# FINANCIAL DEPARTMENT

The Financial Department is prepared to furnish information regarding standard investment securities, but cannot undertake to *advise* the purchase of any specific security. It will give to inquirers facts of record or information resulting from expert investigation, and a nominal charge of one dollar per inquiry will be made for this special service. All letters of inquiry should be addressed to THE OUTLOOK FINANCIAL DEPARTMENT, 381 Fourth Avenue, New York

## "AVERAGING DOWN"

FEW people need to be reminded of the fact that the prices of many stocks are considerably lower than they were a year or two years ago. In fact, almost every investor owns shares of stock in some corporation which have a lower market value than they had at the time he purchased them. He is therefore faced with the problem, which sooner or later confronts practically every investor, of what to do about it. Should he keep his stock? Should he sell it? Or should he buy more of it and thus "average down" its cost?

Many questions of this sort have been asked in recent months. People are still asking them. In one mail last week three people asked the Financial Department for its opinion as to whether they should buy more of some stock they owned and which had declined considerably in price. "Averaging down" is a process which seems to appeal to large numbers of people, and we do not hesitate to say that under certain conditions it may be a wise thing to do. But, like all good things, it can be overdone and it has its elements of danger.

If a man buys ten shares of stock at $100 a share and then watches it decline, he is either disturbed or he sees a chance—

or thinks he does—to acquire additional shares cheaply, and thus benefit himself by reducing the average cost of his total holdings. Suppose, for example, the price declined from 100 to 50 and he bought ten additional shares at the latter price. He would then own twenty shares, ten bought at 100 and ten at 50, for a total cost of $1,500, or an average cost of $75 a share. He has "averaged down" the original cost twenty-five points; the stock will only have to go back to 75 in order to enable him to get out even, whereas, if he had not purchased the extra ten shares, this would not have been possible unless the price reached 100 again. It all sounds reasonable enough, and we repeat that under certain conditions "averaging down" the cost of a stock in this way is a rather sage thing to do.

"Averaging down," however, is the device of the speculator rather than of the investor. The speculator is interested in the price of a stock and cares little about its safety or its dividend-paying abilities except as these qualities have a bearing on the price. The investor, on the other hand—theoretically at least—should pay little attention to the price at which a stock is selling, but a great deal of attention to the question of its safety and the probabilities of its paying regular dividends. The speculator is concerned with profits only; the investor is, or should be, interested solely in safety and yield.

It is often an extremely difficult thing for a man to bring himself to the point of taking a loss. He sees the quotations for his stock declining day by day, and at first he assures himself that it is a temporary condition. He expects the stock to "come back." On the other hand, it frequently happens that the decline continues, and to sell would involve a greater sacrifice with every day that he postpones action. He wishes he had sold when the decline first started, but the same psychological reasons that made him hesitate then cause him to delay now. Perhaps a man dislikes taking a loss because he thinks that to have purchased a stock which has declined in price is a reflection on his good judgment. It is safe to say, however, that no one who has ever purchased securities to even a moderate extent has escaped the experience of seeing them quoted for less than they cost him.

But when prices go down, that is the time for a man to keep his wits about him, to keep cool, and not get panicky. It sometimes happens that a man who expects a stock to come back, and who is not disconcerted at all by a few points decline, loses his head entirely when the decline has become more marked, and, without any clear idea of what he is doing or why he is doing it, sacrifices his holdings for whatever he can get for them. When prices are advancing, no problem is presented, and one of the oldest sayings in Wall Street is that no one ever lost money taking a profit, but when stock prices are going down it is oftentimes a serious question as to what to do.

One of the solutions which frequently

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seems to occur to the investor in such a situation is to buy more of the same stock at the lower price and thus "average down" the cost of his holdings.

Before putting this idea into effect, however, it is well for the investor to ask himself a few questions. The first is, why the stock has gone down. Is it due to high money rates, which always tend to depress security prices, and not because the condition of the corporation which issued the stock has suffered a change tending to make the stock intrinsically less valuable? High money rates—that is, abnormally high rates—are usually temporary in character, and if the decline in the price of the stock can be traced to this cause then it is entirely probable that it might be sound policy to purchase more shares and "average down" their cost.

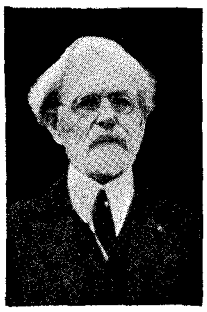
If the price has gone down because the corporation has suffered reverses in its business, it is well to find out whether the conditions which brought this about are of a temporary or permanent nature. If they are temporary—and of course this cannot always be determined—here again it might be profitable and wise to "average down." On the other hand, if they seem permanent the thing to do is to sell and sell quickly, get all you can for your stock and reinvest the proceeds in something else which promises greater safety.

In other words, too much attention should not be paid to the selling price of a stock, nor an effort made to get too high a yield. The general rule is a pretty safe one, that the higher the yield the less the safety, and safety should be the first consideration of every investor. Preferred stocks yield less than common stocks, because they have a prior claim on assets and earnings, and are consequently better investments. The better a thing is, the more it costs.

And when a stock goes down there is a reason for it. Discover this reason, if possible. If you bought some of it at 100, later on it sells at 60 and you are considering the purchase of additional shares at the new price, forget about the fact that you previously paid 100 for it. Ask yourself if it is a good investment at $60 a share. That is the question to be decided, and the only one. If you decide that it is a good investment at that figure, buy it, and automatically you will have averaged down its cost. If it is not a good investment at 60, don't think about buying more, but dispose of what you have even if it does involve a loss of $40 a share. Better to lose $40 a share than run the risk of holding on and losing even more than that.

Our idea about the purchase of stocks—or bonds—is, first of all, to consider safety; if a security is not safe, it is not worth thinking about. The second point is regularity of income, and the best way to decide this is to inquire into the company's earnings over a period of years. If earnings have regularly been sufficient, and by a comfortable margin, for long enough to have established the fact of the company's success, the probabilities are that they will continue to be sufficient. There is no better way to judge of future prospects than by past performances. This is just as true of securities as it is of horse racing, and it is for this reason that the stock of practically every new enterprise must be looked upon as speculative. The third point to settle with regard to securities is their marketability, but this is incidental to the first two. Don't buy a stock because it is selling for less than it was, but only if it seems safe and if it promises to continue regular dividends. Don't try to "average down" costs if this means you are going to expose yourself to the chance of sending good money after bad.

## CONTRIBUTORS' GALLERY



George Haven Putnam contributes an article on Lincoln's Cooper Union address and the part that Bryant played in bringing the "young Illinois lawyer" to New York. Mr. Putnam was born in 1844 in London. He attended the Sorbonne and the University of Göttingen, and served in our Civil War as a major. In 1899 he became president of G. P. Putnam's Sons. He is the author of "Abraham Lincoln—the People's Leader in the Struggle for National Existence" and many other volumes.

William P. Helm, Jr., newspaper man, was born in Virginia thirty-eight years ago. He first smelled printers' ink in the office of the Knoxville "Sentinel." Later he became reporter and city editor of the Newark "Morning Star," and in 1911 a reporter on the staff of the Associated Press in New York and Washington. After occupying a position as assistant to the vice-president of the National Coal Association for four years, he returned to his former work, and at present is an active newspaper man in Washington.

Dorothy Canfield Fisher contributes to this issue "A Great Love," the second of a series of short character stories which will be published from time to time in The Outlook.

Louise Ayres Garnett is a dramatist, composer, and poet. She has written a play, "Master Will of Stratford," together with its incidental music, and some verse-books for children.

Elbert Francis Baldwin has been on the editorial staff of The Outlook since 1893. Previously he was associated with the New York "Mail and Express," and before that with the "Independent." Mr. Baldwin was born in Cleveland, Ohio, and educated at Williams College and the University of Berlin.