Proceedings of the Board of Regents Meeting – January 15, 1969

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Report of the Chairman (ad interim) of the Executive Committee (Permanent Committee) of the Board of Regents of the Smithsonian Institution at the Meeting on
January 13, 1969

The Executive Committee (Permanent Committee) met with the Chancellor and the Secretary on January 13, 1969.

[[underline]] Approval of Minutes [[/underline]]

The approval of the minutes of the Board of Regents meeting on May 8, 1968, was recommended.

[[underline]] Comments on Business Outlook and Investments [[/underline]]

Mr. George S. Johnston of Scudder, Stevens & Clark reported to the Executive Committee on the business and investment outlook and on the results of Smithsonian investment actions over the past year.

He stated that the widespread expectation of continuing inflation is the most fundamental influence in the investment outlook today. There are many contributing unsettling factors, including the Vietnam War, uncertain prospects for peace there and in the Middle East, the continuing rise in governmental expenditures, probable continuation of the surtax, and current Federal Reserve policy toward monetary restraint. The overriding importance of the control of inflation makes it probable that strenuous efforts will be devoted to the problem, with the result that there should be a gradual deceleration in the rate of expansion (but not a downturn). For 1969 an increase in gross national product of about 7.3% is expected, including a 3.8% gain of real growth and 3.5% increase in prices. Control of inflation by the early 1970's should mean the reestablishment of the more normal 4-1/2% rate of real economic growth.

Bond prices are now at the lowest levels and interest rates at the highest levels in this century, and for the first time in many years bonds yield more than the earnings yield on common stocks. Common stocks, currently at about 16 times earnings, are considered reasonably priced.

It is recommended that an investment policy of emphasizing equities over bonds should be continued with the expectation that well-selected stocks will afford higher total return (dividends plus market appreciation) than bonds. At the same time, however, present holdings of long-term bonds should be retained because of the present high return and prospect of substantial price recovery if efforts toward monetary and fiscal restraints are successful. It is further recommended that the Smithsonian continue to look for opportunities to increase equity investments in periods of price weakness and to shift within equities toward the more promising growth companies.