men, hitherto unheard of, emerge as whiz-kids, and go-go managers. Investment company shareholders, bored with last year's 6% rise in value and the previous year's 15% fall, are easy prey. Conglomerates, agglomerates, geared vehicles and "ramps" come and go. The excitement of course is intense, and dare it be said - the outcome in the long-run is obvious. Then finally there is talk of "back to fundamentals", "yield" and "asset-backing", enquiries as to the criminal intent of broken promoters, and politicians trying to wring the last drop of political advantage out of the sorry plight of the "little investor".

Clearly the investment company investor should have stayed where he was. One thousand dollars takes a lot of saving, and he would be surprised that the conservative investment company manager was aware of it all along.

What determines investment policy is closely related to the basic objectives of the company which are generally clearly discernible. Objects may vary, but the following are fundamental to sound management of investment companies: long-term capital and income growth, current investment income and capital preservation.

APPARENT POLICIES OF RANDOM SAMPLE

A scrutiny of the portfolios of the four Australian investment companies mentioned earlier holds few surprises. One could ask, for example, whether B.H.P. is held?

Answer: YES. Proportion to total investments as follows.

	Darling	Delfin	IPCAIL	Wales Ret.
%	4.9	11.7*	5.2	5.9

(* wholly capital growth)

Does each fund hold A.C.I., C.S.R., M.I.M., or W.M.C.?

Answer: YES

Is each fund well diversified? Answer: YES

Clearly each of the managers of these funds has followed fundamentals: long-term capital and income growth, current investment income (except Delfin see * above) and capital preservation. What is disappointing of course is that the funds are not more liquid, but it would have been a percipient fund manager who would have sold B.H.P. at $14.00, C.S.R. at $6.00, C.R.A. at $9.00 and so on.

Besides, there is the perennial problem of capital gains tax. The manager must ask himself, considering our quaint Australian tax legislation, whether the fund is likely to be taxed on a capital profit or not, whether it is desirable to have the entire fund classified as a trader or not. Problems like these make the lot of the Australian investment manager a difficult one.

MODESTY IS A VIRTUE

The foregoing remarks may bring on groans and derisive laughter from those optimists who believe they can do better than the conservatives. Strangely, the optimistically go-go are suddenly quiet, or out of business. The modest may have seen the value of their portfolios decline considerably, but live to fight another day. Modesty is certainly a virtue when it comes to stewardship of other peoples' money.

o0o0o0o0o

THE SHIFTING RULES OF PLAY IN THE BUSINESS GAME

By Meredith Ryan, A.M.P. Society (Sydney)

In the business game, "it is difficult to survive in markets without having a feel for the subtle relationships of law (the formal rules), custom (the informal rules which can be stable for long periods) and hard economics. Standard modes of economic thought (e.g. the classical ideal market) do not deal adequately with the inter-relationship". So says John McDonald in "How Social Responsibility Fits the Game of Business", Fortune, December 1970.

He goes on to comment upon:

- consumerism (Nader etc.) as likely to have "an impact analogous to the establishment of organised labour as a major institutional force in both markets and politics"
- the new order of "conscious thought" that is being given to "reconciling what happens in markets with what is happening in society"
- use of game theory as a model for examining how order is brought out of free market chaos by the introduction of two types of limits or standards of behaviour: "limits on the freedom of action of some of the players" (e.g. fixed commissions for agents and brokers as a discriminatory standard); and limits on "the ways of parceling out the benefits among all the players" (e.g. distributing the costs of pollutants - a negative benefit).

The business game is being played before a very vocal audience. The far future is in fashion, perhaps partly because it appears gloomy to many and attracts comments like bad weather. Long-term projections of present rates of use of resources, pollution, population growth and divergence of the rich countries from the poor, have produced the predictable gamut of comment - from "resources are ever understated and there's always the sea waiting to be exploited; let's leave something for the next generation to solve", to warnings of doom for Spaceship Earth. The conservationists set up new activist groups. Pop sociology claims that in an impersonal, institutionalised world, hippiedom in the shape of Charles Reich's Consciousness III is right after all.

Donald Schon engages in more erudite analysis in his 1971 Reith Lectures for the B.B.C. He speaks of:

- the "loss of the stable state" in society with a consequent rise in uncertainty as established institutions and value systems are threatened
- the heightened reaction of "dynamic conservatism" (organisations "fight like mad to remain the same")
- the emerging need for new learning systems for society if it is to cope with a permanent condition of change
- the "ecology of business firms". "The concept of the product as the defining unit for a firm is no longer appropriate and is replaced by the idea of a functional system - a set of elements interrelated in various ways which go to make up a major social function" in which the adaptive business <u>process</u> is the critical feature (e.g. in the development of the matrix form of organisation). "As companies begin to move more clearly in the direction of functional systems the boundary between private and public systems erodes".

High-flown or worthy of reflection, unreal or close to the bone - one can take one's pick of the offerings. But one can hardly deny that the rules of business play are shifting, and that it's a tough game because the rule changes are by no means made by consensus. Consider a few examples in the financial game in which investors are players:

<u>Changes in the freedom of some of the players</u>

(a) Some large institutions are beginning to be more individually active in protecting their interests as major stockholders. For example, the Prudential Assurance Company in the U.K. said publicly last year that it will be more vigorous in its efforts to maintain efficient management in companies in which it invests. If more institutional players grow bolder, the names of the corporate shareholders on the register of a company will take on new meaning for market analysts, not to mention company managements themselves and individual shareholders.
<u>The Times</u>, speculating about more active and public leadership by institutional investors, has said: "Once the process of acknowledging a wider responsibility starts ... it is sure to gather momentum. For the 1970s, it may be unwise to expect more than a strict attention to the management and financial affairs of industry from large investors. But planning for the 1980s has to begin now and will inevitably involve the institutions in more wide ranging social questions on the way they deploy their funds."

(b) It is natural for private enterprise to object to government regulation or the threat of regulation, be it Stock Exchange and Senate Enquiry, or life office and 30/20 constraints. On the other hand there is much more talk these days of the private and public sectors getting together more cooperatively (erosion of the public/private boundary). It has been said in the U.S. that individual companies cannot reasonably practise self-denial unilaterally in a competitive situation (e.g. in automobile safety) and the responsibility of business can best be discharged by lobbying the government for industry-wide regulation. Schon refers to "the very great unlikelihood that institutions (practising dynamic conservatism) will undertake their own change of state. Major changes tend not to come from within; they tend to come about in response to the system's failure or to the threat of failure".

Changes in the distribution of benefits amongst the players

(c) Maximise profit when this conflicts with social responsibility? As The Times (8.9.71) says: "Altruism will always tend to sell at a discount on the market-place". There is more feeling today, however, for the notion that profit, for a long-term enterprise as against a short-term venture, is a secondary though vital aim, the primary aim of an enterprise being to maintain continuing useful existence in its environment. Fully developed, it is a notion hard to dispute. This is not to say that giving effect to it in practice is easy. If you are a property developer, how much do you pay for aesthetics or town-planning? Picking up the point in (b) - do you lobby for planning by the State? As for the Stock Exchange, consider what David P. Eastburn, President of the Federal Reserve Bank of Philadelphia, says in an address entitled "The Securities Business and Consciousness III" given to financial analysts and executives in Indianapolis in December 1970. "In effect, Keynes in the thirties argued that the way in which the market was supposed to work in performing its two main functions - providing liquidity and allocating resources - was quite different from what really happens. It might provide liquidity for the individual investor but not for all investors combined, and preoccupation with short-run gains gets in the way of allocating resources according to long-run needs. Today, a casual glance around might suggest to our committed youth that 'the best brains of Wall Street' are still pointed in the direction they were when Keynes observed them. Performance may not be quite the standard of success it was before recent chastening experiences, but it is still very much there. And, in contrast to the situation in Keynes' day, with the growth of mutual funds and other such investors, it has become deeply ingrained institutionally".

(d) It's in our blood to seek industrial growth, to market aggressively, to press on with technological development such as computerisation, to exploit resources, to trade competitively. But the economic gap between the rich countries and the poor countries increases rather than reduces. It has been seriously suggested that in the not too distant future growth and resource exploitation should be restrained for the good of the world society. A volte face for the postulates of private enterprise, at best. Is the ultimate likelihood not only a gradual erosion of the private/public boundary but the coming to life of some socialistic mutation of business? Would it be kind to shareholders and those who work in market institutions? Perhaps this one, at least, will be something for another generation to cope with.

And so the business game goes on, each player facing the challenges of his chosen field. Those at the Australian Stockmarket table try to keep their wits as the successive hands are dealt, try to move their style of play as the game changes. In the present difficult no-trump round the government player, a Senator, seems long in Clubs - the miners and industrialists are doubtless nursing Diamonds - Organised Labour is throwing down Spades - and Investors are left with a pile of chips not worth much as they were, and bleeding Hearts.

But next round - a little slam in Diamonds for Investors again? Maybe, if little slams are still respectable.