What to Do through '82?

BY STEVEN K. BECKNER

As the US economy becomes more complicated and unpredictable, thanks in part to political vicissitudes, investment strategy is also becoming more difficult. The locus of most of the uncertainty (and the compass of nearly all markets) is interest rates. The ubiquitous price/yield of money, more than any other factor, determines the general direction of stocks, bonds, commodities, currencies, and real estate. And no one really knows where they're going.

Henry Kaufman, the sage of Salomon Brothers, thinks he knows, and everyone on Wall Street listens to him. He says interest rates are headed back up to their previous record levels or beyond, having fallen nearly 5 percent from their summer 1981 highs at one point in December.

Others, including this columnist, disagree. Kaufman's prognosis "just doesn't compute," asserts William Miller, vice-president of Crucible Securities in New York. "If the market is going to hell in a handbasket because we're going into a recession, how in hell can interest rates go up?"

So much depends on government economic policy—in particular, the interaction of fiscal and monetary policies. If fairly conservative projections of a \$100-billion fiscal 1982 budget deficit and a \$150-billion fiscal 1983 deficit come true, then seemingly almost any method of financing them will tend to put pressure on interest rates, other things being equal.

Strict reliance on the private capital markets by Treasury, which could drain off at least one-third of available private capital, would, in simple supply and demand terms, tend to drive up rates. But even resorting to the accommodative open-market facilities of the Federal Reserve would not guarantee lower rates. Indeed, the inflationary expectations that would result from Fed money creation might drive interest rates higher than otherwise.

It now appears that the Fed—which, despite a few lapses, has done an admirable job of reducing monetary growth and thereby laid the groundwork for both lower inflation and lower interest rates—will not fully accommodate the Treasury's financing needs. Naturally, it will come under increasing pressure to do so. If Paul Volcker and company do hold a steady course, and if other pieces fall into place, then it is likely that the upswing in rates early in '82 will prove temporary.

For one thing, because of the recession, private credit demand is off and should further decline. Then, too, there is every reason to expect that the private savings rate—now at a disappointing 4.9 percent—will increase throughout the year, although it is unlikely to approach the administration's goal of 8 percent. Finally, it is unlikely that the budget deficits will come in as high as projected. There will be more spending cuts and, unfortunately, new taxes.

By year-end, the beginnings of economic recovery should begin easing the deficit strains for fiscal 1983, although the revival of private credit demand at that point should give a fresh boost to interest rates. With this admittedly debatable forecast in mind, what is the outlook for various investments?

Stocks: For the better part of the year, general market conditions look bearish. This is particularly true of the Big Board—the "blue chips," The Dow Jones index could dip to 700. Shorting the shares of large, heavily institutionally held companies should prove profitable. But don't be greedy. Ride them down a few points and get out.

Use your profits to buy up some of the promising second-tier stocks, many of which are at attractively low prices. Look at up-and-coming companies involved in data transmission, laser technology, robotics, and the like. On foreign markets, even companies in rapidly growing areas, especially the Far East, have been hit by worldwide recession. Selective purchases of foreign securities—or foreign unit trusts—look good for long-term growth.

Bonds: Assuming an eventual decline in interest rates, bonds may soon be due for a long-awaited rally. Miller suggests buying 20-year, high-grade, deep-discount corporate bonds with open and active sinking funds. Bonds issued 10 years ago at 6 percent must now be sold at a 50-percent discount to compete with newer issues. Therefore, according to Miller, you can buy \$1,000 worth of bonds at \$500. You can hold until maturity for a long-term capital gain or sell out at the market when lower interest rates increase the value of the bonds.

Commodities: Commodities have been hit perhaps worse than any other investment by recession, disinflation, and to an extent, tax-law changes. It may be some time before we again see the kind of wild bull markets of the last decade—unless the Fed reverses course and revives inflation. But the coming economic recovery should give a profitable lift to all kinds of commodities; for example, lumber, copper, silver. Gold, for now, should be relegated to relatively small cash positions as the ultimate hedge. Since we don't know when the recovery will come, the best tack is to buy positions in distant delivery months, then watch and wait.

Currencies: Right now the dollar is the reigning king of the hard currencies, blessed by declining inflation and relatively high interest rates, giving it the highest real yield around. But as interest rates come down, the dollar's edge will dull, particularly if inflation begins to rise again. Although the European currencies and the Japanese yen made a recovery in the fall, they have since slipped back. They are all far below their 1978 highs and must be considered undervalued. As the Polish crisis recedes from memory and as the European economies gradually pick up steam later this year, the Euro-currencies should gain. The yen has better immediate prospects.

IRAs: Before signing off, a few obligatory comments on the latest rage—Individual Retirement Accounts. There are three prime considerations: How far are you from retirement? How much taxes will you really save? And what else could you be doing with the money?

IRAs probably make sense for a good many people, but beware of locking your earnings away over a long period of time in instruments that may or may not fare well in the uncertain financial environment of the future. The best route is a self-directed plan or a plan that will allow you to shift among mutual funds to get the best available return.

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Ringleader of a Rider Revolt

BY PATRICK COX

Jewell Thompson got mad. For years she had paid a five-cents-a-gallon gasoline tax earmarked for the Chicago-area Regional Transportation Authority. She finally got a chance, early in 1981, to use the commuter trains into Chicago when she took a job with one of the country's largest rehabilitation institutes, the McGraw Medical Center. The fare was about $50 a month. Four months later it was raised to $67. In midsummer another jump brought the price of a month's rides to $105. "And that's when I said, 'Hey, this is crazy,' " she recalls.

So what can one person do? If that person is Jewell Thompson, one person can save commuters more than $200,000 and lose the RTA upwards of $500,000 month after relentless month. It's not nice to mess around with Jewell Thompson.

When the fare reached $105, Thompson and her friends started talking about car pooling, but several were pregnant and there was some question about insurance. Then Thompson looked into leasing a van. With six people who had been paying $105 each, it would have been easy, but there still would have been insurance and parking costs.

Thompson then started thinking about a bus. As youth director of her church, she had experience renting buses for field trips and knew that school buses could be had for very reasonable rates when not in use ferrying school children. She contacted several bus companies who said they would think about using a school bus to transport commuters and get back to her; but they never did. "Now they regret it," she laughs her wonderful, infectious laugh.

Finally, a company agreed to help her, and a meeting date was set. Word of mouth brought 60 people to the meeting, with enough commitments to rent two buses. At the second meeting, there were enough for four buses; by a fourth meeting, 27. "With new buses starting in other areas," she says, "there were about 140 in October, with 48 people in every bus." She figures the average monthly RTA fare for these riders was $80 so the RTA is probably out "half a million dollars" a month. "The thing just spurted," she says in wonderment.

Passengers on the private lines divide the cost of the bus by the number of passengers and end up paying from $39 to $52 a month. Some of the buses meet at shopping centers, where merchants are happy to let commuters park because they gain an inflow of people to the center twice a day. Other buses pick up passengers at apartment complexes.

JEWELL THOMPSON

"I believe in voluntarism," Thompson says. She has several masters degrees and is currently working on a doctorate in education and is a voluntary coordinator for adult education.

The bus sharing often fosters a sense of community. Bridge clubs have sprung up, and backgammon tournaments help pass the hour-long ride into the city. "Everybody knows everybody's name," says Thompson. "You don't have to worry about going to sleep on the bus and missing your stop. If you leave something on the bus, your purse or something, you know it will be there when you get back." Friday nights, with their heavier traffic, have become times for wine-and-cheese parties on the bus, and a six-month anniversary party is being planned for the commuters and their families.

Recently, when International Harvester laid off some Chicago employees, many of the bus riders found work through the job bank that has been established spontaneously by the passengers. Job openings are disseminated through the buses and sent out with the monthly *Charter Chatter*, the commuter newsletter. Each of the buses provided food packages to needy families during the holidays, and Thompson's own bus has adopted a zoo animal, voluntarily paying for its upkeep. Plans are developing now for a food cooperative.

Thompson named her bus-organizing group the Rational Transportation Alternative. They have T-shirts—and plans to "get the rascals" that let the original RTA get out of hand. "If I can do it for less, RTA can do it for less," exclaims Thompson. "Lots of our riders could afford RTA rates, but—it's just the principle."

Jewell Thompson, a wife and mother, explains that her activism comes from her grandmother, who took care of Jewell and four others and "believed you have to work for whatever you get." She says she is neither liberal nor conservative, but she tends to favor private solutions. "Public schools are not where it's at," she announces unquestioned, "and I resent paying taxes to bad schools and tuition to good ones."

Even Thompson, though, does not seem to grasp the inevitability of bureaucratic blight. One of the goals of the group is to gain subsidies for the private bus lines. She does not have time indefinitely to run a bus line, go to school, organize classes, be with her family, and work, so her desire to get paid staff into the picture is understandable. But like so many people faced with a problem, her reaction this time is to turn to government for help instead of getting rid of the hindrances—the chief one being that the bus companies, who would profit from providing organizational help, are prohibited by regulation from supplying those services that would relieve the volunteers who manage things now.

Still, Jewell Thompson has proved once again that humans find ingenious ways to surmount their problems if they are allowed to. "This is a classic example of what *can* be done," she says—"plus it's very enjoyable." What more can you ask for?

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