

Down market depresses even good stocks

Q. Our investment club bought American Hospital Supply in May 1972, at about \$43.75 per share. A little later it climbed to about \$55. It drifted below our cost in February 1973, and has never recovered. Many writers seem to tout this stock as one to buy. Why doesn't it perform better?

A. In my opinion the price of the stock is down mostly because the whole stock market is down, and individuals are not buying stocks in the volume they did a few years ago. When your club bought the stock, the company was earning \$91 a share. For the latest 12 months it earned \$1.31 a share. That's pretty good performance.

By
THOMAS E.
O'HARA
Board
Chairman
National
Association of
Investment
Clubs



The company has had some recent problems with product contamination, but that should be temporary. The health care field is certainly one that should continue to grow.

It appears to me that when your club bought the stock you paid 50 times earnings for it. That was well above the average price-earnings ratio at which the stock has sold and should have been a warning to you that you were paying too much.

You have made a second mistake by not buying more of the stock when

it reached very low levels. I don't mean that you buy a stock because the price comes down, but when the price comes down and earnings per share are up, as they are in this case, you usually don't go wrong in adding to your holding.

Q. I own some shares in the W.T. Grant Company, and I read in the papers that it has gone into receivership. Does this mean my shares are now worthless and that I can take a tax loss this year for my shares?

A. No. The placing of the company

in receivership does not make your shares worthless, and it does not mean that you can automatically write your shares off as a tax loss this year.

The placing of the company in receivership is an effort to keep the company going, and if that effort is successful, some value may be restored for the shareholders. It will take some time to see what if anything can be saved and rebuilt.

The Treasury Department will let you write off the value of shares in a company that goes bankrupt. You have to write them off as soon as it becomes known that the shares have no value. When the company is placed in receivership it is not certain that there is a loss or if there is how much it may be.

If you do want to establish a tax loss this year it would be best for you to find someone who will buy the shares from you. Your broker might be able to help you.

O'Hara welcomes your questions but will answer them only through this column.

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'Arbitration needed for malpractice'

Medical malpractice claims ought to be arbitrated in the same way as labor grievances, according to a U of M professor.

Prof. Marcus Plant praised Michigan's new state-operated medical malpractice fund, which guarantees insurance at reasonable rates to all eligible medical practitioners. But he said such a fund might not be the long-range solution to increasing lawsuits and soaring malpractice insurance rates.

"The arbitration (and mediation) procedure works well with respect to disputes arising under labor contracts," said Plant. "I see no reason why it should not work well in the medical malpractice field."

The roots of such an arbitration system in the medical malpractice area were established in Michigan with a July 1975 statute providing for voluntary arbitration of any dispute arising out of health care, he said.

"THE STATUTE authorizes the health care provider to offer the patient an agreement to arbitrate. It may not be made prerequisite to treatment, so there is no compulsion. It may be revoked by the patient (but not by the health care provider) within 60 days after execution by a notice in writing."

"Within the Bureau of Insurance there is created an arbitration advisory committee which is to review operations of the system, suggest changes, receive a panel of arbitrators, and dates and so on. If this committee does a good job the system has great merit."

Eventually, Plant said, arbitration agreements could be coupled with health maintenance organizations and pre-paid medical programs.

In California, he noted, "some of the large health systems require as a condition of membership in the plan an agreement to arbitrate and this has been upheld by the California Supreme Court."

"Health maintenance organizations are on the rise. No reason seems to exist why a person who wants to join a health maintenance organization with a provision for pre-paid medical service could not be required to agree to arbitrate disputes arising out of the service rendered."

"IF WE EVER get a national health system," Plant said, "it is almost certain to include provision for

compulsory arbitration of disputes." The success of an arbitration system is already established in California, he said.

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