

long record of high profitability, without any significantly bad periods, is that still called a high-risk company?

Mr. PLOTKIN. That is a company still participating in a high-risk industry whose new investments and future investments are subject to the same vicissitudes as those undertaken by any other company in the industry, sir.

Senator NELSON. As I recall the testimony this morning, whoever was responding to the question, if a company had a 20-year record of stability and good profitability, the conclusion by one of the witnesses was that then at some period, say after 20 years, it would be considered a low-risk company.

Mr. PLOTKIN. I think it is Professor Cootner's statement to which you refer and I will turn the mike over to him at this point.

Dr. COOTNER. The statement I made was that a 20-year period was sufficient for discussing the riskiness of an industry. But I did not make reference to the return of any individual company, I was saying in other words, the 20-year record of the drug industry was a sufficient basis on which to make your decision.

Senator NELSON. But you do not say that about an individual company?

Dr. COOTNER. I think I can give you —

Senator NELSON. You would not draw that conclusion about an individual company within a high-risk industry after 20 years of stability and high profitability?

Dr. COOTNER. Well, again, I want to refer back to my previous testimony, where I pointed out that a company could have a high rate of return for 20 years but still show substantial volatility in changes reflecting the very variable rate of return it had on its marginal investments. Just looking through Mr. Plotkin's study, I can give you a specific reference—for example, the Kendall Co., which has a greater return, which goes from 14 percent steadily down to—I am afraid the number is not completely clear, but it looks like 7 or 8 percent, year after year.

Now, the rate, if you looked at the variability of rate of return from year to year, it is rather small. But the sharpness of that decline over the entire period suggests that the marginal investments were relatively unprofitable.

Senator NELSON. What is a marginal investment?

Dr. COOTNER. That is an additional investment beyond the investment you have at the beginning of the period.

In other words, these companies will be substantial companies at the beginning of the period. The new investment that they undertook—

Senator NELSON. In the same product line?

Dr. COOTNER. In the same total product line. That is, I am not talking about any specific product, but I mean their total investment in the drug industry.

Senator NELSON. Well, then, supposing you have a company with a 20-year record of stability and good profits, consistently above the average in all industries, maybe a fair degree above it, you still would not conclude after 50 years that that company was a low-risk company? Is that what you are saying?