Forbes magazine clip highlighting economic predictions for 1956

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and crony of intellectuals, Eaton nevertheless has a keen appreciation for the simple things of life and for the basic values in an industrial economy. "All the industries I am interested in," he has often said, "—iron ore, steel, coal and railroads —are *basic* industries." That is, in effect, no more than the prescription for success that John D. Rockefeller had given him as a young man: that the way to make a fortune was to concentrate one's efforts and investments in fundamental natural resources.

The other part of the Eaton formula was recently expressed by Eaton himself: "There is one bit of advice that I would offer: not to buy when things are booming and at the top, but when you are afraid of the security. That's the time it's cheap, and you'll make some money if you take it when all your neighbors are viewing the property with alarm."

MONEY

THE SQUEEZE

Does tight money + falling bond prices = a bear market ahead? For the bankers it has added up to lush profits.

Not all Wall Streeters are bears, but those who are had something new to worry about last month: the bond market. After drifting gently down ever since mid-1954, the price of top-grade bonds and treasuries suddenly fell precipitously. Whereas they generally register moves in eighths and sixteenths, Treasury 3s sustained a stunning three-point drop below their February levels. Over all, the yield on many Treasury issues pushed up past 3% for the first time since 1953.

Meanwhile a rousing stock market advance in March and April has brought stock yields down to their lowest point in years. Most Wall Streeters had expected dividend boosts to reverse the fall in stock yields this spring, perhaps raising them as high as 4½%. Instead, dividend action has been disappointing. Thus the average yield on 125 key industrial issues has actually fallen from 4% when the year opened to only 3.7%.

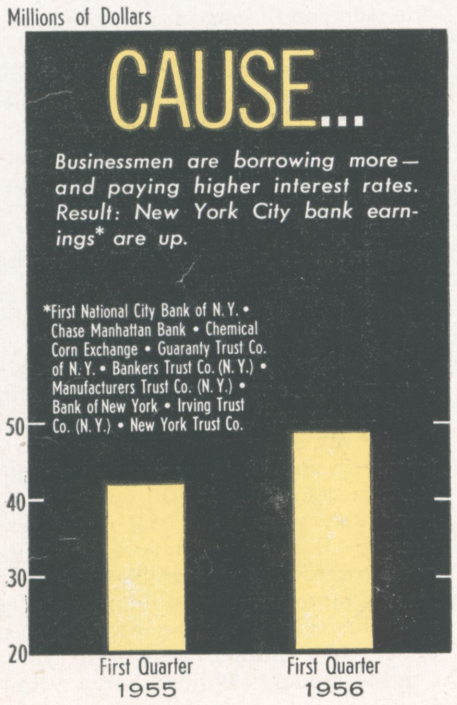
Warning Signal? Did this disparity presage an approaching decline and fall of Wall Street's bull market? Not every Canyon seer would go that far, but many respected traders interpreted it as a sort of economic amber light, a warning signal. One such was Broker Jacques Coe, whose rare pronouncements carry unusual weight with professionals. Observed he: "These two movements, in opposite directions, do not make sound economic market sense—they never have . . . Historically, the bond market anticipates the stock market by six months to two years. This should be no exception . . . During the last 30 or 40 years, the last three bull markets have reached their peak when stock yields approached the 3½% mark." Coe's prediction: a major "selling range" (*i.e.*, market top) in 1956's second half, no further important buying range (*i.e.*, market low) until 1959-1960, or later.

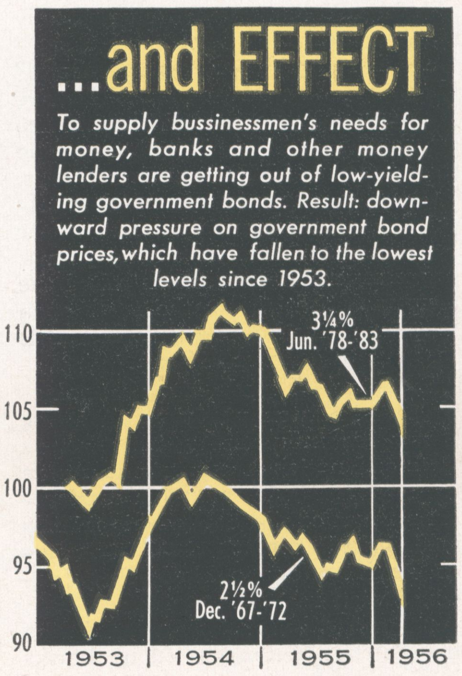
But Wall Street's bulls were of another persuasion. Some believed that stock yields, far from falling, would actually be boosted by dividend increases this year to as high as 4.4%. Sooner or later, events would prove either bulls or bears correct. But for the time being at least, it was still a case of differing opinion making a market. As one broker clichéd, "You pays your money, and you takes your choice."

Elusive Dollars. The falling bond market not only produced a tricky question of interpretation for investors, but difficult problems for corporate money-managers and lush opportunities for bankers as well. As their business expanded and their capital outlays increased, corporate treasurers were increasingly hard put last month to find the financing they needed to pay taxes and fund ambitious expansion programs. Not only were treasury bonds weak; corporate bond issues were also getting harder and harder to sell. A not untypical case of queasiness in the bond market was Tide Water Associated's planned offering of $100 million worth of 3½% sinking fund debentures. On advice of the underwriters, who judged that the market could no longer absorb an issue of this size, Tide Water was forced to cut the issue to just $50 million. Meanwhile many another corporate issue was piling up on the underwriters' shelves, and more than a few newly-issued bonds were already selling at sizable discounts from the original offering price.

Still another symptom of the money pinch was giving Wall Street pause: the huge glut of tax-exempt municipal bonds. Some municipals last month were actually selling to yield better than 3%, and there were strong hints that prices might drop still further. Most important of all: the fact that, by very conservative estimate, dealers are now loaded with no less than $250 million worth of municipals. Considering that dealers may have to make sharp price concessions to attract reluctant buyers, that could push municipal yields up to extraordinary levels.

Bankers' Holiday. The bond market's weakness was the bankers' strength. On the one hand, the demand for loans has forced the banks to sell big blocks of securities, particularly government bonds, so that they will have adequate reserves to back up expanding loan portfolios. Added to this pressure on bond prices is another: the fact that other lenders, including insurance companies and savings banks, now are able to earn 4½% or better on mortgages,





Otis & Co. became a power in the financial world. So much so that by 1946 Otis was among the U.S.' top ten investment houses.

Eaton's crusade won him some powerful friends—and enemies. With one competitive bid, Otis saved Young's Chesapeake & Ohio Railroad some $2 million on a single bond issue. In the Forties, an obscure Senator named Harry Truman fought for competitive bidding in Congress. An ardent New Dealer and liberal contributor to Democratic coffers, Eaton had always been welcome at the White House in FDR's day. Thus when Truman moved in, he was again a regular visitor. "You talk like a Democrat," Harry Truman once told Eaton, and Eaton has frequently returned the compliment with glowing tributes to Truman. All the more surprising, therefore, that Eaton's New Deal zeal notwithstanding, he is also welcome these days at the White House under Republican occupancy.

Friends & Foes. Even more than for his friends, Eaton is known for his enemies. He does not call them that; he prefers to refer to them as "detractors," or to characterize them as people with "different philosophies." But there is no sign that Eaton has ever forgiven and forgotten. When Newton D. Baker, who had opposed Eaton as attorney for Bethlehem Steel, sought the 1932 Democratic nomination, Eaton joined forces with James A. Farley to block his bid. (That was also the beginning of his long friendship with FDR.)

Eaton also ran headlong into Ohio's Robert A. Taft, then chairman of the finance committee of Cincinnati's Union Terminal. Approaching Taft to bid on a $12-million Terminal bond issue, he was rebuffed with the words: "Preposterous! We've already made a deal with people we trust—and I resent your coming here!" Eaton's outraged reply: "They're stealing your bonds!" With that, he stormed off to Washington where he won the ear of RFC boss Jesse Jones, who ruled that railroads which wanted RFC money would have to dicker for the best deal in selling bonds. Since several railroads controlled the Terminal, that threw the issue open to competitive bidding (in which Otis lost out to a lower bidder).

Taft's rebuff made him an implacable foe in Eaton, who time after time threw his influence against Taft in state and national conventions. As an inquiry into Ohio campaign expenses later revealed, Eaton and his friends contributed at least $35,000 in an unsuccessful effort to block Taft's renomination in 1950.

Shrewd Pickings. Gradually during the Thirties, Eaton picked up blocks of stock in undervalued companies, among them steel stocks and a parcel of C&O common. Thus when Young pulled out of the C&O to make his bid for the New York Central, Eaton emerged as the C&O's largest stockholder (260,000 shares) and chairman. But it was not until the Forties that Eaton's investments had shown sufficient appreciation in values to let him loose his imagination into great ventures on his own. As he has since remarked: "In my affairs there has been a tremendous recovery of values."

Until now, the largest of the characteristically shrewd Eaton gambles was Steep Rock Iron Mines. That a large lode of medium-grade iron ore lay beneath the 50-foot-deep waters of Steep Rock Lake had long been known. But engineers predicted that any attempt to get it out would be "sheer folly." Eaton, however, surveyed the lake personally by canoe and airplane, convinced himself that they were wrong.

That was 1942, and Washington was frantic to replace the rapidly vanishing Mesabi Range ores. Eaton soon won over FDR to his Steep Rock Lake project, and raised $40 million to finance it, $5 million of it RFC money, $20 million from the Canadian Government. To drain the lake, a body of water 15 miles long and four miles wide, Eaton spent millions boring a shaft 2,000 feet upward through solid rock. Then a plug was blasted out. As Eaton recalls it: "It was one of the most trying moments of my life."

It was also one of the most profitable. Three years ago, Eaton swung a $50 million deal with Inland Steel for development of Steep Rock, which this year will ship some 3.2 million tons of ore. Eventually, Eaton believes, it will produce more than 8.5 million tons annually. Estimated Steep Rock reserves: over half a billion tons of ore.

OHIO'S ROBERT TAFT: he made a lasting foe

Bargain Hunting. In 1946, Eaton spotted another likely bargain in Wheeling Steel's Portsmouth (Ohio) plant, which Wheeling had decided to abandon. Eaton lost no time buying the plant, and formed a new company, Portsmouth Steel. Later he sold the property itself to Detroit Steel, but he held onto the corporate shell as a holding company. It has been a profitable investment. Each of Portsmouth's shares, issued in 1946 at $10, have since paid out in excess of $10 in dividends, and today have a breakup value of $32.71. Another steel buy: Follansbee Steel, acquired in 1954.

But the core of Eaton's holdings is Cleveland-Cliffs Iron Co., the big Cleveland ore house which he founded (with William G. Mather) in 1929. Through Cleveland-Cliffs, Eaton controls 486,228 shares of Republic Steel, 253,000 shares of Inland Steel, 176,500 shares of Youngstown Sheet & Tube, 155,918 shares of Jones & Laughlin, 85,360 shares of Wheeling Steel.

Black Gold. As chairman of the coal-rich C&O, the world's biggest bituminous hauler, Eaton has, not unnaturally, a deep interest in coal. But it was only in 1953 that Eaton plunged heavily into the business. That year he paid a reported $6 million for control of big West Kentucky Coal, a remnant of the once-great North American Company empire. Although Eaton denies it, rivals claimed that part of the financing came from the UMW's John L. Lewis, a theory they claim is confirmed by the UMW's prompt subsequent organization of the company, long a non-organized operator.

Late last year, Eaton added to his stake in coal by buying up Nashville Coal. Merged with West Kentucky, the combine has a total annual output of 12,500,000 tons, making it the U. S.' third largest bituminous producer. Only last month, Eaton went a step further, signed a deal whereby West Kentucky will supply up to 1 million tons a year to Florida's Tampa Electric Co.

Eaton has seldom plunged as heavily without a strong scent of profit. And Eaton makes no bones about it; he is profoundly bullish on coal's future in the U. S. economy. "While the funeral march is still playing," he remarked recently, "coal is almost literally digging its way out of its own grave." Eaton's prediction: output of more than one billion tons of bituminous coal a year by 1970, *vs.* about 460 million tons last year.

Basic Things. Philosopher, writer