

Mr. CONRAD. I think we certainly have been cognizant of this problem and we are sensitive to it, and I think the following testimony that we have, both the report that I am putting in and the joint work that Professor Markham and I are doing, speak directly to this issue, and will take a bit of time to explain. But I think we will clarify even in an industry where you have good performers and poor performers, the good performers may well be subjected to the same risk influences that the poor performers will be subjected to.

I think we are going to try to illustrate that point for you here.

Mr. CUTLER. Mr. Chairman, Mr. Conrad's and Professor Markham's statement is just two and a half pages long. If we got that in before lunch, we would be through with this group except for your questions.

Senator NELSON. I will have a few more questions. Why don't we just break for lunch right now.

We will adjourn until a quarter to 2.

(Whereupon, at 12:50 p.m., the subcommittee recessed, to resume at 1:45 p.m., this same day.)

AFTERNOON SESSION

Senator NELSON. Come to order, please.

Mr. Plotkin, your report does list the companies involved in each one of the industry selections, is that correct?

STATEMENT OF IRVING H. PLOTKIN, CONSULTANT IN ECONOMETRICS AND OPERATIONS RESEARCH, ARTHUR D. LITTLE, INC.—Resumed

Mr. PLOTKIN. That is correct, sir; and the number of companies in each industry.

Senator NELSON. What was the basis of the selection?

Mr. PLOTKIN. It was derived from the Standard Statistic Corp., a subsidiary of Standard & Poor, Compustat Industrial Tape. This is a magnetic computer tape which contains, in essence, balance sheet, income statement, and stock market data on approximately 800 corporations in 59 industries. The period was 1950 through 1965.

Senator NELSON. Did you use the same number of companies in each industry?

Mr. PLOTKIN. No, sir; I used in every point all the data that were available to me on the tape. This gave a different number of companies in each industry. In general, these companies are the larger, more successful, actively traded corporations because it is in the interest of Standard & Poor to collect them.

Senator NELSON. So in the auto industry, you used all four of the auto companies, is that it?

Mr. PLOTKIN. I think since the period went back to 1950, we may have as many as five in one field.

Mr. CUTLER. The number of companies in each industry, Mr. Chairman, appears on pages 34, 35, and 36.

Senator NELSON. On what basis does Standard & Poor list the companies?