empirical demonstration and then the conclusions that each of us may draw as to the reasons and the absence or presence of risk in this industry.

Mr. GORDON. All right. Dr. Cootner, let's go back for a moment to the second paragraph on page 2 of your prepared statement:

> In our relatively unregulated capital markets, investors are free to back the enterprises that they judge will be most successful. In doing so, they must inevitably make judgments about the management of the enterprise, the likelihood of success, and the prospective rate of return. They not only evaluate the particular enterprise but they must compare it with all other relevant alternatives.

Now, these relevant alternatives to the investors you mentioned cover all industries as well as firms within the drug industry, is that correct?

Dr. COOTNER. That is correct.

Mr. GORDON. In other words, the range of choice involves all firms and all industries. Comparisons as to investment opportunities are not confined within one industry. Am I correct in that?

Dr. COOTNER. That is correct.

Mr. GORDON. If I were to suggest, Dr. Cootner, that since investors invest in firms, their main concern is with the profitability of the firm as a unit, not with just one item in that firm's catalog. Would you accept that as a reasonably accurate statement?

Dr. COOTNER. Sure.

Mr. GORDON. If the firm is the relevant business entity, the high-risk firms are those that show more extensive fluctuations in profits than do the rest of the firms in the economy, sometimes doing better than average, sometimes doing worse, but over the long run doing perhaps even better than average to compensate for uncertainties. Is that a reasonable interpretation of your view?

Dr. COOTNER. That is a reasonable interpretation of my views if we agree on the yardstick. Let me make the following hypothetical proposition. Say that we set up a company to explore for oil, and on our first try we were to hit a major field. That would establish a very high rate of return on our rather small initial investment.

Now, we might have large fluctuations in the return on subsequent investments without any necessity for the company's average return on all of its assets to fluctuate above and below the average rate of return earned by all industry. The additional investments continue to show the same high risks, but the average rate of return remains above the average.

It is just as if you have a run of luck in a flip of a coin, you have had that run of luck and you are relatively well off, it is behind you. You will still face the same fluctuations henceforward and yet you may maintain a higher rate of return. With that proviso, I agree perfectly with your statement.

Mr. GORDON. Now, in the study that was made by Mr. Conrad and Mr. Plotkin on page 11, the top of the page, you emphasize——

Mr. CUTLER. Mr. Gordon, if we can go two more pages Mr. Plotkin is going to testify on that. Wouldn't it be more logical to bring the question up then?

Mr. GORDON. Fine. There are some questions that have been brought up by Dr. Cootner here which have relevance to the drug industry, but we will bring them up then.