

Senator NELSON. Before we recess for noon, I would like to make just one point. This is an industry evaluation of risk and profit, is it not?

Mr. PLOTKIN. That is true.

Senator NELSON. By industry.

Mr. PLOTKIN. The unit of observation on the chart is the industry.

Senator NELSON. So it is no doubt true that you can reach into one of your industries on the chart, which appears to be a relatively low-rate return industry, and within that industry select out a very fine company that would rank very high in rate of return.

Mr. PLOTKIN. You could not do that with any assurance, blindfolded. If you looked in with a lot of foresight and particular expertise, you might have a chance of doing that. In fact, that is part and parcel of the variance measure that all the companies within the industry, because of the undertaking that they do pursue, do not have the same results. You are perfectly correct, Senator.

Senator NELSON. So what I am saying is that what we are looking at here is a chart that measures, according to your theory, the rate of return and the risk of an industry. But within one of the industries which will rank relatively low in rate of return and high in risk, you can select out a company that has a long record of profit and that would rank high in rate of return and yet would rank low in risk; is that not correct?

Mr. PLOTKIN. It is possible to do that. It does not necessarily mean that there is one in the particular sample which we have used here.

Senator NELSON. Well, can't you reach into one of those industries that ranks relatively low and select out one of the companies that does rank high in profit and low in risk?

Mr. PLOTKIN. I believe——

Senator NELSON. These are averages that you have given.

Mr. PLOTKIN. Yes. The answer is——

Senator NELSON. Is it true, or is it not? Who knows the companies, who knows the answer?

Mr. PLOTKIN. Well, your assertion is right in respect to company years.

Senator NELSON. With the knowledge that you have, since you put the chart together and selected the industries from Standard & Poor's, can't you say there is within a higher risk, low rate of return industry, a high-profit, low-risk company?

Mr. CONRAD. One point here: the industry risk factor is an overall factor for that industry, and is part of the riskiness that any company exposes itself to. It is not the total riskiness that a firm exposes itself to.

So while it is true that you can pick from any one of these industry points, a firm that may have high profits for an extended period of time, this does not speak to the validity of the average industry risk factor that we have calculated. Again that is only one component of the total riskiness that firm experiences.

Now, there will be others. We have not addressed ourselves to the individual firm risk in this particular part of the analysis. There are other analyses that could be conducted which would then assign particular company risks to each firm. But that does not relate to what we have done here.