

\$50,000 U. of C. Study Will Seek Why of Stocks' Ups and Downs

BY WILLIAM CLARK

A study undertaken by the University of Chicago on a \$50,000 grant from the country's largest investment firm should prove to be the most significant and solidly informative in the whole checked history of stock market analysis.

Sure to explode some theories and perhaps provide support for others, the study—which will make extensive use of electronic computers and data processors—is designed to show the effect on stock prices of earnings, dividends, splits, general business trends, and every other conceivable influence.

In short, it is the most comprehensive effort to date to determine what makes stock prices go up or down. The first step involves recording on punch cards, then on Univac tape, data on every common stock issue listed on the New York Stock exchange in the last 35 years.

Grant by Merrill Lynch

The \$50,000 grant was made by Merrill Lynch, Pierce, Fenner & Smith, Inc. earlier this year. What the university calls its Center for Research in Security Prices has been established in the graduate school of business to carry out the study. James H. Lorie, associate dean of the graduate school of business and professor of business administration, will direct the project.

The information turned up by the study will be publicly available. If, as the work progresses, an individual brings in a specific question that can be answered by the center in the normal course of the study, he may be accommodated on a confidential basis. The purpose of the project, however, is to make the results available to any interested person, firm, or institution.

What Cards Record

At this stage of the game, the researchers are preparing four cards an issue each month for every common



Wallis Lorie

stock listed on the New York Stock exchange beginning in January, 1926.

The first card will record the month's trading volume and the closing price—or the closing bid if there were no transactions. The second will show cash dividends; the third stock dividends, rights, and options; and the fourth earnings and shares outstanding.

When the cards are completed, the information will be transferred to the Univac tape. Then, specialists in programming the work of such electronic brains can begin to extract the answers to problems which analysts so far have had to try to resolve largely on the basis of assumption.

"I hope we can find the answers to questions about the stock markets which we have been prevented from exploring up to this point by our inability to cope with the mass of calculations, necessarily involved in any such study," said W. Allen Wallis, dean of the graduate school of business.

Relate Growth, Price

Problems such as what? "There is a lot of talk about growth stocks," said Lorie, the project director. "We will be able to rank all stocks according to average annual or quarterly growth in earnings and relate that to growth in the price of the stock. Nobody has ever done that.

"We will be able to take specific issues, or stocks comprising industry groups, and determine the sensitivity of their prices to changes in national product, seasonal business fluctuations, the effect of paying out a dollar in dividends as opposed to retaining it in the business, and so forth.

"Then, nobody really knows what the long term effect of stock splits is. We'll be able to look at all splits in all markets, up and down."

Someone else suggested that the study should reveal the relative merits of sticking with blue chips or indulging

in more speculative issues in building an individual investment program. It should tell whether the theory that the stock market anticipates business is correct, or whether it is the other way around.

Other Answers Sought

"Suppose a person with no special knowledge or investment skill bought stocks traded on the New York stock exchange in any period in the last 35 years," said Lorie. "How would he have made out? What would the return on his investment be? How would it compare with what he might have realized from investments in savings and loan associations, in government bonds, or in something else?"

"We should be able to answer questions like these with fewer arbitrary assumptions than ever before."

One of the most interesting aspects of the project will be the measure of truth it will provide for the various theories advanced by the stock market chartists—Dow and others.

"We will be able to test the usefulness of any objectively defined market theory," Lorie asserted.

Hopes for Permanence

The university hopes that the project will be a permanent one, and it is prepared to keep even more detailed records of performance than the month-by-month cards it is now preparing. Since the first of this month it has been accumulating data on cards for every stock on the New York Stock exchange for every trading day.

"We are happy to help bring into being the Center for Research in Security Prices," said Michael W. McCarthy, president of Merrill Lynch.

"We are confident that its findings over the years will point to new techniques for analyzing security markets and will constitute a valuable supplement to the work of all investment analysts, our own and those of other firms."