

The Answer to All of Them Is 'Yes'

Wendell's Three Questions

by Kenneth S. Janke, Sr.



It's always fun for me to look at the "USA Today Snapshots" that are published by that newspaper. One that caught my eye not too long ago dealt with the growth of the global population.

"The world increases in population at a rate of 2 1/2 people per second," it said. To put it into perspective, this means the daily increase would more than fill the Rose Bowl twice. The monthly increase of 6.2 million people is the same as the population of Indiana.

What does that mean to investors? It points to larger markets for global companies. The snapshot also took me back to something David Wendell wrote 10 years ago about questions long-term investors should ask themselves. They're still as relevant today as they were when David first wrote them.

David Wendell, by the way, was a former senior vice president and director of David L. Babson & Co. He edited the investment newsletter from 1960 to 1979 before founding his own firm (*a recent "Babson Staff Letter" is on page 50*).

David was one of my favorite writers about investing. "Just as you need blueprints to construct a house, and a business plan to build a business, having a plan for your portfolio and staying with it through thick and thin is crucial for long-term success" is just one example of his wisdom.

In the comments I recently reviewed, David posed the following questions:

- Will economic growth continue to provide investment opportunities?
- Will inflation keep on eroding the value of capital assets?
- Are common stocks an effective investment medium?

Of course, the answer to all these questions is "yes." While the press seems to concentrate on short-term

economic news, the long-range forecasts are much more important to investors.

As for the second question, even though we have experienced much lower inflation rates in the past 10 years compared with the historical average, it's still with us and is a fact of economic life.

The third question is one on which we all seem to concentrate. David's observations centered on the United States, but they could just as easily be applied to the entire world. He pointed out: "The number of Americans has grown in every single year since Colonial times. Our rising population continually needs more goods and services. Innovation and research, emphasized by our society, inevitably give birth to new products and new techniques and, in the process, create higher demand, additional jobs and greater productivity."

Here's something else to consider: As I noted in an article last year, in 1970 there were 33

population centers with at least 1 million people in the United States. Today there are 50.

As long as the population grows, there will be more demand for goods and services. The demand for those goods and services will be met by well-managed corporations. That points to higher revenues and is generally followed by higher profits.

Since the price of a stock over the long term is a direct reflection of earnings per share and future growth, those companies providing the goods and services should be worth more to their shareowners. Stock prices, of course, do not move in exact parallel with earnings over short periods, but eventually the correlation is there.

Identifying those companies with excellent long-term growth prospects can lead to superior results. **BI**

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