

It would seem to me if you look at some company over a period of time, perhaps a 50-year period, it would be difficult to conclude that either the investor or anybody else can assert that a stable company consistently making profits above average for all industries is not a low-risk company, apart from the industry as a whole.

Mr. CONRAD. One answer to—Professor Cootner, do you want to take that first?

Mr. PLOTKIN. I just have a point as it relates to the industries and then to the companies.

The statement about 20 years being sufficient time in an industry, and we are not quibbling about the precise number, 16 or 20, was not by looking at the time pattern for 20 years, but if we average 20 individual years' variances that would be sufficient to get a risk idea. We never claimed that we could look at whether or not the industry average fluctuated over 20 years and learned anything about risk.

In fact, referring back to my testimony, we explicitly rejected the hypothesis that the best place to look for risk information is in the time pattern of industry or company results. This is something that is very commonplace and has been used sometimes in economics, but without good results. It seems to not be able to explain in the sense that this line explains in rates of return the true phenomena in economics.

Now, if you would like an additional memorandum on this, we could submit it to you why in economic terms the temporal variance, as it is called, the time variance, is not a good measure of uncertainty, does not let us extrapolate into the future with any certainty.

Mr. Conrad can address himself to the individual industry now.

Mr. CONRAD. To answer the point you raised for this company that has had 50 years of high profit, high and steady profitability, I think the correct statement that one might make about that would be that the company in its past history was in a relatively low-risk situation. But that does not necessarily allow you to say anything about that company's future possibilities. That company may today be in a condition where it faces extremely high risks, even though for 50 years, it has not. You cannot, a priori, say that because those 50 went by and the company earned a high profitability, that tomorrow it can't turn around and either lose money or suffer a significant decline in profitability.

Senator NELSON. Let's take an industry which does not require a high rate of technical skill to enter. Now, I will mention an industry in a moment. I do not mean to say that those who stay in it and are successful do not have lots of skill, but anybody can get into it and tens of thousands of people do—that is, highway construction. Now, everybody who can buy a truck and a grader or a ditchdigger can enter the industry. As you probably know, tens of thousands of people are in business who have just one piece of equipment. It is a ditchdigger. It costs \$25,000. You can borrow the money to get into it. They may not have capital behind it; they may not have adequate bidding knowhow, or perhaps they do and they go into big business. But most of the construction people I am familiar with, and I am familiar with quite a few, started out on their own, with their own truck, or if it is an old company, went in with their fathers. Now, there are