



finances and you

**Sid  
Mittra**

## investment-grade companies

|  | number of companies<br>Michigan | U.S.          |
|--|---------------------------------|---------------|
| parent companies that have received investment-grade ratings           | 16                              | 520           |
| subsidiaries that have received investment-grade ratings               | 9                               | 259           |
| <b>total</b>   | <b>25</b>                       | <b>779</b>    |
| companies that could receive investment-grade ratings                  | 8                               | 321           |
| <b>total number of investment-grade companies</b>                      | <b>33</b>                       | <b>1,100</b>  |
| <b>total number of non-investment-grade companies</b>                  | <b>762</b>                      | <b>21,867</b> |
| <b>total number of companies with revenues of \$25 million or more</b> | <b>795</b>                      | <b>22,967</b> |
| percentage that are non-investment grade                               | 96%                             | 95%           |

## Solid companies issue junk bonds

 By Sid Mittra  
special writer

Origin of Junk bonds

Recently, in the Investment Personality Questionnaire, Betty Jones marked high yield bonds as No. 4 (high confidence) and junk bonds as No. 1 (extreme nervousness). This typifies the existing confusion in this area, because both refer to the same type of bond.

Not too long ago, the representative of a leading brokerage firm provided me with valuable information on junk bonds. This column is based on that information.

Junk bonds are everywhere

There are 795 companies with sales of more than \$25 million headquartered in Michigan:

- 25 companies have investment-grade ratings (16 parent companies plus nine subsidiaries), and another eight very large companies (more than \$1 billion in revenues) might qualify as investment grade if they were rated;

- 762 companies (96 percent of the total) have less than investment-grade ratings or are unrated and probably would be less than investment grade if they were rated.

The 762 companies that are identified as non-investment grade:

- employ \$10,000 people worldwide;
- generate annual revenues of \$71 billion;

- raised \$6.7 billion of capital in the public markets 1980-1986, including \$2.3 billion of common stock and \$4.4 billion of fixed-income "junk" securities.

Non-investment-grade companies are the nation's fastest-growing companies. The 1,200 companies rated less-than-investment grade that have issued public debt, "junk bonds," have increased revenues by 32 percent and employment by more than 24 percent over the past three years.

By contrast, 800 investment-grade American companies have increased revenues by less than 12 percent during the same period and actually lost jobs. Similarly, from 1980-1986, whereas total industrial employment in America increased more than 8 percent, the Fortune 500 companies reduced their work force by almost 12 percent.

The accompanying table presents a summary of non-investment-grade bonds issued in Michigan and in the nation.

## Computer trading can affect the Dow

 By Thomas O'Hara  
special writer

After the large drop in the Dow Jones Industrial Average on that fateful Monday, I was told computer trading had a great deal to do with pushing stocks down. How do the computer plans work?

There are different types of computer programs used to trade stocks, but the one believed to be responsible for the great volatility of the October 16-20 period is the use of computers for programs trading in stock index arbitrage.

The computer is used to alert the portfolio manager to the spread between a futures contract and the stock's price. The decision might be made to buy the futures contract and sell the stocks, because of the favorable spread (price difference) between the two.

A FUTURES contract is an agree-

ment to buy or sell a stock at a certain price within a certain time limit. With large volume, a minor price decline can lead to the trades of major proportions. If the spread was the other way, the stocks might be bought, inflating share prices.

Computer program investing is probably not the main reason we see markets rise and fall. However, they can add tremendously to the volume being handled and what might be a "normal" decline can grow into a very large one.

When you have an auction market, which is what the stock market is, keeping price changes to a minimum between trades depends on keeping the number of buyers and sellers in approximate balance.

Computerized trading can produce huge changes between the number of buyers and sellers in a matter of seconds. It would be almost impossible to have a market that could react with equivalent speed.

# Das reckoning for Audi's image



auto talk

**Dan  
McCosh**

Get serious.

But once you've got a good automotive statement going, you run with it, and Volkswagen has done this better than almost anybody for several generations of new products.

Over the years, a series of imaginative ad campaigns has managed to snowball the sometimes-inexplicable affection the cars generated in their owners. Most recently, the smartly styled Audi 5000 had become one of the most visible symbols of upward mobility.

But image works two ways. Today's Volkswagen's Audi Division is struggling with consumer backlash stemming from investigations of allegations of "sudden acceleration" of its Audi 5000 models.

THE RESULTS of the investigation so far are inconclusive. Neither the government's nor Audi's engineers have been able to locate any specific cause, a situation that has prompted a series of recalls and ten-

tative fixes

As far as Audi is concerned, the incidents reported have taken on a nightmarish quality. One recent example was a case reported by, of all people, a brake inspector at a New Jersey inspection station.

As it turns out, a number of late-model cars other than Audis also appear to share the problem, although Audis seem to have a statistically higher than average tendency to do so.

Regardless of the merits of the investigation, it wasn't until "60 Minutes" focused on the problem that it was brought to national media attention.

ONE RESULT was a precipitous drop in Audi 5000 sales. In fact, the incident seems to have had a far stronger effect on Audi sales than, for example, the gas-tank fires had on the Pinto.

Audi's free fall from grace as a synonym for new-found wealth once again demonstrates the difficulty of

predicting the durability of a car's reputation.

The division is on its third general manager in two years, and Audi marketing types are scrambling to repair the damage while they launch a new series of models that are less-er cousins to the 5000, which seems to be slowly recovering its sales punch as well.

But the sudden-acceleration flap is only part of the problem with Audi sales.

HONDA, IN particular, has been doggedly pursuing almost an identical corporate strategy to Volkswagen for years. It quickly duplicated Volkswagen's front wheel drive and built U.S. plants to avoid import quotas.

Honda's most recent move was the launch of its new Acura division, bringing considerably more competition to the Yuppie arena. In fact, Audi's sales drop seems more closely timed to the Acura introduction two years ago than the "60 Minutes" program.

It's possible that Audi's elusive search for image may end up giving way to a scramble for survival in a market glutted with \$20,000-plus cars coming from Japanese manufacturers.

Dan McCosh is the automotive editor of *Popular Science*.

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