPIELLO: Lebanon, probably.

LOUIS RUKEYSER: So you think that the market is catching its breath, but this is a normal development in an upward movement, and we should hang in there and wait for happier days to come.

WILLIAM WATERS: Good summer. Yes sir.

LOUIS RUKEYSER: I just wanted to make sure I understood you. In any event, gentlemen, it's time now to turn from this 1000 market to our grand viewers and answer some of their questions. Marty Zweig, how would you answer Harold Gunther of Hinsdale, Illinois, who writes us, "A couple of days ago, I was informed by my broker by mail that my monthly investment plan was discontinued as a result of a decision by the Board of Directors of the New York Stock Exchange. My question is: What prompted this decision, and do you feel this action will tend to make it more difficult for the small investor? I thought the small investor was good for the investment community." Well.

MARTIN ZWEIG: Well, the last part, the small investor's definitely good for the investment community because he creates greater liquidity in the market, and by having a lot of small people, you get smaller fluctuations between transactions. So Wall Street needs him. But the New York Stock Exchange did cut out the monthly investment plan because there were only 17,000 accounts left, and they were handled by the odd lot house, which is soon going out of business. Besides which there are some large brokerage houses which have similar accounts. Merrill Lynch, for example, has 400,000 accounts in what they call a share builder plan in which an investor can buy any one of 4000 listed stocks in periodic payments in fractional shares. For example, you could put up 50 dollars a week or a month or a quarter and buy, you know, fractional shares of IBM or whatever you wanted to do. And Bache would have a plan fairly similar to that, too. So the little guy can get the benefits of an MIP plan, but he has to know where to go. And Wall Street does need the little guy.

LOUIS RUKEYSER: But does the Exchange know it?

MARTIN ZWEIG: Sometimes you wonder.

LOUIS RUKEYSER: Frank Cappiello, David Heinle of St. Petersburg, Florida, identifies himself as a professional golf teacher, certified bowling teacher, and avid fisherman. And perhaps not surprisingly, he's interested in leisure time stocks, and he wonders why they haven't done better in recent months. And he adds, "Please tell the millions of sports minded people who might follow my thinking." Want to take a swing at that one?

MARTIN ZWEIG: Okay, Lou. Well, this is a large and diverse industry, and the leisure stocks, especially the motion pictures, did extremely well in 1975.

LOUIS RUKEYSER: This is an active fellow. He doesn't go to movies.

MARTIN ZWEIG: Right. Well, I'm going to come to that because there are really two different types of leisure stocks. There are the inactive types who go to movies and so on. And there are the active type stocks, the fishing stocks, the bowling stocks and so on, the so-called leisure durables. In looking at this industry, one has to ask yourself, where are the consumer discretionary income figures? How are they going to develop? How much money will be left over for the consumer to spend, and so on. It comes down to really two stocks. If he is really a serious fisherman, there's a company called Shakespeare which I think is probably the best of the line, pardon the pun. (LAUGHTER) And the other stock is AMF, American Machine and Foundry, which is very heavy in bowling equipment and gives you a very good plan in capital goods. Sorry for the pun, Lou.

LOUIS RUKEYSER: That's all right. I don't mind the puns, but I don't endorse the stocks, even the ones with puns. (LAUGHTER) The only leisure durable I will endorse is Mr. Cappiello, himself. Bill Waters, John Huntingtun of Carmel, New York, would appreciate an explanation of the difference between a mutual fund and a hedge fund and the relative pros and cons that each might have for the small investor. Can you give us an unhedged answer?

WILLIAM WATERS: A mutual fund, Lou, is a pool of money whereby the money manager invests on behalf of the owners of the fund on the long side of the market can only buy securities. The hedge fund was a phenomenon of the '60's during the performance and go-go years where the manager could go long or short trying to pick the right moves in the market. Most of the hedge funds had their hedges trimmed, to use another pun, and most of them are out of business. There are very few left, and I couldn't identify more than a handful. So they're really not available today to the small investor. On the other hand, there is available today a thing called the leverage fund where the money manager can only go long, but can do it on margin, so that you can invest a dollar, and it might be working up to a dollar fifty for you in the market, giving you more bang for your buck. Of course, in a downswing the bang could come back and hurt you.

LOUIS RUKEYSER: Okay. Now, if you're trying to figure out what kind of fund is best for you or if you're still trying to figure out how to get the funds to start investing in the first place, or if you have any other questions about the world of stocks and bonds, just send your queries along to us here at WALL $TREET WEEK, Owings Mills, Maryland 21117. That's WALL $TREET WEEK, Owings Mills, Maryland 21117. Now, before we meet tonight's special guest, let's take a moment to commemorate an important Wall Street event that will have its first anniversary next week. The event was May Day, May 1, 1975, the date when the New York Stock Exchange lost its ability to fix commission rates, and all commissions became negotiable. Many thought then that it was the beginning of the end for the small investor, that since he didn't have the clout of large investors, his commissions would soar out of sight. Tonight, we're going to see whether that has indeed happened. We're going to take a look at what's been happening to the cost of buying or selling 100 shares of stocks of different prices. For example, a round lot, that is 100 shares, of a 20 dollar stock involved a commission of $41.80 under the old New York Stock Exchange schedule. That was the minimum, and by the time the schedule was abandoned, most firms were charging about 10 per cent more. They tended to stay there last May when the average commission on this transaction being charged by three of the largest firms was 46 dollars. Nearly a year later, what has happened to that average commission? It's gone down a dollar to 45 dollars. And that, interestingly enough, is exactly the trend for these representative small investor transactions. For 100 shares of a 30 dollar stock, a 3000 dollar transaction, the old fixed rate was $53.90. The May, 1975, average-- some firms were higher, some lower. This is a composite of what three biggies were charging--was 59 dollars, and they're now delighted to handle your business for a mere 58 dollars. For a 40 dollar stock, the round lot commissions used to be $63.80, averaged 70 dollars in the first month of free competition, and now have backed off to 69 dollars. And for the most expensive stocks, those selling for 51 dollars or more, the savings have been slightly more pronounced. The fixed New York Stock Exchange rate was $80.73. This had moved up only to 84 dollars and is now back to 82 dollars. In short, while small investor commissions have not come down dramatically, as many a small investor would like them to, they have indeed come down in the first year in which firms were free to charge what they liked. Ought these commissions to be lower still? And where else does the small investor deserve a better deal? For some answers let's go over now and meet tonight's special guest, Roderick M. Hills. Rod, welcome. We're just delighted you could come.

RODERICK HILLS: Thank you, Lou.

LOUIS RUKEYSER: Roderick Hills succeeded Ray Garrett, Jr., as Chairman of the Securities and Exchange Commission last October after serving as a leader of President Ford's Task Force on Regulatory Reform. Now, he has a chance to practice what he preached. The California lawyer got some intense practical business experience earlier in this decade when he joined the Republic Corporation as a special short term counsel and wound up as chairman of the board, bringing order out of the chaos in the affairs of that troubled conglomerate. Rod, let's take it from the top. In your judgment, does the average small investor now get an honest and fair deal in the stock market?

RODERICK HILLS: I think he gets a fairer deal than he has at some times in the past. Whether or not the small investor as yet has a chance to buy stock without paying for the services that he may not wish to have still remains open to question. It's not still possible for the small investor to say, "I'll make the investment decision. Just buy the stock for me as I want it to be bought." That function is not yet open to the small investor who operates by himself, but certainly what's happening in Wall Street is giving the small investor more options today.

LOUIS RUKEYSER: Looking at that chart we just saw, is it realistic to think those figures can go much lower?

RODERICK HILLS: I think it's realistic to suppose that there'll be different changes, that as services become unbundled, people will find different commission rates, depending upon what they want from their investment advisor. If they want sheer execution, they may very well go lower. If they want to buy through an organization that will provide them with other services, they're probably going to pay higher. I would expect to see more variation.

LOUIS RUKEYSER: Rod, many people have been critical of the role played in the current stock market system by the specialists on the stock exchange floor, the men who make the markets and the individual stocks. Is it your view that specialists have by now begun to be an anachronism?

RODERICK HILLS: No, I think that the area in which most criticism is placed is the inability to create real competition among specialists and some exchanges. I don't see any reason why the specialists should be an anachronism. I think that the monopolist who is a specialist may very well be a fading beast and that we'll find real competition among specialists on the exchanges.

LOUIS RUKEYSER: Well, the monopolist position of the specialist is, as the New York Stock Exchange sees it, a prime reason for his being. In your judgment, will we have a New York Stock Exchange in 10 years?

RODERICK HILLS: I don't know of any reason why we should not have a New York Stock Exchange or whatever they wish to call it. It is an...

LOUIS RUKEYSER: They kind of like that name, so far as I can tell.

RODERICK HILLS: It's a good name. It's been a successful name. It represents not only great tradition, but a great accumulation of capital and skills. I think that it would be...I think it is one of the prime obligations of our commission and of government generally to see that the changes in the industry occur in a way that does not cause people to go out of the industry, that we don't lose the assets of the industry, either the people or the money that they have in the industry. So that my own judgment is that those assets need not be lost and that the things that have been so...such an important part of our society, of our business community, are not lost.

LOUIS RUKEYSER: Well, what kind of a market system do you see? What ought it to contain that it does not now?

RODERICK HILLS: Well, Congress has said that it shall contain competition, competition among specialists, competition between exchanges, that it shall provide better information. I see better execution. I think that technology will bring it. I think competition will bring it. I think that the NASD has brought some of it with its NASDAQ. I think you'll find that a composite tape will bring more information. I see more competetion between the exchanges in the same stock. We'll probably see more stocks that have an active market made in them.

LOUIS RUKEYSER: One thing you haven't mentioned is the options market. Many observers are concerned about the burgeoning growth of the options market, and they argue that the SEC should be doing more in that area. Do you agree?

RODERICK HILLS: The SEC perhaps should be learning more. We're trying hard. My own judgment is that the option market provides a not only useful, but maybe a necessary role in a more sophisticated investment community. Perhaps we are by regulation, perhaps we are by tax policy causing option trading that's not economic, but I think if we do a good job on learning what is happening in fact, the options business industry trading will be a very important part of the securities industry for a long time.

LOUIS RUKEYSER: Is it your view that the SEC is just a neutral umpire or should it be concerned, for example, about the decline of direct public involvement in the stock market.

RODERICK HILLS: I think the SEC has a profound obligation to be a commentator on capital formation, that it's our job to monitor and to speak about tax policies, about economic trends, about economic concentrations or disintegration that are important to the formation of capital. I think the individual investor in my own judgment is someone that has been important in the past. I have every reason to think he should be important in the future. It's our job to tell the legislative world and the public what's happening. And if what's happening is bad, it's our job to do what we think is best to cure it.

LOUIS RUKEYSER: Rod, around here, we have to regulate the time so let's bring in our panelists, starting with Commissioner Zweig.

MARTIN ZWEIG: Rod, a company called Pressley Companies, which is listed on the American Exchange, recently had its stocks suspended from trading because of some rumors. Now it's been a month or so since they've been trading in the stock. What's the SEC's policy on trading suspensions, and how does it normally affect the average investor?

RODERICK: HILLS: The policy is fairly simply stated, namely to make sure that information about the stock is properly disseminated. Once we're sure of that, then the stock should trade if it's uncertainty that causes us not to permit the stock to be traded. Normally, it's not being traded because somebody's asked us not to trade it, either the company or the Stock Exchange or the NASD in those circumstances.

FRANK CAPPIELLO: Rod, with the demise of a number...hundreds of brokerage firms because of the negotiated rate problems and the problems of the market, you've really had a problem on capital formation in terms of small companies attempting to sell their stocks or have these companies, these brokerage firms follow the stocks. What would you think of having banks enter this area as they do in Germany where banks supply the capital, actually get into investment banking?

RODERICK HILLS: I have a strong, I guess I have to call it a prejudice, that our system is a better system and that equity decisions and capital decisions should be made by different entities, and that's a healthy competition. I think that equity underwriting by banks is an undesirable thing, that it would lead to a form of concentration that would not be healthy for this country. Now, I say that's a prejudice. I think that our job in the commission is to understand the real economics involved, to portray both for the banking industry and for the securities industry what is important to the form of business community that we have. And, we are about that task now.

WILLIAM WATERS: Rod, I'd like to go back to the Congressional mandate for the national market system that you mentioned a couple of minutes ago. I think as part of that mandate, Congress directed the Commission to set up a national market advisory board. I think it's made up of 15 people, the majority of which are from the industry, and I believe their task is to investigate and report back on how to promote the national market system. What's been its role to date and how do you assess your expectations of its future direction?

RODERICK HILLS: It's role to date has begun...has been to begin the debate, to cause the various views to be exposed, to have an exchange of views. I think it's stimulated debate not only amongst the members of the board, but the SIA, the Securities Industries Association, has a committee, the Stock Exchange has a committee, the American Society of Corporate Secretaries has now created a committee to study the problem. Right now, the job is to make people understand it's necessary to make some decisions. They're staffed rather well right now, and I think that during the balance of this year, they'll be coming in with some decision making. Their job also is to advise both Congress and the Commission on how this new system should be governed. And I would expect that the industry generally and the board in particular would begin to make some critical decisions later this year.

LOUIS RUKEYSER: Rob, let's turn to the area of corporate bribery. Are American corporations going to be handicapped if we get tough in this area, and other governments do not?

RODERICK HILLS: I think if you divide the areas of corporate bribery, I can answer with some certainty, the answer is no. You spoke of the large, perhaps gross, bribe to get business. When we put it in perspective, it's not that many corporations that are so involved. We've found something like 80 companies that have conceded the existence of questionable payment. Far fewer number involve large bribes to get business. The problem I think is that in that area the American business community has found funds going off its books. I think that we're restoring the capacity of American business to be trusted. I know of no evidence that American business has or will lose major business abroad as a result of the SEC policy. I'm comforted by the words of the president of the Bank of America and by major corporations that say the same, that they have competed around the world without using the bribe.

LOUIS RUKEYSER: I can't let you go without mentioning the most unusual fact about you as an SEC chairman, which is that you have a wife in the cabinet, namely

Carla Hills, the Secretary of Housing and Urban Development. Does that affect, help or hurt, the way either of you does your job?

RODERICK HILLS: It keeps me from complaining about how hard I work. (LAUGHTER)

LOUIS RUKEYSER: Rod, what would you say to someone who's watching us tonight who is out of the market or has never been in, who thinks it's a con game, who thinks it's no place for the average person? Would you tell him he's right, or would you tell him to think again?

RODERICK HILLS: I would say that's a remarkable industry. I would say that we have, by any standard, any fair standard, the most honest industry in the world and the most honest business community. It's important to our system. It's important that the system be trusted, and I trust it.

LOUIS RUKEYSER: Well, let me just ask you one final question about the...your own future. Some people think you're about to leave this job next year. Is that true?

RODERICK HILLS: Not willingly. (LAUGHTER)

LOUIS RUKEYSER: We'll ask you again in November.

RODERICK HILLS: Very good.

LOUIS RUKEYSER: Thanks very much, Roderick Hills, for a far-ranging discussion of what's going on down in Washington as far as what's going on in New York in the financial world is concerned. And thanks also to our panelists for joining us. I hope you'll be back with us next week when we're going to be talking with a fellow who draws dirty pictures for a living. His name is John Mendelson. The pictures he draws are charts and graphs, and he's one of the most independent minded technical analysts on Wall Street. What he sees in those financial Rorschach tests is often surprising and very often right. Meanwhile, this has been WALL $TREET WEEK. I'm Louis Rukeyser. Good night.

ANNOUNCER: If you would like to obtain a written transcript of tonight's program, send one dollar to Transcripts, WALL $TREET WEEK, Owings Mills, Maryland 21117. That's one dollar to Transcripts, WALL $TREET WEEK, Owings Mills, Maryland 21117. Residents of Maryland, please include four cents sales tax.

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100 SHARE COMMISSION RATES

STOCK PRICE	OLD NYSE	MAY 1975	APRIL 1976
$20	$41.80	$46	$45
$30	$53.90	$59	$58
$40	$63.80	$70	$69
$51+	$80.73	$84	$82