DOLLARS and $ENSE
BARUCH COLLEGE BUSINESS REVIEW

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DOLLARS and SENSE
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MAJESTIC
THE SONG & DANCE EXTRAVAGANZA!

42ND STREET
"A SMASH!"
Channel 5

"ABSOLUTELY MAGICAL."

- Lulla-Buy of Broadway
- Dressing for the Professions
- Airline Deregulation
- Personal Computers

May 1982
Henry David Thoreau once said, “Beware of all enterprises that require new clothes.” Well, Thoreau lived a bucolic existence at Walden Pond and seldom had need to venture into the business world — nice work if you can get it. But for those who have plans to step up that corporate ladder come graduation day, clothes (new, old, or otherwise) are something to be considered at some point.

In his best-selling book of a few years ago, Dress for Success, self-styled “wardrobe engineer” John T. Molloy outlined a program for choosing a career wardrobe that if put into practice would almost seem a career in itself. The exact width of one’s tie, length of one’s jacket, and even the shape of one’s face are all taken into account in his “dress for success” formula. Others are not so convinced that such stringent rules need be followed, but do feel that proper clothing makes a difference in the working world.

The general consensus of opinion among both personnel administrators and professionals in various fields seem to be that the clothes one wears can and do affect success on the job, beginning early on with the job interview.

“We’re amazed at how few college students have a concept of how to prepare their clothing for an interview,” says Kate Bowler, Director of Communications for the American Society of Personnel Administrators.

“It’s not the amount of money you spend but the attention and care that you spend in putting your own personal look together,” she continued. “Clothing can make a difference, especially if you have two equally qualified candidates. The way you present yourself is taken as an indication of your interest in the job.”

Ron Pilienzo, president of this 26,000-member organization echoes Miss Bowler’s views and adds, “Clothing can have a dramatic impact on the interview situation. I can’t overemphasize the first impression has an unbelievably lasting effect. It may not seem fair and it may seem somewhat discriminatory not to judge a person solely on his or her abilities, but psychologically, we’re all inclined to judge a person’s appearance because it is the first thing that communicates who you are and what you are. Whether it’s correct or not does not change the situation.”

Both Mr. Pilienzo and Miss Bowler stressed that it’s not the price of one’s clothing, but what is appropriate to the situation that is important. Both advise job seekers to study the organization or the industry if they can. If that is not possible, dress on the conservative side to be safe; that means a dark suit for men, and some variation of a suit for women.

“Of course,” Mr. Pilienzo added, “certain industries located in the Sunbelt or the West, such as the aerospace industry, are more casual and wearing jeans might be considered appropriate, but I would never chance this on an interview, even if this is the case. “And, he further cautioned, “any woman who wears slacks on an interview is dead in the water.”

Once you have a job and are eyeing a promotion, the philosophy you should follow seems to be “dress for the job you want, not the job you have.” One should be aware of influencing people in other management posi-
tions as well as one's own immediate boss because management people talk to one another. Casual dress may be appropriate for your job, but not necessarily for other managers' departments. This is something to consider if you are planning on a move up within the same company.

"Any woman who wears slacks on an interview is dead in the water"

Women especially seem to have this problem when they're attempting to make the transition from a clerical/secretarial position to the executive suite. They can sometimes make a mistake if they want management positions and don't communicate it by the clothes they wear.

Until recently, two styles that working women could opt for were a very ultra-feminine look (a la Dolly Parton in "9 to 5") or the tough, career-lady look popularized in old Joan Crawford movies.

"The straight, conservative look is a cop-out," says Kate Rand Lloyd, Editor-in-Chief of Working Woman magazine. "A woman shouldn't totally wipe out her self-expression by a desire to conform. Further up the ladder, you'll find less and less conforming to the norm. At the executive level, a woman can exhibit much more flair; it has to do with the security of the position."

Mrs. Lloyd offers this advice to women: "The key to working successfully with men is never to embarrass them by calling excess attention to yourself by the way you dress. The way you look shouldn't throw people off or distract from your authority."

The legal profession is often cited as one in which careful and conservative dressing is the norm, but even this does not have to be a hard-and-fast rule. "The practice of law is often a competitive battle of brains and within reason, your clothing may not always be an important element to your success," says Alan Karol, an attorney with the corporate firm of Vedder-Price in New York City.

"If you are in a position where you deal mostly with clients as general counsel, I would say to dress on the conservative side, especially if your work involves financial matters. Labor or industrial law is less demanding of the three-piece, vested, navy blue pinstripe than is financial law," Karol continues.

"With respect to your appearance in the courtroom before a judge and jury, your clothing should demonstrate respect," but, Karol says, "depending on the case and who you are representing, you may wish to appear somewhat rumpled-looking and not like a slick corporate monster — especially if you're defending a wealthy client in a lawsuit."

On the other side of the spectrum, when people hear the word "advertising" they may think of people running around in all sorts of colorful outfits, not tied to any conservative rules of dressing that might possibly stunt their creativity.

"That idea stems from a myth," says Mr. Edward J. Rogers, Vice President and Director of Personnel for N.W. Ayer, one of the country's largest advertising agencies. "I suppose relative to people who work in a bank, ad people dress more loosely, but they're not crazy. They're often talented, dynamic people but they follow the same dress codes as people in other businesses for the most part. My observation is that people in the creative end dress in a way hardly different from those in the business end of advertising, which is business suits for men and tailored dresses or coordinated sweater/skirts for women. The senior vice presidents in creative, almost without exception, dress this way by their own choosing."

"Your first impression has an unbelievably lasting effect."

Part of the reason for this stems from the fact that advertising often means working closely with clients, some of whom may come from more conservative industries. "If you're going into a business meeting with a client, exercise good judgement. Jeans are not considered the appropriate look to conduct business in," added Mr. Rogers, who is also author of a forthcoming book on job hunting titled Getting Hired, to be published by Prentice-Hall.

What, then, is the norm for dressing for business? The answer: there isn't any, but let reason prevail. A neat, well put-together appearance is more important to your job than showing up in a designer apparel. What has been
Some tips offered by the professionals interviewed for this article are:

* Since clothes can affect your attitude by psyching you up for an interview or the job, start thinking of yourself in professional terms.
* Use your clothing to market yourself. Your appearance should say, "I treat myself and my work seriously."
* If you’re in a job where you meet the public, your clothes should give a positive impression of your company.
* For the beginning professional, keep these basics in mind: men — dark suit that can be coordinated with several ties and shirts. women — One or two good blazers to coordinate with several skirts.
* Avoid the “preppy” or “campus” look; it says “I’m right out of college.” (It may be so but that’s not what you want people to remember you for.)
* Pay attention to the details, e.g., hair neatly trimmed and/or pushed back off the face for women, shoes polished, hems and cuffs not frayed, etc.
* An expensive leather briefcase isn’t necessary, but if you do carry some sort of briefcase, make sure it’s not worn or battered-looking.

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The Truth about Expense Accounts

We all dream of company jets and limousines, business trips to the Riviera and elegant, French dinners. Fantasies? Realities? The mysteries of the corporate expense account are explored in this interview with Larry Cicci, Designer and Merchandise Manager, Pringle Men’s Sweaters, Division of Warnaco, Inc.

$\$: What is the dollar value of your expense account?

Cicci: Well, there’s really no set amount. It’s based on the travel and entertainment that I need to do. I would say it averages out to anywhere from $15,000 to $20,000 a year, the majority of which goes for overseas travel. I spend what I think is necessary, limited by the amount in the overall merchandising department budget.

$\$: Does that mean one lunch a week, or all the cabs you can take?

Cicci: The majority of my travel is determined by the president or vice-president — where I go, how long I stay. The cost is fairly predetermined, based on air fares, corporate averages for accommodations, meals, and other incidentals. All expenses must be accounted for in a formal report, which must be approved by my immediate supervisor and submitted to the accounting department for review. Even the president follows this procedure. One can pretty much tell by glancing over an expense report and checking the figures whether someone is abusing the allowances. Local day-to-day expenses — lunches, cabs, etc. — are personal expenses, unless you do have a business lunch appointment or other appointments in the city that require the use of transportation.

$\$: What happens if you exceed your meal or hotel allowance?

Cicci: We have no specific amounts for hotel accommodations or meal allowances anymore. What we are told is that the amounts we pay should be “reasonable,” based on the area of the world we are in. For instance, when traveling to the Orient, I will generally budget myself for an average of $160 a day for Hong Kong and around $100 a day for Taiwan. I’m sure this may sound a
little high, but when you consider that you’re half way around the world conducting business that is going to benefit the firm, you will generally stay at the top hotels, eat in the better restaurants. Near the end of my far east trips, when I buy production, I often spend days in different mills negotiating prices; I need to be in top form. Business travel by no means compares to Europe on $15 a day.

$¢: That means that if you’re in New York that you don’t bunk at the Plaza and dine at Lutece?

Cicci: Not in my position. But, the amount of travel expense one is allowed is directly proportional to one’s position on the corporate ladder. My expenses are usually consistent and moderate, but I may choose sometimes to treat myself on an extended trip or sometimes when I’m taking out an associate that I do a lot of business with. When I go to Pringle headquarters in Scotland, or on any trip for that matter, I fly business class, which is more expensive than coach, but less than first class. There are a few individuals in my firm that will fly the Concorde occasionally, but usually will only do so on weekend trips where they leave after work on Fridays and return shortly before the Monday business day. The extra cost is worthwhile when it lessens the effect of jet lag and allows the individual, in effect, two extra working days free from fatigue.

$¢: What other kinds of expenses do you incur? Anything out of the ordinary?

Cicci: The company covers my cost of researching new fashion ideas and trends. These are usually the best trips, the most interesting ones, although not the bed of roses you might think. Say for instance I go to Europe for a couple of weeks to shop the market. A trip like this would include traveling to five or six major fashion centers of Europe—Paris, Milan, Florence, the Riviera, for example—to catch shows and shop the better department stores, trendy shops and boutiques. Just to see what the people in the street are wearing, too—to try to determine new fashion direction. During these trips I will often purchase, at company expense, rather expensive garments and accessories—anything that I feels contains an idea that can be beneficial to the development of my line. The bad part of these trips is that you’re required to cover a major city in two or three days, which means pounding the streets from early in the mornings to late in the evenings, no matter what the weather. Then, rushing back to the hotel to pick up the suitcases, getting to the airport, clearing customs, arranging transportation; there’s hotel check-in lines, unpacking again, etc., which over the period of a few weeks tends to wear you down considerably. It makes for more of an ordeal than a glamorous trip.

$¢: What are the trends that you see, over the past five years, in particular, with inflation? Do expense accounts seem to vary with business conditions?

Cicci: Right now, most travel and entertainment budgets are being looked at very closely by management. Most budgets have been cut even though our business remains very strong. The overall cost of money has a lot to do with the tightening of budgets. Sometimes, when business conditions are bad, more money will be spent in search of a way to improve things. And sometimes, when business is good, less money is spent, because it’s really not needed to promote or search for new business or new ideas.

$¢: If you didn’t have your expense account, could you function?

Cicci: No! I hate to use a hackneyed expression like “It takes money to make money,” but it’s true. In order to function in your job, you need a certain information base and other tools. These things cost money. You must maintain and develop relationships with key people in the industry and keep those lines of communication open at all times to insure that you are on top of all the latest developments.

$¢: Any comments on the abuse that you’ve seen?

Cicci: It all depends on the level of the employee. There are different expenditures at different levels. Something that I consider an abuse—$20 for drinks on the plane—may not seem an abuse to the person spending it or the company may not consider it so. Also, the Federal government requires for tax deductibility that the firm maintain a file of receipts for all amounts spent over $25. If you have the receipt and you can justify it to the company, fine.

$¢: Do you make money off of your expense account?

Cicci: No. Most of the time, I end up losing a little or sometimes a lot. You must be careful to write down every penny that you spend. I generally try to insure that I break even on expenses. When traveling on a month-long trip, it’s very, very easy to forget about incidentals. And then, when filing the expense report, you may find that you have a couple hundred dollars unaccounted for.
Price Wars + New Carriers + Confusion = Airline Deregulation

by Kathleen Prodan

"How come I can call four different airlines and get four different fares quoted to me to fly between the same two cities — it's crazy."

"I think this is unfair — how is the public supposed to know which airline is the best and the cheapest."

"I never heard of People's Express — where did they come from and why are they so cheap?"

"It's like shopping in a supermarket, you can buy a can of peas, but depending upon the brand and season, the price varies ... I guess it's healthy competition, but it sure is confusing."

"The fares aren't any cheaper, except maybe between certain cities."

"I always feel like I am being cheated. I think ... maybe I should have called another airline because there is probably a lower fare being offered by someone."

"I don't know why United stopped flying to Huntsville, Alabama; I've flown them there for years."

Opinions expressed by departing passengers in a random survey taken at LaGuardia Airport in January, 1982, in response to the question: "How Has Airline Deregulation Affected You?"

The public is not alone in feelings of confusion and frustration. In fact, the rapidly changing airline industry has confused and frustrated the carriers themselves. Deregulation means competition, and major carriers like United, Pan American, TWA, Delta, Eastern, American, and Braniff, for years nestled within the Civil Aeronautics Board's regulatory protection of domestic fares and route certification, are now being challenged. How the airlines are coping with deregulation, its benefits to the consumers, and the future of the airline industry will be discussed, but first how and what happened.

A Milestone in U.S. Legislation

Airline deregulation has been with us for just over three years, the result of President Carter's signing the Airline Deregulation Act on October 24, 1978. The bill marked a milestone in the history of U.S. legislation in that it effectively abolished the federal government's role in the economic regulation of an industry. If proposed plans as outlined in the 'Act' are adhered to, the Civil Aeronautics Board, which was established in 1940 to control routes operated and fares charged domestically by U.S. commercial airlines, will see its sunset January, 1985. However, current C.A.B. proposals call for the abolition of the agency not later than October 1, 1983, and possibly as early as January of that year. At that time, the Department of Transportation, the Federal Trade Commission, and the Federal Aviation Administration will split responsibility for remaining functions such as fitness of air carriers, consumer protection, mergers, and anti-trust issues.

Regulations Trigger Criticism

According to travel media sources, support for deregulation had its beginnings in a series of academic works published by economic theoreticians who were highly critical of the efficiency of C.A.B. regulations as early as 1962. However, it was not until the 70s that congressional interest peaked. During this time, three major factors negatively affected airline revenues — travel was down, costs continued to rise, and most carriers had new planes ordered with high payments scheduled to meet

"Your hostess on a morning flight to Buffalo could be your telephone reservation agent in the afternoon"
delivery dates. To help the industry survive through this difficult period, the C.A.B. regulated fares to protect the carriers from unfair competition, generally granted fare increase requests, and refused to hold hearings on applications for new route authority. C.A.B. regulation over routes required approval before an airline could stop service to authorized points. To get approval to serve a new market, airlines had to demonstrate through long, expensive proceedings, sometimes as lengthy as two years, why they should be selected over other applicants for the same authority and whether the market could support another carrier. Dan Kaplan, Director of the Office of Economic Analysis for the C.A.B., emphasized that “these regulations directly stifled market competition. Of 79 applications between 1950 and 1974 for authority to begin new domestic airlines, not one was granted. Further, this web of C.A.B. regulation tended to promote inefficient operations. Since fares were tightly regulated, airline competition was most clearly evident in terms of service—airlines increased flight frequency instead of reducing prices, but each flight was that much emptier. Consumers were thus denied a low-price, low-service alternative, and, in an era of spiraling fuel prices, service competition fostered fuel inefficiencies.”

These excessive C.A.B. regulations drew sharp criticisms from congressional leaders who felt that the C.A.B. cared more about the airlines than the public it was supposed to protect. In November 1974, Senator Edward Kennedy (D-Mass) then Chairman of the Senate Judiciary Committee’s Subcommittee on Administrative Procedure and Procedure, spearheaded the drive for deregulation. Although deregulation was a bipartisan political effort supported by both the Ford and Carter administrations, it took three and one-half years of political battle on the “Hill” before the bill was finally signed into law.

“Open-Entry” Markets

Although the Civil Aeronautics Board lost its authority over domestic route awards December 31, 1981, and will lose jurisdiction over domestic fares by the end of this year, “open-entry” market and price competition began almost immediately after the bill was signed. Kaplan explained that “open-entry” market means that any fit carrier can enter any domestic market it chooses and charge any fare it wants.” The lucrative market segments that were once protected for the long, established carriers by C.A.B. control, were now open to invasion by any carrier. A prime example of this was Eastern’s entry into the transcontinental market. As Mr. Tom Meyers, public relations spokesman for that airline said, “We entered the New York-Los Angeles market with a $99 one way fare on June 1, 1980, drastically undercutting the $429 one-way fare posted by American, United, and TWA, to divert their passengers and stimulate new business. It worked, and they matched our fares. We held the $99 fare for two months and then gradually brought it up to its current level of approximately $219, still nowhere near the original $429 fare. The consumers benefited, and we benefited.”

NEW ENTRANTS — A Guide To New Airlines

Listed below are most of the new airline companies that have applied for scheduled service rights in the new open-entry environment as of January, 1982. Not all have received final operating rights; although some, as indicated, were originally certified charter, commuter, or intrastate carriers and have requested authority to expand their operations to include scheduled service rights.

+Air America, Dearborn, Mich.
+Air Berlin, Bend, Ore.
Air Chicago, Western Springs, Ill. *Air Florida, Miami, Fl.
#Air Wisconsin, Appleton, Wis.
#Altair Airlines, Philadelphia, Pa.
Davis Airlines, Arlington, Va.
DHL Airways, San Francisco, Ca.
+Global International Airways, Kansas City, Mo.
Guy-America Airways, New Hope, Pa.
Jet America, Los Angeles, Ca.
+Lone Star Airways, Dallas, Tx.
Midway, Midway, Ill.
Muse Air, Houston, Tx.
New York Air, New York, NY
People’s Express, Newark, Nj
*Southwest Airlines, Tx.
+Sun Land Airlines, Las Vegas, Nv.
Sun Pacific Airlines, Ontario, Ca.
Trans Carib Air, Washington, D.C.
Westair, dba Pacific Express, Burlingame, Ca.

+Charter Carrier
* Intra State Carrier
# Commuter Carrier
New Breed of Carriers

Not only are the established major carriers competing with each other, but deregulation has also attracted a new breed of low-cost carriers (see New Entrants chart) who can offer even lower fares. Why? These new carriers have a smaller base of operations, a lower overhead, and hire non-union employees. Mr. Randi Barrett, spokesperson for People's Express, a relative newcomer based in Newark, stressed, "We hire highly talented people who perform more than one function. Your hostess on a morning flight to Buffalo could be your telephone reservation agent in the afternoon. We only rent gate space, no ticket counters, plus we do not interline bags. We tell our passengers that they can carry their luggage right on the plane if they are in a hurry, or stow it in the belly, but if they are connecting to another carrier, they have to carry it themselves. Generally, the passengers don't care about this service once they are getting a really cheap ride. By eliminating these services, we can keep the cost of our tickets down. Our fare, for example, from Newark to Jacksonville, Florida is $50 one way, as compared to Eastern's one-way fare of $139."

Another example of the low-cost "upstart" carriers is NYAir, who challenged United Airlines head-on in the New York to Cleveland market by offering a $65 one-way fare. United matched this fare; both carriers have attracted thousands of new passengers and are flying near-capacity flights.

Focus of Pricing Shifts

The focus of pricing has shifted from cost to competition. To remain competitive with these low-cost carriers and at the same time avoid bankruptcy, the established carriers have had to do some major restructuring. Massive employee lay-offs — United has let go approximately 9,000 employees since the fall of 1979, Pan Am is down 16,000 employees since 1974. Salary freezes — American, Eastern, TWA, and Pan Am have asked their employees to freeze wages with other carriers following suit. Overall, carriers have reduced service on marginally profitable routes, and have terminated service on historically unprofitable routes with the exception of those cities which, under deregulation, airlines are still mandated to serve until replacement service, generally commuter, can be found.

The Future

Of the nation's major carriers striving to retain market share, United Airlines believes it is successfully adapting to the new non-regulatory environment. "If it hadn't been for deregulation, most airlines would have been out of business," predicted Mr. Chuck Novak, Eastern Regional Public Relations Manager for the carrier. "We are now able to price our product according to market demand, stop service to a poor market, and start service to more lucrative ones. We have cut our airline to the bone — we made United's size fit the size of our markets." Novak added, "deregulation was introduced at a time of world recession, inflation, and soaring fuel prices so that it had an initial negative impact on the industry's revenues." Novak believes that recovery is still possible under the newly found freedom of deregulation for most carriers. "Eventually the 'price wars' will end, and the airlines with the best management teams will survive. United will have a healthy future under deregulation," forecasted Mr. Novak.

"Survival will not depend on who markets best, but on who can bleed the longest"

"The public has benefited in terms of viable, low-cost, alternative service, but when you gain something, you generally lose something and this can be seen in terms of service and fare confusion," said Mr. Ted Porter, spokesman for Pan American Airways. "Not only the public, but travel agents, and the airline employees themselves are having a hard time keeping pace with almost daily changes in fare levels, types, and conditions," he explained, "and, in general, fares are up over last year's levels including the discounted ones." Additionally, Mr. Porter noted that large markets have generally benefited from lower fares and more service, but for many smaller cities, air service has declined and fares have increased. Porter believes that deregulation on a somewhat limited basis would be more workable, and government intervention, in the not-too-distant future, will be necessary to restore an orderly, structured market environment if the nation's airlines are to survive and prosper. "Survival," ventured Mr. Porter, "will not depend on who markets best, but on who can bleed the longest."
Eugene Ferkau opened the first E.J. Korvettes in 1948. A $4,000 investment got him a modest location on the second floor of a commercial building at 6 East 42nd Street, New York City. At that time, Korvettes mainly marketed three lines of merchandise: small appliances, jewelry, and luggage.

Ferkau's secret of success was his theory of selling: high volume and low overhead. He worked at a third off the national brand fair trade merchandise price. Within three years, Korvettes had an average inventory turnover of 33 times a year. Sales for the first year were approximately $1 million.

Dubbed the "tycoon of the retail industry," by Time Magazine, Ferkau's only experience in retailing was working at his father's luggage store. With fierce ambition and a mere $4,000 in capital, he created his empire. "Gene was never an administrative person; he just did what he wanted to do," said Sidney Keller, President of the United Food and Commercial Workers International Union Local 888 AFL-CIO, which Korvettes joined in 1953.

Satisfied Employees

Ferkau's attitude toward his employees reflected his own theory on keeping personnel happy. He believed that if you kept your employees satisfied financially, you would consequently have fewer shortages. "It wasn't unusual for Gene to walk into a store and hand out $1,000 bonuses," Mr. Keller explained. This philosophy was evident on the management level as well. Most of Korvettes' management at that time were his close friends. In fact, "they were the buddies he used to play stick ball with," confessed F.B., a former department manager who wished not to be named.

Ferkau continued to maintain personal contact with his employees until his company grew too large. Then, growth brought decentralization. "The company became too decentralized; there were just too many people," said Keller. Once it had expanded so considerably, unionization became essential. E.J. Korvettes joined the United Food and Commerical Workers International Union Local 888. Once in the union, "the most common problem faced by Korvettes was management-employee relations. The department manager was nothing more than a clerk with a title; he had no authority," said Mr. Keller.

The Downfall of Korvettes

"Korvettes started to have its problems when they diversified into other areas; their management ceased to be specialized enough," said Keller. In 1967, Korvettes went into foods, a move which failed. The chief problem arose in the area of perishable foods. The people Ferkau hired were not experienced in handling such items. As a result, their stock would either be too old or depleted.

Another unsuccessful venture was in the area of soft goods. Here, Korvettes ran into a problem because manufacturers of name brands did not want their goods to be associated with a discount store.

Korvettes began to show some unsteadiness and, as a result, Eugene Ferkau decided to sell out. "He felt that Korvettes was beginning to falter," said Keller. Ferkau sold his interest in the company in 1968 for $2 million to Charles Bassine of Spartan Industries, a company that specialized in soft goods.
Little Hope for the Thrifts

by Michael Pferr

At first glance, the Home Federal Savings and Loan Association in Ridgewood, Queens looks like a relic from another age. The furniture is of vintage age and consists of straight-backed chairs and solid-oak tables. The green carpet is worn, even threadbare in places and looks like it could use a good steam cleaning. Simple, undorned steel bars separate the tellers from the depositors; unlike the bullet-proof glass seen in so many modern banks. Even the motto of the Home is somewhat archaic.

In these spendthrift times, it is reassuring to enter a bank that has as its motto, "Be Thrifty—It Pays." The deeply conservative residents of Ridgewood seem to like the bank just that way, as an older gentleman told a teller, "Ever since you opened in 1935 I have kept all my money here. Your bank is just as safe as the Ridgewood Savings Bank, across the street, and your lines are always shorter."

Of course one does not choose a bank for its ambiance or decor, but for its reputation for safety and security. Unfortunately, for thrift institutions (mutual savings banks and savings and loan associations) these are perilous times. Thrifts are facing financial problems not seen since the depths of the Great Depression. By late 1981 thrifts in New York City were losing tremendous amounts of money (see chart).

Why are the thrifts in such bad shape? The main reason is that after years of paying their depositors 3%, 4% or 5% on their money, they are now forced, by the deregulation of bank interest rates, to pay up to 15% for both short term (6 months) and long term (30 months) accounts. In addition, the thrifts are saddled with huge portfolios of 10 to 20 year mortgages at low interest rates (5% to 10%) which take forever to pay off. Since the prosperous 1960s and 70s when all of the thrifts made money, they have seen their surplus funds drain away. By late 1981 three once-powerful savings banks were forced to merge with stronger ones (the Greenwich, the Central, and the Union Dime—all past powerhouses). And several other "name" thrifts were on the brink of bankruptcy.

Of course there are several strong thrift institutions left in New York City. Among savings banks two stand out as successes; the Jamaica Savings Bank and the spectacularly successful Greenpoint Savings Bank. The Greenpoint is so strong that it is always the first bank that FDIC officials go to when they want to merge a weak thrift. Till now, the Greenpoint has declined all offers and remains, with only 11 branches, the strongest savings bank in New York City and State and possibly even the entire Northeast (mutual savings banks are concentrated in the Northeast while associations are spread throughout the land). Among associations, the Astoria Federal is considered to be one of the strongest.

But what about the Home Federal? The President of the Home, Mr. Philip Burkhart struck a very pessimistic note. "Things are pretty bad for the entire industry and we are no exception." Mr. Burkhart was understandably hesitant to answer any questions. "We have taken a beating in the press; the less publicity we get, the better. The powers-that-be are all stacked up against us". One former

<table>
<thead>
<tr>
<th>Thrift Unit</th>
<th>Assets (Oct 81)</th>
<th>Loss in July-Sept. 81</th>
<th>Surplus Funds</th>
<th>When Surplus will be Exhausted</th>
</tr>
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<tbody>
<tr>
<td>Bowery</td>
<td>5.2 billion</td>
<td>42 million</td>
<td>207 million</td>
<td>early 83</td>
</tr>
<tr>
<td>United Mutual</td>
<td>900 million</td>
<td>5.5 million</td>
<td>32 million</td>
<td>mid 83</td>
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<tr>
<td>Roosevelt</td>
<td>880 million</td>
<td>5.1 million</td>
<td>37 million</td>
<td>late 83</td>
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<tr>
<td>Lincoln</td>
<td>2.2 billion</td>
<td>14.5 million</td>
<td>74 million</td>
<td>late 83</td>
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<tr>
<td>Emigrant</td>
<td>3.2 billion</td>
<td>22.6 million</td>
<td>106 million</td>
<td>late 83</td>
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<tr>
<td>Seaman's</td>
<td>1.9 billion</td>
<td>13.7 million</td>
<td>74 million</td>
<td>early 84</td>
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<tr>
<td>Dry Dock</td>
<td>2.5 billion</td>
<td>19.6 million</td>
<td>103 million</td>
<td>early 84</td>
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<tr>
<td>Williamsburgh</td>
<td>2.3 billion</td>
<td>14 million</td>
<td>95 million</td>
<td>mid 84</td>
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employee of the bank anonymously said that the bank was run very conservatively and that the management would never take any risks with their depositors' money.

The powers that Mr. Burkhard referred to have indeed put thrift institutions to the test. In the last year, the beleaguered thrifts have clearly lost most of the battles that they have fought with the commercial banks. The embattled thrifts wanted a .75% interest rate differential on 6-month certificates and the new "All-Savers" certificates (like it is now on the 30-month certificate). They lost that one. They also wanted to be able to merge with commercial banks. They lost that one too, even though Donald Regan, the Secretary of the Treasury has said that this is a good idea. Only by intense lobbying were they able to halt the rise of interest on passbook accounts from 5.5% to 6%. Sources in the thrift industry say that the higher interest would have been the death knell for some of the shakier thrifts.

Unfortunately, the thrifts seem to have very few friends in Congress. With the Reagan landslide in 1980, the Republicans also captured control of the United States Senate. The chairmanship of the Senate Banking, Housing and Urban Affairs Committee shifted from the pro-thrift and generally liberal Harrison Williams of New Jersey to the pro-bank and solidly conservative Jake Garn of Utah. All the other Republicans on the committee (including New York Senator Alfonse D'Amato) are strong bank supporters and will usually side with banks in their incessant fights with the thrifts. Mr. Garn is adamant in letting the thrifts solve their problems by themselves. In fact, he has said on record: "The problems of the thrifts appear to be manageable under existing laws and economic conditions."

Things are only a little better in the House Committee of Banking, Finance and Urban Affairs. The Democratic Chairman, Fernand St. Germain of Rhode Island is somewhat sympathetic to the thrifts and has publicly expressed his displeasure with the Senate Committee. "I am gravely disappointed with the lack of initiative from the Senate Banking Committee." But the ranking Republican on the committee, William Stanton of Ohio, is a sure vote for the commercial banks as are most of the other members. The thrifts have very few friends on Capitol Hill.

Thus, the siege mentality of the thrifts may have some foundation in reality. The thrifts are walking a tightrope with no net in sight. Burkhard thinks this is unpreventable. "If you think that you or anybody else could change the system you have a lesson to learn." At another thrift, a struggling one, a bank official with anger in his voice said, "Leave us alone; why don't you go and bother the people at Chase and Citibank? They will tell you the banking business is booming while we can barely pay our bills."

Are things really that bad for the thrifts? Many knowledgeable people say yes. As Muriel Siebert, the New York State Banking Superintendent said, "The thrifts need help from both Washington and Albany and they need it fast."

The Latest Effort to Save the Thrifts:

Effective May 1, thrift institutions will be allowed to pay one-quarter percentage point more interest than commercial banks on three-month certificates (minimum deposit $7,500) whose yield will be tied to three-month Treasury bills.
De Fault of the Students

by Thom George

"No transcripts, diplomas, grades, or recommendations," warned Steve Goldberg, Director of Baruch College's Financial Aid Office. "We hold their records and services."

That is the fate facing students who have borrowed money from a government guaranteed loan program, but have been delinquent in repaying the note. And the penalties don't end there; borrowers who are at least six months behind may have a complaint entered against them at the credit bureau by the University's attorneys. As Mr. Goldberg concluded, "Bad things happen if you're a delinquent."

Obtaining a Loan

The two federally guaranteed, low-interest, educational loan programs available to students are the National Direct Student Loan (NDSL) and the Guaranteed Student Loan (GSL); the NDSL program is administered by the college along with the Office of Education, while the GSL is handled by local lending institutions in cooperation with the New York State Higher Education Services Corporation (NYSHESC).

Applications for both programs must be submitted to the college's financial aid office at which time an interview will be conducted to determine the students' financial need. If the application is for a NDSL, the student is required to document all information, including a copy of his most recent IRS form 1040 or 1040A, proof of unemployment benefits, a statement of veterans benefits, social security benefits and a public assistance budget plan. However, if the student wishes to obtain a GSL he is not required to document this information unless specifically requested to do so. Mary Giudice, a financial aid worker at Baruch, said that beginning in 1982 applicants for the GSL will be required to use the same student aid form and provide documentation as is now used for the NDSL.

As a result of 1981 federal budget cuts, changes have occurred in both programs. As of October 1, 1981 interest rates for recipients have increased from 3% to 5% on NDSL's and from 7% to 9% on GSL's. Applicants for the
GSL with adjusted gross family incomes above $30,000 will be subject to a further need analysis to determine an expected family contribution. Such a contribution will be subtracted from the student's budget. All GSL loans after August 23, 1981 are subject to a 5% originator's fee which is to be subtracted along with a 1% insurance fee prior to the student's receiving the loan. However, students who have received GSLs prior to October 1, 1981 are eligible for future loans at the old rates.

In addition to increasing interest rates, the budget cuts have brought about a decrease in the maximum amount of money a student may borrow under the GSL program, from $3,000 to $2,500 for independent undergraduate students. The maximum available to dependent students remains $2,500 per academic year. Also reduced was the length of interest free time a borrower has after terminating his education, before repayment begins. For loans issued subsequent to October 1, 1981 the “grace period” will now be six months instead of nine months.

However, an increasing number of NDSL borrowers are taking it upon themselves to extend the length of time before they begin repaying the bill, or are simply not paying at all. The effect has been a decrease in the amount of monies available for current students. “We work on repayments,” Mr. Goldberg explained.

The NDSL program was originally conceived as a self supporting program; as initial borrowers repaid their loans the funds would be made available to current students. In theory a good idea, but in practice not very successful. According to Mr. Goldberg, the effect of default has been cumulative, “As the volume of loans increases, the default rate increases; the more you give out, the more you lose.” This, combined with a decrease in federal funding, will make monies scarcer.

The overall default rate of City University for 1980-81 was 24% and the Baruch College rate was just under the CUNY average. However, Baruch College may not be as seriously affected by federal cutbacks as other CUNY colleges since the college's repayment rate on NDSLs has increased by 13% over the last three years. “We are constantly making an effort to collect,” explained Sal Fronti, Director of NDSL at Baruch. “There is a person here to help,” he added. “If the first bill comes and it's $90 and the student only has $50 he doesn’t pay,” reassembled Mr. Goldberg. “When the second bill comes for $180, he really says forget it!” To help prevent this situation from occurring, the school will give students with a problem “Special Handling.” Mr. Fronti cited the case of a former student who has been unable to meet her payments and has worked out an alternate repayment schedule with the school. “For three and a half years she sends $10 every two weeks. It’s a lot of work, but it’s easier for the student; she has shown good faith.” Students receiving ‘Special Handling' may repay their loans at a lower rate than the established minimum of $90 quarterly, as long as the adjusted payment schedule does not exceed the allowed ten year repayment period.

Exit Interview

According to Mr. Fronti the reason most students default on their loans is because they are ignorant of their responsibilities. Most students, he said, don’t attend an exit interview with a financial aid counselor to discuss their obligations and, more importantly, the options available to them. “Eighty-five percent of the students who do not attend an exit meeting are defaulters,” he said. Mr. Fronti feels that if the student borrowers attended an exit meeting they would not have any reason to default.

Students who attend the exit interview are informed of options open to them for deferment of payments, or partial cancellations of the loans. Current guidelines for the NDSL program allow for deferments if borrowers maintain at least a half-time course of study, at least six credits, at an institution of higher education. They may defer payments for the entire period they are a student.

Furthermore, if a borrower serves in the Armed Forces of the United States, the Peace Corps, Vista, or ACTION, he is entitled to defer his payments for up to three years. In the case of extreme financial hardship, a borrower may receive a deferment for up to twelve months, but interest continues to accumulate during hardship deferments and must be paid at the end of the twelve month period. To receive a deferment, students must submit proper documentation of their status to the college's financial aid office. A student who asked not to be identified, was unable to meet his $90 a quarter payments because he was unemployed. He explained his situation to a financial aid counselor and showed her his New York State Unemployment Claim Card. He was granted a twelve month hard-

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Walking on Eggs

by Mark Hersh
For millions of investors successful investing has traditionally been centered on the more conservative, low-risk instruments such as big board stocks, highly-rated bonds, mutual funds and offerings of the banking industry. In today's tense financial atmosphere, however, such investments have lost much of their luster, principally because of that fiscal villain: double-digit inflation.

"You have a current situation where your traditional investment is yielding in single digits and inflation is running at double-digit rates," explains Jeffrey Ryan of Dean Witter Reynolds. "For instance, an investment yielding seven percent in an inflationary period of ten percent leaves the investor with a loss of three percent annually," Mr. Ryan continues. This loss is compounded further when applicable federal, state and local taxes are paid on annual distributions. In any event, as the dust clears, the investor is left with an investment that is shrinking continually as the result of inflation and taxes.

Thus, many investment analysts believe that savings plans, mutual funds, stocks and bonds are not profitable in the long run even though these instruments are necessary for short term accumulation of capital. What alternatives are left? Although the perils of the fiscal climate of the 1980's may make one ask, "What is left for me?", John Calhoun of Shearson/American Express believes that he has the right answer. Mr. Calhoun, who specializes in options and futures contracts, advocates the use of these sectors by all investors. "Options and futures contracts are indeed very risky but huge profits often go hand in hand with risk," Mr. Calhoun emphasizes.

Mr. Calhoun insists that risk can be minimized by careful study and analysis. Since the average investor has neither the time nor the money to undertake such study, many of the large brokerage houses have complete staffs who specialize in options and contracts and who make the results available to their clientele. Smaller brokerage firms, who deal primarily in stocks, are also a valuable resource because they can provide an investor with an abundance of information about stocks which can be used in determining price trends applicable to stock options.

Puts and Calls

Stock options can be broken down into two categories: puts and calls. A put option is one that gives the holder the right to sell stock he actually doesn't own at a pre-set price, at a pre-set date in the future. The put option will increase in value as the price of its stock declines. This is due to the fact that as a put option holder you have the right to sell your stock at the higher, predetermined price. On the other hand the call option gives the holder the right to buy stock at a future time, at a specific price. The investor buying the call option is not, however, obligated to take possession through purchase of the stock once the call option becomes due.

Brokers and traders alike prefer to deal with call options over put options. This is because the call option is a bullish instrument, reflecting the fact that investors are optimistic about the stock market. It is generally believed that a strong stock market, where prices are on the rise, is a reflection of sound national and international economic conditions. Understandably, a broker will generally handle more business when investor sentiment is bullish.

Dealing in Fractions

James Henderson, stock-options investor, feels that the true glamour of the options market can be attributed to the fact that "investors are able to take a vested interest in a stock without having to commit large amounts of capital in doing so." Since an option, whether it be a put or call, will sell only at a fraction of the stock's selling price, the investor has successfully bought an interest in a stock at only a fraction of the cost. The option holder has all the short term benefits of stock ownership without the actual purchase of that stock. An investor interested in long term performance of a stock (eight months or more) should not look to the options market because the longest option lifespan lasts only eight months. An investor interested in the long term price changes of a stock should consider actual ownership of that stock.

Profits

Huge profits can be made in the stock options market if everything goes smoothly. One such example is the recent...
Marathon Oil case. Marathon Oil had long been considered a potential takeover candidate, e.g., a small company that was ripe to be taken over by a larger company. The following chronology of events in the Marathon case details the risks and profits involved in options trading:

October 15, 1981: A quiet day on Wall Street. Marathon Oil shares close out the day at $64.75 each. A call option to buy Marathon shares in December at $70.00 closes at $4.25. The put option to sell Marathon shares at $70.00 in December closes out at $8.50.

November 2, 1981: Marathon executives call Mobil’s bid “Grossly underestimated.” On this same day trading in Marathon resumes. Marathon shares jump $22.50 to close at $90.00 each. The Dec. 70 calls are not trading at $21.25 while the Dec. 70 puts are now selling for .75 each.

November 1, 1981: United States Steel makes an offer to buy Marathon shares for $125.00 each, (a combination of stock, cash and notes). Marathon shares react to this news by jumping some $27.25 to close at $104.25. The Dec. 70 calls close out at $34.75 each while the comparable put option is now trading for pennies.

November 25, 1981: Not to be outdone by its corporate brother, Mobil increases its offer to $126.00 for each Marathon share. Marathon shares close out the day at $105.50. The December 70 call option is now selling for $36.00.

Assuming that an investor got in at the bottom and bought Marathon Dec. 70 calls for $4.25 and then got out at the top and sold these Marathon options on November 25 for $36.00, this investment would have netted the investor a profit of $31.25 for every investment of $4.25. In other words, this would represent a profit of some 745%, in the course of some 41 days. On the other hand, the investor who speculated with the put option would have lost nearly all of his investment.

Futures

Despite the high risk factor involved with options, enormous profits can be made. But stock options look like safe investments when compared to the Byzantine world of futures.

Traders in the futures market deal in contracts to buy or sell commodities at a specified future time and at a specific price. Such commodities include metals, foods like eggs and cocoa, financial instruments sensitive to interest rates, foreign currencies and industrial items such as heating oil. The principal difference between the stock options market and the futures market is that a stock option requires less capital than a futures contract.

“A primary rule that a futures investor must realize is that large amounts of investment capital are being dealt with,” says Kevin Tyler of Merrill Lynch. Mr. Tyler contends that “a substantial investment is required because of the size of a typical futures contract.” For example, a contract to deal in cattle consists of 40,000 pounds, or some 20 tons. The average January selling price of this contract was 62¢ per pound or a total contract price of $24,800. A contract in heating oil consists of 1,000 barrels or some 42,000 gallons. A contract in short term (one year or less) treasury obligations is for a face amount of $1 million. A gold contract consists of 100 troy ounces, or some 6.5 pounds.

Even accounting for brokerage loans (or as they are more commonly known, margins) the investor must still come up with a lot of money. Although Mr. Tyler’s best interest clearly rests in promoting investment in futures contracts, he does not recommend futures to everyone. “I have never and will never recommend futures investment for persons whose income is below $40,000 annually. Even with a huge potential for profit, the potential for a minor $5-10,000 loss is great. An individual earning less than $40,000 annually could not feasibly absorb such a loss,” he continues. Although this annual income suggestion is an important rule to follow, the small investor is not completely shut out of the futures market. Mr. Tyler feels that such an investor can enjoy the futures market by forming an investment group. However, such a solution has one major danger: the possibility of disension among participants regarding when to sell. Mr. Tyler recommends that the group avoid this pitfall by plotting a profit/loss sales strategy prior to their investing.

Many businesses invest in futures because futures are a way of hedging against the instability of prices. For instance, a business heavily dependent upon oil can hedge against the rise in the price of oil by purchasing a futures contract in oil. In the event the price of oil declines, the futures contract is written off against lower operating costs (due to the lower price paid for oil). In the event the price of oil increases, the futures contract will turn a profit. This will offset higher operating expenses.

This hedging strategy accounts for the majority of futures market investors. Indeed, hedges are plentiful.
Borrowers hedge against interest fluctuations by dealing in treasury contracts. Farmers and their customers guard against the unforeseen by dealing in contracts in soybeans, cattle, eggs, orange juice, hogs, pork bellies, butter, and wheat. The list is almost infinite.

Of course, there are also wealthy clients who are seeking a tax break and an expensive gamble. Futures is a zero sum game where there is no middle ground; it is all the marbles or none at all.

"...a contract to deal in cattle consists of 40,000 pounds..."

One recent and important example of the volatility of the futures market is the Hunt brothers silver fiasco. The Hunt brothers had huge holdings of silver but had also invested heavily in silver futures. As the price of silver began to slip, their broker began to ask for more money to back up their margins. Since the contract itself serves as security, the less the contract is worth the more money is necessary to secure the debt.

Silver has been selling around $50 an ounce but as the brokers began to demand more money, silver slipped to less than $10 an ounce. The Hunt brothers were nearly wiped out. It took the federal government's intervention to save them from bankruptcy. In most instances, however, there is no federal government to bail out investors and brokerage houses are not very patient. If the investor cannot meet his margin call on time, the broker will sell the contract, take the loan and all interest due including commission costs from the proceeds and, return the balance to the customer, if there is anything left.

Options vs. Futures

The average investor has a better chance of success with stock options than he has with futures contracts. Futures contracts mean that the investor must have at least $10,000—$20,000 in capital. An investor should not invest more than one-fourth of his total capital, leaving the other three-quarters in reserve to meet potential margin calls. Options investors, on the other hand, need little capital for their relatively minor investments. There is no such thing as a "minor investment" when one is buying and selling futures. It is all walking on eggs.
“It’s all for the love of Rock n’ Roll”

by Stephen Kaldon

“Sold all my records and I bought a mike,
I found some blokes who do what I like,
I saw the vicar who ran the hall,
Said we can rehearse there anytime at all,
Well come on, come on, come on,
Let’s have some fun tonight.”

—W. Wurlitzer—

Bombo sat at the corner of the empty Cobblestone bar
like a huge mountain, silent and stone-like. We sat
nervously at the other end trying to figure out how to
approach him. J.R. McCarthy made the first move and the
rest of the band followed close behind.

“Bombo,” said J.R., “We’re having a little problem with
the rent.” Bombo stared at J.R. with an expressionless
face. “See,” continued J.R., “originally we were eight
guys and now we’re down to four. We just can’t hack the
$250 anymore. We were thinking maybe $150 a month.”
Bombo looked away and thought a bit, then slowly turned
back to J.R. “Okay,” he said blankly “but I just want you
guys to know that since you’ve been playing here, my
electric bill’s gone up $200 a month.” “Sure it has,” I
muttered under my breath.

It’s a known fact among musicians that small, unknown
rock bands never make much money. The Sleepers, as the
group has been tentatively called, have been together
only four months. But within those four months the
members have invested over $3,500 in the band, a figure
that has put a considerable dent in the group’s meager
paychecks.

The group actually began in March of 1981. I had always
wanted to start a rock band and long time friend and
drummer, Thomas McGeady had ideas along the same
line. Together we chipped in $15 a piece for three hours
worth of studio time, and invited two friends to come
along and listen. One of the friends, J.R. McCarthy, started
to sing along with the guitar and drums and has since
become lead singer for the group. The other, Fernando
Romancedo, expressed an interest in the technical side of
the band. With the addition of Jimmy Graham on key-
boards, we were all set to do some serious rehearsing.

The logical place to start was in one of the many rehearsal
studios which can be found in the Manhattan area. For
anywhere from $8-15 an hour, a band can rehearse in a
converted apartment room, complete with drums, key-
boards, P.A. systems and amplifiers. For the use of heavier
equipment such as Marshall amps or Mini Moog synthe-
sizers, there is a $12 rental fee. We decided on Prince
Studios located at 251 West 30th St. in Manhattan. For $10
an hour plus $10 for a synthesizer, we rented a small room
for three hours.

Our ideal practice time was four nights a week for four
hours a night. At this rate we would be paying the studio
$208 a week in addition to our car fare to get from the

“Gray plaster flaked off walls
at the slightest touch.
But for $250 a month, the
basement of the Cobblestone Bar
was ours to rehearse in any
night of the week”

Bronx to Manhattan and back. Total expenses would be
$232, or, $58 a week per man. I, myself, only make $60 a
week working part-time as a mail clerk. Tom and Jim work
part-time for minimum wage at local five and dime stores,
bringing in $50 each. J.R. is an usher at St. Patrick’s
Cathedral and makes $90 a week, part-time. It was ob-
vious that we had to find a much cheaper set up located
closer to home.

The steps leading down were extremely treacherous. It
was cold, musty, and damp, and when the lights came on,
I thought I was in an abandoned subway tunnel. Dust and dirt a half-inch thick covered the bedrock floor. Gray plaster flaked off walls at the slightest touch. But for $250 a month, the basement of the Cobblestone Bar was ours to rehearse in any night of the week.

In a few weeks the basement was ready. A red carpet, donated by a friend, covered the stone floor. With planks of wood found in the basement, a wall was built to cover any leaky pipes. The total cost of finishing the basement came to $15 for nails and tools. All that was left to do now was to bring down the equipment.

Most of the equipment had been purchased before we had ever conceived of the band. Jim brought down his $900 orchestrator keyboard, a $200 Ampeg amplifier and $300 worth of Peavey speakers. J.R. brought his Ludwig drums out of storage, a five piece set which he had purchased from a friend for $250, and let Tom use them.

I only possessed a $100 imitation Les Paul guitar and a $75, 12 watt amp, and was in need of better equipment. The brand new American made Fender Stratocaster which I had my eye on would have cost almost $1,000. Used Stratocasters were going for as low as $400, but were in fair condition. I settled for a new Japanese made Aria Pro II which I found in a local music shop for $400, and a used Fender amp which I found through Buy-Lines for $200. These purchases nearly wiped out my bank account which now contained $100.

In a fit of anger, the chair went crashing across the basement floor and landed in front of the headless speaker cabinet. "Sorry guys," said Tom, "I just had to get it out." "That's okay," said Jim as he stared in disbelief at the space where his orchestrator used to be. A few pieces of frayed rope lay twisted on the carpet. Missing were the orchestrator, and two amplifiers, a total loss of $1200 worth of equipment, and the owner had no theft insurance.

For now, the band will try to hit the studio once a week. I'll work full-time in-between semesters to get the money for a new amp. Jim predicts it will take five months to earn enough for an electric piano. Tom is getting a job on Wall Street and hopes to buy his own drums soon. J.R. is saving for a good microphone, one that won't disconnect itself every time he swings it.

Things might look bad for the band now. We've pulled out of the Cobblestone and recovering will take a lot of time and money. But the spirit is still strong.

"I don't care about the money,
I ain't seen none,
And I don't care about the women,
'Cause I just need one,
The reason I say it,
You really ought to know,
It's all for the love of Rock n' Roll!"

—Tuff Darts—
Remember Henry Ford? Images of a shiny, black Model T Ford float by. Tall and elegant, the Model T rolls past the shop windows on lower Fifth Avenue.

Remember John and Horace and Dodge? Most of us, especially those in the under-thirty generation, will have to answer no to this question despite the fact that the Dodge brothers played an important role in the development of the American automobile industry from the turn of the century onward.

The Dodge story, a soap opera saga of rags to riches has now been recorded for history in *The Dodges: The Auto Family Fortune and Misfortune*, written by Jean Maddern Pitrone and Joan Potter Elwart (Icarus Press, South Bend, Indiana, 1981).

And what a spicy record it is. Indeed, the majority of this book is devoted to a string of star-crossed episodes—divorces, tragedies, accidents, wrong doings, and untimely deaths—which continued long after both brothers died, in their early fifties, in 1920. In fact, there were several lawsuits contesting portions of their wills, including the case of John Dodge’s son, who had been disinherited and left only $150 a month because of a secret marriage. Ultimately, John’s son received a court settlement of $1.9 million.

**How They Started**

John and Horace Dodge started out as poor mechanics. They were interested in engines and, ever since they were children, had spent innumerable hours tinkering with engine parts in their father’s machine shop. In no time at all, they went from building bicycles to becoming a key supplier for Henry Ford.

Amazingly, the Dodges created their empire in the very short span of 20 years. In 1900, with the success of Ransom Olds’ one-cylinder “curved-disk Olds runabout,” the Dodge brothers took an order for 3,000 transmissions and began putting their machine shop in a strong financial position.

According to the authors, “with only a small shop and staff, the Dodges kept pace with a tough schedule as their business rose to quick success with the wide acceptance of the Oldsmobile.” The brothers worked for 15 and 20 hours at a time, often sleeping in their shop in order to open up the doors the next morning at 6:00 A.M. John Dodge once told a friend that in a two year period, he spent only six weekday evenings at home.

**The Ford Connection**

Of course, luck and timing played a role. Henry Ford was having trouble developing a successful car, and he appealed to the Dodges for help. Horace Dodge redesigned the rear axle of Ford’s car and improved the efficiency of the Ford engine. Thus, the Dodges produced an automobile that was the basis for Ford’s future success. The Dodge brothers gave up their contract with Olds and
gambled everything they had in the hope of making even bigger profits on Ford's automobile.

Instead of being paid in cash, the Dodges took 50 shares (5% of outstanding equity) of the Ford Motor Company. They began producing chasis for the Model A and later for the Models N and T. As Ford suppliers, the Dodges' prosperity paralleled that of the Ford Motor Company.

The Relationship Deteriorates

The partnership, however, was not perfect. The Dodges, who wanted their substantial dividends to be maintained, battled with Ford, who desired that all earnings be reinvested in the company. The brothers feared that Henry Ford would not be loyal to them and they realized that they were in a precarious situation since their prosperity depended on one shrewd customer (Ford).

"I am tired of being carried around in Henry Ford's vest pocket," said John Dodge and with that the brothers began plans to build a bigger factory and manufacture their own car.

As time went on, the Ford-Dodge relationship continued to deteriorate. Henry Ford would load up with axles and transmissions produced by the Dodges, reduce prices on his cars, and then ask the Dodges for a price cut. John Dodge resented these tactics. By 1913, the Dodges broke away from Ford, investing their $1 million annual Ford dividends together with an additional $4 million in their own company. They were now able to manufacture their own automobile.

Price wars with Ford and favorable court decisions helped the Dodges. Despite tight financial situations, the Dodges refused to cut overhead costs where their employees were concerned. The brothers were very loyal to their staff and workers, even going so far as to serve free beer and sandwiches in the Dodge forge and foundry at 9:00 A.M. and 3:00 P.M. each day.

Philanthropic Efforts

The Dodges' philanthropic efforts were widespread. When contributions declined to the Detroit Symphony, they rescued the orchestra. They also set up a $5 million fund for the needy. Horace Dodge was known to visit the local jail at Christmas time and to distribute several hundred dollars in gold to the prisoners while, ironically, passing out cigars to the deputies. During WWI, the Dodges helped produce machine guns and trucks for the war effort at no personal profit. Unlike management that supervises from afar, the Dodges saw to every facet of their operation, even taking part in manual labor.

Family Conflicts

Daughter of a German immigrant and saloon keeper, John Dodge's wife, Matilda, first met the Dodges when she joined the firm as a company secretary. Matilda's strong will soon ran head on into John's defiant ways. (Mrs. Dodge later served as Lieutenant Governor of the State of Michigan.)

Since Matilda Dodge wouldn't allow her husband's rowdy friends in the house, many of John's evenings were spent carrying on in local saloons. In fact, John Dodge and friends once viciously attacked a crippled man because they disliked his French accent. Although the subsequent lawsuit was dropped, Dodge blamed the bartender for not having subdued and protected him against his own passions.

Moodiness and temper tantrums pervaded Horace Dodge's life as well. Horace often entertained friends on his cruiser "where they spent the evening singing, harmonizing...and drinking." Both brothers preferred to spend their time with "the ordinary people."

Perhaps the best description of the feisty character of the Dodge brothers can be found in a rather blunt eulogy written for John Dodge: "...He had a will indomitable, which opposition stimulated instead of discouraged."
The Lulla-Buy of Broadway

by Russell Hodge

"Kid, you're going out there a nobody, but you're gonna come back a star!"

The climactic line from the hit Broadway musical, "42nd Street"? Yes. But it also applies to a relatively unknown participant in Broadway: the small investor. Nicknamed "angels" (the term refers to the days when a wealthy patron would step in to save a short-of-cash show right before opening night), this growing breed of investor is motivated by many factors, not the least of which is profit.

Although Broadway is at best a risky investment, angels with steel nerves, iron stomachs, and concrete bank balances can make a killing. "My Fair Lady" has the distinction of returning 6400% to its investors. "Grease," which is still receiving revenues from the movie adaptation, is expected to become the all time box office champ, returning upwards of 7000%.

Revenues can come from a variety of areas in addition to box office receipts. Often, a major reason that a show will go into the black is that it has toured extensively. "Dracula," which showed a profit on Broadway, paid investors 500%, largely on the strength of its $15-million road gross.

Other revenue producing areas are movie sales ("Annie" was sold for $9 million), television sales and series spinoffs, cast albums ("Annie" has gone platinum), and stock and amateur productions (a Rodgers and Hammerstein musical is presented somewhere in the world every night of the year. The sun never sets on "Oklahoma"!)

Investors are not only attracted by the money. "The average investor is middle or upper middle class, but definitely not wealthy, and in most cases, not from New York. They are looking for glamour, a glamour they don't usually get," says James Ezzes, Marketing Assistant for McCann-Nugent Productions. Over the past several years McCann-Nugent has been the hottest producer on Broadway with "Dracula" (500-1 return on investment), "The Elephant Man" (700-1) and "Mornings at Seven" (200-1). Besides a high proportion of hits, McCann-Nugent is also unique in that they give opening night tickets to investors.

Part of the glamour that investors do receive is the prestige and bragging rights that accompany being a Broadway angel. "I tell our investors to get as much as they can out of the bragging," laughs Mr. Ezzes. "Tell your friends, tell your family, tell your business associates."

However, Broadway is not all bright lights and opening nights. Roughly 75% of the shows that open on Broadway will close without returning any of the principal invested. Some, like last season's "Frankenstein," (nicknamed the "Heaven's Gate" of Broadway) are phenomenal flops. "Frankenstein" lost $2-million.

In fact, Broadway investing is considered so speculative that by Securities and Exchange Commission rules all offering circulars must contain the following warning in boldface: "In such a venture, the risk of loss is especially high in contrast with the prospects for any profit. These securities should not be purchased unless the investor is prepared for the possibility of total loss."

"I counsel all potential investors that they should not invest in a show unless they are both financially and psychologically prepared to lose their entire investment," says Ezzes.

Notwithstanding Mel Brooks' movie "The Producers" (in which an unscrupulous producer sells more than 100% of a show with the promise of tax shelter), Broadway does not have any unusually appealing tax benefits. Profits paid to investors are taxed as income, not as capital gains, and losses are taken a dollar for a dollar, from adjusted gross income. However, taxes do play their part in investing. One investor claims that he would not put his money in Broadway if it weren't for the tax shelter.
"I'm in the 50% tax bracket, so if I put $2,000 into a show, and lose it all, I can write off $1,000, so I'm really only investing a thousand. But, if I put $2,000 on "My Fair Lady," and it pays back 6 to 1, then I'll receive $128,000 for risking $1,000. So, riskwise, it's really paying back 128 to 1 for an investor in the 50% bracket."

Broadway Scandals

Broadway has not been immune to scandal throughout the decades. Broadway producer and socialite Adela Holzer is currently serving a prison term of two-to-six years after being found guilty of five counts of grand larceny for her Ponzi-like schemes. (Holzer is Jean Harris' cellmate.) All producers are required to file with the S.E.C. by New York law, but only if they discharge offering circulars to more than 31 potential investors. David Merrick (the producer of "42nd Street") bought out his investors while the show was in Washington, so he did not have to go through the S.E.C. Other shows, such as "Dream Girls" and "Woman of the Year", have only several large investors, thus circumventing the S.E.C. rule.

There is another remedy for those angels who think that they've been "taken." "All angels should remember that producers are companies, and like all companies, their books are open to investors," says Mr. Ezzes.

How to Pick a Show

Since the cost of putting on a play or musical has skyrocketed over the past decade, the small investor is in greater demand now than ever. But now it also takes longer than ever to pay back the original investment. This is particularly true of musicals, which now take an average of 34 weeks of sell-outs to recoup investment. A large portion of the box office take is used to cover the weekly expenses, such as salary, royalties, theatre rentals, and incidentals. These expenses are combined under the general heading of "nut." The larger the "nut," the longer the show takes to pay back its original investment. Thus, since a small nut is desirable, the investor would be well advised to pay close attention to the salaries, royalties, and theatre rentals detailed in the offering circular. As a rule, reading and rereading the offering circular is really the only way an investor can be sure of what he's getting. "If you were buying a car, or an air conditioner, you would read all about it before you buy. The same principle applies to investing in a show," says Ezzes.

The offering circular also tells whether or not there are overcalls. An overcall means that an investor may have to put up an additional 10 or 20% of his original investment if the show runs low on cash.

Since salaries are such a large expense, a general rule of thumb is to pick a play with the smallest possible cast. For example, this season's "Mass Appeal" has only two characters.

Although stars can attract a much larger audience, they can also add a lot to production costs. Many Broadway insiders feel that "Woman Of The Year" (last season's vehicle for Lauren Bacall) will never pay back its investors totally. Although the musical grosses over $300,000 a week, its nut (including 10% of the gross per week for Bacall, plus $2300 a week for her limousine) means that it will not be finished paying back investors until two years after opening night. Bacall, who is the main attraction, has a contract which only runs for 18 months.

Attention should also be paid to the royalties paid authors, directors, producers, lyricists, and composers, and especially theatre owners. The combined royalty payments for these people can run between 15 and 30% of the gross.

In addition to reading and rereading the offering circular, it is wise to ask for a copy of the script or attend
backers' auditions in the case of a musical. Then you can judge for yourself whether or not the play will make it on Broadway, or sometimes more importantly, whether it can be sold to movies, television, or cable television. Sales to movies average between $1 and $1.5 million while cable TV sales average between $100,000 and $150,000.

Another way to better the odds of investing is by going only with proven talent, and especially proven, experienced producers. Stay away from new, untried producers, or "check writers" as they are known on Broadway, many of whom are in it only for the newfound social prestige your money provides them with. "Buying a show is like buying stock in a company. You always buy management," says Mr. Ezzes.

Another area that should be investigated by a potential investor is Off-Broadway. Shows here are much less expensive to produce than those on Broadway, and for the same amount of money, you can buy a higher percentage of the show. The potential returns are staggering. The aforementioned "Grease" came from Off-Broadway, as did "Hair" (1300% return) and "You're a Good Man, Charlie Brown" (2700%).

"Shows such as "Key Exchange" and "Cloud Nine" will run for years," says one investor.

**The Future of the Small Investor**

Within the past few years, movie, television and cable television companies have taken an active interest in a thriving Broadway. Warner Communications has been a heavy investor through their Warner Theater Productions subsidiary. CBS and Universal have also become more active.

For their money, these large corporate investors do not usually receive any extra benefits, other than the one they want most: first crack at an audience-proven script. With the appearance of these corporate giants, the small investor might be in danger of being pushed out.

"The small investor will always be welcome on Broadway, especially with us," says Mr. Ezzes of McCann-Nugent. "Liz (McCann) and Nelle (Nugent) started with a core of 75 investors for their first production ("Dracula"). Since then, we have given these original 75 first crack at all subsequent shows. The small investors have been very good to us, and to Broadway in general. We will continue to seek their investments avidly."

"You hear them, kid? They're all cheering you, yelling your name. You're a star, kid, a star!"

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**LUCCA BUY COMPANY**

**STATEMENT OF OPERATIONS**

**NEW YORK, NEW YORK**

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<th>Performance per week</th>
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<tr>
<td>Company Share</td>
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**Expenses:**

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<tbody>
<tr>
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| Total Expenses         | $114,490     | $112,990     |
| Running Loss by Week   | ($30,889)    | ($10,976)    |
An Investment Portfolio for The College Graduate

by Michael Pferr

College students get more than just a diploma at graduation. By losing their student status, they join the work force full-time, and their income increases substantially. That first, fat paycheck is a heady experience.

Most graduates do not know how to manage their newfound wealth. After four or five years of struggle in college, many find themselves in a financial situation as precarious as when they were in school. Then, it was due to lack of money; now it is due to uncertainty about what to do with newly acquired income.

With the current turbulent economic climate, it is smart for graduates to start a savings and investment program as soon as possible after graduation. The following investment portfolio is suggested for college graduates, but others can benefit from it as well. It includes advice for investments in: bank accounts, the stock market, the bond market and, finally, money funds.

Banks

The banking industry is diverse. On one hand are the commercial banks and on the other are the ‘thrifty’ institutions (mutual savings banks and savings and loan associations). Most commercial banks are financially stable whereas in New York the thrifty are struggling to survive. But it does not matter where one deposits money since it is insured by either the FDIC (Federal Deposit Insurance Corporation) or the FSLIC (Federal Savings and Loan Corporation) for up to $100,000 per account.

The most basic bank investment is a regular savings account. The interest rate is 5.25% at commercial banks and 5.5% at the thrifty. The main advantages of regular savings accounts are the low minimum balance (usually $25), high liquidity (one can withdraw the entire balance at any time) and the ability to cash checks against its balance. The main disadvantage of such accounts is the very low interest rate; much lower than the rate of inflation.

Another popular bank investment is a N.O.W. account (Negotiable Order of Withdrawal). A N.O.W. account is a checking-type account that earns interest. The current interest rate is 5.25% at both commercial banks and the thrifty. According to Margaret Higgins, a new accounts officer at the Home Federal Savings in Ridgewood, Queens the great advantage of a N.O.W. account is that it takes the place of two other accounts: the non-interest checking account and corresponding savings account. “Ever since we got the N.O.W. account, depositors have been opening them up at a rapid rate.” Those banks which still have free checking accounts offer their depositors N.O.W. accounts as well,” Ms. Higgins says. The main disadvantage of a N.O.W. account is the minimum balance which ranges from $250 at some of the smaller thrifty to $5,000 at some commercial banks ($500 at the Home Federal). If one drops below the minimum balance, a fee is imposed, usually $5 to $10. Since a checking account is important, it is wise to have a N.O.W. account and earn interest on checking money.

Banks also offer savings accounts with higher interest rates but with contractual obligations. One such account is the 30-month time certificate. The minimum balance is $500 and the principal cannot be withdrawn for 30 months. Interest can be taken out when credited by the bank. The best advantage of this account is the high interest rate (compounded daily) more than double the inflation rate. Since the advent of the “All-Savers” certificates, the 30-month certificate has gotten little press. Yet it is a solid investment with a high yield and maximum security.

The “All-Savers” certificate is a good investment for those in the 30% tax bracket or higher ($20,000-$25,000 income). For people with income less than this, the 30-month certificate would be a better buy.

The popular 6-month certificate has a very high minimum balance, $10,000. This is unfortunate because 6-month certificates earn very high interest. Several banks will let people open a 6-month certificate with as little as $2,000 and they will lend them the rest. As a result, the interest rate will be somewhat less than with the full $10,000.

Finally, some thrifty and banks offer what is known as repurchase agreements or “repros.” For a minimum of usually $1,000, a bank will offer a high interest rate as determined by money market rates. The bank or thrift will guarantee this rate for a short period, usually 10-90 days, at the end of which a new rate (higher or lower) is established. At first glance, with interest rates of 14%, 15%
and even 16%, these "reposs" look too good to be true. But there is a catch in that they are not insured by the FDIC or FSLIC, only by the individual bank. According to the New York State Department of Banking only one thrift unit in NYC made money last year—The Greenpoint Savings Bank. Every other thrift unit lost money. So, in spite of the high interest, a repurchase agreement is a risky investment and not for the weak of heart.

Considered a conservative investment, most bank accounts offer absolute security. With regulations being lifted every month (such as the interest rate cap on 30-month certificates on August 1, 1981) bank accounts are now becoming more competitive with other investment opportunities.

**Stocks**

One of the most famous stock market legends was Bernard M. Baruch who became a millionaire before the age of 25. By shrewd manipulation of the stock market, Baruch was able to amass a huge fortune and become a financial advisor to eight Presidents, from Taft to Eisenhower. Baruch showed so much interest in City College's School of Business and Public Administration, that former Mayor Robert Wagner named it after him in 1953. The most important thing to remember is that the stock market is no sure thing; for every Bernard Baruch, there are at least 100 people who lose money.

The stock market is much riskier than bank investments even though a careful eye is kept on it by the Securities and Exchange Commission. Understandably, the stock market is no place for amateurs. This is why brokerage houses do such good business. Brokers give advice on what stock to buy, when to sell and what stock to avoid. Of course, they do not do this for free. They charge a commission which is usually 15-20¢ per share of stock and $35-50 per transaction order.

There are two main types of stock, common and preferred. Common stock, the riskier investment, gives a higher yield than preferred stock. However, in the case of bankruptcy, preferred stockholders are paid any remaining assets before common stockholders. Sometimes preferred stock is convertible and can be converted to common stock. This increases both yield and risk.

Is the stock market a good investment for college graduates? This question was put to a stockbroker who wished to remain anonymous. "The stock market has always been a killer for first-time investors. It takes a long time to master it. Wall Street is not known as the Street of Sorrows for nothing." When asked if he invests in the market he replied, "I used to but not anymore. Now it is just treasury bills and bank certificates. I don't have as many headaches as I used to." One can make money in the stock market but these cases are rare (only 1% of all investors according to a study by the Harvard School of Business). With odds like that, it is prudent to study the market carefully before investing money.

**Bonds**

As stocks have always been considered a risky investment, bonds have been understood as the bedrock of conservatism. Year in, year out bonds have given people a stable, if not spectacular yield and maximum security. People who would not dream of investing in the stock market willingly put their money in bonds.

And bonds are a good investment especially now since interest is at an all-time high. According to Norman Katz, an account executive associated with several business firms in Northern New Jersey, bonds are an excellent investment for today. "Bonds are a perfect investment choice for smart investors. With the current high interest, every investment portfolio should have them."

Tax-free municipal bonds have been around a long time. Some are triple tax-free (free from federal, state and local taxes) while others are double or single tax-free. And municipal bond covenants are unbreakable in any federal or state legislature. This is the main reason why the Port Authority of New York and New Jersey has remained free of interference from either the New Jersey or New York State Legislature. The bond covenants of the Port Authority (for such projects as the World Trade Center and the George Washington Bridge) have been upheld in court after court. Municipal bonds are among the surest and safest investments today.

The United States also issues bonds. These are called U.S. Savings Bonds and the interest rate is currently 9%. While the interest rate is somewhat lower than municipal bonds (or bank time certificates), it is backed up by the United States Treasury; you cannot get a safer investment than that.

U.S. Savings Bonds are usually bought at work through payroll deduction. The amount is small, usually $5 to $10. Are U.S. Savings Bonds a good investment for young adults? "They sure are," replies Jeanette Hoffman, a satellite manager at Macy's, Herald Square. "They are the perfect savings vehicle for those people, usually young, who are unable to save their available money. When one buys a Savings Bond, the money cannot be spent because it is never seen."
Besides government securities, corporations also issue bonds. Corporate bonds are considered a safe investment, safer than corporate stock, common or preferred. Also, in the case of bankruptcy, bankholders are paid any remaining assets first, ahead of stockholders. Corporate bonds offer a high rate of interest yet sacrifice little security.

Bonds are solid investments and definitely should be looked into. They should not be scorned as too staid or too conservative. They offer a high, steady yield and security. And, as things stand now, the interest rate is getting higher and higher and will soon be equal to that of other investments.

Money Market Funds

Money market funds are truly the investment of today, Assets in the industry have grown from $4 billion in 1977 to over $95 billion in 1981. Scorned and cursed by the banks and thrifts, money market funds have prospered at the expense of the banks and thrifts.

These funds are very popular for several reasons. They earn very high interest (over 15%) with few strings attached. There is a low minimum initial investment (from $1,000 to $2,500) and additional investments are from $100 to $250. There is daily compounding and total liquidity (you can redeem any or all of your money—and earned interest—at any time). Money market funds are indeed booming.

Probably the most important advantage of money market funds is the free checking privileges ($500 minimum). With the high interest, money market funds are transformed (much to the banks’ and thrifts’ chagrin) into quasi-N.O.W. accounts. One has a choice of a government insured N.O.W. account at 5.25% interest or a non-FDIC or FSLIC insured money market account at about 15% interest. It is a tough choice and many people keep both.

Money market funds do have one major drawback. The interest rate, while high, fluctuates from week-to-week. This disturbs conservative investors who like a steady yield.

Money market funds are a good investment. Their advantages far outweigh their disadvantages. It is true you could lose some money, but that is highly unlikely since most companies that offer money market funds are solidly successful. A money market fund is perfect for first-time investors. It enables them to get their feet wet in the investment game, unlike the stock market where one can easily drown.

The purpose of this portfolio is to point out a few of the investment possibilities for college graduates. It is meant only to highlight some of the more well-known opportunities and not to be an all-encompassing investment guide. There are many more types of investments with high interest/low interest, high risk/low risk and so on.

It is important to be comfortable with investments. If you are a risk taker, invest in the stock market and money market funds. If you are more conservative, stick with bonds and bank accounts. Do not invest any money in any investment until you have studied it thoroughly and are completely comfortable with it.

In these perilous times, it is vital for college graduates to start saving. As Norman Katz says, “When I left the Army, the future looked bright. But today, with the prospects of a deep recession in the midst of double-digit inflation, it is imperative that those people starting out after school save some of their money for the not-so-distant future.”
Take the BBA to Wall Street

by Brian McCarthy

It is lunch hour on Wall Street. Smartly suited young men and women scurry by clutching their leather attache cases. They are the privileged ones, the ambitious graduates who have succeeded in snaring jobs in prestigious Wall Street banks and brokerage firms.

But how does one obtain a position in one of these Wall Street institutions? This seemingly simple question could easily yield hundreds of different responses. No one quite agrees.

Lower-level personnel in Wall Street companies often use the expression “Who You Know,” when they are asked to discuss career opportunities in their respective firms. Richard Prevete, a purchasing and sales clerk at Speer, Leeds, and Kellogg, disagrees: “The implication that one must know someone to further or establish a career on Wall Street is a false one. True, some people get their jobs through friends, and some companies (such as Goldman Sachs’s) only hire on recommendations, but the bottom line is education. With a degree, a person has his own merits to present. There are many companies which hire undergraduates on merit alone.”

Prevete, who is currently attempting to finish his education at night, believes that “with very few exceptions, management will not promote a non-degree employee beyond a certain position.”

Weighing The Entire Package

A person who has struggled through the 128 credits (minimum) required for a BBA degree should not rush into his/her first job.

Wall Street is an extremely competitive environment and this fact can be used to the advantage of the college graduate. Firms are forced to compete for the best employees; therefore, the graduate should attempt to secure a position with the company that offers him the most.

The first thing that one must do is to investigate personally the corporation that is granting an interview. Enter the interview knowing the corporation’s income, assets, reputation, competition, history, ambitions, and, if possible, any problems it faces. Secondly, inquire about the position that you are applying for. Try to relate your accomplishments, experience, and education to the company’s needs. Carefully consider whether you are seriously interested in the position this company is offering you before proceeding to the next step.

The next step relates to the inherent competitiveness of Wall Street. Due to the similarities of many Wall Street businesses, firms often add incentives to induce a person to sign on with one company rather than with another. “Salary is definitely not the only point to keep in mind when deciding on the job that you will take. Competitiveness for the best employees is also shown in the benefits that firms offer,” says Marco Demitri, Options Supervisor, and a 16-year employee of Goldman Sach’s. Demitri’s firm has “outstanding benefits.” “My family has 100% medical coverage and I receive excellent bonuses based on my annual salary. When the company is flourishing, we receive an additional bonus in the summer, based on salary. There are also low interest rates on loans and several employee savings plans including the standard savings incentive which deducts a percentage of your salary and deposits the money in an account with a high interest rate. Goldman Sach’s also offers various profit sharing plans. In profit sharing clauses, money is taken out of a person’s salary and invested by the company’s brokers. A percentage of this money is matched by the company itself. The company also offers the option of investing the money yourself.” Mr. Demitri’s 16-year service to his firm is clearly no accident of fate. “Goldman Sach’s is very much interested in having contented employees and in encouraging employee initiative,” he says.

Tuition

Another important fringe benefit on Wall Street worth considering is free tuition. Most companies encourage their employees to further their education (Master’s Degrees) for the employee’s benefit and for the good of the company. Louis A. Ambrosio, Vice President of the First Boston Corporation, explains that “the pursuit of additional knowledge is a very intelligent and impressive way of showing your initiative and your ambition to move up in an organization. Pursuing an additional degree is looked upon with much esteem and tuition and books are paid for 100%.” In fact, Mr. Ambrosio adds, “there are even bonuses paid for good grades.”

Entry-Level Jobs in Brokerage

In order to analyze the positions available to a BBA on Wall Street one must first understand how a brokerage
firm operates. Brokerage houses are divided into “back” and “front” offices. The back office operates much like a bank. This department collects the money for the purchasing and processing of all stocks, bonds, coupons, negotiable and non-negotiable securities that are transacted. This department also sends out the periodical dividends, which can be in cash or in the form of a stock split, and processes the titles of accounts. These titles must be spelled and worded precisely for legal, tax and identification purposes. Finally, the margin department of the back office balances the cash flow on a daily basis.

“Starting salaries in the $22,000 to $26,000 range are not out of line...”

Most graduates with BBAs in management, economics, and finance enter into back office positions in brokerage houses. They are put in charge of a specific department and are expected to gain experience and to pursue a Master’s Degree. However, after work experience, or with the completion of a graduate degree, these people are often promoted to a front office position.

The front office of a brokerage firm is composed of registered representatives, traders, salespersons, vice presidents and partners. These are the glamorous, high-paying positions that students yearn for throughout their college studies. Advertising and marketing majors are often taken on as traders in many firms. These people sell stocks or bonds to specialized accounts (mostly individual) and earn excellent commissions. The more accounts that a person handles the higher up a person can go in a company. Institutional salespersons (BBA graduates with majors in accounting, economics, finance, management, advertising and marketing) handle corporate accounts exclusively. The most prestigious firms require a Master’s Degree to move up the institutional ladder. “The Master’s Degree is well worth the extra time and effort,” Mr. Ambrosio emphasizes. “It commands a 35-to-50% increase in salary in most Wall Street businesses. In brokerage firms it opens the door for individuals to become registered representatives, vice presidents and partners.” BBA graduates can expect to earn $16,000 to $23,000 starting salaries in back office managerial positions and similar salaries are paid to graduates who start out in the front office. Ambrosio explains that “Institutional salespersons who have earned graduate degrees can earn as much as $30,000 in starting salary.”

Even more important than this high entry-level pay is the fact that major promotions are now within reach. The next step up the corporate ladder is the rung of registered representative, the person who sells investments retail, and executes orders (transactions) for the company. Once established, a salary of $65,000 to $70,000 is very common. The next rung on the Wall Street ladder is that of vice president, the executive whose job it is to draw up all company contracts. Last, but definitely not least, the highest rung in the brokerage ladder for the ambitious college student is the rank of partner.

Banking Opportunities

A BBA in business can also qualify a person for various “executive training programs” offered by the major commercial and investment banks. The range of this training is extensive: a person can manage the bank floor or can be trained to work in and/or supervise a special department of the bank, particularly if the degree received was in a specialized subject such as computers. Like their counterparts in brokerage, banks offer excellent fringe benefits and similar starting salaries. In most instances, the beginning salary range is from $15,000 to $22,000 and management status is immediately bestowed upon the new employee.

Computer majors can command considerably higher salaries than most other BBAs because their expertise is in great demand. Starting salaries in the $22,000 to $26,000 range are not out of line and the importance of computers on Wall Street will undoubtedly expand as times goes on. Besides the obvious functions of programming, analyzing and designing computers, “investment research” is a field that many computer graduates might consider. Investment research involves analyzing the merits and risks of investing in a given company. It is an invaluable asset to Wall Street firms who are fighting to stay one step ahead of their competitors.

The case of 1980 Bernard Baruch graduate Maureen Femia illustrates how BBA candidates with computer degrees can succeed in banking. Mrs. Femia began working for Irving Trust at a starting salary of $22,000; she now

Continued on p.40
Greenlining The South Bronx

by Katrina Cilluffo

It is not easy to forget President Reagan’s famous foray to the decaying precincts of the South Bronx during his campaign. He stepped out of his limousine and onto Charlotte Street, the very same street Jimmy Carter had visited in 1977 and had declared a national symbol of urban blight. Like his predecessor, Reagan too promised that conditions would improve. One year later, on this three-block-long street of broken promises, the buildings remain gutted and uninhabited.

During the Carter administration, two congressmen, Jack Kemp and Robert Garcia, co-authored a bill (HR 7563) and introduced it to the 97th Congress. Known as the Urban Jobs and Enterprise Zone Act, its basic premise is that by using tax cuts as incentives, businesses will be enticed to move into the nation’s poorest neighborhoods. Renumbered HR 3824, it is expected to reach the Congressional floor for consideration early in 1982.

Kemp is a conservative Republican from the Buffalo area; he is hoping to become a leader in the fight for urban revitalization. Garcia, on the other hand, is a liberal Democrat whose interest in curbing urban blight has a strong personal component. Not only does Garcia represent the South Bronx, but he was also born and raised in this ravaged portion of New York City.

Kemp and Garcia perceive a favorable outlook on Capitol Hill for the latest version of the bill. “The net effect of the enterprise zones concept is to greenline devastated neighborhoods as candidates for investment,” says Kemp. “And I think Congress will agree that the age old practice of redlining, whereby these areas are marked as poor financial gambles, must end.”

Under their proposal, any urban area can qualify as an enterprise zone if the population is at least 4,000, the unemployment rate is in excess of the national average, and there is a high incidence of poverty. However, these zones are not to be whole cities; rather, they are to be economically depressed areas within cities of generally one-to-two square miles.

The population of the South Bronx (Melrose, Mott Haven, and Morrisania), is over 450,000 (a figure larger than that of the City of Minneapolis). It’s an area that is quite literally burning up, whether through the carelessness of drug addicts or the destructiveness of arsonists. Everywhere, charred remains stand side-by-side with storefront churches and bodegas. It is a “tenant’s town” where rental is preferred to ownership and where
welfare checks and food stamps are gladly welcomed.
Charlotte Street, a wasteland located one mile from the
Bronx Zoo and two miles from Yankee Stadium, was
selected in 1978 as the site for a multimillion dollar hous-
ing project. But the City’s Board of Estimate rejected the

“The net effect of the enterprise zones concept is to greenline
devastated neighborhoods as candidates for investment”

proposal, seven to four, feeling that this would allocate
too much to one borough. Since then, there have been
many more promises and local residents have come to
resent the efforts of those who seem to come merely to “sightsee.”

Urban experts applaud the spirit of Kemp and Garcia
and President Reagan has said that passage of this bill is
one of his administration’s “immediate and major objec-
tives.” The Reagan administration hopes to put enterprise
zones into effect by January 1, 1984. Their goal is the ap-
proval of as many as 25 enterprise zones each year for the
next three years.

Unlike many ill-fated model cities programs initiated by
the government during the urban renewal surge of the
1960’s, this bill, in the offering, “does not intend to target
the money to the areas, but to use the money to create a
climate for business to operate freely,” says Congressional
Aide Jeff Noah.

Such a commercially attractive climate is to be created
by offering entrepreneurs dramatic reductions in various
business-related taxes, including property, regular in-
come, social security, and capital gains taxes. In addition
to this string of tax breaks, enterprise zones would also
receive preferred consideration as foreign trade zones or
areas in which exporters to the United States can finish
goods before payment of duties.

The overall scheme is to encourage businesses of the
private sector to help themselves through tax credits while
helping depressed sections of major cities such as New
York’s South Bronx and Los Angeles’ Watts. By providing
incentives for job creation and commercial revitalization,
the communities themselves would be solving the urban
blight problem.

Some well known companies have already expressed
considerable interest in the enterprise zone concept
among them Control Data and Sears Roebuck. In 1981,
sponsors of the bill estimated the cost of implementing
the program as $1.4 billion in federal revenue. Mr. Noah sees
this legislation as a “unique way of smoothing over
broken promises.”

Zones Abroad

The enterprise zones approach was first propounded in
Great Britain with the prime objective of lifting regulatory
restrictions and giving greater freedom from taxation. In a
monograph written last year for the Heritage Foundation,
a Washington-based research organization, economist
Stuart Butler introduced the concept to the United States.
Butler feels that the bill’s chief advantage lies in the fact
that it requires no direct expenditures. “Unlike many
other approaches,” says Mr. Butler, “this one requires ab-
solutely no ‘up-front’ money.”

Being a Congressional odd couple has helped instead of
hurt. Kemp and Garcia have garnered a very impressive
bi-partisan coalition including Republican Millicent Fen-
wick (N.J.), Democrats Robert Edgar (Pa.) and Henry
Nowak (N.Y.), Vernon Jordan of the Urban League and
Augustus Hawkins of the Black Caucus.

Billions of dollars have been thrown at the problems of
the inner cities in recent years, but little has been done to
halt the massive deterioration. Areas like the South Bronx
continue to decline because of administrative red tape,

“The population of the South
Bronx is over 450,000—a figure
larger than that of the City of
Minneapolis”

high crime rates and a general lack of concern about the
rubbish-strewn living conditions. Steering industry where
it does not want to go through social engineering can only
help solve part of the problem. Kemp and Garcia believe
that the Urban Jobs and Enterprise Zone Act can do much
more; that it can turn the South Bronx and other blighted
areas, into industrial neighborhoods where private enter-
prise can provide much needed jobs for local residents.
Personal Computer Market Soars  

by Edith Lopez

Personal computer, Home computer, Small business computer. All of these epithets refer to that electronic wonder which is entering into virtually every facet of American life: the microcomputer. Micors are relatively low cost systems which range in price from $500 to $10,000 and provide computing capacity in a small, independent package. They are increasingly becoming a basic component in the business world, the technological field, the educational system, and the average home.

If recent personal computer growth trends are an indicator of the future, then it is feasible to expect that virtually everyone will have daily contact with the device in the near future. In fact, Bill O'Brien, manager of Computerland at 58 West 44th Street, goes so far as to predict that "somewhere in the next three to five years, personal computers will be as much of a necessity as the telephone is today. Without a personal computer, an individual will not be able to conduct personal business, such as accessing the status of his bank account or shopping for groceries and other items."

Assembly Was Required

The first semblance of the personal computer was introduced on the market in 1974 by such obscure manufacturers as MITS and lmsai. Mail order was the primary method of distribution and ads were targeted to the electronic hobbyist. The first-generation buyer would see an advertisement in a publication such as Popular Electronics, place an order, and receive a plastic bag full of parts. It was up to the buyer to construct and solder it, determine how to input and output information, program and make it work. These early devices lacked the peripheral equipment necessary to put in the data and to get it out. It was like buying an amplifier without a turntable or speakers. Today, all major brands feature keyboards and video display units.

Market Ignition

The personal computer market really began to take off in 1977, when new companies offered the micro in a less forbidding form than previously available. Another impetus to this personal computer explosion was the development of good software which could unlock the power of the hardware. Using the stereo analogy, these greeting card size slivers of plastic act as records to tapes when placed in the machine, making it come alive.

In just seven years, revenues have grown from almost nothing to $1.7 billion. Dataquest Inc., a Cupertino, California research firm believes the industry's annual sales will reach $4 billion by 1985.

Lured by this market potential, more and more companies are entering into this lucrative market. While Apple Computer, Tandy Corporation, and Commodore International established a dominant market share early in the game, they are currently being threatened by such giants as International Business Machines, which introduced their first personal computer in August 1981 and Xerox Corporation, who announced the Xerox 820 in June 1981. Other competitors include Atari, Hewlett-Packard, Osborne computer, Texas Instruments, Zenith and a host of smaller firms.
Even with this proliferation, it appears that the market is far from saturated. George Conrades, President of I.B.M.’s DPD Digest, is bullish on the future of their personal computer. “We are entering a market that is largely untapped, but which has been established by competition. The personal computer makes computing resources available to much greater numbers of people and, whenever that happens, that’s far less a market saturation point than it is a market ignition point,” he said.

Nick Ganio, a recent Baruch graduate, who now works as a systems engineer for I.B.M. and acts as their customer interface, when dealing with personal computers, adds, “personal computers are an alternative to terminals. Although they may be connected to larger systems to increase their capability, the micro is basically a stand-alone device that does not require external hook-ups. The terminal, on the other hand, is a “dumb box” which must operate as part of a system.”

Four Major Markets

To tap this vast potential market, personal computer manufacturers may choose to position their product for any one of four major target market segments. The most lucrative group of customers appears to be business users, particularly middle managers who want to automate their daily work routine. Wise marketers are focusing on the needs of management because they far outnumber the “mom and pop” small business candidates. In addition, larger firms often purchase several machines at once and since they are generally more comfortable with data processing equipment, they usually order additional hardware and software.

While Jeannette Maher, I.B.M.’s Senior Information Representative believes that “I.B.M. is not focusing on a particular target market and that the I.B.M. personal computer is for the individual in business, in education, and in the home,” Nick Ganio disagrees. According to Ganio, “I.B.M.’s micro tends to be pegged for the business market. Furthermore, our Data Processing Division has a stronghold on big business due to our record of experience.”

Another opportunity lies in serving the needs of technical professionals. Hewlett-Packard is aggressively exploiting its traditional competency for serving this market of scientists and engineers by offering highly specialized products. HP has also geared its product line to reach other professional users who want a personal computer to do analytical work.

Personal computers are increasingly being used in the field of education, both for administrative purposes and as a classroom learning tool. One of the advantages of using the personal computer as a medium of education is that it allows the student to learn at his or her own pace.

The fourth target market segment consists of home users. Companies like Atari, Mattel and Texas Instruments are gambling on a broader home market than actually exists. They have funneled millions into promotion for home markets but have, to date, failed to receive an adequate return on their investments. Few home consumers see the benefits as anything beyond entertainment. However, Bill O’Brien, of Computerland, points out that “the home computer is still in the luxury stage but it will soon become a necessity.”

Computer Stores

As personal computer manufacturers try to reach ever-broadening markets with these lower-priced products, they are turning to new distribution channels. For the first time in the histories of both I.B.M. and Xerox, independent retailers are being used to reach consumers. This is

“The first-generation buyer would see an advertisement in a publication such as Popular Electronics, place an order, and receive a plastic bag full of parts”

being done in conjunction with the more traditional, direct route of manufacturers sales forces and with their own retail outlets. These channels are also being joined in the marketplace by independent specialty chains and mass merchandisers.

Computerland Corp. is an example of one of the most successful specialty chains. The strategy of this type of retailer is to stock a broad range of goods from various manufacturers, price them competitively, stress the software component and emphasize the expertise of store personnel. Owners of specialty chains generally seek business-oriented people to operate the stores. They look
for personnel who can relate to the needs of the growing business segment, rather than relying on technology experts who talk in “bits and bytes.” Bill O’Brien believes that “both ends of the spectrum are needed; you need people who know the machines and software, and also those who are sensitive to the buyer’s needs. In addition, salespeople must possess the intuition to know when to say we don’t have what you need. This straightforward approach is part of the business.” Nevertheless, a major drawback of franchises is that the quality of sales and service can be inconsistent, creating an overall, negative image.

Established mass merchandisers such as Sears, J.C. Penney and Montgomery Ward are concentrating on low-priced machines that need little sales or support service. Bill O’Brien estimates that “the typical customer requires an average of three visits or fifteen hours of selling time before they buy. This must be supplemented by three to four hours of research by support people.” Department stores cannot devote that much time. They aim to cut demonstration and selling time down to fifteen minutes.

Computer manufacturers are searching for cost effective distribution techniques including office equipment dealers, consumer electronic stores and mail order. Thus far, specialty chains have proven to be the most effective. They are geared to an operative promotion mix: more selling time than department stores, but less than direct sales.

User Friendly Micros

While Mr. O’Brien and other computer buffs may dream of the days when personal computers will order the groceries or bring movie tickets, it appears that it will require major innovations on the part of manufacturers before such dreams become a reality. The market is growing at unprecedented speeds, but the bulk of sales increases stem from purchases by the business sector.

The goal of making a personal computer that will appeal to those who lack a technologically-oriented background may be realized when the micros become “user friendly.” “They will have to make them easier to use and provide better software,” says Nick Ganio. Several computer companies forecast that they will manufacture machines that look less like computers and more like appliances. “Such foresight,” Ganio insists, “may slow the rapid introduction of new models but it will ultimately bring computing power to all the people.”

Welcome Back Hollywood
by Susan Cuccinello

The residents of Astoria, Queens have long been hearing rumors regarding the rebirth of the film industry in their neighborhood. Now, it appears, these rumors will become fact, with plans for at least three studios to be built in the area.

The renovation and expansion of the 62-year-old Astoria Production Center is, financially, the largest of the ventures. The complex covers 5½ acres and will cost approximately $50 million when completed. As it stands now, the main building of the studio is an old, ugly, gray building surrounded by old, ugly, gray factories, many of which are vacant.

The four main buildings of the complex will be renovated and expanded upon, with one building, according to Lynne Gambrill, aide to Queensborough Representative Geraldine Ferraro, being turned into a film museum. Representative Ferraro, along with Queensborough President Donald Manes, Mayor Edward Koch, and Senator Alphonse D’Amato, is a supporter of the restoration of the landmark studio.

The studio was built in 1919 by a group known as the Famous Players-Lasky Corp., headed by industry greats Adolph Zuckor and Jesse Lasky, which later grew into Paramount Pictures. During its heyday, movie classics such as “Animal Crackers,” and “Coconuts,” starring the Marx Brothers, “Monsieur Beaucaire,” featuring Rudolph Valentino, and nine Gloria Swanson silent movies were produced here. In 1942, the production center was bought by the federal government who used it to produce training films for the Armed Services. From 1953 until 1975, the studio remained dormant and title to it was turned over to New York City. In 1976, it was resuscitated by independent film-makers who, since that time, have produced at the studio “The Wiz,” “All That Jazz,” “Arthur,” and most recently “Author, Author,” starring Al Pacino.

George S. Kaufman, President of Kaufman Realty Corporation, will contribute, with assistance from Johnny Carson, Alan King, Neil Simon, and James M. Nederlander, $12 million of the $30 million necessary for the first phase of the renovation. The Astoria Production Center will subsequently be known as the Kaufman Astoria
Studios. Other funds for the project will come from New York City's capital budget, along with a grant from the Urban Development Action, and both a loan and a grant from the Economic Development Administration.

According to Ms. Gambrill, the studio will produce subsidiary jobs. These are jobs which provide services necessary to, but not directly a part of the production process. Diners, limousine services, lumberyards, and hardware stores are some of the businesses Ms. Gambrill cited which are expected to grow and expand because of the studio. "For every dollar spent on filming," Gambrill explained, "three dollars in subsidiary businesses is generated. Taxes will also generate revenue." "And," she added, "construction of two new sound stages will also employ 300 construction workers." Demetrius Ulis, of the Astoria Development Project, agrees with Ms. Gambrill and feels the local Astoria vendors will enjoy increased business. "A lot of service jobs will be created in Astoria," he said.

The first phase of the renovation project, scheduled to begin in the spring of 1982, includes the building and renovation of 400,000 square feet of production space for motion picture facilities, and an additional 200,000 square feet for office space and service facilities. Parking lots and tennis courts are also included in the first phase plans.

Early in 1984, the second phase is scheduled to begin. And, when completed, is expected to bring the total cost of the project to $50 million. This phase includes work on an additional 350,000 square feet to be used as tenant space, post-production facilities, including editing, titling, sound effects, and sound recording, and cable/TV productions.

The renovation and expansion work, while it will create jobs for local residents, is also expected to upgrade the surrounding area, currently comprised almost entirely of factories and empty lots. "Obviously, the area surrounding the studio is going to improve," said Fred Gross of the City Planning Department of Queens. "Anytime you put a greater number of people to work on an area, that area will benefit." Gross feels that New York's film industry is rapidly growing, noting that the current available studios are already overbooked. "Many actors are out of work," he said, "and refuse to go to California, or simply can't afford to." Gross has another explanation for the coast-to-coast shift: "Maybe people are getting tired of palm trees," he said.
ERTA: The Trickle-Down Effect
by Peter Turai

On August 13, 1981 President Ronald Reagan signed into law PL 19-34, otherwise known as The Economic Recovery Tax Act of 1981 (ERTA). In doing so, he set into motion what Sidney Kess, CPA, LLM, a noted tax authority, referred to during a recent tax seminar as "the greatest modification of Federal Income Taxation since the ratification of the Sixteenth Amendment in 1913."

Hailed by "supply-siders" as an economic cure-all, ERTA was primarily intended to provide business with incentive for growth through tax relief. Other provisions within the Act were aimed at incentives for savings in order to make available the capital necessary for growth. This growth would in turn cause an increase in revenues which, coupled with budget cuts, would help balance the budget, and subsequently lower inflation, interest rates and unemployment. Because of its supposed trickle-down effect, everyone, not only business, would benefit form the resulting overall level of economic well-being.

Trouble in Paradise

The Economic Recovery Tax Act passed through Congress with the support of all but the most liberal lawmakers. It had the broad based support of both big business and surprisingly, the general public, who wanted to believe the cause and effect relationship between ERTA and a healthier economy. David Stockman, Director of the Office of Management and Budget, told the Atlantic Monthly (December, 1981), "The whole thing is premised on faith, on a belief about how the world works." But faith is not enough to bring about the "trickle-down effect" when connections between ERTA and the economy are tenuous. The attainment of those original goals of a balanced budget, lower inflation, interest rates and unemployment through ERTA seem difficult in light of recent developments and disclosures made by Mr. Stockman. As Stockman wrote, "None of us really understands what's going on with all these numbers."

The only certainties remaining are that big business has gotten big breaks and that the Federal government stands to lose nearly three-quarters of a trillion dollars in revenues over the next five years.

What's in it For You

Although the greatest gains were made by big business and real estate interests, ERTA provides tax savings for nearly all taxpayers. The following ERTA provisions should be of special interest to individual taxpayers.

Individual Tax Rate Reduction

All individuals will benefit from the 23% across-the-board reduction in Individual Income Tax Rates. The reduction will be phased in over a period of three years with a 5% reduction in 1981 and 10% reductions in 1982 and 1983. The lowest rate will be reduced from 14% to 11% between 1981 and 1984, while the maximum rate will be reduced from 70% to 50% beginning in 1982.

ERTA provides for indexing of tax rates and personal exemptions based on the Consumer Price Index beginning in 1984. The indexing was introduced to prevent bracket creep, which occurs when inflation pushes you into higher tax brackets even though you had no real increase in income.

Capital Gains

As a result of the reduction of the maximum income tax rate from 70% to 50%, the maximum rate on long-term capital gains is reduced from 28% to 20%. Under normal circumstances, you are allowed to deduct 60% of net long-term capital gains, the effect being that you are taxed only on the remaining 40%. With the maximum rate at 70%, the maximum capital gains rate was 28% (70% x 40%), but with the reduction of the maximum rate to 50%, the maximum rate on capital gains is lowered to 20% (50% x 40%). Obviously, you may pay less than the 20% maximum if you are below the 50% bracket. In order to prevent the disastrous effects on the economy of postponing capital gains transactions until after December 31, 1981, when the 50% maximum tax rate takes effect, the law provided for the 20% maximum rate on capital gains from sales and exchanges made after June 9, 1981.

Marriage Tax-Penalty

For years, the tax rate structure imposed higher taxes on married couples where both earned relatively equal in-
come than if they were single. ERTA phases out the so-called marriage penalty beginning in 1982 by allowing a two-earner married couple, filing jointly, a deduction against gross income (you don't have to itemize), based upon a percentage of the lesser of (1) the lower earning spouse's income, or (2) $30,000. The applicable percentages are 5% in 1982 and 10% for years thereafter. Thus, the maximum deduction in 1982 is $1,500 (5% x $30,000) and $3,000 a year after (10% x $30,000).

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Suppose A & B were a married couple filing a joint return in 1982. If A made $12,000 and B made $18,000, their deduction for 1982 would be $600 ($12,000 x .05). Suppose the same facts as above except that A earns $35,000 and B earns $50,000; in this case the maximum credit allowed in 1982 would be $1,500 (5% x $30,000).

Charitable Contributions for Non-Itemizers

When the maximum income tax rate was 70%, a person in the highest bracket could contribute $1 to a charitable organization and the after tax effect would be that it only cost 30¢. With the reduction of the maximum rate to 50%, the same $1 contribution would cost a person in that tax bracket 50¢. Many charities claimed that as a result of the tax cut, contributions would decrease. To counter this, ERTA permits the deduction of a portion of contributions directly from gross income.

In the past, only those who itemized their deductions could deduct contributions, but under the new law anyone can. Beginning in 1982 and for 1983, an individual who does not itemize may deduct 25% of the first $100 of contributions made in that year — thus maximum deduction of $25 in 1982 and 1983. In 1984, the 25% limit applies to the first $300 of contributions, thus allowing a maximum deduction of $75. In 1985 and 1986, 100% of contributions may be deducted with no limit except the general 50% of adjusted gross income rule applying to all contributions. After 1986, once again only those who itemize will be permitted to deduct contributions.

Individual Retirement Accounts

Under the new law, the deduction allowed for a contribution to an IRA is greatly increased. Beginning in 1982, an individual may take an income tax deduction for cash contributions to an IRA in an amount equal to the lesser of $2,000 or 100% of earned income. The law under ERTA is substantially different from the law before 1982 in that previously, only those not actively participating in a qualified retirement plan could participate in an IRA; however, this is changed under ERTA.

Other Provisions

One of the most important reforms brought about by ERTA was in the area of depreciation. The effect of the change is that the cost of most tangible depreciable property acquired after December 31, 1980 may be recovered over statutory periods of three, five, ten or fifteen years depending on the type of property, instead of over its useful life as was previously required. The result is faster write-offs as most clearly evidenced in the case of real property. Under old laws, a building was held to have a useful life of say 40 years, and its cost could be recovered over that period of time; under ERTA the cost of real property is recovered over 15 years. The provisions which allow these rapid write-offs are known as the Accelerated Cost Recovery System, and they were aimed primarily at ailing industries such as auto, steel, etc. where incentive for large capital expenditures are needed for modernization and growth.

Some other provisions introduced under ERTA are an increase in the existing child or dependent care credit, an increase in the once-in-a-lifetime exclusion of gain from the sale of a principal residence, a deduction for adoption expenses, and the introduction of an "all-savers" interest exclusion.

The highlighted provisions are a sample of the changes brought about by ERTA. It is clear that ERTA affects all of us, both directly through cuts in individual income taxes, and indirectly through its effect on the economy. Despite the benefits received by individual tax payers, however, the greatest impact of ERTA, is to be felt in the savings made available under the Accelerated Cost Recovery System (ACRS). These savings, for the most part, will trickle down on the business sector.
ship deferment from June 1978 to July 1979. In July 1979 he received a bill for $46.20, the 3% accrued interest on his balance of $1,900. His next quarterly payment was due on October 1979, but he had returned to college as a full-time student in September 1979. When he received his bill he notified his former school of his student status. He will be receiving deferments until June 1982, when he will have completed his education.

According to Mr. Fronti, many student borrowers are considered defaulters because they fail to notify their previous colleges that they are students after they transfer to another institution. Students who leave a school are considered to have terminated their education, even if they have transferred to another school, and must apply for a deferment. The application must be submitted every year that the student is eligible. To avoid problems, Mr. Fronti urged students to submit their application form at the beginning of the school year signifying their intention to attend school. After May 15 the student should submit another form for certification of attendance.

In addition to deferments, student borrowers may be eligible for cancellation of their loan if they are teachers in a "school with a high concentration of students of low-income families," or if they are a teacher to handicapped children. Full-time staff members of the Head Start Preschool are also eligible for cancellation. Borrowers who are eligible under these provisions receive a cancellation at the rate of 15% per year on the total loan, plus interest, to a maximum of 100% of the total loan.

In the event that a borrower becomes bankrupt, totally disabled, or dies the entire loan is cancelled. Bankruptcy has been a popular loophole for many early borrowers, who upon graduation had no income and promptly filed bankruptcy. In January 1976 President Carter signed a law prohibiting holders of guaranteed loans from filing bankruptcy for five years after graduation.

**Repayment**

Once a student borrower terminates his education, and has not filed for deferment or cancellation, his loan is turned over to Academic Financial Services Association (AFSA) of California. AFSA handles collections of all the NSLs in the country.

The GSL program, on the other hand, does not have a centralized collection center; therefore, each lending institution must make its own collections. According to Louis Buder, a Ridgewood Savings Bank loan officer, this is made more difficult because "Maybe one out of a hundred will come in and say, 'I graduated last week. I want to repay my loan."

As a result, the banks must wait until they are notified by NYSHESC that the student has left school. This can sometimes take a long time. "It's the colleges' responsibility to notify NYSHESC," he explained, "but some reports are two years old. "There is no excuse for that. The colleges are just lax," he complained.

However, a student with an NDSL need not worry about being forgotten for up to two years; about eight months after graduation, and a month before the expiration of the grace period, the borrower receives a letter from AFSA introducing the company and informing him of the total amount due, the frequency of billing, the interest rate being charged and the date the first payment is due. Then, 15 days before the first payment is due, a bill is received. If the payment is not received by the due date, AFSA follows a rigid schedule of collection, 15 days after the due date a second bill is sent. 45 days later a third bill is sent along with a message informing the student that he is delinquent. 60 days after the initial due date, a phone call or a mailgram is made to the delinquent borrower.

After 120 days the student's account is sent to a collection agency. The agency is under contract to the college and receives a percentage of the money collected. The borrower's note is not sold to the agency.

If the collection agency is not successful after 60 days (180 days after initial bill), the borrower's account is sent to a legal firm for further action. The law firm is an independent firm retained by the university. Collection may be arranged with the borrower or a legal proceeding may be begun. A complaint may be entered against the borrower at the credit bureau.

After a borrower's account has been inactive for two years, the university makes a last attempt to track him down. "We go through the Department of Motor Vehicles to locate them," explained Mr. Fronti, "after that we turn them over to the Feds; we're through with them." The school writes the loan off as a loss at this point. If the Federal government is able to collect on the note they keep the money. The borrower's records continue to be held by the university and Mr. Fronti explained "can only be released by a letter from the Office of Education stating that the loan has been paid."
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Maglio started at $18,000 and immediately entered a management position. His bank offered reasonably good benefits, such as the mortgage discount, but “the job itself” was what most mattered to Maglio and made him sign-on. “When auditing the various departments, the accountant has the authority to suggest appropriate changes, instead of merely reporting discrepancies that he has found,” Maglio emphasized.

Wall Street offers freshly-minted BBAs many opportunities. Since firms are in keen competition for quality personnel, motivated BBA students are in great demand. Aggressive companies enhance starting salaries with generous fringe benefits and such packages should be carefully scrutinized by the job hunter.

After all, the first job is most important one. Says Louis Ambrosio, “It often establishes a person’s reputation—a reputation that Wall Street firms will follow throughout a lifelong career.”
Audit Committees: Keeping Corporate Power on the Straight Track

by Merdith Faith

Large, international corporations have earnings in excess of the GNP of many small nations. Scrutiny of these economic resources and their deployment falls largely to the independent auditors who have become society’s watchdogs over commerce. Recent developments in business have included the installation of an additional overseer; the audit committee.

Watergate, and dozens of financial scandals in the sixties and seventies, stirred up questions about the integrity of business, both in its management and financial disclosures. Increased SEC investigations and enforcement proceedings and the enactment of the Foreign Corrupt Practices Act resulted. Criticisms not only fell to the private sector for observed and alleged abuses, but also to the independent auditors—the outside accountants who certify to the properness of management’s representations, the financial statements.

The independent auditor’s job is a complex one: first, he evaluates a client’s system of internal control—that system of built-in mechanisms which attempts to prevent or subsequently detect material errors in the flow of financial data and information. He performs tests to evaluate the extent that this system can be relied upon. The results of this examination help determine the scope of further work, i.e., the nature, extent, and timing of tests to verify the amount, at which to properly value revenues. The auditor then certifies as to whether users of the financial statements and accompanying disclosures can rely on the assertions in those statements.

The SEC, Congress, and even segments within the accounting profession became disillusioned with the auditor’s past performance. Primarily at issue were major audit failures in the sixties and seventies, the failure to detect instances of corporate bribery in several hundred large firms, and off-the-books funds kept for questionable purposes. The scandals were relatively few, but were highly publicized and the controversy was fueled by the tax work and advisory services that auditors were providing for their corporate clients.

In fact, just recently, the most expensive fraud verdict of all time has been handed down against Arthur Andersen & Co., a Big Eight accounting firm. Andersen has been ordered to pay $80 million (130 million if the judge decides that they must also pay interest on damages) to shareholders in Fund of Funds Ltd., a 77,000-shareholder mutual fund that was, the federal jury said, misled by Andersen in the 1960’s. According to Wall Street Journal reporter Paul A. Gigot, the verdict is sending “tremors through the profession.”

The New Law

Congress enacted the first step in the solution with the Foreign Corrupt Practices Act of 1977. The act required firms to devise and maintain accounting control systems that insured the safeguarding of assets and the proper recording of all transactions. In short, internal control was legislated. The second step in the solution was to be the formation of audit committees by corporations’ boards of directors.

“Improving the Accountability of Publicly Owned Corporations and Their Auditors,” a report from a U.S. Senate investigation, recommended that the American Institute of Certified Public Accountants (AICPA) or the SEC immediately require publicly owned companies to establish audit committees. The SEC preferred to let the private sector take the initiative. The AICPA declined to make such a ruling, arguing that these committees would not be necessary for audit independence, and it concluded that it did not believe that it had the authority to do so.

“That’s just plain nonsense,” says Abraham Brilloff, Emanuel Saxe Distinguished Professor of Accountancy at Bernard M. Baruch College. “We control the certificate, and if we were to say that we want an audit committee—there would be an audit committee.” Agreeing with Professor Brilloff, Sandy Burton, Arthur Young Professor of Accounting and Finance at the Graduate School of Business of Columbia University and former Chief Accountant of the Securities and Exchange Commission adds, “They didn’t want to offend the firms who would be required to have them.”

Significantly, the only group that actively opposed requiring audit committees was a national organization representing small accounting firms that felt that such a requirement would be highly anti-competitive.

Establishment

The New York Stock Exchange, in a ruling that took effect on June 30, 1978, required all companies having common stock listed on the N.Y.S.E. to have, as a condition of that listing, an audit committee. It required that membership consist solely of directors independent of management and free from any relationship that would, in the opinion of the board of directors, interfere with its independent judgment. And, the SEC subsequently established the requirement that a company disclose in its statements whether or not it had an audit committee, and if it did, to list the members and a summary of their duties. Its intent was to use these disclosures as a means of monitoring progress.

In 1960, approximately 30% of the Fortune 500 and equivalent companies had audit committees, but, as Robert K. Mautz pointed out in an article in the October, 1979 Journal of Accountancy, they did little other than to meet once a year and receive the audit report from the independent accountants. Today, more than 90% of the largest corporations have audit committees, and most of them fall under
the guidelines of the N.Y.S.E. They are holding more meetings, and they have a wider scope of responsibilities and a higher involvement in corporate affairs.

It was this development that kept the American Stock Exchange from requiring them. Fred Stone, Senior Vice-President for Legal and Regulatory Policy of the AMEX, says, "After the N.Y.S.E. adopted the rule, the SEC encouraged the AMEX to do so also. So, we conducted a study. We found that the vast majority of firms already had such committees." One and one-half years ago, the AMEX adopted a policy of strongly recommending audit committees, and this policy was to be reviewed after one year. Mr. Stone explained that, at the review, "it appeared that a reasonable number had them, and they seemed to be working effectively."

Committee Functions

What, then, do audit committees do? Among the organizations that have recommended specific functions for members are the Securities and Exchange Commission, the New York Stock Exchange, and the Cohen Commission, an independent study group formed by the AICPA. There are no hard-and-fast rules, but certain functions are generally cited: the selection and payment of the auditor and review of his audit plan, evaluation of the internal control system, review of the financial statements before recommending them to the board of directors, consideration of the comments of the auditors, review of accounting policies, and non-audit services provided by the independent accountant. In broad terms, they oversee management, activities to ensure that the stockholders interests and company policies are fulfilled. They also coordinate the interests and activities of the stockholders, management, and internal accountants, and the independent auditors.

Professor Martin Benis, Chairman of the Department of Accountancy at Baruch College and Chairman of the audit committee of Mego International, a major toy manufacturer, describes some of his duties:

"We don't choose the auditor, but we approve management's selection. At one point, management indicated that it wanted to change auditors and we objected to that and there was no change made...We review the audit plan. We communicate with the auditors throughout the year; intensive interaction begins about a month before our statements have to be filed with the SEC. We usually sit down with them, the controller, and the financial vice-president of Mego, and if there are any problems or disagreements, an attempt is made to resolve them. At the last part of the meeting, we talk alone with the auditors. We ask them if they received cooperation from the vice-president and the controller, and if there were any weaknesses that they detected. ...We don't select the accounting policies but we review them and discuss their appropriateness."

Sandy Burton, of Columbia University, serves on three audit committees: Columbia University Scholastic, Inc., and Commerce Clearing House. According to him, the functions do not differ much between the firms whose committees he serves on, with the exception of Columbia, a nonprofit organization. "There are some differences, but the basic functions are the selection of the auditors, review of the audit plan, determination of the appropriate accounting principles, and decision whether or not to recommend the statements to the board."

The responsibilities taken by audit committee members are in conformity with general expectations according to Fred Gold, a partner and small business specialist with Arthur Andersen, a Big Eight auditing firm. Mr. Gold says, "They review the audit plan by asking us to explain our approach and the scope of the audit, what our methodology is. Generally, I have not found that they select the accounting policies, but they are interested in any new accounting pronouncements that affect the company. Where management advisory services are significant, management will discuss them with the audit committee to get its approval."

Arthur Andersen has published a booklet on the role and responsibilities of the committee. The booklet is a thorough guideline to enable members to structure efficient and effective committees. Several other large firms have developed such guidelines. Both the Arthur Andersen and Coopers & Lybrand publications include sections of questions that the audit committee might ask of the auditors and management both before and after the audit.

A particular area of concern for the audit committee is that of internal control, given the implications of the Foreign Corrupt Practices Act. According to Fred Gold, "Audit Committee members show an extreme interest in the adequacy of controls and how we review them." Usually, one significant portion of a meeting with the committee is to review any weaknesses in internal control that an auditor has found.

"There is a danger that people will make these committees all things to all people," cautions Sandy Burton, commenting on the expectations of critics that audit committees take on more responsibilities. "By that thinking you could expand the responsibilities of the committee unreasonably."

The SEC v. Killearn Properties, Inc., was an example of increased expectations communicated by the Commission. In the decree, the SEC required that the audit committee of Killearn review all company releases concerning financial projections of conditions, review the activities of officers, and approve settlements of all actions against firm personnel. In Release #14790, the SEC considered requiring those duties plus others for all audit committees. "Killearn was a case of enforcement action because of abuse which the Commission observed," states Sandy Burton. "I think in these situations that may be a good vehicle; I just don't think that would be a reasonable recommendation for most committees." The proposal in Release #14790 was later rejected, and it is unlikely that anything similar will be advanced as the new Chairman of the SEC seems not to be as interested in corporate governance as was the former Chairman, Harold Williams.

Membership

The N.Y.S.E. requires that audit committees be composed of directors independent of management. The AMEX recom-
mends only that a majority of members be independent. Composition of most committees, in fact, seems to be variable. "It has been my experience," says Fred Gold, "that the membership will consist of outside counsel, a director independent of the company, and a senior representative of management." Martin Benis recalls, "They had an audit committee before I became a board member, but one of the members lived in California; the other was an investment banker who had dealings with the firm."

Definitions of "independent" and "outside" vary, as does disappointment with the number of members who are in practice serving on committees but who are not independent of management. Some experts, like Professor Briloff, would like to see membership qualifications exclude those who have even the slightest association, for instance, with the firm's bankers or underwriters. "I would like to see an actual dissociation from all activities that bear upon the corporation. But, the N.Y.S.E. didn't go that far," Briloff says.

Association with the firm doesn't necessarily imply a lack of independence. "True professionals can be objective regardless of connections," says Ed Lewis, a partner with Haskins and Sells. According to him, completely independent members can become puppets if they don't maintain an objective frame of mind. "I don't think that independence, although it might be helpful, is critical," he adds.

**Qualifications**

"Effectiveness really depends on the composition of the committee itself. If the members are technically astute, they can make a significant contribution," says Neal Hitzig, a partner at Arthur Young. Most agree that the qualifications necessary for members are time committed, independent mindedness, and technical expertise. Expertise may not be required in every member, but the need for this ability is evidenced. It also appears that most committees are comprised of members who are technically competent. "What I have observed," says Fred Gold, "is that audit committee members are more aware of current accounting pronouncements, and they're asking more questions in the technical area."

Of course, the technical knowledge requirement can be satisfied by providing sufficient staff. Abraham Briloff urges that the committees be given a group of persons with technical expertise who would be able to guide the committee. He would want such experts to "guide the members to where the skeletons might be and to exhume them and to make sure that some kind of superficial response is not the end of the probe." Many observers find that such staff is generally provided when requested.

Commitment of time and independence of mind are also desirable attributes in members. To fulfill their objectives, committees need, according to Professor Briloff, "a very substantial number of persons who are capable of committing a very substantial amount of time and energy and who are prepared to act independently and with intrepidity." "Where are we going to get so many persons with that kind of commitment, capability, and with the time available?" Briloff wonders.

The consensus is that there is a large enough pool of qualified, dedicated talent available to fill these needs. Few are certain, however, whether these individuals would be willing to contribute their time. Often members are taken from the ranks of the "professional outside directors" who generally are retired partners of accounting firms, and retired bankers and lawyers. "Experience tells me," Abraham Briloff says, "that this kind of person is not inclined to want to make waves. Because if they manifest any kind of acerbic quality, of not 'playing the game,' they might find that they are not invited in to other audit committees."

Fred Gold advocates taking the audit committee membership seriously. "There have been a number of legal actions over the last ten years which have illustrated the need for anyone serving on an audit committee to not take it lightly. "I think that we've seen that there's been a great deal of concern by members about the whole legalistic attitude and behavior of the companies they're representing," he added.

**Liability**

Potential liability is substantial. When Martin Benis was first asked to serve, he consulted his lawyer, and the lawyer's response was, "Do it, because it will be a challenge, but you will be sued." According to Sandy Burton, an audit committee member's liability is "certainly not less," than the liability of a member of a board of directors. There's a legal argument as to whether a member of a committee takes on additional exposure by virtue of his service on that committee. My feeling is, he does.

Firms often carry insurance for the board, and consequently for the audit committee members. Martin Benis recalls: "My company carries insurance for the board, and I think the amount is ten or twelve million—that's for all members of the board—it's not all that much." It is especially not all that much when petitioners succeed in turning a suit into a class action, with consequent triple damages.

Mr. Benis believes that "academics could justify such liability, because academics should be exposed to the real world. You have the challenge of two different worlds coming together and it's a good thing for both parties."

**Greater Need, Fewer Applicants**

Perhaps, where audit committees are needed most, is where potential members are most difficult to find: in the smaller firms. These firms tend to have more centralized management, where officers and directors sometimes operate on the "buddy system," and where the firm's management may be closely related to ownership. When requirements were first being established, the major firms weren't offended, but as Sandy Burton notes, "there were plenty of small organizations that were offended at the idea. I certainly think it may well be that in small firms the audit committee may prove more useful." Fred Gold was blunter in expressing his opinion: "In terms of cleaning up the corporate act, there is a greater potential for reform in smaller companies."

Mr. Stone acknowledges that larger firms attract more directors but there is a growing pool of talent of professional
directors. "The AMEX has a director's Clearing House (the service is free) that lists a pool of qualified independent directors and a pool of companies looking for such people, and we provide the referral service. We're trying to redress the problem," Stone says.

**Effectiveness**

Are audit committees effective? Neal Hitzig believes that "the jury's still out on that. I feel that the potential is there for audit committees certainly to increase the independence of the auditor and to increase the quality of the audit." He explains, "It depends on how much power the committee has within the board. And, I think that in some cases, the audit committee is not all that independent of management." Abraham Briloff agrees adding, "I certainly have not written them off, far from it. It's just possibly too soon to enter a final judgment."

"My sample of one indicates this," says Martin Benis, "that if you have a truly independent, conscientious, and knowledgeable audit committee, that committee can serve as some protection for the public, for investors and creditors, and I think that it just makes the independent auditor's job a little easier." "There's an air about the company," Ed Lewis explains, "when management knows that the audit committee is going to be reviewing its actions."

Audit committees may be one of the few oversight or regulatory systems that operate within the private sector alone. Their effectiveness would be viewed favorably by Reaganites. "I believe, and I think the majority of members of the SEC believe that audit committees are working pretty well," concludes Sandy Burton, who added, "they're performing a valuable function, and it's happening without substantial regulation. I think that everyone desires to keep it that way."

According to Fred Stone, many chief executive officers say that "no respectable CEO would consider not having an audit committee." He observes, "It's necessary today to be considered a good corporate citizen; it's mildly unacceptable not to have one. We at the American Stock Exchange have an audit committee composed of independent governors of the exchange. It's another discipline keeping us honest; we like to think we'd be honest anyway."