



finances and you  
**Sid  
Mittra**

### investment-grade companies

	number of companies 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>22,987</b>
<b>percentage that are non-investment grade</b>	<b>96%</b>	<b>95%</b>

## Solid companies issue junk bonds

By Sid Mittra  
special writer

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 510,000 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 past three and one-half years. Similarly, from 1980-1985, 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.

#### Origin of junk bonds

S&P assigns a grade to a company's bond issues as a service to investors. This grade represents the agency's best estimate of the probability that the company will be able to repay the loan represented by the bond.

When assigning a rating, the rating agency considers several factors, including the company's size and its credit history. Much less attention is paid to the quality of a company's management and its potential for growth.

Bonds rated in the top grades (A or better) are called "investment grade" bonds. Bonds that do not carry an investment grade must pay a higher rate of interest, or yield, as an incentive for investors to buy them. Hence the term "high-yield" bonds.

Until the late 1970s, the only publicly traded bonds that were not investment grade were those that had been downgraded because the company was experiencing serious financial troubles. Companies in this predicament were called "fallen angels"; their bonds were termed "junk."

Although the high-yield bond market of today is dramatically different from what it was a decade ago, the term "junk" bond continues to be used.

#### Not for the fainthearted

Notwithstanding what I have said above, junk bonds aren't for everyone. In fact, I would urge you not to invest in bonds rated lower than A unless you or your financial planner has specifically determined that it is in your best interest to do so.

Similar: "How to Invest Home Equity Safely: New Investment Opportunities under the New Tax Law." The seminar sponsored by the Oakland & Eastern Newspapers and Coordinated Financial Planning, will be held 7-9:30 p.m. Thursday, Nov. 19, at the Kingsley Inn, 1475 N. Woodward, Bloomfield Hills. This will be the last seminar of 1987.

For reservations, call 643-8888.

Sid Mittra is a professor of management at Oakland University and president of Coordinated Financial Planning.

## 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 pros 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 stock, 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. If the large volume, a minor price decline can lead to 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 the market.

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  
McCosch**

The story of Volkswagen in the United States makes for a plot straight out of the "Big Chill," whereby the idealism of the 1960s (lower power, Volkswagen Beetles, better yet, Volkswagen Microbuses) becomes jaded by middle age and materialism (stuffing paintings in a Rabbit, the Audi 5000).

At the end of a classic tragedy, however, even the seeds of its own demise, Volkswagen sells one too many Audi to successful product liability attorneys, and the end is near.

There are cars and there are symbols. Symbolic cars cover a broad spectrum, from 1950s Cadillacs to Edsel. Consider to Pintos and Volvos. Volkswagen for reasons that remain inscrutable to rational beings, over the years has had more than its share of cars as symbols.

NOBODY IN the car business plans symbolic automobiles for the simple reason you would sound like an idiot in the marketing meeting. Picture, for example, standing up in a Wolfsburg board room surrounded by the shambles of postwar Germany and announcing that this car is specially designed for National Socialists because it will be gobbed up by New York sociology professors, who will drive it as a statement of anti-establishment values.

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.

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-

ative fixes.

As far as Audi is concerned, the incidents reported have taken on a malignant cast.

One recent example was reported by all

people, a police inspector at a New Jersey inspection station.

As it turns out, a number of late-

model cars other than Audis also ap-

peared 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 lesser 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 identi-

cal corporate strategy to Volks-

wagen for years. It quickly dupli-

cated 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 upper end. 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 success 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.

## A Straightforward Answer to a Complicated Situation

In response to the current economic climate, we at Empire of America have an investment alternative, ideal for uncommitted funds. Now traditional market investors can benefit from a solid rate of return, liquid cash flow, and access to funds 24 hours a day. Plus gain the added advantage of FSLIC protection and the security of the Big E's \$9.5 billion in assets.

### FUNDBEATER - AN INSURED MONEY MARKET DEPOSIT ACCOUNT

**7.25% 7.00%**

annual percentage yield\* annual percentage rate

With a balance of \$10,000 or more, the Fundbeater is beating the Donoghue's Money Fund Report™ 7-day average of the nation's leading money funds. You can also earn high rates on deposits as low as \$2,500. And there are no fees, commissions or service charges. It's the most reliable alternative for these unstable times. Talk to the Big E today. We'll listen and act.

Stop in at any Big E office to open your Fundbeater. Or call SMARTLINE® at 1-800-THE BIG E (1-800-843-2443), seven days a week from 9 a.m. to 9 p.m.

*We'll help you live your dreams*

## An Investment Alternative with Security & Liquidity



\*Interest is compounded daily and must remain on deposit a full year at the stated rate to earn the annual yield shown. Rates on this account are subject to change.

Twenty-one offices throughout the metropolitan Detroit area:  
DETROIT: 20600 Van Dyke, 893-7180 / 1779 West Vernor Highway, 841-8442 / 19830 West 7 Mile, 537-3400. EAST DETROIT: 19080 East 10 Mile, 771-8840 / 28655 Northwood, 927-6593 / 20400 West 12 Mile, 358-2917 / 25177 Greenfield / Tel-Tech Mall, 28655 Telegraph, 358-4511. HIRINGHAM: 1410 West Maple, 626-2546 / 32800 Southfield, 624-0440. OAK PARK: 13700 West 9 Mile, 547-6300 / 25555 Cudoway, 547-6300. CLAWSON: 1305 West 14 Mile, 435-4430. FARMINGTON HILLS: 31000 Orchard Lake, 731-7222. WARREN: 11710 East 14 Mile, 284-6150. STERLING HEIGHTS: 3747 East 15 Mile, 977-0957. UTICA: 45676 Van Dyke, 731-4900. BEAUBORNE: 12007 West Warren, 584-7650. ROCHESTER HILLS: Great Oaks Mall, 1266 Walton Boulevard, 656-1040. GROSSE POINTE WOODS: 2005 Mack Avenue, 884-0161. LIVONIA: 33897 Five Mile Road, 425-8333.

A FUTURES contract is an agree-