

Historical Growth, Guide to Future?

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A recent copy of the United States Financial Analysts' Journal contains an article entitled "Study of the Performance of Rapid Growth Stocks".

The article refers to a monthly list published by Standard & Poors — "S. & P's 200 rapid growth stocks". To qualify for inclusion in the list a stock had to satisfy the following requirements—

(a) Earnings per share must have grown by at least 7% p.a. compounded for five years,

OR

(b) If growth had been interrupted in only one year (and the decline had been less than 5%) annual growth must have been at least 10%,

OR

(c) If growth had been interrupted in more than one year, or in any one year the decline was more than 5%, annual growth rate must have been at least 12%.

The author went on to examine how many of the original companies were still able to satisfy the requirements to stay on the list three years after it was compiled and found that 114 companies had been eliminated and only 86 remained. Of the companies eliminated, 10 were due to mergers, bankruptcy, etc., but 104 were unable to maintain the required growth rate.

Perhaps even more disturbing was the author's finding that of the 86 stocks which remained, 72%

GROUP A.

Companies whose earnings-per-share had grown by at least 7% p.a. compounded over the five years to 1960 without any fall during the period. Comment at the side reveals the company's experience over the ensuing four years.

Adelaide Cement Holdings Ltd.	Continued to grow and easily maintained rate.
Advertiser Newspaper Ltd.	Declined in 1961; subsequently grew and achieved overall growth rate.
Amalgamated Wireless (A'asia) Ltd.	Declined in 1961; " "
Automatic Totalisators Ltd.	Declined in 1961; " "
Bellambi Coal Co. Ltd.	Declined in 1962; " "
Big Sister Foods Ltd.	Continued to grow and easily maintained rate.
Broken Hill Pty. Co. Ltd.	Declined in 1962; subsequently grew and achieved overall growth rate.
Carlton & United Breweries Ltd.	Declined in 1961 and in 1963; subsequently grew but did not achieve overall growth rate.
Castlemaine Perkins Ltd.	Continued to grow and easily maintained rate.
Colonial Sugar Refining Co. Ltd.	Declined in 1961; subsequently grew and achieved overall growth rate.
Concrete Industries (Monier) Ltd.	Declined in 1961, '62 and '63; grew in 1964 and overall growth rate exceeded original target.
Cottees Limited.	Continued to grow and easily maintained rate.
Davies Bros. Limited.	Declined in 1962; subsequently grew and achieved overall growth rate.
Deposit & Investment Co. Ltd.	Declined in 1961, 1963 and 1964.
Electrical Equipment of Aust. Ltd.	Declined in 1961; subsequently grew and easily achieved overall growth rate.
Emu & Prospect Gravel & Road Metal Co. Ltd.	Continued to grow and easily maintained rate.
Flexdrive Industries Ltd.	Declined in 1962; subsequently grew and achieved overall growth rate.
G. H. Horton & Co. Ltd.	Declined in 1961 and 1963; grew in 1964 and overall growth rate exceeded original target.
Hardie Holdings Ltd.	Continued to grow and easily maintained rate.
Life Savers (Australia) Ltd.	" " "
Marrickville Holdings Ltd.	Declined in 1961 and in 1963; overall growth did not reach target.
Martin Bright Steels Ltd.	" " "
Neon Electric Signs Ltd.	Declined in 1963 and 1964 but overall growth rate exceeded original target.
W. Watson & Sons Ltd.	Declined in 1961 and 1962 but overall growth rate substantially exceeded original target.

After Nine Years:

Of 24 stocks, 7 continued uninterrupted growth. 21 stocks achieved overall growth rate in excess of 7% p.a. compounded.

GROWTH STOCKS

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recorded a fall in price over the three-year period despite an overall market increase of some 18% as measured by the Standard & Poor's 425 Industrial Index.

The very broad conclusions drawn from this study were:

- (i) It was dangerous to extrapolate an historical trend in earnings.
- (ii) Even where historical trends were maintained, the premiums paid for growth proved to be excessive in a substantial majority of stocks.

Can such a study be related to the Australian scene? For a start it is a deal more difficult to make any observation because we don't possess a nice Standard & Poor's list already worked out for us. However, without attempting an exhaustive study it is possible to draw up a list of some of the Australian stocks which would have met the S. & P's "listing" requirements in 1961 and to trace their subsequent performance in the three years to 1964.

The results are as shown on the attached schedules and may be summarised:

54 stocks were examined,

9 stocks continued uninterrupted growth;

33 stocks achieved overall target.

Points which emerged:

- If a growth stock is defined as one which must show growth in earnings per share every year, there are very few growth stocks in Australia.
- The companies in Group A (which had to exhibit the greatest consistency to qualify) were much more reliable as a group than the other groups which had higher growth rates but were allowed greater variations.
- The stock which achieved the greatest growth in earnings per share (partly due to a favourable base year in 1955) could only qualify initially in Group C.

GROUP B.

Companies whose earnings-per-share had grown by at least 10% p.a. compounded over the five years to 1960 but where growth had been interrupted in one year (the decline not to be more than 5%). Comment at the side reveals the company's experience over the ensuing four years.

Brolite Industries Ltd.	Declined in 1961; subsequently grew but did not achieve overall target.
Burns Philp & Co. Ltd.	Declined in 1961; subsequently grew and easily achieved overall growth rate.
Carrier Air Conditioning Holdings Ltd.	Declined in 1961 and 1963; did not achieve target.
McDonnell & East Ltd.	Continued to grow and substantially exceeded target.
Minster Limited	Declined in 1961; subsequently grew and substantially exceeded target.
Queensland Cement & Lime Co. Ltd.	Declined in 1962; subsequently grew and easily achieved target.
Repco Limited	Declined in 1961; " "
Shipping Newspapers Ltd.	Continued to grow until 1964 when decline took overall rate below target.
S. A. Rubber Holdings Ltd.	Declined in 1962; subsequently grew but did not achieve target.
Swift & Company Limited	Declined in 1961, '62 and '64 and did not reach target.

After Nine Years:

Of 10 stocks, 1 continued uninterrupted growth. 5 stocks achieved overall growth rate in excess of 10% p.a. compounded.

GROUP C.

Companies whose earnings-per-share had grown by at least 12% p.a. compounded over the five years to 1960 but where growth had been interrupted in more than one year or where the decline in one year was more than 5%. Comment at the side reveals the Company's experience over the ensuing four years.

(i) Interrupted only in one year but decline more than 5%.

Adelaide Steamship Co. Ltd.	Declined in 1961; subsequently grew and achieved overall target.
Brick & Pipe Industries Ltd.	Declined in 1962; subsequently grew but did not achieve target.
R. Fowler Limited	Declined in 1961; " "
Ensign Holdings Ltd.	Declined in 1963; subsequently grew and achieved overall target.
G. E. Crane Holdings Ltd.	Declined in 1961; subsequently grew but did not achieve target.
G. N. Raymond Ltd.	Declined in 1961, '62 and '63. Did not achieve target.
International Resistance Holdings Ltd.	Declined in 1961, '62 and '64. Did not achieve target.
McDonald Industries Ltd.	Declined in 1961, '62, '63 and '64. Did not achieve target.
Moran & Cato (Aust.) Ltd.	Declined in 1962; subsequently grew and achieved target.
O'Donnell Griffin Industries Ltd.	Continued to grow and easily achieved target.
Rocla Industries Ltd.	Declined in 1964; did not achieve target.

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And now to the key Clause in the Bill, and here I again quote Mr. Snedden:

"The public interest criterion which the Tribunal will be required to apply when examining an agreement or practice is to be found in Clause 50. Because of the importance of this provision, I will read sub-clauses (1) and (2) to the House. They provide—

(1) In considering whether any restriction, or any practice other than a practice of monopolization, is contrary to the public interest, the Tribunal shall take as the basis of its consideration the principle that the preservation and encouragement of competition are desirable in the public interest, but shall weigh against the detriment constituted by any proved restriction of, or tendency to restrict, competition any effect of the restriction or practice as regards any of the matters referred to in the next succeeding sub-section if that effect tends to establish that, on balance, the restriction is not contrary to the public interest.

(2) The matters that are to be taken into account in accordance

with the last preceding sub-section are—

- (a) the needs and interests of consumers, employees, producers, distributors, importers, exporters, proprietors and investors;
- (b) the needs and interests of small businesses;
- (c) the promotion of new enterprises;
- (d) the need to achieve the full and efficient use and distribution of labour, capital, materials, industrial capacity, industrial know-how and other resources;
- (e) the need to achieve the production, provision, treatment and distribution by efficient and economical means, of goods and services of such quality, quantity and price as will best meet the requirements of domestic and overseas markets; and
- (f) the ability of Australian producers and exporters to compete in overseas markets."

And there you have it. The Commissioner and the Tribunal of one lawyer and two laymen are expect-

ed to interpret "public interest" by reference to Clause 50. It seems to this writer that "The Australian Financial Review" report (October 20) of part of what Mr. J. Hutton and Dr. J. P. Nieuwenbuysen had to say in their article "The Tribunal and Australian Economic Policy" in a recent symposium could bear repeating here. I quote: . . . "the Bill gives too wide a discretion to the Tribunal in interpreting the public interest." . . . "They conclude that it is inappropriate to require a judicial body such as the Tribunal to make decisions about economic policy in the absence of coherent guidance from the legislature as to what this policy should be."

As stated at the outset, I have attempted to keep this article simple by quoting appropriate extracts from Mr. Snedden's speech, and except where Mr. Snedden quotes from the Bill, I have only once quoted from the Bill itself. In doing this, however, I trust that I have not given a misleading impression in any way. The Bill is now available and should be read in its entirety if a proper understanding of its overall implications is desired. Without entering into any discussion as to the need for a Trade Practices Bill, my object has been merely to stimulate interest in the "services" sections of the Bill and to indicate their far reaching ramifications.

GROWTH STOCKS *(From Page 9)*

Toppa Holdings Ltd.	Declined in 1961; subsequently grew but just failed to reach target.
W. R. Carpenter Holdings Ltd.	Declined in 1962; subsequently grew and substantially exceeded target.
(ii) Interrupted in more than 1 year.	
Allied Mills Limited	Declined in 1961; subsequently grew and exceeded target by a greater margin than any other stock.
Blue Metal Industries Ltd.	Declined in 1961; subsequently grew but did not reach target.
Brickworks Limited	Declined in 1961 and '62; "
Davis Syme & Co. Ltd.	Declined in 1961, '62 and '63; "
Dodds Consolidated Industries Ltd.	Declined in 1961, '62 and '63; "
H. G. Palmer (Consolidated) Ltd.	Declined in 1964; just failed to reach target.
National Consolidated Ltd.	Declined in 1961 and '62; subsequently grew and achieved target.

After Nine Years:

Of 20 stocks, 1 continued uninterrupted growth. 7 stocks achieved overall growth rate in excess of 12% p.a. compounded.

— MEMBERS —

Contributions to the Journal to be forwarded to:

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