I want to tell you something of the history and current activities of the Society of Investment Analysts. Before I do so, however, may I speak for a few minutes about the stock exchanges and the securities industry of the United Kingdom, and so provide you with a background against which to judge the work of our Society.

I will speak in round figures. The London Stock Exchange lists 3000 ordinary shares (or common stocks) with a market value of $100 billion. I believe the Tokyo Stock Exchange lists 1300 common stocks with a market value of $50 billion, and the New York Stock Exchange 1900 common stocks with a market value of $700 billion. The total number of stocks listed in London - including government and public authority stocks, debentures and preference shares, in addition to ordinary shares - is 9000, with a market value of $300 billion. To deal with this large number of stocks, the London Stock Exchange has 177 firms of brokers and 27 firms of jobbers and within these firms 1800 broker members and 270 jobber members. Every member of the London Stock Exchange must declare himself to be either a jobber or a broker. He cannot be both.

The London Stock Exchange is proud of the jobbing system and believes that it makes dealings in securities very quick and efficient. The jobber acts as a principal and he competes with other jobbers dealing in the same shares for the business which the brokers bring to him. He makes his profit from the differences between his buying and selling prices. He is risking his capital and that of his firm and his object is to maximise his profits or to limit his losses in the securities in which he deals. He deals only with brokers and is prohibited from dealing direct with the public.

The broker is an agent dealing on behalf of clients either in the United Kingdom or abroad and for these services he charges a commission, at a rate laid down by the Council of the London Stock Exchange which cannot in any circumstances be undercut.

Broking firms vary considerably. Recent changes in the partnership law have removed the previous limitation of the number of partners to 20. Consequently we have some firms of two or three partners and a handful of staff, and others with nearly 40 partners and staff of as many as 600. May I remind you that there are 177 of these broking firms.

The London Stock Exchange deals very heavily in government securities which are actively bought and sold by many classes of investor, including insurance and pension and other institutional funds - and many investment analysts concentrate their attention on the gilt-edged market, which is the market in government securities. But I think you may prefer me to concentrate on the markets in common stocks - the 3000 different stocks with a total market value of some $100 billion to which I have already referred.

Some 31% of the stocks are held by financial institutions - insurance companies, pension funds, investment trusts and unit trusts - and the remaining 69% by individuals, or non-financial corporate investors or foreign investors.

The institutional investor is a powerful factor in the market. It is very important that his funds are well managed. So it is not surprising that about half the members of the Society
of Investment Analysts are employed by institutional investors, many as investment managers, while the remaining half are employed by stockbrokers and jobbers. It is my impression that in the United States the investment manager and the investment analyst are more sharply separated than they are in the United Kingdom; that analysts who work successfully for investing institutions in the United Kingdom soon find themselves with some authority to make decisions and to deal for their funds. The organisation of investment decision-making by institutions is a fascinating subject on which it is possible to have a long discussion. I think that authority to make tactical and day-by-day investment decisions should be delegated to those with close knowledge of the various markets; while the long-term investment strategy of the fund should be decided, after full discussion with their subordinates, by the Senior investment managers responsible to their board of directors. I do not think any one man should take upon himself the making of all the investment decisions for a large institutional fund. If one man does this, his subordinates will become frustrated and leave him; for able young men thrive on responsibility. Then when the time comes for him to retire or move to another job, he will have no colleague able to succeed him.

May I move now to my main theme - the investment analyst and the Society of Investment Analysts in London?

The Society was founded in 1955. Now it has more than 1300 members. They bring many different kinds of qualification. They do many different kinds of job. At the Society's annual dinner in London last year, I said -

"A good investment analyst combines two approaches, the professional and the human. Professionally he needs an analytical mind which comes from professional training. Some of you will have heard me say before that this Society draws its strength from the different disciplines of its members, from the fact that it has its accountants, its actuaries, its secretaries, its economists, its bankers, its academics, some analysts whose qualification is simply many years in the hard school of experience, all of whom bring their own special qualities to bear. We admit to membership only serious students of investment qualified by a period of working in the field. We are preparing study guides; then the next logical step will be to consider the setting of examinations along lines not dissimilar to those of the Institute of Chartered Financial Analysts in America. Examinations, that is, at a postgraduate level which we would hope our members already professionally qualified in other ways would be willing to pass in order to qualify themselves further in the special field of investment.

"So much for the analytical mind and the professional training; what about the second quality which a good analyst needs? It is the quality of humanity, of warm sympathy with people; it is the ability to judge the qualities of people, of company managements, of the companies themselves and the extravagance or the conservatism of their forecasts. The analytical mind and the human judgement together create a dynamic picture of a company, and where it is going, and set it against the economic and market backgrounds. The share price is drawn into the equation and there emerges the company which is or is not worthy of investment support. The analyst must take the broad view; he must remember that a company has four responsibilities; to its customers, to its staff, to the community, and to its shareholders. If he thinks only of its shareholders he takes too narrow a view even in the context of his own immediate objective.

"What then, if he does his work well, does he achieve? He achieves a good investment for those he is advising. Much more than this, by the impact of his work on the markets, he helps to direct the savings of the nation into the right channels; into the companies deserving of support; into the companies, at home
and abroad, which have the most contribute to this nation's prosperity.

"This is why we are here, this is the function we fulfil."

The management of the Society rests with an elected Council which has 16 members. At every annual general meeting, one third of the members of the Council must retire, and they may, and usually do, offer themselves for re-election. But any member of the Society may be nominated for election to Council, and if the number of candidates, including those retiring by rotation, exceeds the number of vacancies, there is an election by postal ballot. Elections have been rare, but last year there were ten candidates for six vacancies, and therefore an election. This year there are no new candidates, and retiring members of Council will be automatically re-elected. The Chairman is elected by Council from among its members, and normally serves for 2 years. My own term of office comes to an end at the annual general meeting on 12th November next, when I shall be succeeded by Mr. John Brew.

All the chairmen of committees are members of Council. So are many, but not all, of the committee members. If I tell you something about the work of each committee, there will emerge, I hope, a picture of the character and work of the whole Society.

The job of the Membership Committee is to consider each application for membership. I said earlier that we admit to membership only serious students of investment qualified by a period of working in the field. We will usually admit an accountant, an actuary, an economics graduate, or someone with an equally relevant professional or academic qualification, if he has had two or more years' experience working in the investment field. For a man with no such professional or academic qualification, we may ask for as much as five years' experience. We do not set an examination for entry to the Society, but we do ask for proper qualifications. Our membership of between 1300 and 1400, when analysed recently, contained 46% of university graduates (including 19% economists) and professionally qualified men as follows: actuaries 11%, accountants 10%, secretaries 8%, other professions 8%.

The Programme Committee is charged with the arrangement of meetings of the Society addressed by representatives of companies, usually very senior representatives such as the Chairman or Finance Director, often accompanied by some of his colleagues. We have also been addressed from time to time by important national figures in the world of finance who are not associated with particular companies. For example, we have had speakers from the Treasury and from the Bank of England. Meetings take place sometimes at lunchtime, sometimes in the early evening and draw an audience of perhaps 100, sometimes considerably more. The meeting normally takes the form of a talk lasting perhaps 40 minutes from the main speaker followed by a question and answer session, in which the speaker often draws on his colleagues for help, lasting perhaps 50 minutes. So that the whole meeting lasts for about 90 minutes.

We find the most rewarding kind of meeting is one in which the speaker speaks quite briefly about his company, dealing with its present situation rather than giving a long historical summary, and speaking of its management philosophies, its financing, sources of raw materials, products, markets, and so on, followed by a good question and answer session. It is one of the rules of the Society that before every meeting addressed by a non-member, there must be read out our Rule 12 which says "Neither the name of a Speaker at a meeting nor his remarks may be directly quoted in public without his express permission". I have occasionally heard it said that there are ethical problems; that analysts only act for some shareholders; that there are a lot of shareholders who are not privy to the sort of information which analysts get; and that this is not fair on the general body of shareholders and the general public. I should like to face up to this criticism and deal with it. I
have already said that the analyst does much more than achieve a good investment for those he is advising, and that by the impact of his work on the market he helps to direct the savings of the nation into the right channels.

It has long been one of the analyst's objectives to secure better disclosure by companies to all their shareholders. It is an objective of almost every company of importance to make itself better known and to improve its image. This is just good public relations. What better way than to meet an intelligent group of people, whether they be analysts or potential customers, or senior schoolboys or merely interested members of the public, help them to know more about the company and answer all their questions other than those of direct and immediate financial impact such as profit and dividend announcements which can only properly be answered by an announcement to all shareholders and the press simultaneously. The company should be willing to answer any question coming from an analyst which it would answer if it came from any individual shareholder. Companies often time their visits to the Society and their meetings with analysts to come soon after the publication of the Report and Accounts and so speak at a time when they will be least embarrassed by knowing confidential information which they cannot reveal. Disclosure by companies is a national objective. The Society has an important contribution to make towards its achievement.

May I now pass to the work of the Analytical Studies Committee. This follows logically on a discussion of the work of the Programme Committee because the Analytical Studies Committee arranges meetings too. These take the form of discussion meetings, not on particular companies, sometimes on particular industries; for example some months ago there was a discussion on insurance shares led by three stockbroker members of the Society, all from different firms, all of whom specialised in this field. Sometimes a meeting will be held to discuss a paper, perhaps an article which has appeared in the Society's Journal, and the discussion will be led by the author of the paper. A recent one reviewed the first eight years of the Financial Times Actuaries All Share Index and the performance of the individual industrial sectors into which it is subdivided. Another important meeting sponsored by the Analytical Studies Committee was on the content of new issue prospectuses at which representatives of the Stock Exchange Council, the Issuing Houses Association and the Institute of Chartered Accountants were all present, and some of whom took an active part in the discussion. In addition to arranging discussion meetings the Analytical Studies Committee is charged with research, and development of analysis and analytical methods and has, for example, set up study groups to consider methods of measuring portfolio performance.

A recently formed and important committee, which I deal with next because its work is in many ways linked with that of the Analytical Studies Committee, with which it has several members in common, is the Accounting Standards Committee. In April 1970 the Institute of Chartered Accountants in England and Wales invited the Society to be represented on its Accounting Standards Steering Committee which has a five year programme to improve accounting standards. This was a very welcome invitation and we set up our own Accounting Standards Committee to consider each draft of the proposals as it emerged from the Institute of Chartered Accountants. Subjects already considered include Accounting for Associated Companies, the Society's comments on which have been published in our Journal, Accounting for Acquisitions and Mergers, and the Calculations of Earnings per Share, on which the Analytical Studies Committee of the Society arranged a discussion meeting earlier this year. Probably the most difficult of all the subjects which has to be considered is the adjusting of accounting systems to take proper account of inflation. This is a matter on which more and more attention will be focussed. Several articles on various aspects of it have already appeared in our Journal.
I said just now, when discussing our meetings addressed by company spokesmen, that disclosure of information by companies was a national objective, and that the Society had an important contribution to make towards its achievement. It makes this contribution principally through the work of the Corporate Information Committee. The Committee will give advice to individual companies about ways in which their presentation of information can be improved. The committee has published model accounts for investment trusts - that is for closed end trusts, which figure prominently on the investment stage in the United Kingdom. Model accounts have also been published for retail stores companies. But perhaps the most important part of the committee's recent work has been its contribution to the European Federation's publication "Corporate Reporting in Europe". This report sets out the results of studies over a number of years undertaken in the seven contributing European countries, and marks the completion of a major stage in the development of a coherent and co-ordinated policy of corporate reporting in Europe.

This is an example of the international work of the Society. But before I say more about international matters there are two other aspects of the work of the Society with which I would like to deal. The first is its activity in the field of education. Returning to the speech which I made last year and from which I quoted earlier, we are preparing study guides. Soon we must give detailed consideration to the setting of examinations. Our three study guides have been written and they are now being prepared for the printer. They deal one with the general theoretical background to investment analysis, one with the accounting background and one with the economic background. I don't know how many of you have seen the study guides prepared by the Institute of Chartered Financial Analysts in the United States. Ours are prepared on similar lines. They make reference to text books and they reprint shorter articles so that they are all available under one cover. Moreover a textbook on investment analysis has been written by Denis Weaver, formerly a member of the Society's Council, and is due to be published before the end of this year. We have for a long time been thinking of the possibility of introducing examinations. We know that this will be a very big undertaking and the final decision has not yet been taken. The decision which we did take was that it was important to have proper study material before the introduction of examinations. And that the study material would be welcome whether examinations were introduced or not.

We are very proud of our Journal "The Investment Analyst" which is published three times a year and which I am sure many of you know already. It has subscribers in 26 countries. Recent numbers of the Journal have included articles on various industries, on monetary policy and its effect on government securities and common stocks, on price indices, on international financing in the eurobond market, on the question of rights issues and so on. There was a summary of the discussion which took place at the meeting arranged by the Analytical Studies Committee on New Issues and Prospectuses about which I have already spoken. The editorial committee is always looking for contributions to the Journal and I can promise a very warm welcome to any suitable ones from Australia. Indeed I hope the association between our Journal "The Investment Analyst" and yours, JASSA may become closer.

On a number of occasions during its lifetime the Society has made important contributions to government enquiries and to the work of other bodies. I have spoken already about the work which is being done in the Accounting Standards Committee in conjunction with the Institute of Chartered Accountants in England and Wales. Some years ago the Society presented evidence to the Jenkins Committee which was set up to recommend changes in company law. More recently the Society published its further proposals for improvements in company reporting and sent them to the appropriate government department. Recently the Society accepted an invitation...
to submit evidence to a committee set up to report on property bonds and equity linked life assurance, and it has also accepted an invitation to become a member of the Standing Committee of Statistics Users set up by the Social Science Research Council. Perhaps it is right to add at the end of this long list of activities that the Society has its social side too, and every year has a dinner at which many guests are entertained and also a highly successful golf meeting.

I would like to close, as is appropriate when I am a guest in another country, by saying something about the international work of the Society. We do regard our international work as very important. Our purpose is to encourage the international exchange of ideas relating to the profession of investment analysis. We welcome and we respond to any initiative which might help towards the realisation of that purpose. We would like to exchange ideas with you in Australia. We would like to know more about your market and the way it works, more about your methods of analysis and the special factors which apply in the case of Australian securities. We have close links with the Financial Analysts Federation in the United States, and last April the Federation sent over a group of analysts who joined forces with analysts from Europe and attended presentations by companies and also bodies such as the European Economic Community and the Organisation for Economic Co-Operation and Development in the United Kingdom, Holland, Belgium and France. We have links too with Japan and recently I was talking in Tokyo about the work of the Society as I am doing in Melbourne today.

But the international work to which we have made the greatest contribution is naturally that of the European Federation of Financial Analysts Societies of which we have been a member since its inception. The Federation now has 9 member societies from the United Kingdom, from France, Holland, Belgium, Germany, Switzerland, Spain, Norway, Sweden and soon to make a tenth, Italy. The European Federation has three permanent commissions, on corporation information - I have already referred to the published report "Corporate Reporting in Europe"; on standardisation of methods of presentation of information in a form suitable for use in investment analysis; and on the training of analysts. The federation has important relationships with the European Economic Community which will become of increasing importance if that community takes further steps to unify company legislation and financial practice among its member countries and especially so if the United Kingdom itself becomes a member.

I thank you most warmly for listening to me so patiently and for giving me the opportunity to talk about the Society of Investment Analysts of which I am proud to be Chairman. Besides discussing the Society's work I have told you how I think an investing institution should reach its investment decisions. I have said that a company has four responsibilities, to its customers, to its staff, to the community and to its shareholders. I have spoken of the importance of analysts societies as a focal point of work done in the investment field by men who have been trained in many different disciplines. I have spoken of the usefulness of analysts and their work to the community and I believe profoundly too in the usefulness of analysts to each other and in the merit of the establishment of agreed terminology and the cross-fertilization of ideas between analysts who may be competitive in business and employees of rival firms. Let them come together in ever increasing numbers, both in your Society and my own, for their own mutual benefit and for the benefit of the communities which they serve.

I have very much enjoyed speaking to you this evening and very much appreciate being given the opportunity to do so. I hope many of you will come to London where the Society of Investment Analysts will give you a warm welcome.