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THE TEMPLETON LETTER

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THE GOLDEN CENTURY

An Address by John M. Templeton at Palm Beach, March 7, 1957

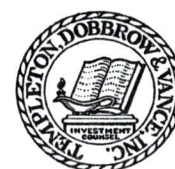
You and I should be deeply thankful that we live in this century, when the knowledge accumulated by men through the ages is beginning to bear fruit in material progress beyond the imagination of previous generations. In terms of material products, mankind will consume more in this century than in all previous centuries added together.

You and I should be deeply thankful for the good fortune of having been born in the United States. In terms of material goods, this one nation alone will produce more in this one century than the total output of all nations throughout the history of the world up until the beginning of the 18th century.

For a few minutes, let's turn back our memories to the dawn of this century, in the year 1900. The total Gross National Product of the United States was then \$20 billion. The people living then could hardly imagine that the automobile industry, whose annual sales were less than \$10 million would grow more than 1,000 fold. Now the sales volume of this industry alone is almost as large as the dollar sales volume of all industries in the nation in 1900.

When this century began, the electric power industry and the telephone industry were in their infancy, but today these industries alone also total as much as the commerce of the whole nation at that time. The aviation industry did not really begin until 10 years after the start of this century, but now the aviation industry alone produces goods worth over \$9 billion a year. In this century the oil industry has increased an hundred-fold and is still growing. At the beginning of the century chain stores were almost unknown, but now our people buy every year through chain stores much more than the total sales of the nation in 1900. The radio industry and the television industry were not even dreamed of then, but now these industries produce \$5 billion worth of goods per year. Perhaps these examples are enough to prove that we truly do live in the Golden Century of the earth. I hardly need mention the other great industries born in this century such as motion pictures, organic chemicals, refrigeration, rayon, nylon, air conditioning, plywood, aluminum, plastics and others.

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You who live in Florida or often visit Florida can see all around you the signs of this golden century. The population of Dade County alone is now greater than the population of Florida at the beginning of the century. Beachfront property valued as low as \$1 a foot in 1900 can now be sold for as much as \$5,000 a foot.

The first part of this century has been a golden era not only for consumers but also for investors. Fortunes could have been made and were made simply by buying land almost anywhere in South Florida at the beginning of this century. Those who were wise enough to invest \$100,000 in General Electric in 1910 now have an asset worth \$4 million. One hundred thousand invested in duPont at the same time increased 160 fold and is now worth \$16 million. One hundred thousand in International Business Machines as recently as 1922 is now worth \$29 million. One hundred thousand in Lincoln National Life shares in 1934 increased 60 fold and is now worth \$6 million. One-tenth of a million invested in American Airlines as recently as 19 years ago is now worth \$2 million. The dividend paid annually now on a share of Douglas Aircraft is twice the price of the stock just 25 years ago.

Those of you who studied economics are probably more interested in indexes which show the average growth of all industry than in these colorful examples. Therefore, on the attached chart a line is plotted which shows the growth of Gross National Product year by year for 56 years. Gross National Product means the output of all goods and services in the nation. As I have mentioned, Gross National Product at the beginning of the century was only \$20 billion, whereas now it is 20 times that great. We as investment counselors and you as investors may be even more interested in the second line which is the index of all industrial common stocks actively traded on the New York Stock Exchange. This shows that \$1 million invested in a general cross section of all industrial stocks at the beginning of the century would now be worth \$12 million. Lastly, I have drawn a line which shows the accumulation which would have occurred if all dividends had been reinvested. Startling as it may seem, by reinvesting dividends, \$1 million invested by a tax-exempt institution in a random selection of industrial stocks would have grown in 56 years to \$250 million. It is certainly no exaggeration to say that this century has already proven to be a golden age for investors to an extent almost unbelievable at the beginning of the century.

People who come to talk with investment counselors are usually anxious to hear more about the possibilities of the future than about the facts of the past. The only certainty about the future is the fact that it will be different from the past. Nevertheless, it is entertaining to project forward for the remaining 43 years of this century the trends which have existed thus far. On this same chart, three straight lines are drawn projecting the past trends on to 1999. If past trends did continue, then by 1999 Gross National Product of the United States would have grown from \$412 billion now to \$3 trillion a year. The index of industrial stock prices would have tripled; and a fund in which all dividends were reinvested would have increased twenty-two fold. These figures would be greater except for the fact that today, at the starting point, industrial stock prices are already considerably above the trend line.

Now let us investigate briefly the question of whether future growth trends are likely to be more rapid or less rapid than heretofore.

Those who study population trends tell us that the rate of growth in the future is more likely to be above rather than below the past rate, which averaged 1.4% annually. More important than population is the growth of the nation's industrial plant and equipment. In the first twenty-five years for which figures are available, this nation invested an average of \$6 billion a year in new industrial plants and equipment. In the most recent 5 years, such expenditures have averaged \$29 billion annually and reached a record \$35 billion last year. This indicates that the rate of increase in the productive capacity of the nation has been even greater recently than it was in the first half of the century.

Another factor which contributes to the increase in the figures for Gross National Product is inflation; because the Gross National Product is stated in terms of dollars whose purchasing power has decreased at an average rate of 2.8% annually. Because of the continually rising wage rates and the power of the labor unions, it is likely that inflation will continue a very long time, with only temporary interruptions.

Most important of all factors which have made this a golden century in the economic sense, is the increase in output-per-man-hour resulting from new inventions and new production methods. This progress is based on scientific research and industrial research. Therefore, it is important to study the amount of money which a nation spends on research. These figures are most encouraging because they show that research expenses in the United States have increased from one-quarter billion dollars annually twenty years ago to \$4 billion annually at present. Altogether, without going into more detail, I can say that the forces indicating an even greater rate of growth in the future are at least as strong as those forces indicating the opposite.

Those investors who want to benefit from the future progress of the nation must give the utmost care to the proper selection of their investments. During the first half century, many investors failed to share in the growth of the nation, because they invested in the wrong kinds of investments or in the wrong industries. At the beginning of the century, among the largest investment fields were mortgages on real estate and bonds and shares of railroads; but neither of these gave the owner any real participation in the great growth of the nation resulting largely from new industries.

In the remainder of the century, because scientific progress is increasingly rapid, it is likely to be even more important to select growth industries and growth companies. Such selection is by no means an easy task. The outlook is constantly changing. However, our staff of security analysts does have a list of industries regarded as having the best prospects at present for maximum future growth. Listed in alphabetical order this list includes air conditioning, airlines, atomic power, electronics, new metals, plastics, prefabricated houses and rockets. These are self-explanatory except that you might like to know what we mean by "new metals". In this category, we include aluminum, nickel, uranium, titanium, molybdenum, tungsten, cobalt, chromium and magnesium as well as zirconium, lithium, beryllium, tantalum, thorium and others.

Concerning the airline industry, the rate of growth is shown by the fact that for every passenger mile of air travel in 1932, there will be 200 miles of travel in 1957. Yet, today, the market values at only \$600 million

11 common stocks of all 12 trunk airlines, which is just 1/18th of the market value of General Motors alone.

Now in conclusion, I would like to emphasize two important warnings for investors. The first of these is the fact that the progress of the nation could be stopped by atomic war, by socialism or by other great unpredictable forces. The second warning is that the free economy necessary for growth carries with it a strong probability that there will continue to be occasional business depressions and occasional drastic cycles in stock prices caused by great waves of optimism and pessimism. It will be possible in the future, as it has been in the past, to have a fortune wiped out by getting overloaded in common stocks at the wrong time.

There will be great investment opportunities in the common stocks of the best-managed companies in new industries; but in years when stock prices are high, wise investors will keep large reserves of high-grade bonds, in order that they may have the means with which to buy real growth stocks the next time a major bear market puts common stocks again on the bargain counter. A carefully-prepared plan for each investor is the cornerstone of investment success.

John M. Templeton