

U. of C. Putting Stock Data Under Analysis

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(First article of a series)

Three years ago come September, James H. Lorie, professor of finance and director of research at the University of Chicago's graduate school of business, received a phone call from a friend in New York City. As a result, the school is engaged in the most comprehensive study of stock prices ever made. When it is completed, the school expects to be able to:

1. Compute the return to the holder on any common issue listed on the New York Stock exchange in any period of months from January, 1926, forward.

2. Determine with far more accuracy than has been done to date the effect of stock splits, dividend changes, mergers, and economic and political developments.

Seeks a Better Index

3. Measure the significance and success to date of the various popular market indexes and technical approaches to stock market analysis and forecasting.

4. Perform a variety of assignments for public and private organizations, such as analyzing the performance of a trust department.

5. Develop—perhaps—a new market index or “average” less subject to distortion by random moves of major issues than those now in use. [The whole subject of stock averages will be explored.]

These ambitious results will not spring full blown from the university's project laboratories this summer. The whole complex affair is a phase-by-phase and step-by-step proposition.

Taping Task Immense

At the moment the project team is in the closing stages of the mountainous task of transferring information on individual issues to electronic tapes, checking its accuracy, and reorganizing it for most efficient feeding to computers. Once this is done, the variety of analysis to which the information can be subjected will be limited only by the skill and imagination of those gifted folk who work out computer programs.

What has happened to date, and the unforeseen trials and tribulations encountered along the way, make a remarkable story.

One day in September, 1959, Lorie got a call in his office at the university from Louis H. Engel Jr., vice president of Merrill Lynch, Pierce, Fenner & Smith, Inc., who was in his office in New York City.

What can we say about what people have been earning on common stock, queried Engel, a Chicago alumnus. A lot is said about what is earned on savings and loan shares and on bank deposits, he said, but little or nothing about what investors actually have earned on stock.

Lorie agreed that the question of earnings on stock had never been answered except in a frag-

mentary and arbitrary way, and said he would think about it. He talked casually at first with others at the university. It was decided that to get the kind of answer Engel sought, a laboratory of sorts would have to be established.

At this point Lorie called Engel back and said that time and money would be needed, but that there was a prospect of having something very big indeed if the university could go to work on it in earnest. O. K., said Engel, make a proposal. Lorie did. The upshot, a little time later, was that Merrill Lynch made a grant to the university for research in security prices.

With this the school of business set up what is now referred to publicly as the center for research in security prices [sponsored by Merrill Lynch, Pierce, Fenner & Smith].

School in Full Control

The big brokerage firm subsequently donated additional funds for the purpose but has left control of the project, which will be a continuing research function of the school, strictly with university personnel.

The study began with periodic meetings of a dozen dedicated persons in the business school. What period and what stocks should the study cover, they wondered. For what intervals should price and other information be recorded? It was decided that:

1. The period would be January, 1926, to date, comfortably including the gyrations of 1929 and the depression years.

2. All common stocks listed on the New York Stock exchange would be covered. “All” would be simpler than “some.” The built-in error that goes with sampling would be avoided, and it would be possible to check with known totals on trading volume.

Fix Monthly Intervals

3. Data would be taken for monthly intervals “for a variety of practical and theoretical reasons.” It would include monthly closing prices; monthly trading volume on the New York Stock exchange; dividends in cash or property [dividends in stock, etc.] with dates of declaration, payment, date for holders of record to receive the payment, and the ex dividend date all included. Capital adjustments—splits, new stock, mergers, and so forth—everything considered essential for adjusting price changes including the tax status of each dividend, would be recorded. A batch of national economic statistics also was thrown in to indicate the general business climate in which the stock price changes took place.

With these decisions under their belts, the school team embarked upon its data collection—and ran into horrendous hurdles, pitfalls, and complications. Had they been foreseen, the project might have been abandoned before it was started.

[Final article tomorrow.]