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STOCK EXCHANGE SECURITIES, AND
HOW TO SELECT THEM

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AND

HOW TO SELECT THEM

BY

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P R E F A C E.

THE Institute of Bankers in Scotland, the Society of Accountants in Edinburgh, and the Institute of Accountants and Actuaries in Glasgow have arranged for several years past an annual course of lectures mainly for the instruction of the younger members on subjects connected with their practical everyday work. The subject chosen for 1904 was "Stock Exchange Securities." The following pages were delivered in the form of lectures in February last, and they are now published at the request and under the auspices of these Societies.

The fact that many of the class for whose education the course of lectures is instituted are at the beginning of their business life rendered it necessary that details of practice of little general interest should be explained, and information furnished which might seem unnecessary to the ordinary reader; while, on the other hand, the limits of time prevented anything but a superficial examination of the various classes of securities for sale on the Stock Exchange.

On this latter ground I have endeavoured rather

to state the general principles to be employed in the selection of securities instead of dealing with individual securities themselves. It should also be mentioned that on the advice of the Joint Committee of the three Societies the lectures were confined to what may be called "investment securities" as opposed to speculative securities.

The lectures appear practically as they were delivered. It is true that there have been many changes in the financial world in the interval since they were prepared, but as these changes do not vitiate the main lessons which it was desired to convey, I have thought it advisable to make as little alteration as possible.

I have to record my thanks to Mr Robert Blyth, General Manager of the Union Bank of Scotland, and to Mr Hugh B. Crum, C.A., for the great assistance I have received from them in the preparation of the lectures.

N. B. GUNN.

GLASGOW, 19th September 1904.

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STOCK EXCHANGE SECURITIES, AND HOW TO SELECT THEM.

INTRODUCTORY.

BEFORE beginning this course of lectures on Stock Exchange Securities, at the request of the Society of Chartered Accountants, the Institute of Accountants and Actuaries in Glasgow, and the Institute of Bankers, I should like to mention that when your Committee asked me to undertake the duty I explained to them that my acquaintance with investments is, to some extent, confined to those which come before me in the ordinary way of business. You are aware that life assurance offices have large sums of money to invest, and therefore in my capacity of manager of such an institution it has been my duty to study the Stock Exchange Official List of Stocks and Shares in order to be able to suggest to the directors investments for their consideration which appear suitable for the funds of the office. The requirement in such a case is that the security should be undoubted, and consequently my experience is limited mainly to what are called "gilt-edged" investments. Of course in the search for these, other classes may also come under review ; but you will understand that by the expression "Stock Exchange Securities," as dealt with in these lectures, speculative securities are either excluded or are only referred to when their circumstances throw light on others of a higher class.

In selecting investments the two important points to be kept in view are: (1) Will your capital be secure if placed in the proposed investment? and (2) What annual return will the investment yield on the capital invested? The first is immeasurably the more important of the two; but assuming you are satisfied as to security, you will naturally desire to have as high a rate of interest as possible. It is well, however, to remember that, as a rule, high interest means weak security. In the Stock Exchange list there are all classes—good, bad, and indifferent. It will doubtless fall to your lot in future to guide others in the selection of investments; and while I do not propose to advise you as to the class in which you should place any particular investment, I wish to give you a few hints as to the points to be kept in view in forming your judgment.

It will probably be convenient, as a preliminary, to take up a little of your time with an explanation of some Stock Exchange methods, and of some technical terms adopted in connection with securities.

When a stockbroker has bought stock or shares for a client he sends him a contract note stating the price and date of settlement. In each month there are two settlement dates for all stocks and shares except British funds and the Metropolitan and London County stocks—one at the middle of the month and the other at the end. In the case of the British funds and the Metropolitan and London County stocks there is only one settlement day in each month—at the beginning.

Broker's Commission.—For his trouble in making the purchase or sale the broker charges a commission, which is fixed by the rules of the Stock Exchange to which he belongs. The rate varies according to the class of the stock, but the following are examples of the rates charged:—

1. On stock and shares (including debenture stock):
 $\frac{1}{2}$ per cent on the price when £10 or upwards.
2. On stock, annuities, or funded debts of municipal corporations in the United Kingdom:
 $\frac{1}{4}$ per cent on the price.

3. On bonds, debentures, or mortgages of railway or other companies or public trusts in the United Kingdom :
 - $\frac{1}{2}$ per cent on the price when the unexpired currency is over five years.
 - $\frac{1}{4}$ per cent on the price when the unexpired currency is two years and not over five years.
 - $\frac{1}{8}$ to $\frac{1}{4}$ per cent on the price when the unexpired currency is under two years.
4. On British and British India Government funds and Exchequer and Treasury bills, also on European Government funds :
 - $\frac{1}{8}$ per cent on nominal par value when the price is 25 per cent or upwards.
 - $\frac{1}{16}$ per cent on nominal par value when the price is under 25 per cent.
5. On British, Colonial, United States, and Foreign Government funds ; also on bonds of railway or other companies out of the United Kingdom :
 - $\frac{1}{4}$ per cent on nominal par value when the price is 50 per cent or upwards.
 - $\frac{1}{8}$ per cent on nominal par value when the price is under 50 and not under 25 per cent.
 - $\frac{1}{16}$ per cent on nominal par value when the price is under 25 per cent.
6. On ordinary or deferred stock of railways in the United Kingdom :
 - $\frac{1}{4}$ per cent on the price.

Stamp Duties.—When stock is purchased or sold the purchaser has in most cases to pay stamp duty, which therefore forms an addition to the cost of the investment. The stamp duty, when exigible, is practically $\frac{1}{2}$ per cent on the purchase-price. There are, however, certain stocks on which no stamp duty is payable—such as Government or Parliamentary stocks or funds, the bulk of the Corporation or County stocks quoted on the Stock Exchange, and bonds payable to the bearer on which stamp duty has already been paid. In addition to this, companies may enter into an agreement with the Commissioners of Inland Revenue for the composition of the stamp duties chargeable on transfers of their shares and stocks, on payment of the duty of 6d. per cent half-yearly on the nominal amount of all the shares and stocks of such companies ; and in all cases where this

provision has been taken advantage of no stamp duty is payable.

Registration Fee.—A small charge is generally made for registering the name of the purchaser.

Accrued Interest.—In the case of almost all stocks¹ and shares bought in this country the purchase-price includes the accrued dividend—that is, the proportion of dividend or interest that will have accrued from the date on which the last interest or dividend was paid up to the date on which the purchase takes place. For instance, in the case of a 4 per cent bond for £100, with interest payable on 1st January and 1st July, purchased at par (that is, £100) on 1st April, the purchaser receives on 1st July a dividend for six months, although he has only lain out of his capital for three months. The interest for the period from 1st January to the date of purchase, which he thus receives, is called accrued interest. In the case I have mentioned it amounts to £1, which forms in correct book-keeping a deduction from the price. The purchaser therefore pays really £99 instead of £100.

I have mentioned the items of brokerage, stamp duty, and accrued interest together, for although they affect the cost to the purchaser in different directions, they have all to be kept in view, and allowance has to be made for them when we calculate the rate of interest an investment will yield. In some cases, such as that of an ordinary perpetual stock, they do not modify the rate to any great extent; but if the investment is for a short period the difference they cause may be considerable.

Take the example I have just given, and assume that the purchaser pays £100 for a perpetual stock of the nominal amount of £100 yielding £4 per annum. Assume also that no stamp duty is exigible. If we deduct from the purchase-price the accrued interest of £1, which he will get on 1st July, and add thereto the brokerage of 10s. paid to the stockbroker, the net sum paid for the investment works out at £99, 10s., and the rate of interest which £4 yields

¹ The exceptions are railway debentures (not railway debenture stocks) and some three or four other investments.

thereon is £4, 0s. 5d. But if the investment is not perpetual, and is repayable at the end of, say, five years, the investor, in addition to receiving £4, 0s. 5d. per cent during the five years, is entitled to receive £100 at the end of that period, whereas he has only paid £99, 10s. The difference between these two sums—namely, 10s.—is practically additional interest earned by him, and if spread over the five years would amount to 2s. per annum, and would bring the rate of interest up to £4, 2s. 5d. This is an approximate calculation, but it is sufficiently accurate for all practical purposes. The exact rate under the conditions I have mentioned is £4, 2s. 3d. per cent.

In the example it was assumed that the price of £100 of nominal amount of stock was £100—in other words, that it was bought at par; but as a matter of fact the bulk of purchases are made not at par, but either at a premium or at a discount. If stock is bought for less than the nominal amount, it is said to be bought at a discount; if for more than the nominal amount, it is bought at a premium. Thus North British Railway 3 per cent Debenture Stock is at a discount with the price at £95 for each £100 of stock, and was at a premium in 1898 when it was sold at £111.

The fact that a stock has been bought at a premium or at a discount has a very important effect on the rate of interest, and the distinction I have referred to between redeemable and irredeemable is still more important. Thus North British Railway Stock being perpetual, the rate of interest an investor would receive if he paid £95 (after making allowance for brokerage, stamp duty, and accrued interest) is £3, 3s. 2d. per cent, and is £2, 14s. 1d. per cent if he paid £111.

If, on the other hand, the stock offered is a terminable one, the purchaser will have to spread over the number of years the investment has to run, any difference between the nominal amount to be received at maturity and the price he has to pay. The following examples of the approximate calculation of two stocks repayable in five years, the net prices of which are 95 and 105 respectively,—£100 being the sum due at the end of ten years in each case,—will show the effect on the rate of interest:—

1. Price £95, $\frac{400}{95}$ =	£4 4 3
Profit of £5 on repayment scattered over ten years =	0 10 0
Net annual interest on investment = per cent	<u>£4 14 3</u>
2. Price £105, $\frac{400}{105}$ =	£3 16 2
Sinking fund required to make up loss of £5 at repayment	0 10 0
Annual interest earned on investment = per cent	<u>£3 6 2</u>

These calculations are merely approximate, and do not make allowance for the effect of compound interest. The exact rates are £4, 12s. 6d. per cent and £3, 8s. 2d. per cent respectively.

"Ex Dividend" and "Cum Dividend."—These expressions are used in connection with the purchase of stock at a time when the dividend is falling due. If the stock is bought "ex dividend" the dividend is paid to the seller and not to the buyer; but if bought "cum dividend" it is paid to the buyer. In the case of a sale of Caledonian Railway Ordinary Stock made about the end of September, as this stock is marked "ex dividend" on and after 30th September, any purchase on the 29th would have been made "cum dividend," and the buyer would receive the half-year's dividend then due; but any purchase on 30th September or later would be made "ex dividend," and the seller would receive the dividend.

Trust Investments.—It is important that you should fully understand the rules with reference to trust investments. In terms of (1) "The Trustee Act, 1893," for England and Ireland; and (2) "The Trusts (Scotland) Amendment Act of 1884," "The Trustee Act, 1893," for Scotland; and (3) "The Colonial Stock Act, 1900," for both countries, trustees may, unless expressly forbidden by the trust-deed, invest in certain specified securities. As you can understand, the fact of a stock being in the trustee investment list adds considerably to its value, especially if it is a trustee investment both in England and Scotland.

The classes of Stock Exchange securities authorised under the English and Scottish Acts are as follows, viz. :—

England and Ireland.

1. Government securities, public funds, or Parliamentary stocks of the United Kingdom, Securities the interest of which is guaranteed by Parliament, and Indian Government securities.
2. Bank of England and Bank of Ireland stocks.
3. Metropolitan Board of Works stock, London County Council stock, and Metropolitan Police District debenture stock.
4. Debenture, rent-charge, guaranteed or preference stocks of any railway in the United Kingdom if the dividend for the last ten years has been not less than 3 per cent per annum on the ordinary stock.
5. Stock of any railway or canal company, leased for not less than 200 years at a fixed rent to any railway company under paragraph (4).
6. Debenture stock of any Indian railway the interest on which is paid or guaranteed, or other stock on which a fixed or minimum dividend in sterling is guaranteed by the Indian Government, or upon the capital of which the interest is so guaranteed.
7. "B" annuities of the Eastern Bengal, East Indian, and Scinde, Punjaub, and Delhi Railways, and any like annuities, charged on the revenue of India, also in "D" deferred annuities and "C" annuities of the East Indian Railway.
8. Debenture, guaranteed, or preference stock of any incorporated water company in Great Britain which has for the last ten years paid a dividend of not less than 5 per cent on its ordinary stock.
9. Municipal stocks of towns of over 50,000 inhabitants, or County Council stocks issued under Act of Parliament or Provisional Order.
10. Water Trust stocks of towns or compulsory districts of over 50,000 inhabitants, where assessment for each of the last ten years has not exceeded 80 per cent of the amount authorised.
11. Stocks authorised for investment of funds under the control of High Courts of Justice.
12. Colonial Stock registered in the United Kingdom in accordance with the provisions of the Colonial Stock Acts, provided such stocks have been notified in the London and Edinburgh Gazettes as having been approved by the Treasury.

Stocks which are liable to redemption at par or other fixed

rate within fifteen years of the date of purchase, or which stand at a premium exceeding 15 per cent above the redemption value, are excluded.

Scotland.

1. Government stocks and public funds or securities of the United Kingdom.
2. Stock of the Bank of England.
3. Securities the interest of which is guaranteed by Parliament.
4. Debenture stock of any incorporated railway company in Great Britain.
5. Preference, guaranteed, lien, annuity, or rent-charge stock, the dividend on which is not contingent on the year's profits, of any railway company in Great Britain which has paid for the last ten years a dividend on its ordinary stock.
6. Municipal corporation stocks or annuities the interest of which is secured by rates or taxes levied under Act of Parliament.
7. East India stock or public funds or bonds, not payable to bearer, of any colony of the United Kingdom approved by Court of Session.
8. Colonial Stock registered in the United Kingdom in accordance with the provisions of the Colonial Stock Acts, provided such stocks have been notified in the London and Edinburgh Gazettes as having been approved by the Treasury.

Probably the foregoing explanation of the terminology of the Stock Exchange will be sufficient in the meantime. There are many other technical terms, but it will be better to defer the explanation of any to which it may be advisable to refer.

The Stock Exchange Daily Official List contains, as you are aware, under separate headings the various classes of securities sold on the Stock Exchange. Probably the subject will be best understood if the more important of these classes (especially those which contain the leading investment securities) are considered and a few representative stocks selected for comment. You will understand when the Share List is mentioned that I refer (unless it is otherwise stated) to the Share List of the London Stock Exchange, which is much more comprehensive than that of any other Stock Exchange in the United Kingdom.

CONSOLS.

The first class of security in the Share List contains all British funds, &c.; and the principal items in it are composed of the various classes of securities which make up the funded debt of the United Kingdom. The funded debt as at 31st March 1903 amounted to £640,086,000, composed of the following, the first three of which are quoted on the Stock Exchange:—

2½ per cent Consolidated Stock, not redeemable before 5th April 1923	£590,619,000
2¾ per cent Annuities, not redeemable before 5th January 1905	4,488,000
2½ per cent Annuities, not redeemable before 5th January 1905	31,333,000
	£626,440,000
And of debts to the Bank of England and Bank of Ireland	13,646,000
Total funded debt	£640,086,000

The above is the total of what is called the funded debt, but the total debt at 31st March 1903 amounted to a much larger sum—£798,349,000—made up of the above funded debt and of the following classes of unfunded or floating debt. Of the latter only the War Loan is quoted on the Stock Exchange:—

Funded debt as before	£640,086,000
Treasury bills for six, nine, and twelve months, and Exchequer bills due 1903 and 1905	£45,133,000
War Loan at 2¾ per cent repayable 1910	30,000,000
Terminable annuities	55,560,000
Other capital liabilities	27,570,000
	158,263,000
Total National Debt	£798,349,000

The main distinction between the funded and unfunded debt is that the nation in the case of the funded debt is liable for interest only. It has the power to repay the capital at certain fixed dates; but is under no obligation to do so. For instance, the Government in power in 1923 will have the right, on 5th April of that year, of insisting on the holders of the £590,000,000 of 2½ per cent Consols taking cash and giving up their securities; but the holders have not at any time the power of insisting on repayment. The only means they possess of realising their holding is that of selling it on the Stock Exchange for what it will fetch.

On the other hand, the unfunded debt is made up of sums borrowed by the Government for fixed periods, and in this case the country is liable for the principal borrowed as well as the interest; so that, shortly stated, in the funded debt the nation guarantees payment of the interest but comes under no obligation to repay the capital as long as interest is paid, while in the unfunded debt it also guarantees repayment of the capital.

In order to give you an idea of the development of the National Debt, I cannot do better than quote the following extract from the article on the subject in 'Whitaker's Almanac' for 1904:—

The National Debt amounted on 31st March 1903 to £798,349,190 *gross* and £759,943,282 *net*, being at the rate of £17, 18s. 7¾d. per head of the population of the United Kingdom; the annual cost for 1902-3 being £27,282,057, or 12s. 10½d. per head. This amount is mainly the remnant of the growth of many years, and nearly all was raised for foreign wars. There was a trifling sum of £664,263 until the "Glorious Revolution" of 1688, which added nearly £16,000,000 to the Debt. Under Queen Anne the campaigns of the Duke of Marlborough added nearly £38,000,000, part of which was paid off in the time of George I. In the reign of George II. about £87,000,000 were added, but the first twelve years of George III. saw £10,000,000 of this paid off. The American War added £121,000,000, making the total nearly £250,000,000, which was reduced considerably until 1793, when the repayments ceased owing to the outbreak of the French Revolutionary War.

In twenty-three years £601,500,343 were added to the Debt for the purposes of the war.

The amount of the Debt in January 1816, capitalised in the manner adopted since 1835, was £900,436,000, the annual charge being nearly £33,000,000. With peace secured, efforts were made to reduce the Debt, and at the accession of Queen Victoria the amount stood at nearly £788,000,000, with an annual charge of £29,000,000. Small sums were paid off annually from 1837-1854, when the Russian War added £33,000,000 to the Debt. Repayments were made from 1858 onwards, and on 31st March 1899 the *gross* total was £635,040,965, being a decrease since the accession of Queen Victoria of £153,000,000; the annual charge having decreased in the same period from £29,000,000 to £23,000,000. The war in South Africa and the military operations in China together accounted for an increase in the *gross* amount of £149,482,000, the balance of cost (£67,684,000) being contributed by Revenue.

I should like to have been able to enter more fully into the history of the National Debt, and especially the creation of what is now called "Consols"; but the limits of time prevent my giving as thorough an explanation as one might otherwise desire.

I may refer, however, to the origin of this word "Consols." Originally duties and taxes assigned as security for a debt were called a "fund"; and, as you are doubtless aware, the Government securities were at one time familiarly known as "the Funds." Eventually as the debt increased a large number of separate loans were borrowed, each secured over different taxes, and consequently the National Debt consisted of a considerable number of so-called "funds." Mr Clare, in his lectures on Stock Exchange Securities, &c., gives the following further particulars:—

Some of the taxes left a deficit, while others produced a surplus; and the multiplicity of funds complicated the book-keeping. It was therefore decided about 1715 to collect the various branches of revenue into three large groups known as the General, the Aggregate, and the South Sea Funds, each of which was charged with the payment of certain specific annuities. This arrangement, though still involving a separate calculation at the Custom House for each of the different subsidies, was a distinct improvement over the former system, and for some time worked



well enough; but long before the end of the century the country had outgrown it, and further simplification was urgently called for. In 1787, accordingly, Mr Pitt pointed out to the fundholders that, as the credit of the country was committed to the fulfilment of all its obligations alike, the comparative priority of the various loans was more imaginary than real; and, on obtaining their consent to an amalgamation of the security, he abolished a distinction that had become practically valueless, and established one single fund to which he carried the whole of the permanent revenue, and to which he gave the name of "The Consolidated Fund." The principal and interest of the unfunded debt, and the whole of the perpetual annuities payable in respect of the funded debt, form a first charge upon and are payable out of this Consolidated Fund of the United Kingdom, without distinction or priority.

It is this expression "Consolidated Fund" that has been abbreviated into "Consols."

As to the history of Consols, it is probably sufficient to go back for a period of twenty years, when the greater portion of the Debt consisted of what was then a 3 per cent stock. Mr Childers in 1884, as Chancellor of the Exchequer, offered the holders of the 3 per cents in exchange for each £100 of stock, either £108 of new $2\frac{1}{2}$ per cent stock, or £102 of new $2\frac{3}{4}$ per cent stock,—both stocks being irredeemable till 1905, when they could be redeemed at the option of the Government. Contrary to expectation, Mr Childers' offer was accepted by only a small proportion of the holders of the 3 per cents,— $19\frac{1}{4}$ millions of the new $2\frac{1}{2}$ per cents being applied for, and $4\frac{1}{2}$ millions of the new $2\frac{3}{4}$ per cents. (You will see that the $2\frac{1}{2}$ per cents stand in the List at £31,000,000, the extra £12,000,000 having been previously created by Mr Gladstone in 1853.)

The 3 per cents were not again interfered with by Government till 1888, when Lord Goschen (then Mr Goschen) adopted a more effective method of bringing pressure to bear on the holders of the 3 per cents. Instead of giving the alternative of taking a new stock or retaining the present holding, he gave the alternative of taking a new stock or repayment in cash. The new stock which he offered carried interest at the rate of $2\frac{3}{4}$ until 5th April

1903, when the rate of interest was to be reduced to $2\frac{1}{2}$ per cent. The stock was not to be redeemable till 5th April 1923; but on and after that date it could be redeemed at par by Parliament on such notice, at such time or times, and in such order and manner as Parliament might direct.

Mr Goschen, being a practical financier, succeeded in effecting the conversion where Mr Childers, and previously Mr Gladstone, had failed. In the first place, he did not confuse the public by offering them two classes of stocks for their holdings of Consols. Mr Childers had fallen into this mistake, and made the matter worse by placing before them a somewhat difficult problem—namely, that of deciding which was the better bargain of the two options; whereas Mr Goschen offered an equal amount of the new stock for the old, or redemption in cash. In the second place, Mr Goschen interested the banking and stockbroking world by offering a small commission on the amount which they should send in for conversion; and in the third place, he made the stock attractive to the same classes by consolidating the whole of the 3 per cents into one large stock, which, though bearing a lower rate of interest, would be more marketable than the old debt, split up as it was into different classes. As a result of his plan the proportion of stock unconverted was small. Holders representing less than 19 millions refused the offer and applied for payment in cash. The success of the scheme was doubtless due to the fact that a considerable portion of the stock was held by trustees who, in many cases, had no power to invest in any security but Consols; and doubtless many others had the power, but could not face the responsibility of finding new investments for their trust-funds.

It is interesting to compare the return on Consols with the return on the National Debts of some of the principal foreign Powers. The last price of Consols in 1903 was 88 per cent, the return at this price being £2, 16s. 10d. per cent. At the same date the following were the prices of, and the relative returns yielded by, the following stocks in the foreign markets:—

	Price.	Return per cent.
United States of America—		
2 per cent Bonds due 1930	106	£1 17 9 (excluding deduction for repayment at par)
France—		
3 per cent Rentes (redeemable not later than 1953)	98	3 1 3 (excluding profit on redemption)
Germany—3 per cent Bonds	91.80	3 5 4
Russia—4 per cent Consolidated Bonds	98.60	4 1 2 (excluding profit on redemption)

The very low rate of interest on the United States Bonds is caused by artificial conditions. The banks there, which receive State deposits from the Secretary of the Treasury, must lodge Government bonds as security; and Government bonds have also to be deposited with the Treasury as the basis of the note issue of the National Banks. The banks, therefore, must buy a sufficient quantity of Government bonds to enable them to carry on business; and as the amount of the bonds is being constantly reduced through the redemption of the debt the price has been artificially raised, and the rate of interest lowered in consequence. The Russian securities, on the other hand, were depressed in consequence of the possibility of war with Japan; but the depression at the end of the year had not had much effect, as the highest price in 1903 was 103½ and the return thereon £3, 17s. 3d. per cent.¹

The price of Consols has in its time undergone great fluctuations. Those in the last ten years have been very considerable, though small compared with the rise and fall in the last hundred years. 'The Times' recently gave an extract from 'The Times' of 1803, quoting 56 as the last price for the day of 3 per cent Consols. This was equivalent to something like 47 for a 2½ per cent stock as at present: so we see that though the price of Consols is depressed it is nearly double what it was one hundred years ago. The highest price Consols have touched was 113¾ in 1896 (you will remember that the stock then bore 2¾

¹ It has to be kept in view that this was written before the outbreak of the Russo-Japanese war.

per cent, reducible to $2\frac{1}{2}$ per cent in 1903), and its lowest point, since the accession of Queen Victoria in 1837 up to the end of 1903, was $86\frac{7}{8}$.

It is well to note the causes which led to these maximum and minimum quotations. To take the maximum in the first place, there were special reasons for the high prices. It is estimated that the annual average savings of the nation amount to about £160,000,000. Now, investments either in this or in other countries have to be found for these savings. If there is a ready outlet the rate of interest will tend to rise. If, on the other hand, there is a difficulty in obtaining investments the rate of interest will fall. Now, in the 'Nineties trade was depressed partly on account of the uncertainty of the European political situation, and partly on account of the collapse in South American securities caused by the Baring crisis; and with a depressed trade the supply of new investments in this country was insufficient to meet the demand. From similar causes the amount of money placed in foreign securities had been considerably reduced. The combination of depressed trade in this country, and want of confidence in foreign credit, resulted in a dearth of investments for the savings of the country, and consequently there was a great appreciation in all classes of securities.

The Bank of England discount rate remained for a period of two years and four months at the exceptionally low figure of 2 per cent; and the market rate for temporary advances on first-class securities was still lower. This state of affairs generated an artificial condition in the money market. Speculators bought large blocks of gilt-edged securities on credit, and were able to make a profit as long as the low rates of interest on advances continued. The rate of interest on Consols at the price paid by them was, say $2\frac{1}{2}$ per cent. As long as they could borrow the price from banks and other financial institutions at $1\frac{3}{4}$ per cent there was a clear profit of $\frac{3}{4}$ per cent per annum on the transaction. Whether under any circumstances this profit was sufficient to cover the risk of ultimate loss is open to doubt; but as there was a general impression at

the time that the prevalent cheapness of money was likely to continue, speculators were, I presume, prepared to run that risk. It is right to mention that the same form of speculation was not confined to Consols. Numerous gilt-edged securities were bought in the same way, with the result that the prices of these also mounted higher and higher.

Other circumstances helped to swell the price in the case of Consols. As it gives the highest form of security it shared to a larger proportionate extent than others in the increased demand, but the supply was annually being reduced by considerable sums, in consequence of the action of the Government in applying the Government savings in the purchase of Consols. The combined result of these elements was, as I have stated, that in 1896 the price touched 113 $\frac{7}{8}$.

The height of the maximum price has made the fall to the minimum all the more striking. To a certain extent it has been caused by the alteration in the rate of interest from 2 $\frac{3}{4}$ to 2 $\frac{1}{2}$ per cent, which took effect in 1903; for although in 1896 it should have been well understood that the reduction in the rate was to take place, yet doubtless many holders would calculate a return at the rate then current without giving effect to the prospective reduction; but unquestionably the most effective cause has been the destruction of capital and the increase of national indebtedness in the South African war.

The National Debt, including funded and unfunded debt, amounted at 31st March 1903 to . . .	£798,349,000
At 31st March 1899, before the commencement of the war, it amounted to	635,040,000
Increase in the four years	<u>£163,309,000</u>
In the interval new issues of Consols were made amounting to	£92,000,000
A War Loan was created amounting to	30,000,000
Terminable Annuities were increased by	19,317,000
And the other liabilities of the nation were increased by	57,092,000
	<u>£198,409,000</u>
On the other hand Consols were purchased by Government to the amount of	35,100,000
Increase in the four years, as before	<u>£163,309,000</u>

Now all this money had to be found. You will observe that the new issues of Consols and of the War Loan amounted to £122,000,000. With such a large addition to the supply of Government securities it was inevitable that the price should fall.

The reduction has undoubtedly been accentuated by the fact that financiers took too sanguine a view of the money market at the close of the war. When the Government called for money there was apparently no difficulty in finding it, and each new loan was subscribed for over and over again. The last issue of Consols was made in April 1902, when 16 millions were offered to the public for subscription at 93½. The amount applied for exceeded 300 millions. Now, 300 millions is a large sum, even for a wealthy country like Great Britain and Ireland; and such a result might have led to the impression that there was a superabundance of money in the country waiting for investment in securities like Consols. It might also have been thought that the price should have risen permanently, seeing that the demand was nearly twenty times as great as the supply. It was undoubtedly the expectation that the price of Consols would rise; and if such a large amount of money had been actually free for investment, it would in all probability have had that effect. But because the subscription to the new issue amounted to 300 millions it does not necessarily follow that there were subscribers who in the aggregate really wished to have 300 millions allotted to them, or who could have paid for that sum if their subscriptions had been allotted in full. In fact, in the first place, the *bonâ fide* investors knew that the issue would be a popular one, and that in order to obtain the allotment they desired they would have to subscribe for a much larger sum; and in the second, speculators who had no desire to invest in Consols applied for large amounts in order to make a little profit out of the issue by selling to those who were disappointed.

This gives me an opportunity of explaining a common financial practice in connection with new issues of popular stocks,—not only of Consols, but of all kinds,—a practice

which I mention merely for the purpose of pointing out its objectionable features.

When a government or municipality or company issues a prospectus for the purpose of raising share or debenture capital, and speculators are of opinion that the investment will be so desirable in the eyes of the public that the amount required will be largely over-subscribed, they reason with themselves that many of the applicants who do not receive the full amount for which they apply will be ready to buy on the Stock Exchange at an enhanced price the stock they desire; and these speculators (who are called in Stock Exchange slang "Stags" or "Premium-Hunters"), though they do not wish to hold the stock, apply for a considerable amount in the hope that a portion may be allotted to them, and that they may sell that portion at a premium to those who really wish the stock. An example of the process may be taken from the issue of Consols to which I have referred. It was, as I have mentioned, applied for nearly twenty times over, and although such an overwhelming amount of applications was not expected, it was known that it would be very much over-subscribed.

Take the case of a speculator who applied for one million of the stock, and who obtained an allotment of £50,000, or 5 per cent of his application. The amount paid on application was £30,000. If he was wise enough to sell shortly after the issue he secured the return of his outlay and a profit of from 1 to $1\frac{1}{2}$ per cent; or from £500 to £750 in exchange for lying out of his money for only a few days. It must not be assumed, however, that "premium-hunters" are invariably successful. There are numerous instances where they have been mistaken in their forecasts, and where stocks or shares have not been fully applied for; in that case they have either to sell at a loss or nurse their holding in the hope that better times will arise. When, therefore, you see in a newspaper that an issue of shares or debenture stock has been applied for three or four times over, you will understand that it does not necessarily follow that the public are prepared to place in the investment three or four times the money actually required. In many cases it simply

means that the stock is likely to be a popular one, and that speculators are prepared to swell the subscription list in order to make a small profit.

To return to the main subject—namely, the influences which have caused the present abnormally low price of Consols. After the successful issue of the new Consols in 1902 it was, as I have mentioned, thought that the price would appreciate. The lowest price in 1902 was $92\frac{1}{8}$, and there was a general impression that banks and other financial institutions had left an ample margin for all contingencies by valuing their holdings of Consols at 90. The price has, however, fallen instead of risen since then; and reached its lowest point last month, when it touched $86\frac{1}{8}$. The cause of the collapse seems to have been that the public generally did not appreciate the actual position of affairs. If the recent issues of Consols had been taken up by the investing public there would probably have been no collapse; but as a matter of fact there was a repetition of the speculation of 1896, to which I previously alluded as a cause of the maximum price. The Government issues of Consols and the War Loan were to a large extent taken up, not by the public but by financiers who hoped to unload them on the market at a profit when the price should rise. The price did not rise; and the tightness of money in the United States reacted on the financial position in this country, causing a marked depreciation in all classes of stocks; so that speculators, being unable to hold them longer, had to force them on the market at a time when it was depressed. I have been told that those who knew more thoroughly how the recent Government issues had been taken up were quite prepared for the result; but till recently the opinion was prevalent that an early improvement might be looked for. Probably now we are beginning to learn from experience, and to take a less sanguine view of the financial position. The recent accounts of Scottish banks show that bankers in this country think it is now advisable to value Consols at 85 instead of 90, and this seems wise; for though the speculative holdings have to a large extent been absorbed, it is understood

that there is still a considerable amount to be put on the market when times improve. It seems likely, therefore, that there will be no material advance for some time, and that a considerable period must elapse before we see Consols again at par. Of course if there are no special circumstances to make new issues of Consols necessary, and if the Government resumes reducing the amount by the operation of the sinking fund, the smaller supply will inevitably cause an enhancement in price; but the process will probably be slow.

I have already incidentally referred to the $2\frac{3}{4}$ and the $2\frac{1}{2}$ per cent Annuities, and need not further take up your time with them; but will pass on to the next item in the Stock Exchange List, which is the National War Loan issued in March 1900 at $98\frac{1}{2}$, and repayable on 5th April 1910 at par. I merely refer to it in order to give a practical example of the calculation of the rate of interest on a security which can be purchased at a discount, and is repayable at a fixed date at par.

The price on 2nd December, when it was last ex dividend, was $97\frac{1}{2}$. Add thereto commission, 2s. 6d., which brings the total price payable by the purchaser up to £97, 12s. 6d. The interest of £2, 15s. on an investment of £97, 12s. 6d. is equivalent to £2, 16s. 4d. per cent. The difference between the price paid and par (£100) is £2, 7s. 6d.; and this profit, which the holder will realise on its redemption in $6\frac{1}{4}$ years, if spread over that period of $6\frac{1}{4}$ years, will provide an addition to the interest at the rate of 7s. 8d. per cent per annum,—making the approximate return on the investment £3, 4s. per cent per annum. You will see that this is considerably greater than the return on Consols purchased at the same date; the cause of the difference arising partly from the fact that Consols being a larger stock are more marketable; partly from the preference of the public for a more permanent investment; and partly because the public in many cases do not appreciate the advantage of the profit they will receive at even a comparatively early date.

I shall pass over the other items in the list of British funds till we come to India stock. The total public debt in India was on 31st March 1902—

Sterling debt	£134,307,000
Rupee debt=Rs. 1,161,914,000, equivalent at 1s. 4d. per rupee to	77,461,000
Total	<u>£211,768,000</u>

Both classes of the debt are sold on the Stock Exchange in this country, although the larger portion of the rupee debt is held in India. I should mention that this rupee stock (or as it is generally called rupee paper) is one of the few exceptions in which the buyer has to pay to the seller—in addition to the market price—the interest accrued from the last payment of dividend to the day of purchase. The exchange value of the rupee has been maintained practically at 1s. 4d. since January 1898; but before that date it varied according to the market value of silver—at one time having exceeded 2s., while ten years ago it fell below 1s. 2d. The uncertainty caused by the fluctuating value of the exchange, and the consequent difficulty of carrying on business transactions between this country and India, induced the Government in 1898, after the matter had been carefully considered by a commission, to limit the coinage of rupees; and by making the British sovereign legal tender and equivalent to 15 rupees the rate of exchange was practically fixed on the basis of 1s. 4d. per rupee. The Indian loans form a charge on the Indian exchequer only, as the Government of India cannot borrow without the authority of the home Government, which does not acknowledge responsibility for the Indian debts.

FOREIGN GOVERNMENT AND MUNICIPAL SECURITIES.

FORM OF SECURITIES.

At this stage I think it will be advisable to explain the different kinds of documents given to a purchaser on the Stock Exchange, or in other words, the form of certificate or voucher to which he is entitled as evidence that he is possessor of the security he has bought.

A security may take one of three forms—namely, Shares, Stock, or Bonds, all of these being divided into several sub-classes. Shares may be generally described as a security subdivided into a large number of equal small parts. These small parts may and often are eventually converted into stock. The difference is therefore in a great many cases more apparent than real; but there is one important distinction—namely, that all stock is fully paid up, whereas in the case of shares a portion may be paid up, leaving an outstanding balance which the shareholder may have to pay when called upon.

I should explain that there are two classes of joint-stock companies—that in which the liability of the shareholders is unlimited, and that in which their liability is limited to the amount of their shares. The City of Glasgow Bank was an example of a company with unlimited liability; and the widespread ruin wrought by its failure on the unfortunate shareholders caused a more general adoption of the limited liability principle by companies which previously had been satisfied to proceed on the old lines. The share list now contains very few companies with unlimited liability. There is, however, a considerable number of companies in

which a portion, and sometimes only a small portion, of the amount due under each share has been called up. It is important to have this point in view when considering the expediency of investing in the shares of such companies, for while a holder of fully-paid shares in a company which becomes bankrupt cannot lose more than the sum he has already paid for them, the holder of partly-paid shares may lose not merely the price paid, but may also have to pay up four or five times as much in respect of the portion of the shares uncalled at date of purchase.

Stock may be either inscribed or registered. When registered stock is bought a transfer is signed both by the seller and purchaser, the transfer is forwarded for registration to the office where the register of the stock is kept, and a certificate, showing the amount of the stock, is issued to the purchaser. Inscribed stock, on the other hand, is transferred by the seller signing the register of the stock. Of course any one living in the provinces who sells inscribed stock, the books of which are kept in London, cannot conveniently go through this process; and the difficulty is met by his giving a power of attorney to some one in London—generally a stockbroker—to sign the register on his behalf. This cumbrous system is confined mainly to Government loans. In the case of shares the seller signs a deed of transfer conveying to the buyer his right to them. The latter also signs it as undertaking any liability under the shares, and receives from the company a certificate showing the amount of his holding.

There is the further distinction between stock and shares, that the possession of shares implies only a partnership in the company, while the holder of stock may be a partner or a creditor. Thus, railway stock may be “ordinary,” or “preference,” or “debenture stock”—the two former representing an interest in the partnership of the railway, and the latter an interest in the debt due by the railway; but railway shares represent a partnership alone.

The holder of bonds is invariably the creditor of the state or company whose bonds he possesses. Bonds in some cases are made payable to a specified individual, whose

STOCK EXCHANGE SECURITIES.

name is registered in the books of the borrowing corporation or company, and the dividends are sent to him by post. These are called "Registered Bonds," and they pass by transfer. Or they may be what are called "Bearer Bonds." A bearer bond is a promise by the state or corporation to pay the amount of the bond at a certain fixed date, but it does not contain the name of the lender, and is therefore so far like a bank-note that it can pass from hand to hand, the main difference being that a bank-note is payable at once, while a bearer bond may be due twenty, forty, or one hundred years hence. In the case of bearer bonds small cheques promising to pay the interest at the due dates are attached to the bond. These cheques are called "coupons," hence "Bearer Bonds" are sometimes called "Coupon Bonds."

FOREIGN GOVERNMENT SECURITIES.

In the previous lecture I dealt with the British funds. The next classifications are those of "Corporation and County Stocks in the United Kingdom"; "Colonial and Provincial Government Securities"; and "Corporation Stocks—Colonial and Foreign." I purpose, however, in the meantime to pass these over, and to take up the list of "Foreign Government Stocks, Bonds, &c."

It is true that this class is not so likely to come under your notice in future as colonial government or home municipal securities; but there are some points in connection with foreign government securities to which, before going farther, I would like to direct your attention.

In the first place, there is the question of currency. It may be given as a general rule that bonds payable in silver currency should be avoided on account of the fluctuating value of silver. The only silver security which, as far as I know, should be excepted from this general rule is the rupee obligations of the Indian Government. I have already explained the method by which in that case fixity of value is secured; but in countries where the value of the silver coinage bears no fixed relation to that of gold the risk of a fall in silver is too great to be taken by the ordinary investor.

In 1893 the average price of silver was $35\frac{5}{8}$ pence per ounce, and in 1902 it was $24\frac{1}{8}$ pence per ounce. You may perhaps say that it has fallen so low that it cannot fall lower; but this prediction has been made so often, and has been so often falsified, that the only real limit to the price is the sum at which silver can be produced.

The next point with reference to bonds payable in a foreign coinage which I wish to bring under your notice is that of the rate of exchange. As bonds payable in silver are unsuitable for investment it is not necessary to discuss the exchange value of silver, and I propose to limit our inquiry to bonds payable in gold: for the exchange value of gold between the different countries has also a bearing on the value. The fluctuations are within narrow limits and are small compared with those in the value of silver, which, as you have seen, has fallen by one-third in ten years; but they are of sufficient importance to be taken into account. They arise, however, from the course of trade between the different countries and not from the value of gold, which practically does not vary.

The coinage of this country is fixed on the basis that 20 lb. of gold are coined into $934\frac{1}{2}$ sovereigns, so that each sovereign contains 123·27 grains of gold. The gold, however, in a sovereign is not pure, two twenty-fourths being alloy, or in other words the sovereign is eleven-twelfths pure. An ounce of standard gold is therefore worth £3, 17s. $10\frac{1}{2}$ d. and an ounce of pure gold £4, 4s. $11\frac{1}{2}$ d.

The standard of gold in foreign countries is different, the alloy consisting of one-tenth instead of one-twelfth as in this country. The German gold coin, value 10 marks, contains 61·4 grains of gold, and making allowance for the difference in the standard, the sovereign is equal to 20·45 marks, which is what one may call the par of exchange on Germany. The United States dollar contains 25·8 grains of gold; the French 10-franc piece 49·78 grains; and the Danish 10-kroner piece 69·14 grains. Making the same allowance for the difference in the standard, the par value of the sovereign in each of these countries is: United States, 4·86 dollars; France, 25·22 francs; and Denmark, 18·16 kroner. The above values are, however,

merely the par values, which fluctuate according to various causes, of which probably the state of trade with the country in question is the most important. Assuming that other elements do not interfere, then if the aggregate amount of the sums we are sending to France is equal to the aggregate amount that France is sending to us, the rate of exchange will remain at par; but when the amount we have to remit there is greater than the French liability to us, the rate of exchange—that is, the value of our sovereign—falls; and when the amount of our remittances is less the rate of exchange rises.

A more important point, however, than these fluctuations in exchange—which, as I have stated, are generally kept within comparatively narrow limits, and which, taking one year with another, neutralise each other—is the Stock Exchange practice by which the quotation of foreign moneys is calculated not at the actual rate of exchange, but at the nearest round figure. Take, for instance, a German security for 20,000 marks. The Stock Exchange values the mark at 20 to the £1 or 1s. each; and you would therefore imagine that a security amounting to 20,000 shillings would be equivalent to £1000; but, as I have mentioned, the value of the mark is fractionally less. The value varies with the rate of exchange on Germany from 20·37 to 20·53; but taking it at the figure on 28th December—namely 20·43½ to the £1, 20,000 marks would be worth only £978, 14s.; and consequently if the purchase was made at par you would pay, if the sale is carried out through a Stock Exchange in this country, £1000 for what really only amounted to £978, 14s. If the rate of interest on the bond were 4 per cent you would be entitled to 800 marks per annum, and when you came to cash your coupons you would find that instead of getting 4 per cent on £1000, or £40, you would only be paid 4 per cent on £978, or about £39.

The same remark applies to French securities, although the difference is not so great. The Stock Exchange value of the franc is at the rate of 25 to the £1, whereas the actual exchange varies from about 25·10 to 25·35. In the case of Danish and other Scandinavian securities, where the

bonds are issued in kroners, the London Stock Exchange calculate the price at 18 kroners to the £1, whereas the actual value ranges about 18·12 to 18·26. When it is stated that the interest is to be payable in sterling, and not at the exchange of the day, the Stock Exchange method works out correctly; but if otherwise, as will be seen in the above cases, the actual amount of stock purchased is in each case of less value than the nominal quotation would lead one to understand—not by a large sum perhaps, but by a sum which practically forms a premium of about 2 per cent in the case of Germany, and of something like 1 per cent for France and Scandinavia.

Another point to be kept in view in the case of foreign securities is the possibility of taxation. As a rule the interest on foreign loans issued in this country is payable free of any taxes which may be imposed by the borrowing country; but in many cases where the coupons are payable abroad the proceeds are liable to taxation. For instance, the coupons on Italian 3 per cent Railway Bonds are subject to an Italian income tax of 20 per cent, and a further tax not fixed in amount. Austrian coupons are subject to a deduction of 16 per cent for Austrian income tax. In the case of Russian securities, Russian tax is not deducted from interest on the loans quoted on the London Stock Exchange, but the interest on a large proportion of the Russian Government issues made on the Continent of Europe is subject to payment of Russian income tax.

The various Russian stocks stand at a price which give a return of 4 per cent, whereas, as you have already seen, the Government stocks of Great Britain, France, and Germany yield only about 3 per cent at present prices. The question of the future of Russia is a most interesting one. On the one hand we are told that it is already overburdened with debt; that a large portion of the charge for its present debt can only be met by further borrowing; and that a financial collapse must come whenever the credit of the country is exhausted. It is also predicted that a social upheaval is imminent; that the great mass of the people are tired of the tyranny of the bureaucracy, and of the corruption of the

whole system of government; and that there is a danger of the nation breaking up. The favourable features are that the country has unlimited resources, and that a large proportion of the debt has been borrowed for railways, which eventually may prove a valuable asset. These railways have been built mainly for military purposes and without regard to trade routes, hence they do not pay in the meantime; but as the country develops they may in time become sufficiently productive to meet a considerable portion of the charge for interest on the railway debt. An additional point in favour of the credit of the Russian Government is sometimes advanced—that it paid punctually all the charges on its debts even during the Crimean and Turkish wars.

Another speciality of the foreign stocks, bonds, &c., is worth noting. Many of them are repayable by drawings; and in such cases the purchaser cannot tell at what date the whole or a portion of the investment may be thrown on his hands. It may be next year or it may be thirty years hence. When the bonds have been bought at a discount the holder gains rather than loses by getting them paid in full at an early date; but on the other hand, if, say, he had bought Argentine 6 per cent Funded Bonds last year at 103, and his bond should be drawn this year, he will receive only £100, and will lose £3 by the transaction. A holder of a large number of bonds redeemable by drawings is likely by the doctrine of chances to have the repayments of his capital scattered over the duration of the investment; but bonds subject to drawings which stand at a premium are not suitable for the ordinary investor. Irrespective of a disadvantage of this kind, however, it cannot be said that many of the securities in the list of foreign government securities are suitable for an ordinary investor, who wishes above all things to have his capital thoroughly secured, and to be able to count upon the interest on that capital coming in on the day it is due. The large investor is probably justified in running a certain amount of risk if he divides his investments over a number of different classes of security. The additional interest he receives in consequence of taking the risk is likely to make up for the

possibility of a temporary default in one of his investments, provided they are carefully selected. He may reasonably enough say to himself, "Gilt-edged securities in this country will yield me no more than 3 to $3\frac{1}{2}$ per cent. I can get 4 per cent on Egyptian bonds, 5 per cent on the best classes of Brazilian and Chinese bonds, and from 5 to 6 per cent on Argentine and Japanese bonds. Although none of these are first-class securities they are not all likely to go wrong at one time, and if even one of the five should default I will still have a larger income than if I had put the same money into gilt-edged home securities."

I have mentioned these five classes of foreign bonds as being possibly the only securities that are worth considering, except those which yield from 3 to $3\frac{1}{2}$ per cent interest, and which may be called "gilt-edged," such as Danish, German, Prussian, French, and Swiss Government bonds. The five second-class bonds have been selected as being not of too speculative a character. Let us look into them separately. The Brazilian 5 per cent Funding Bonds are secured as a first charge upon the Rio de Janeiro customs revenue, with a further charge upon the customs revenue of the other ports should the Rio de Janeiro customs at any time prove insufficient. This charge undoubtedly increases the security of the bonds, and would make them a really good investment if we could trust the honesty and stability of the Brazilian Government. Egyptian securities, which yield about 4 per cent, are probably the best of the five; but their value depends on the continuance of British Government supervision. If that were assured for all time coming there would be no question of the value of the securities; but though it is likely that no change will take place, the contingency has to be taken into account. As to Argentine bonds, the position of the country is improving so rapidly and its resources are so great that if it does not get into trouble with neighbouring Powers there is no reason why its finances should not soon be in a stable condition. It is difficult in the present crisis to form an opinion as to Japanese securities. That country was able some years ago to borrow at $4\frac{1}{2}$ per cent; and if the political horizon had

been clear, its credit would probably have been equally good to-day. There seems nothing to fear from want of stability in the government and of the country. The element of uncertainty is caused by the doubt whether it will be able to bear the financial strain of a war with a European Power. In the case of China the stability of its bonds depends, like Egypt, on the continuance of British or at least European control. The earlier loans are secured by the hypothecation of the Imperial Maritime Customs Revenue, and they rank in priority according to date. Some of the later loans have in addition security over the li-kin revenues of certain ports of China. The other gold loans (I say "gold" because some of the Chinese loans are on a silver basis) are therefore amply secured; and provided the maritime customs continue to be managed by Europeans, with an Englishman at the head, there will be no chance of the customs revenue being dishonestly diverted to other purposes. I do not think, however, that any of us would like to guarantee the continuance of the arrangement, although there is no reason to imagine it is likely soon to come to an end.

As I have already mentioned, the stocks in this class are not so likely to come prominently under your notice as some of the others—such as stocks of the British Government, of British municipalities, and of railways in this country and America; but, on the other hand, the different securities are well worth your study from an educational point of view alone. In order to obtain a proper idea of the value of the different bonds it is necessary to consider not only the present resources, but also the past history, financial and otherwise, of the borrowing country; so that the subject should form an excellent training both from a general and a professional point of view.

MUNICIPAL SECURITIES.

Municipal Debts—Corporation and County Stocks in the United Kingdom.—This, one of the most important classes in the Share List, comprises the bulk of the indebtedness of municipalities and county councils in this country. It

commences with the various debts due by the London County Council and the City of London, which are distributed over several stocks known as Metropolitan Consolidated Stock; London County Consolidated Stock; Corporation of London Bonds, Debentures, and Debenture Stock. These London stocks alone amount at present to £62,235,000.

You will doubtless have seen in the public press, and have heard personally, a good deal of discussion as to the benefit, or otherwise, of the burdens that are being placed upon us by our municipal rulers. In order that you may understand the extent of these burdens I have extracted some information on the subject from an article on Municipal Finance in the 'Stock Exchange Official Intelligence' for 1903. In the twenty-five years from 1st March 1875 to 1st March 1900 the local indebtedness of England and Wales increased from £92,820,000 to £293,864,000, or more than 200 per cent. The rateable value of England and Wales had increased by 52 per cent, but the debt increased by 216 per cent. In 1875 the debt per head of the population was £3, 18s. 3d., and in 1900 it amounted to £9, 4s. 4d. You will observe that this does not include the local debt of Scotland or Ireland; but 'The Statist,' in an article in November last, gave figures which enable us to make a comparison at different dates for the United Kingdom. The total debts due by the local authorities in the following years were—

In 1889	.	.	.	.	£225,000,000
" 1894	.	.	.	.	264,000,000
" 1899	.	.	.	.	326,000,000
" 1904	.	.	.	.	440,000,000 (estimated),

showing an increase of nearly 100 per cent in fifteen years.

We do not require to consider to-night how much of this debt is justifiable, and how much, if any, has been frittered away in extravagance. The point of view which we, as investors, should wish to take has reference more to the effect of this increase of debt on the credit or solvency of the corporations. We wish, in fact, to find

some means of measuring the relative value of their obligations: and our inquiry is therefore limited to the points which bear upon the subject.

It may be premised that the obligations of every well-managed corporation are good securities, to all intents and purposes. Corporation loans are now in most cases secured over the whole assets of the municipality, and practically form a charge over every building and every foot of land within its boundary. It is bound to impose a rate sufficient to meet the interest and such charges as payments to the sinking fund for redemption of the debt; and, on the other hand, it is for the advantage of the ratepayers that expenditure is not incurred to such an extent as to render necessary a rate that would become too great a burden on their property. Such a fault would only be possible through inaction on their part; and inaction to such an extent, when their interests are so much at stake, is hardly within the bounds of possibility. It generally happens that when civic corruption has reached a certain point the ratepayers step in and insist on the stoppage of the abuses from which they suffer. An example of this was seen in New York some years ago when the citizens, who are usually indifferent to municipal affairs, became so disgusted with the rule of Tammany that they crowded to the polling-booths, and having defeated the corrupt party, put in power the nearest approach New York has had to a pure administration.

An investor has to be prepared for the unlikely as well as the likely: and what might possibly happen is, that through the combination of an extravagant corporation and inertness on the part of the ratepayers a debt might be accumulated which would necessitate the imposition of unduly heavy rates, and that the trade or manufactures of the city, being hampered by the heavy rates, should be driven from it, with the result that the mills become empty and the houses are without any one to live in them. I cannot say that I have heard of such a catastrophe occurring in this country, but there has been at least one case of the kind in Canada. The town of

Toronto West Junction borrowed, when trade was booming, large sums,—large, at least, in proportion to the size of the town,—and when bad times came heavy rates had to be imposed to meet the interest and sinking fund. The trade of the town was so handicapped by these rates that a considerable number of the manufacturers took their works elsewhere, and the remaining property could not afford the taxation required for the debt. The town had eventually to compound with its creditors for less onerous terms as regards interest and for delay in payment of the principal. It is difficult to imagine such a result in any of the large towns in this country, but it is well to keep the contingency in view.

The eligibility of the bonds of a municipality undoubtedly depends, not entirely, but to a considerable extent, on the fact whether the city authorities are careful or extravagant in the management of its finances. I have said that it does not entirely depend on management, because some cities are so circumstanced that one can hardly conceive a condition which would render them insolvent. For instance, if we take the case of London, it may safely be affirmed that in consequence of its position as metropolis of the kingdom it would be able to pay its debts however heavy a burden the County Council might place on its rate-payers: as the great bulk must live in London, property there will retain its value as long as the country can hold up its head among the nations of Europe. In this way its obligation is of more value than that of any other city in Great Britain. The accident of natural position and the general circumstances of a city, such as the character of its trade and the occupation of its inhabitants, also become factors in estimating the eligibility of its bonds. Seaports like Glasgow or Liverpool are necessary for the trade and manufactures of the country, and certain industries naturally are attracted to such centres. Their prosperity is therefore more assured than that of cities which may depend to a great extent on one great industry, and which would be very seriously injured if that industry should fail. Of course in such an event the

whole country would suffer; but, in the first place, the city that is principally supported by a trade that passes away will suffer more severely than another that has two or three strings to its bow; and in the second, the city which has any industry essential to the country, such as shipping, is more favourably circumstanced than one dependent on trades which though important are not absolutely necessary.

There are several methods of measuring the relation which the debt bears to the resources of a city. We may calculate its amount per head of the population; but this alone is not a satisfactory test, as one town may contain more valuable properties and more prosperous industries than another. The amount of debt in proportion to the rateable value of the town is perhaps a better standard; but even the rateable value does not form a complete test, for, again, one town may have spent much larger sums than another in reproductive works. To understand this last point you must remember that in the case of a municipality there are two classes of capital expenditure—unproductive and reproductive. The former is the more necessary of the two, but is not as remunerative as the latter from a monetary point of view, though it may be really more valuable if the health and comfort of the inhabitants be taken into account. The expenditure of the corporation includes many costly works, of which it is only just that future years should bear part of the expense, as the inhabitants will reap the benefit of them for many years to come. Streets have to be constructed, drains and sewers have to be laid under them, proper provision has to be made for sanitation; slaughter-houses, town-halls, fire-stations have to be erected; and in order that the outlay may not bear too hard on any one year the corporation borrows, and thereby spreads the expense over a number of years. All these works, however, bring in no revenue. On the other hand, if a supply of water is wanted, or the corporation purchases the gas-works or electric-lighting plant, it borrows in order to pay for them, and thus, as before, spreads the cost over a number of years; but in this case the expenditure results

in an annual revenue for water, gas, or electric light, which should be sufficient to pay for the interest and leave something over to wipe off the debt. These latter debts are reproductive.

The amount of debt, therefore, per head of population or per £1 of assessed value may not form a suitable guide to the weight of the corporation's burdens. For instance, a town which has its own water-works, gas-works, and electric lighting is in as good a position, even though it has borrowed a large sum—not larger, however, than what they are worth—to pay for them, as another which has no water, gas, and electric-lighting debt, but is also without the corresponding assets. The object, therefore, for which the debt has been borrowed, or in other words, the way in which the money has been spent, forms an important element in considering the financial position of a corporation.

‘The Stock Exchange Official Intelligence,’ in the statistics to which I have already referred, gives details of the purposes for which the municipal loans have been obtained; and those who wish to study the subject should, after reading the chapter on municipal finance in that volume, take up in detail the information given as to the various municipal debts. To-night I can only treat the point very superficially.

The aggregate of the municipal and local debts of England and Wales was, in 1900, as I have mentioned, £293,864,000; and this sum is made up of loans borrowed for the purposes shown in the following table (the figures of which are extracted from ‘The Stock Exchange Official Intelligence’):—

PRINCIPAL PURPOSES for which the LOCAL DEBT of England and Wales was created, the AMOUNTS outstanding in respect of these purposes as at 31st March 1900, and the RATIO which each of the amounts outstanding bears to the total.

Purposes.	Amount outstanding.	Ratio to total.
1. Reproductive undertakings—		
Water-works	£53,404,347	18·2
Gas-works	19,819,301	6·7
Electric lighting	7,853,061	2·7
Markets	6,760,311	2·3
Tramways	5,776,147	1·9
Working-class dwellings	5,655,151	1·9
Baths, wash-houses, &c.	2,154,734	·7
Cemeteries	2,802,998	1·0
Harbours, piers, docks, canals, quays, &c.	41,873,377	14·3
Total debt on reproductive undertakings	<u>£146,099,427</u>	<u>49·7</u>
2. Other purposes—		
Streets and highways	£37,243,780	12·7
Schools, libraries, and museums	31,229,780	10·6
Sewerage	29,326,175	10·0
Poor Law purposes	8,967,295	3·1
Hospitals and lunatic asylums	10,367,005	3·5
Parks and open spaces	5,936,059	2·0
Public buildings not included under other headings	8,411,637	2·9
Bridges and ferries	4,452,238	1·5
Miscellaneous	11,830,828	4·0
Total debt for purposes not productive .	<u>£147,764,797</u>	<u>50·3</u>
Total debt for all purposes .	<u>£293,864,224</u>	<u>100·0</u>

You will observe that as nearly as possible one-half of the debt has been incurred for reproductive works, such as gas-works, water-works, electric lighting, tramways, working men's dwellings, harbours, &c. It must be remembered that the amounts there stated are considerably less than the actual prices paid by the municipalities for these undertakings. The figures in the table give the present debts after they have been reduced in most cases by the sinking funds provided in terms of municipal legislation. These debts may, therefore, be held to represent valuable assets which, if the rule as to regular reduction by means of sinking funds is adhered to, should, when the relative debts are cleared off, add materially to the wealth of the municipalities. At present a city which

is proprietor of, say, its own water-supply has a revenue from it, but it has to pay out the larger portion of that revenue in interest and sinking fund. When the debt is wholly paid off it will have a handsome sum to be applied in reduction of the rates. I do not think that we need discuss how far it is legitimate for municipalities to enter into reproductive undertakings, or how far they should go in the way of municipal trading. We all agree that a town should possess its own water-supply, and most concede that it should also have its own gas and tramways; but there arises difference of opinion as to electricity, telephones, the erection of workmen's dwellings, and other forms of municipal enterprise. The subject is too large to take up, and it is sufficient for us to deal with the facts as they are at present. The only question we, as investors, have to put to ourselves is,—Is the municipal trading adopted by a corporation likely to pay, or is it likely to be a burden on the rates?

It is probable that the lavish borrowing by municipalities in the past has been fostered by the cheap rate at which they were able to raise money some years ago, and that many debts were then incurred which are now felt to be injudicious. 'The Times' last year made an interesting inquiry into the general question of municipal borrowing, which should prove of considerable service, as it has opened the eyes of the public to the disadvantages that may attend popular government. Where the capital expenditure has been prudently arranged, the authorities have no reason to regret any attention which may be drawn to the subject; and where it has been imprudent, the note of warning which has been sounded should brace the electors to take steps to keep a check on the extravagance of their civic representatives.

'The Times' mentioned several cases which were instructive, as showing the extent to which municipal extravagance can be carried, and the methods by which this extravagance in some cases has been fostered; and I may quote as an example a few of the facts which it gives in connection with one—namely, the county borough of West

Ham. This is one of the most important of the metropolitan suburban municipalities. Its growth has been surprisingly rapid. Half a century ago it had only a few thousand inhabitants, but it has now reached a total of over 275,000. The greater part of the rates is payable by large employers of labour, trades-people, and middle-class or well-to-do residents, of whom there is a small proportion, while the artisans and labourers, who form the bulk of the population and control the electoral power, do not directly feel the local burdens. In 1892 the Socialist societies and trade-unions of an aggressive type which existed in the district, obtained considerable representation in the town council; and in order to create as many openings as possible in the way of municipal employment, they demanded the formation of a works department which was to carry out all the public work decided on by the council—no tendering by outside contractors being then allowed. The work, however, was done by the department in such a fashion that it was described by one alderman as “the municipalisation of laziness.” Several examples of the mismanagement of the council are given by ‘The Times,’ one being that work which could have been completed in the ordinary way for £900 cost £2000. At the end of two years the amount expended on the work of the department, over and above what it would have cost had it been given to contractors, was £50,000. The Socialists steadily strengthened their position in the town council, and in 1898 they found themselves in such a majority that they were able to have all their own way. The finances of the department were then run entirely in the interests of the employees, without any regard to the pockets of the rate-payers; and a large amount of unnecessary work was put in hand for the purpose of employing labour and increasing the number of the supporters of the party. An electric lighting installation was erected which involves a working loss of £2500 a-year; the stabling department was run at a loss of £8000 a-year, equal to a rate of 2d. in the £1. In the municipal contests the favourite election cry was, “Vote for me, and I will vote for an eight hours’ day and 30s. a-week.” Altogether the combined effect of

reduced hours and increased pay was to send up the cost of corporation work by about £12,000 a-year as compared with what it would have cost if done by contractors. At last the eyes of the electors were opened and they began to understand the disadvantages of unrestricted Socialism. "They found that because of the increased rates house-rents were going up $12\frac{1}{2}$ to 20 per cent, notwithstanding the threats of the Socialists that every landlord who raised his rents should have his assessments increased. They found that employers of labour began to talk of doing with fewer hands, of putting down more, and still more labour-saving machinery, of paying lower wages, and even of removing from the borough altogether. They found that the corporation employees (who numbered from 1300 to 1400) were getting 20 per cent over trade-union rates for an eight hours' day in which they did practically as little as they pleased, while workmen not in municipal employment were expected to put in a full day's work for an ordinary wage, and to help, through higher rents, to confer a variety of advantages on an essentially privileged class." It took, however, three elections before the common-sense of the ratepayers was able to neutralise the hold which the labour party had in the town council; and as the result of the rule of Socialism in West Ham the ratepayers in 1901 were saddled with a rate of 10s. 8d. in the £1 as against 6s. in the £1 in 1890.

This, however, we should hope is an exceptional case, and we may congratulate ourselves that the great majority of our corporations are free from such misgovernment.

To pass from the general question of municipal borrowing to the actual facts connected with the various cities, I have selected ten of the largest, and annex three tables, the first giving statistics of the growth of their debts in the period from 1888 to 1901, with the proportion per head of population at each date; the second showing the relation of the debt to rateable value; and in the third the proportion of reproductive and unproductive expenditure respectively. The figures are extracted from the article in 'The Stock Exchange Official Intelligence' already referred to.

TABLE showing (1) the NET MUNICIPAL DEBT of the following cities in 1888 and 1901; and (2) the AMOUNT OF DEBT per head of the population at these dates.

	Debt in 1888.	Debt in 1901.	Amount of debt per head of population.	
			1888.	1901.
London . . .	£33,707,000	£46,893,000	7·9	10·3
Manchester . .	6,795,000	17,987,000	18·0	33·0
Birmingham . .	7,534,000	13,316,000	17·1	25·5
Glasgow . . .	5,335,000	13,034,000	9·7	16·8
Liverpool . . .	8,286,000	11,519,000	13·8	16·8
Leeds	4,374,000	8,041,000	12·5	18·7
Sheffield . . .	3,579,000	6,396,000	9·9	15·6
Edinburgh . . .	...	3,079,000	...	9·7
Belfast	...	3,286,000	...	9·4
Bristol	518,000	1,553,000	2·3	4·7

(The figures in this and the following tables for London include those for the City of London and London County Council; and for Edinburgh the debt is exclusive of gas and water loans, as these are not directly under the Municipal Corporation.)

TABLE showing (1) the RATEABLE VALUE of the following cities in 1901; (2) their NET DEBT in 1901; and (3) the RATIO which the Net Debt bears to the Rateable Value.

	Rateable value.	Net debt.	Amount of debt to each £1 of rate- able value.
London . . .	£14,657,000	£46,893,000	3·20
Manchester . .	3,394,879	17,987,000	5·30
Birmingham . .	2,735,426	13,316,000	4·87
Glasgow . . .	5,027,000	13,034,000	2·59
Liverpool . . .	4,042,525	11,519,000	2·85
Leeds	1,741,373	8,041,000	4·62
Sheffield . . .	1,453,274	6,396,000	4·40
Edinburgh . . .	2,588,720	3,079,000	1·19
Belfast	1,185,342	3,286,000	2·77
Bristol	1,561,891	1,553,000	·99

TABLE showing (1) the Proportion per cent of the GROSS DEBT of the following cities incurred for REPRODUCTIVE PURPOSES, and (2) the Proportion per cent for UNPRODUCTIVE PURPOSES.

	Proportion per cent.	
	For repro- ductive purposes.	For unpro- ductive purposes.
London	11·5	88·5
Manchester . . .	71·9	28·1
Birmingham . .	66·7	33·3
Glasgow	68·1	31·9
Liverpool . . .	52·7	47·3
Leeds	55·5	44·5
Sheffield	61·8	38·2
Edinburgh . . .	54·5	45·5
Belfast	60·8	39·2
Bristol	20·3	79·7

It will be observed that, excluding London, Manchester heads the list both as regards amount, ratio per head and per £1 of rateable value; but it has to be kept in view that its debt of £17,987,000 includes £5,128,000 advanced to the Manchester Ship Canal Company. Deducting this latter sum, the debt is reduced to £12,859,000, which is still considerably higher than any of the other cities.

In any comparison of the indebtedness of the various cities it is probably advisable to exclude London, which, as the metropolis, is in quite an exceptional position. I should like to have included Edinburgh, but the fact that its gas and water debts are not furnished renders its figures misleading. Let us confine ourselves to the five cities with a population over 500,000. These, I think, might be placed in the following order as regards the weight of debt, if effect be given to the general wealth and the assets they possess; but of course there may be special circumstances, not brought out by the statistics, which render the classification unfair:—

	Population in 1901.	Debt per head in 1901.	Debt per £1 of rateable value in 1901.	Proportion of unproductive debt.
Glasgow . .	777,000	16·8	2·59	31·9
Liverpool . .	685,000	16·8	2·88	47·3
Birmingham .	522,000	25·5	4·87	33·3
Manchester . .	544,000	33·0	5·30	28·1
Leeds . .	429,000	18·7	4·62	44·5

The foregoing information as to the corporation debts may serve as an indication of the method of judging as to the comparative merits of the other corporation stocks in the Stock Exchange List. In addition to the information to be obtained from the actual figures, you should keep in view the point I have already alluded to—namely, what are the general circumstances of the town or city, and are they such that its continued prosperity is reasonably assured?

The stocks in the list have been constituted either by the authority of the Local Government Board in terms of the “Local Loans Act” of 1875 and 1882, and the “Public Health Acts Amendment Act” of 1890, or are authorised by special Acts which are generally obtained by large corporations. All loans obtained under authority of the Local Government Board are repayable in a period not exceeding sixty

years, while in loans under special Acts of Parliament the repayment is sometimes spread over a longer period. In the case of some of the stocks the security consists of the mortgage of a special rate or rates, while in others the whole assets of the corporation are mortgaged. It is needless to say that the latter forms the better security.

As already mentioned, the list commences with the stocks issued by the City of London and the London County Council. The return which an investor would obtain from them at present prices varies considerably. Take, for example, the three following 3 per cent stocks—namely, Metropolitan Consolidated, repayable 1941, price on 31st December last 97; Corporation of London Debenture Stock, repayable 1923, price 94; London County Consolidated, redeemable after March 1920, price 91½. The returns in these cases are £3, 2s., £3, 4s. 6d., and £3, 5s. 9d. per cent respectively.

It is impossible to consider all the corporations in the list; but the following statement of the rate of interest at the middle price on 31st December of a representative stock of eight of the cities already mentioned will be of interest, the Glasgow and Edinburgh figures being taken from the Glasgow Share List:—

	Middle Price.	Middle price plus accrued interest and minus commission.	Rate of interest on price.
Manchester—			
3 per cent, redeemable 1941 .	95	94	£3 3 10
Birmingham—			
3 per cent, " 1947 .	92½	92¾	3 4 8
Glasgow—			
3½ per cent, irredeemable .	111	110⅞	3 3 1
Liverpool—			
3 per cent, redeemable 1942 .	92	92¼	3 5 0
Leeds—			
3 per cent, " 1927 .	91	91¼	3 5 9
Edinburgh—			
3 per cent, " 1924 .	93¾	93⅝	3 4 1

It will be observed that in five of these cities the stocks are marked redeemable; but as they are quoted at a price below par, and as the redemption is dependent on the option of the corporation, the fact does not affect the calculation of the rate of interest. If the redemption had been compulsory the rate of interest would have been increased by

spreading the profit on redemption over the number of years for which the stocks are current.

It is right before closing this subject to refer to the risk incurred by municipal corporations which borrow sums repayable on short notice—a risk which is too often lost sight of. They can repay their depositors and other creditors only by fresh borrowing, for they do not possess readily realisable assets. Their borrowed money is tied up in streets and other unmarketable assets. Banking companies, whose business it is to take money on short notice, make provision to meet the withdrawal of deposits by investing a large proportion of them in readily realisable securities; but corporations have no reserves of gold coin, no money at call or short notice, and no bills maturing day by day as banks have.

In so far as municipal corporations undertake banking business, by taking loans on deposit at short notice, they ought to take the same precautions as banks to provide against any abnormal condition of the money market which would create a general call for repayment by temporary creditors. As they are not in a position to take such precautions, they incur the danger of being suddenly called upon to provide large sums of money, at a time of crisis, when they may not be able to raise funds to pay their creditors.

BRITISH RAILWAYS.

THE various classes of railway stocks and shares represent what is probably the most important financial interest in the United Kingdom, or at least the most important which appears in the Share List. The National Debt of the United Kingdom amounts to nearly 800 millions; the Municipal Debt to about 400 millions. The railway interest is equivalent to both of them combined, for the nominal capital of the British railways at the end of 1902 was £1,216,861,421. It is estimated that the amount of money invested in them represents fully one-twelfth of the total accumulated property of the nation.

The following is a statement of the railway capital as at 31st December 1902 extracted from the Board of Trade Returns for that year:—

Ordinary stock and shares	.	.	£461,926,868
Preference	"	.	314,937,276
Guaranteed	"	.	115,906,390
Debenture and debenture stock	.	.	324,090,887
Total			<u>£1,216,861,421</u>

Of this, however, £189,400,000 is made up of nominal additions to the stocks in consequence of conversion; so that making allowance for this deduction the actual capital expended on existing railways may be stated at something over 1000 millions sterling.

The forms of the securities constituting the investments in railways differ in the character and the value of the security they furnish. It would take up too much time to explain them all fully, but I may mention the principal classes that are likely to come under your notice.

Debenture Stocks.—It may be sufficient here to state that debentures, or debenture stock, which is the form such railway securities generally take, form a debt secured over the

undertaking of the company prior to all other shares or preference, or guaranteed stock. The interest on debenture stock has priority over all dividends or interest on any shares or stocks of the company, and ranks next to the interest payable on the mortgages or bonds legally granted before the creation of such stock; but the holders of debenture stock are not, as among themselves, entitled to any preference or priority (except in one or two isolated examples, where the description of the stock shows the fact of its being postponed to prior issues). Railways are not allowed to borrow on debenture a larger sum in the whole than one-third of the authorised share capital; and they cannot exercise this power till the whole of the share capital is subscribed, and one-half thereof is actually paid up. Shortly stated, the definition you have to remember is, that the debentures and debenture stock of a railway company represent the sums borrowed by it on security of the railway and its property.

Guaranteed and Preference Stocks and Shares.—On the other hand, the partners of the railway are represented by the shareholders, who are divided into Guaranteed, Preference, and Ordinary. The dividends on guaranteed and preference stocks and shares come next in order after debenture stock. In the case of guaranteed stocks and shares the holders have what is called a cumulative preference for dividend; so that, if in any one year there is not sufficient income to meet the dividend at the full fixed rate on these stocks, the deficiency has to be made up out of the revenue for subsequent years.

In the case of preference stocks, on the other hand, the dividend is contingent on the profit of each separate year (except in the case of three of the North British preferences, where the dividend is contingent on the profit of each half-year); and if there is default of the whole or a portion of the dividend for one year, the holders have no claim for the arrears. The holders of guaranteed and preference stock have a voice along with the ordinary shareholders in the management of the railway, whereas the debenture stockholders have not.

Most railways have several classes of guaranteed and preference stocks. The Great Central Railway, for instance,

stands in the Share List with five classes of guaranteed stock and ten of preference stock. The dividend on its $4\frac{1}{2}$ per cent First Preference is payable in full before the $3\frac{1}{4}$ per cent Preference receives anything; while again the dividend on the $3\frac{1}{4}$ per cent Preference is payable in full before the 6 per cent Preference receives anything, and so on. It is important, in referring to a stock, that its exact designation should be stated, as a slight error in this respect sometimes makes a considerable difference. Any one not conversant with the history of the Great Central might be pardoned for failing to distinguish between Great Central 5 per cent Convertible Preference Stock, 1872, and Great Central 5 per cent Convertible Preference Stock, 1894; but the former sells at present at a price over 120, and has paid dividends in full for ten years; while the latter sells at something between 40 and 50, has not paid a dividend since 1898, and is not likely to do so for some time. It is true the contrast in this case is much greater than is usual, and arises from the special circumstances of the Great Central Railway, to which I will refer later; but it differs from other cases merely in amount, for in most cases the order of precedence of the various stocks has its influence on the market price. Take, for instance, the Caledonian Railway, which in the Glasgow Share List has three guaranteed stocks and six preference stocks. The highest guaranteed stock is its 4 per cent Consolidated Guaranteed, which is quoted on the day I write at $120\frac{7}{8}$, while the 1902 4 per cent Preference is quoted at $113\frac{3}{8}$.

In some cases railways have consolidated their issues of preference stocks, which at one time had different order of precedence, into one large stock, ranking equally on the profits. The Midland Railway created at different times eighteen classes of preference stock bearing different rates of interest. These have all been consolidated with the consent of the holders into one stock bearing $2\frac{1}{2}$ per cent—the holder of a 4 per cent stock getting £160 of the new stock for each £100 of the old, so that his annual income was the same as before. The holders of the older preferences sacrificed a portion of their security; but in exchange they got a more marketable stock, for, as I have already mentioned, a small

stock is not so marketable and does not command so good a price as one of large amount.

There are, however, in some cases influences which counteract the effect of priority. For instance, the Caledonian Railway 1884 Preference is at present quoted at a lower price than the 1887 Preference, although the former ranks for dividend before the latter, the reason of the anomaly being that the 1887 Preference may at any time be converted by the holder into ordinary stock. At the present time the option cannot be turned to practical advantage, for the ordinary stock is quoted on the day I write at 103, while the 1884 and the 1887 Preferences are quoted at 114 and 115 respectively, and there would be no advantage in converting a stock the value of which is 115 into one the value of which is 103. But we must remember that an ordinary stock has the prospect at some future time of receiving dividends exceeding 4 per cent, while a 4 per cent preference stock can never get a larger return. The Caledonian ordinary dividend has during the last nine years been less than 4 per cent in only one year. It has been as high as $5\frac{1}{8}$ per cent, and the price of the stock has been as high as 166. It is impossible to say if it will ever reach that figure again, but there is naturally a greater possibility of substantial improvement in the price of the ordinary stock of a well-conducted railway than in the price of its preferences; hence the option to convert a stock bearing a fixed dividend into one depending on the success of the railway seems worth more than is represented by the small difference in price to which I have referred. Another example may be found in the North British Railway. The first in order of its preferences, contingent on the profits of each half-year, is its Consolidated Preference No. 2, which is selling at 116 $\frac{1}{2}$. It has behind this eight classes of convertible preferences (that is, preference stocks convertible into ordinary stock at the option of the holder)—and these all stand at the same price as the ordinary stock (118), which is $1\frac{1}{2}$ per cent higher than the better secured preference.

Ordinary Shares and Stocks.—The ordinary shares and stocks represent what may be called the speculative portion of

the railway capital. All the obligations of the railway, including interest on the debenture stock and dividends on the preference stock, must be paid before the ordinary shareholders can receive a dividend. In recent years arrangements have been made for still farther dividing the speculative from the investment element by converting the ordinary stock into two classes called respectively "Preferred Ordinary" and "Deferred Ordinary" stock. Preferred and deferred ordinary stock can only be issued in exchange for equal amounts of paid-up ordinary stock. The preferred ordinary bears a maximum non-cumulative dividend; while the deferred ordinary receives the balance of dividend payable on the ordinary stock above the rate payable to the preferred ordinary. In some railways the shareholders have the option of either holding their stock undivided or of dividing it. In others the conversion into two classes is compulsory and the old stock is cancelled. You will understand the system from a statement of two actual examples. The Midland Railway Company in October 1897 issued, in substitution for each £100 of its then existing Consolidated Ordinary Stock, £100 of Preferred Converted Ordinary Stock entitled to a uniform dividend of $2\frac{1}{2}$ per cent per annum payable out of the profits of each half-year, but cumulative as far as the next succeeding half-year is concerned; and in addition £100 Deferred Converted Ordinary Stock entitled to such half-yearly dividend as may from time to time be declared thereon after providing for the dividend on the Preferred Converted Ordinary Stock. Two and a half per cent was paid during 1902 on the Preferred Converted Ordinary Stock; while on the Deferred Converted Ordinary Stock the dividend for the first half-year was 2 per cent, and for the second half $3\frac{1}{2}$ per cent, or $2\frac{3}{4}$ per cent for the year. The dividend, therefore, for that year was equivalent to $5\frac{1}{4}$ per cent on the stock if it had not been divided. In this case the whole stock was divided, and no option was given to the shareholders to retain the old ordinary stock.

The next example is that of the Caledonian Railway Company, which in 1890, in terms of the company's "Con-

version of Stock Act, 1890," allows any holder of the ordinary stock at any time, by application in writing, to require the company to convert his stock into Preferred Converted Ordinary Stock and Deferred Converted Ordinary Stock, each equal to the amount of ordinary stock so converted. Any dividend declared in each half-year on the undivided ordinary stock is apportioned—first, in payment of a dividend at the rate of 3 per cent per annum on the Preferred Converted Ordinary Stock; and, secondly, in payment of any balance to the holders of Deferred Converted Ordinary Stock. The undivided ordinary stock amounts at the present time to £5,994,000; and stock has been divided to the amount £12,465,000—that is, the company has issued £12,465,000 preferred ordinary and £12,465,000 deferred ordinary stock; so that more than two-thirds of the holders have taken advantage of the option.

The general power for splitting up stock in the manner indicated is prescribed in the "Regulation of Railways Act, 1868," and is limited to railways which in the year preceding have paid a dividend on their ordinary stock of not less than 3 per cent; and the maximum non-cumulative dividend which the Act allows on the preferred ordinary stock is 6 per cent per annum. The principal railways which have taken advantage of this power are the Caledonian; Glasgow and South-Western; Great Central; Great Northern; London, Brighton, and South Coast; London and South-Western; Midland; North British; and South-Eastern: while the Great Eastern; Great Western; Lancashire and Yorkshire; London, Chatham, and Dover; London and North-Western; and North-Eastern have not adopted the principle. It will be seen that the majority of the important lines have divided their stock; but their original ordinary share capital is considerably less than that of the six important lines which have not done so.

The three classes of stocks which I have dealt with—namely, Debenture, Guaranteed and Preference, and Ordinary—form the great bulk of the railway capital; but there are several others which you will find mentioned in the Share List, such as Lien Stocks. These are generally issued

as the result of the absorption of a smaller by a larger railway. In such cases the shareholders of the company which is taken over are generally guaranteed a fixed rate of interest on their stock by the absorbing company, while they retain their security over their original property. The largest of these lien stocks is the North British Consolidated Lien Stock, which is made up of the stock given to the shareholders of various lines now merged in the North British in exchange for their holdings. The original lien stocks bore 4 per cent interest and possessed liens on the specific railways, stations, &c., taken over by the company; but in 1895 these partial liens were terminated, and in their place they received a lien upon the general undertaking of the company. The stock at the same time was converted from a 4 to a 3 per cent stock, each holder of £100 of the old receiving £133, 6s. 8d. of the new stock.

You will also find the stocks of leased railways in the Share List. This class is somewhat similar to the lien stocks, but differs in respect that the smaller lines, instead of being absorbed, are still allowed a nominal existence, the absorbing railway leasing the line for a period generally equivalent to perpetuity instead of purchasing it outright. For instance, the London and Blackwall Railway (a line of about seven miles in length from Fenchurch Street Station in London to Blackwall and Millwall Docks) is leased to the Great Eastern Company for a period of 999 years from 1st January 1866 at a net annual rental of $4\frac{1}{2}$ per cent on the ordinary capital of the company, and all preferential engagements being adopted by the lessees,—an arrangement which amounts practically to the absorption of the smaller by the larger company.

You will find several railways in the List which are worked by other companies, but where the lease does not provide an absolute guaranteed dividend, such as the Callander and Oban and the Lanarkshire and Dumbartonshire Railways. Both of these are worked by the Caledonian Railway, which, in the case of the Callander and Oban line, supplies the plant and works the line in per-

petuity at cost price, but does not give any guarantee as to dividend; and in the case of the Lanarkshire and Dumbartonshire, works and maintains the line in perpetuity for 50 per cent of the gross receipts, and contributes certain mileage receipts accruing to it towards making up the dividends on the share capital to 4 per cent, in so far as such receipts are sufficient for the purpose. This latter condition reminds me to warn you that it is necessary, when considering the purchase of stock of such subsidiary railways, to look carefully into the exact nature of the guarantee given by the principal company. A superficial reading of the undertaking might lead one to imagine that the arrangement was equivalent to a guarantee by the Caledonian Railway of 4 per cent on the capital of the Lanarkshire and Dumbartonshire; but if the terms are carefully scrutinised, it is seen that the guarantee is a qualified one.

With this preliminary explanation of the classes into which the securities of the British railways are divided, I propose to turn shortly to their financial position. It is impossible to refer to all the railways, so I have selected twelve—eleven of the largest in the United Kingdom, whose capital, including loans and debenture stock, exceed in each case the sum of 40 millions sterling, and for the twelfth the Glasgow and South-Western. Its capital is about 23 millions only, but you will probably wish to see how its figures compare with the others. The following table shows for each of the twelve railways—(1) the total capital, including debenture, preference, and ordinary stock; (2) the ordinary stock (for the purposes of comparison the figures for the railways which have divided their ordinary stock into preferred and deferred ordinary are entered in the table at the amount corresponding to what it would have been if the stock had not been divided); (3) the net profit earned in the year 1902; (4) the amount spent in dividend on the ordinary stock (including both preferred and deferred ordinary) for the year 1902; and (5) the percentage which the amount spent in dividend bears to the net profits for the year.

BRITISH RAILWAYS.

Statement of (1) CAPITAL ; (2) NET PROFIT ; and (3) DIVIDENDS declared on Ordinary Stock of twelve British Railways for the year 1902.

Name.	Total Capital.	Ordinary Stock.	Net Profit for 1902.	Dividend on Ordinary Stock.	Ratio per cent of Dividend to Net Profit.
	£	£	£	£	
Caledonian	63,614,857	18,459,652	2,046,475	737,000	36·1
Glasgow & South-Western	23,412,979	5,959,340	716,310	260,000	36·3
Great Central . . .	43,766,560	4,834,000	1,171,799	..	..
Great Eastern . . .	54,139,217	15,362,886	2,066,074	469,000	22·7
Great Northern . . .	57,522,259	16,863,058	1,986,929	569,000	28·7
Great Western . . .	89,125,366	29,957,802	4,583,299	1,605,000	35·1
Lancashire & Yorkshire .	65,309,864	18,107,068	2,189,393	720,000	32·9
London & North-Western.	121,214,349	42,874,358	5,363,044	2,572,000	48·0
London & South-Western.	47,550,464	12,549,477	1,916,310	744,000	38·9
Midland	180,643,275	37,921,484	4,490,089	1,986,000	44·2
North British . . .	61,127,597	7,998,447	2,136,624	423,000	19·8
North-Eastern . . .	75,042,525	30,332,164	3,275,921	1,624,000	49·6

The interest on all the debenture and guaranteed stocks of these railways may be said to be amply secured, and that this is the general impression may be seen from the prices which they fetch on the Stock Exchange. They are all included in the Trustee Investment List (except those of the Great Central, which is absent from the list of both England and Scotland).

The majority of the preference stocks of almost all these railways may also be called gilt-edged; but there are exceptions, and more discrimination is required. If you wish security of the highest class you will naturally choose debenture or guaranteed stocks; but the rate of interest these yield is comparatively small, and you may wish a better return for your money. The problem then will be to select a preference stock which will prove a sound investment. You should limit your purchases to those securities where

your judgment, after careful investigation, confirms the recommendation which you will receive from your stock-broker.

Now when you are asked to lend money on a house or landed property, you inquire in the first place what its rental is, and how much of that rental remains after paying the necessary outlay for taxes, repairs, &c. You do not lend unless the net rental, after deducting these outlays, is sufficient not only to pay interest on the loan, but also to provide a substantial margin for contingencies. You also procure a valuation of the property, and as a rule limit your loan to two-thirds of the value. In the case of railway securities you have to be satisfied with the rental, as it is not possible to get a proper valuation. You can ascertain what it has cost in the past; but it is impossible to tell whether or not it is worth as much to-day. Mr Keir Hardie has views on the subject which, however, one would hope are not likely to be realised. He thinks that when his party comes into power the railways of this country will be taken over by the State at the price of scrap iron; and if he is right in his forecast I fear even railway debenture-holders will fare badly, while the preference and ordinary shareholders will get nothing. I think, however, that theory may be ignored! Failing, then, the possibility of getting a valuation, we have to base our criterion of the value of the security on the income, and this income is represented by the net profits of the railway. The table shows the net profits of the twelve railways for the year 1902 (which I have taken as being the most recent full year available at the present time), and a fair idea of the relative security for the last preferences of the various lines can be obtained from the column showing the proportion which the amount paid in ordinary dividend bears to the net profit. It represents the margin which would have to be swept away before they could suffer. For example, the London and North-Western, after paying the dividends on debenture and preference stocks; had still 40 per cent of its profits available for dividends on the ordinary stock. It had, therefore, a margin of at least 40 per cent as

security for the preference stocks. On the other hand, the North British Railway had only 20 per cent available for dividends. If the net profits of both the London and North-Western and the North British Railway were reduced by 40 per cent, the London and North-Western would still have been able to pay interest on its preferences, while the North British would have had to pass the dividend on preferences to the amount of about £10,000,000.

I do not say that a standard of this kind should be adopted without further inquiry into the general conditions of each railway, for there may be special circumstances which render the continuance of the net revenue more probable in one case than in another. You may also think that such an inquiry is needless and there is not much probability of a serious drop in the net earnings of a railway. As such an event has happened, it is well to keep the principle in view, that the narrower the margin after payment of the debenture and preference charges, the less valuable are the later preferences of a railway. The railway which has been the unfortunate exception to the rule is the Great Central. It was originally known as the Manchester, Sheffield, and Lincolnshire Railway, and except in the year of the coal strike it had paid its preference dividends in full. Ten years ago, however, it obtained power to extend its system to London, and the cost of the London extension so crippled its finances that in 1900 it ceased to pay dividends on its preferences from those of 1874 onwards. The pinch would have been felt even sooner than 1900 had it not been that (in terms of the Extension Act of 1893) the interest on the amount expended was authorised to be paid out of capital during the construction of the extension. Since 1900 it has been gradually reducing the number of preferences on which no dividend is payable until now (11th January 1904) the 1879 preference dividend is payable in full, and the 1881 preference receives a payment to account. The 1889, 1891, and 1894 preferences are still without dividends.

Notwithstanding this episode, I do not think we need

depart from the view that the preferences of the other eleven railways in the list are fairly well secured. If the Great Central had been satisfied with its original size it would not have been in the unfortunate position it is to-day.

As to the smaller railways there is much greater diversity, and it cannot be said that in all cases the stocks constitute good securities. It is probable that investments in these smaller lines may be brought under your notice. In that case I would recommend you to apply the method I have already indicated for comparing their security with that of others of undoubted strength. At the same time it should be kept in view that, other things being equal, a large railway is more likely than a small one to be well managed and to continue its dividends; and that the stocks of small railways are less marketable.

When we come to consider the relative security of the preferred ordinary stocks the same tests of margin should be applied, and on that account the fixed rate of interest allotted to them has an important bearing on their value as investments. The smaller the rate of interest that has to be met out of the ordinary dividend fund the better the security. For instance, the Midland and the Glasgow and South-Western preferred ordinary stocks, which bear only $2\frac{1}{2}$ per cent, are naturally—other things being equal—better securities than the Great Northern preferred ordinary stock, which nominally is entitled to interest at the rate of 4 per cent before the deferred ordinary stocks receive a dividend.

The following are figures similar to those in the previous table, showing—(1) The net revenue of five of the great railways which have subdivided their ordinary stocks; (2) the amount required to pay the deferred dividend for 1902; and (3) the ratio which the deferred dividend bears to the net revenue. Other two of the twelve railways have divided their ordinary stocks—namely, the Great Northern and the Great Central; but these have been excluded from the table because no dividend was paid for 1902 on their deferred ordinary stocks, and the margin over preferred ordinary dividend had disappeared for that year.

BRITISH RAILWAYS.

MARGIN OF DIVIDENDS FOR DEFERRED ORDINARY STOCK.

	Net profit for 1902.	Dividend on Deferred Ordinary Stock.	Ratio per cent of Dividend to Net profit.
Caledonian	£2,046,475	£184,000	9·0
Glasgow and South-Western	716,310	111,510	15·6
London and South-Western	1,916,310	248,000	13·0
Midland	4,490,089	1,040,000	23·2
North British	2,136,624	191,767	9·0

It will be seen that the Midland had a margin of 23 per cent after paying the preferred ordinary dividend, while the corresponding rate for the North British and the Caledonian was 9 per cent only. One can understand, therefore, the reason why the Caledonian preferred ordinary should sell at a price to yield £4, 2s. 3d. per cent on 29th December last, while the Midland preferred ordinary should sell at a price to yield £3, 15s. 9d. per cent. The return on North British preferred ordinary was £3, 19s. per cent. (I have in this case compared the return on the different stocks at the market price, as the market price itself cannot be compared in consequence of the difference in the rate of interest.) As a matter of fact, if we look at the figures in the two tables it will be seen that the Midland preferred ordinary stock appears to be a better security than the preference stocks of several of the other great railways.

It should be mentioned that the preferred ordinary stock of the Caledonian and North British are at a disadvantage as compared with the preferred ordinary stock of the English lines. The dividend on these depends on the profits of each full year. In the Scotch lines the dividend is paid out of the profits of each half-year. This is a very important distinction. You are aware the railways in this country have much larger profits in the second half-year. In England any deficiency in the lean half-year may be made up out of the fat half-year; but in Scotland, if the dividend fall off in the first half-year there is no claim for the deficiency out of the profits of the second.

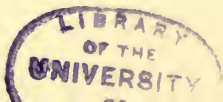
The comparative tables I have shown you must be taken with the caution that they are based on the returns for one particular year, which may or may not be representative of the normal state of matters. It is not always safe to act on the results of one year. A particular railway may have been exceptionally prosperous in the year that has been chosen, or the reverse; and the figures would not show its true condition. In making your comparison, therefore, it is advisable to average the figures for several years. As far as I am aware, however, there were no special circumstances in 1902 to render the comparison an unreliable one. It is so far suitable for the purpose of judging as to the security, in respect that any estimate based upon it is likely to be a fairly safe one, since the dividends during that year were almost at the lowest point experienced in the last ten years. The railways of this country have lately been passing through a period of depression. The average dividend on the ordinary stock in 1893 was $3\frac{1}{2}$ per cent. It gradually increased till it reached $4\frac{1}{4}$ per cent in 1896, but since then it has fallen gradually till in 1901 the bottom was touched at the average rate of £3, 1s. per cent.

It is impossible to foretell the future of British railway finance. The depression to which I have alluded has not been caused by bad trade or by any decrease in the earnings of the railways, which, as a matter of fact, have grown with the wealth and prosperity of the country. In thirty years the gross railway earnings have more than doubled,—from £53,000,000 in 1872 to £109,000,000 in 1902,—and during that period, with the exception of the years 1879, 1885, and 1893, there has been a steady increase. The growth of the number of passengers is still more striking. In 1850 the passengers carried numbered 73 millions, in 1880 604 millions, and in 1902 nearly 1200 millions, so that the number now is seventeen times as great as it was fifty-two years ago, and twice as great as it was twenty-two years ago. The unfavourable fluctuations in profit, therefore, have not been caused by any falling off in the business done by the railways, but are due partly to the larger amount of capital spent on their property and partly to additional cost of

working. In the last ten years £200,000,000 of additional railway capital was raised in the United Kingdom, without taking nominal additions into account; in other words, about one-fourth has been added to the capital, and consequently one-fourth more profit is now required to pay the same dividend. The increased cost of working has arisen from many different causes, the principal being the rise in the rate of wages of the railway employees, and the increase in the price of coals and of materials generally. The price of coal is a very important factor. It was at a low point in 1896, and dividends then reached their maximum. The price rose for several years and the dividends decreased. The price again began to fall, and in 1902 the railways were able to pay larger dividends.

The enhanced cost may be best shown by the ratio it bears to the gross earnings of the railways. In 1896 the aggregate working expenses of the railways of the United Kingdom exhausted 56 per cent of the gross receipts, while in 1902 the ratio was 62 per cent, the increase in six years being 6 per cent. Now if this 6 per cent had been saved—if the railways in 1902 had been able to work at the same rate of expense as in 1896—the shareholders would have received $1\frac{1}{2}$ per cent additional dividend. It would therefore seem that the main source to which the railways should look for greater profit is to be found in reduction of expenditure. The prosperity of the country may help them, and bad trade may affect them prejudicially, but there is no doubt that judicious economy and adoption of the best means of handling the traffic are wanted in order to effect any real improvement in their position. Railway management in the past has been run too much on conservative lines, but there are signs at present of a growing tendency to take up new methods which make for economy. I shall only refer to one of these—namely, the haulage of mineral traffic. We employ small waggons in this country, while those used by the American railways are much larger, and they are enabled to carry their mineral traffic at less expense than we do. Some of the English railways are now purchasing larger waggons, and if the

railway management is able to secure the co-operation of traders and mine-owners a considerable saving is likely to be effected. This, however, is only one change out of many to which railway reformers point as being required in the management of our railways. A general lack of enterprise and a conservative preference for old methods have stood in the way of railway development in the United Kingdom as compared with the United States. To a certain extent our backwardness is probably due to the difference in the systems of the two countries. In America the railroads are managed by a President (or possibly by a clique, of which the railroad president is the head) possessing arbitrary power. He is thoroughly acquainted with all the details of the vast business; his hands are not tied by having to refer his actions to a large board of directors, as in this country; he is able, since he does not require to consult colleagues who might be indifferent or reactionary, to take advantage at once of new inventions and new methods, and to strike out in new directions. In this way the American railways have made far greater progress than those in this country. The method at the same time has its disadvantages. The English system of management by boards of directors, who are subject to be called to account by the shareholders at every turn, is naturally slower and less productive of profit to the railways; but it tends to purity of administration, and gives less opening for the abuses which are sometimes found in American railway finance. It is difficult to say which has the balance of advantage from a monetary point of view. The profits of some of the American railways exceed any of ours; but, on the other hand, a much larger proportion of the capital has been lost. We may, however, flatter ourselves that while the American system gives higher dividends, ours on the whole gives a greater feeling of security in railway investments generally. We must not, however, flatter ourselves too much; and it would be wise to extract what is good from the methods in America and leave aside what is bad. I therefore mention another point where we are at a disadvantage—another striking weakness in British



railway finance. Our railway companies live practically from hand to mouth, and lay nothing aside for a rainy day. There are great possibilities in railway book-keeping, and although some may make a point of renewing their line and rolling stock out of revenue to as large an extent as they are entitled and ought to do, yet the general impression is that in order to provide dividends most lines take too much of the cost of keeping the line in order out of capital and charge far too little to revenue, while the amount carried forward is reduced to a minimum. The result has been that a good many of the lines have been starved, whereas if smaller dividends had been given to the shareholders, and the revenue applied to keep the lines in thorough working order, there would not have been the same necessity for the yearly additions to capital account which we see growing year by year. Railway reformers urge that the capital account of our railways should now be closed except for the construction of new lines. If this were done, the shareholders would at first have to suffer a diminution in dividend, but they would probably be amply repaid in the future. It would be well if they kept in view the example of the American railways, some of which reserve from one-third to one-half of the profits available for dividend. I can quite understand that if such a course were recommended by the directors of a railway in this country there would be a chorus of disapproval from the shareholders; but it is the adoption of such a course that has enabled these American railways to continue dividends in years of depression, and has mainly caused the prosperity which they are enjoying at the present time.

AMERICAN RAILWAYS, ETC.

AMERICAN RAILROADS.

THE capital stock of the United States railways amounted in 1902 to 1215 millions sterling, and the bonded debt to 1293 millions sterling—in all 2508 millions, or about double the amount in this country. At the same date there were 198,000 miles of railways in the States as against 22,000 in this country; and the average dividend on their ordinary stock was 2·93 per cent as against 3·32 per cent in this country.

The principal American railway securities sold on the Stock Exchange consist of three classes—(1) Railroad stocks and shares, (2) gold bonds, and (3) sterling bonds. A large portion of their securities consist of currency bonds, but these are not much bought in this country. The first class consists of the ordinary stock and share capital of the company, the income of which depends on profits. The bonds represent the obligations of the various railways. In the case of gold bonds the principal and interest are payable in America in gold dollars of fixed weight and fineness. Sterling bonds are payable in this country in sterling money of the United Kingdom. In both of these cases (gold bonds and sterling bonds), therefore, the currency is fixed, and, whatever the security may be, any money payable under them is payable in gold. In the case of ordinary shares or stock and currency bonds the position is quite different, principal and interest being payable in United States dollars. The United States currency is practically fixed on a gold basis at present, and all obligations, except for small sums, must be paid in gold coin; but there is nothing to prevent the legislature

from legalising payment either in gold or silver. You are aware that some years ago the Republican nominee for the Presidency of the United States had for the principal plank in his platform the claim that debts should be made payable in silver as well as in gold. A change of this kind would not affect the condition of matters between debtor and creditor as long as both resided in the United States; for if A owed B \$1000 and paid him in silver B would be able to get credit for \$1000 with the silver dollars received from A. The case, however, is very different if A were resident in the United States, and B, who was in this country, had advanced him \$1000 to-day, when, as I have already mentioned, the currency of the United States is practically fixed on a gold basis. It would cost B £206 to remit the \$1000 to A to-day; but if, before the money is repaid, the legislature should authorise payment of debts in silver, it is impossible to say what the value of the silver dollars would be; but taking the price of silver at the date on which I write, the \$1000 would only be worth about £100. There is very little reason to fear such a contingency, as the cry for the legalisation of silver in America is heard only in times of great depression, and the Americans themselves seem convinced that there is no prospect of the change being ever made. At the same time the contingency, remote though it may be, has to be kept in view; and therefore gold or sterling bonds are to be preferred to currency bonds by residents in this country.

When referring to the question of foreign exchanges I mentioned that the par value of the English sovereign is \$4.86 $\frac{2}{3}$. The Stock Exchange assumes that \$5 go to the £1. In the other foreign securities you saw that the Stock Exchange method makes your security appear larger than it really is. When you are dealing with American dollars the result is the reverse, as the following example will show: A bond for \$5000 purchased nominally at par would cost £1000 at the rate of \$5 to the £1. If, however, you divide \$5000 by 4.86 $\frac{2}{3}$ you will find that the capital amounts to £1028 instead of £1000; so that a Stock Ex-

change purchase stated in dollars represents from 2 to 3 per cent more than the Stock Exchange equivalent. If the interest is 4 per cent you will receive \$200 annually, which is equivalent to £41, 2s.; and thus for your £1000 you will receive interest at the rate of £4, 2s. 2d. per cent instead of 4 per cent. These calculations have been made at the par of exchange. The actual rate varies between 4·83 and 4·90.

It is needless to say that in dealing with American securities great discrimination is required. Some of the bonds form a security of the highest character—quite equal to the best debenture stocks in this country; but there are, unfortunately, many of a very inferior class, as investors in this country know to their cost.

I have already mentioned that the capitalisation of the American railways in 1902 amounted to 2500 millions sterling; but these figures do not represent the actual amount spent on the railways in America. On the one hand they do not include the enormous sums of money which have been thrown away on railways that do not now exist; and on the other they include a very large amount of “watered” stocks. It must be remembered that their system of railway finance is different from ours. Here we place a railway where there is traffic. In America, as a rule, the traffic has followed the railroads. The following explanation, quoted by Mr Van Oss in his book on ‘American Railroads,’ though not to be taken quite seriously, gives an indication of the *modus operandi* in the western districts: “We commence building a line, and send an engine with a barrel of lager beer ahead as far as it will go. Then we deposit the barrel somewhere in the prairie. A bar and some Germans gather round it, and soon there is a small colony with a church and a schoolhouse. Meanwhile we push our line ahead for five or six miles, and repeat the beer-barrel business; and by the time the whole road is ready we have quite a nice little population along our line.”

There is also considerable difference in the method of finance in the two countries. Twenty or thirty years ago

in America (and it may happen even now) when a line was built the company bonded it for the full amount of the cost of construction. Then a share capital was issued as a bonus to be divided among the members of the syndicate which promoted the line; so that in this way the ordinary railway capital was really what might be called "water." If the scheme turned out a success the promoters received a handsome profit. If it were a failure they lost nothing, and the only sufferers were the unfortunate bondholders. Very many of the lines owe their existence to this method of financing; but it does not necessarily follow that all of these railways are not now worth the amount for which they are capitalised. In fact the American railway system has experienced the effects of the natural law of the survival of the fittest. Events move much more rapidly there than in this country. Periods of great prosperity and adversity recur more frequently, and act with greater intensity than they do with us. In each period of distress some of the weaker companies have been weeded out, while the stronger have weathered the storm. There is a cycle of good fortune at present; but a very few years ago the railways' earnings were at a very low ebb, and in consequence several of the important railroad companies defaulted. Indeed it is estimated that one-third of the railway mileage was in this position. The defaulting companies, as a rule, were reconstructed, and in the process the fixed charges for interest were heavily reduced; and although the prior bondholders generally escaped without loss, the shareholders and those holding junior securities suffered severely.

Having given the dark side, I must now turn to the points where we are at a disadvantage as compared with America. As I mentioned when discussing the question of British railways, the Americans have been turning their attention to decreasing the working cost; and they have done so by introducing larger trains, larger waggons, more powerful engines, and improved gradients; and in the railroads of highest repute these improvements have to a great extent been defrayed not out of capital but out of revenue.

In addition they are more cautious in dividing the profits, giving a smaller proportion to the shareholders and carrying a larger sum to reserve than we do. I already referred to this point in the lecture on British railways; but to emphasise it I give the following particulars of the Pennsylvania Railroad as an example of the finance of an American railroad of the best class. Its capital stock amounted at 31st December 1902 to 204 million dollars. The net profit for the year, after deducting the interest on debt, &c., amounted to nearly 26 million dollars. It paid less than half of that sum in dividends, spending \$12,500,000 out of its revenue in betterment outlays. During the last three years only half of the profit was divided among the shareholders, the other half having been applied either in betterment or carried to reserve. Its railway system aggregated nearly 5000 miles. Its bonded debt was \$140,000,000; and this, backed up by a share capital of considerably larger amount (\$204,000,000), which has earned a dividend of 5 per cent during the period of depression, and has never had less than $4\frac{1}{2}$ per cent since 1856, forms a security of the highest class. It is difficult to get an example of its obligations exactly suitable for comparison with similar securities in this country; but if we take the best of its bonds, these were selling at the end of the year at a price to yield $3\frac{1}{2}$ per cent, whereas the debenture stock of the London and North-Western was selling at a price to yield about £3, 1s. per cent—a difference of nearly $\frac{1}{2}$ per cent. One of the disadvantages of the bonds of the American railways, from an investor's point of view, arises from the fact that they are redeemable; and this undoubtedly is one cause of their price being lower than that of our railway debenture stocks, which, you are aware, are irredeemable. In the case of British debenture stock the holder is entitled to dividend in all time coming, and he can neither demand his capital nor can the railway company insist on his taking repayment. From the point of view of the railway company, however, there is no doubt that the advantage lies in the American system. The British railways are saddled in perpetuity with the interest on their debenture debt—interest in most

cases fixed at a time when money was much dearer than it is at present. The London and North-Western debenture stock has been borrowed mostly at 4 per cent. If they had retained the power to redeem they could at one time have raised the amount at something like $2\frac{1}{2}$ per cent; and even to-day they could borrow at a rate from 15s. to £1 per cent less than the 4 per cent they are paying. The Pennsylvania Railroad Company has two large mortgages, amounting together to over \$40,000,000, on which 6 per cent is payable, which were borrowed between the years 1867 and 1874, and are redeemable partly in 1905 and partly in 1910. If, as is likely, they will be able at maturity to reborrow the money at not more than $3\frac{1}{2}$ per cent, the conversion will effect an annual saving of at least one million dollars; and as time goes on other reductions in its fixed charges will be effected by the same process of reborrowing at a cheaper rate the mortgages which become due.

The Pennsylvania Railroad is, as I have stated, an example of railway finance in its best form; but in the United States, as elsewhere, all kinds are to be found—good, bad, and indifferent. It would be too difficult a task to make even an approximate classification; but I think we may with safety put three of the railways in the first rank—namely, the Pennsylvania, the Illinois Central, and the New York Central Companies. Each of them possesses all the qualifications required to make their obligations thoroughly sound investments. There are, of course, many other well-secured American railway bonds, and while it is impossible to lay down any definite rules for selection, it will be useful to note a few of the points to be kept in view when considering the eligibility of American bonds generally.

In the first place, there is the question of margin, which in this, as in all other classes of security, is the main point to be kept in view. Are the earnings from the railway sufficient to pay the interest on all its fixed charges and leave a margin for dividends? If the bond proposed is part of a first mortgage over an important part of the railroad, and if the subsequent mortgage or mortgages are of relatively large amount, the necessity for a margin suffi-

cient to provide substantial dividends on its ordinary capital is not so essential as in the case of bonds with little or no backing of postponed mortgages. A railroad, however, that has little margin over and above its fixed charges may have to be reconstructed, and in the reconstruction even the earlier bonds may suffer. It is well, therefore, to confine your investments to railroads which pay good dividends. In making your calculations the inquiry should not be limited to one or even two years, but should embrace a considerable period, and if possible a period of depression rather than one of good trade; for, as I have already mentioned, railroads in America are subject to great fluctuations, and some pay handsome dividends in one year and have to be reconstructed the next. For instance, the Baltimore and Ohio Railroad, which some years ago was able to pay a dividend of $4\frac{1}{2}$ per cent on its ordinary capital, and to carry forward a surplus of \$639,000, found itself unable to pay its debts and had to undergo reconstruction. It is therefore necessary to average the figure for several years if you wish to know the true position of the railroad.

In the second place, the railroad should be of sufficient magnitude to guard against the possibility of its falling into the hands of unscrupulous speculators. This has often happened in the case of small railroads, and on some occasions even of railroads of considerable importance. Having obtained the control it is easy for the clique to manipulate the accounts to suit themselves. If they wish to sell the stock they show increased profit, and if they wish to buy they show a loss. In the latter event they are not likely to go so far as to cause deficiency in the interest on the first mortgage bonds; but their action may tend to depreciate the selling price and cause serious loss to any who may be compelled to realise their holding. Now, a risk of this kind is not likely to be incurred where the railroad is of sufficient magnitude to ensure honest management. There is the additional advantage in the line being large, that it is not likely to be replaced by a competing line over the whole or the greater part of its system. In the case of the bonds of a small line it may quite well happen (and it has

happened in the past) that one of the large railroads of the country absorbs a competing line, and by starving the first practically render its bonds valueless. For this reason it is advisable to avoid the bonds of a leased line, unless these bonds have a definite guarantee by an important railroad company, and unless the position of the guaranteeing line itself is unquestionable.

It is also well to have in remembrance that a railway debenture in America is a very different security from a railway debenture in this country. An American railway debenture carries the obligation of the railroad company, but it does not carry a charge over the railroad itself; and I do not think I am going too far in advising that you should not be satisfied with a mere obligation of an American railroad company, or with anything less than a bond secured by mortgage over the railroad property.

To summarise the different points: the American railway bond suitable for a thoroughly safe investment should consist of either a gold currency mortgage bond or a sterling currency mortgage bond secured over a railroad (1) of sufficient extent, and so situated as to be necessary for the traffic of the country; (2) whose earnings for a series of years show a considerable surplus over fixed charges; and (3) which has, at any rate in the recent years, been honestly managed.

BANKING SECURITIES.

The list of banks in the London Stock Exchange official list is to some extent made up of colonial and foreign banks, or at least of banks whose main business is conducted out of this country. I do not propose to refer to these, but only to the joint-stock banks transacting business in the United Kingdom.

The subscribed capital of the joint-stock banks in the United Kingdom, as detailed in 'The Economist' of 17th October last, amounted to £285,352,000, of which £79,541,000 was paid up. These banks held on deposit at that date the following sums:—

Bank of England . . .	£51,867,000
Other English banks . . .	593,248,000
Scottish banks . . .	106,437,000
Irish banks . . .	50,439,000
Being a total of . . .	<u>£801,991,000</u>

'The Economist' gives an estimate of the market value of the paid-up capital of the joint-stock banks, the figures for those of England and Wales being £200,010,000, or 318 per cent of the capital paid up; Scotland, £32,620,000, or 350 per cent of the capital paid up; and Ireland, £22,312,000, or 306 per cent of the capital paid up. In England and Wales there are, excluding the Bank of England, twelve which have a paid-up capital of 1 million sterling and upwards, while in Scotland there are seven with a capital of 1 million and upwards, the total paid-up capital of the latter being £8,500,000. Another comparison between the banks of England and Scotland may interest you. The English banks held reserve funds amounting to £37,232,000, being 59 per cent of their paid-up capital; while the reserve of the Scottish banks aggregated £7,409,724, or 79 per cent of their paid-up capital.

I have already referred to the adoption of the limited liability principle by the Scottish banks in the case of those in which prior to 1879 the liability was unlimited. It was understood that the Bank of Scotland, the British Linen Company Bank, and the Royal Bank of Scotland, being incorporated banks, were not subject to unlimited liability. The others increased their capital to five times its original amount at the time they adopted the limited liability principle, the original amount only being paid up. Thus the Clydesdale, Commercial, National, and Union Banks, which each had a capital of 1 million sterling, increased their capital to 5 millions, of which 1 million was paid-up and 4 millions uncalled. In some cases the provision was made that a portion of the uncalled capital should be paid up if it should be thought desirable, the balance to be called up only in the event of emergency. No alteration was made at that time in the three incorporated banks. In the case of one of these—namely, the Bank of Scotland—the stock is paid up only to the extent of two-thirds, so that a holder of £1000 is liable

for a further sum of £500. The only particular as to which the liability of the limited banks is unlimited is with regard to the note issues, which are a first charge with unlimited liability on the assets of the banks.

The Bank of England does not appear among the banks in the Share List, but is entered in the list of British Funds. It was established in July 1694 to advance the Government a loan of £1,200,000 at 8 per cent. For 130 to 140 years its only competitors in England were private bankers; for up till 1826 joint-stock banks were not allowed in England, and even then they were prohibited to trade within sixty-five miles of London. In 1833 the limit was removed, and joint-stock banks were allowed in London as well as in the provinces; but the Bank of England has still the sole right of issuing notes within the sixty-five mile radius. The Bank of Scotland was constituted by Act of the Scottish Parliament in 1695,—a year later than the Bank of England,—and it was followed by the Royal Bank of Scotland, which was founded by Royal Charter in 1727, and the British Linen Company Bank, which was also incorporated by Royal Charter, in 1746.

Bank shares and stock have a privilege on the Stock Exchange possessed by no other stock or shares. The seller must furnish the registered number or description of his holding when it is put up for sale. The object of this rule is to prevent speculation in bank stock. In all other classes there is nothing to prevent any one selling stock even although he has none in his possession. If you think Great Britain is likely to be involved in war with Russia, and that Consols will fall in price, you may back your opinion by getting your stockbroker to sell £100,000 Consols for you on the Stock Exchange, even although you have not a penny of the stock in your possession. Or you may think railway stocks are likely to drop, and may sell large blocks of North British or Caledonian deferred, without having either one or other. Of course you will some day have to buy in the stock you have sold, in order to deliver it to the purchaser; but you can, if the stock is large enough, delay doing so from account to account. Of course such transactions

really constitute a form of gambling, and it is to protect banks from the possibility of such improper speculation that the rule is made which compels the seller to show that he actually has the bank shares he wishes to sell.

There are restrictions on the free sale and disposal of bank shares, and of shares generally that are only partly paid up. If a sale is effected on the Stock Exchange the seller has first to make an offer of the stock to the bank or company, at the same time stating the price and the name of the intending purchaser. The directors may elect to purchase for behoof of the bank or company at that price, and they have a certain number of days allowed them for accepting or declining the offer. If they decline, or do not accept, within the period the shareholder may carry through the sale to the proposed purchaser at the price stated. But he is not entitled to make such sale at a lower price until a new written offer at the lower price shall have been made to the directors, and declined or not accepted by them. The theory of this restriction on the free sale of shares, involving possible liability, is no doubt based on the fact that it is the duty of the directors to see that the shares do not pass into the hands of parties notoriously unable to meet the liability of their share of the uncalled capital, and in the case of a bank especially, the right of the directors to veto a transfer by any shareholder indebted to the bank for advances, or an obligant on bills or cautionary obligations, or otherwise a debtor.

It is interesting to note that bank shares have not suffered depreciation like Consols and gilt-edged securities during the last seven years. This is partly due to the circumstance that they are seldom held on borrowed money, the liability attaching to them for uncalled capital excluding them from the class of securities accepted by bankers themselves as cover for speculative advances; and partly because the conditions of trade and finance which in the period in question have unfavourably affected other first-class securities have contributed to the increased prosperity of banking institutions. Taking the principal banks in Scotland, the average dividend on their paid-up capital has increased from 12 per cent in 1896 to 15 per cent in 1903. In addition

they were able out of their profits to increase their reserves from 67 per cent in 1896 to 81 per cent in 1903; and the average price of the shares has appreciated from 312 for each £100 in 1896 to 351 in 1903.

I should like to have been able to give you some advice as to bank shares as investments. The fact that a sum of £32,000,000—if we take the amount at market value—is almost entirely held in Scotland in this form of security shows its high estimation in the public mind. The subject, however, is too complicated, and could not be satisfactorily taken up as part only of a lecture; nor could I deal with it except in a very superficial way. I would hope that some member of the Institute of Bankers may some day be induced to give you the benefit of his skilled knowledge on this most important point.

FINANCIAL TRUST COMPANIES.

The companies under the heading of “Financial Trusts” are of a varied character; but those to which I wish to direct your attention form the bulk of the list both in number and amount. I refer to the companies formed for the purpose of investing their capital it may be in one particular form of security, or it may be in different forms of security, with the view of giving an investor with small funds the opportunity of dividing his risk over many investments, instead of putting “all his eggs into one basket.” With a small sum you can only obtain an interest in one or two securities, and if your selection is unfortunate you may lose all your capital; but if that small sum be invested in the stock of an investment trust which spreads its investments over, say, a couple of hundred securities, you have your share of each of these, and the chance of loss is reduced to a minimum. (I do not propose to refer to such companies in this list as the Stock Conversion Trust, the Mexican Central Railway Securities Company, and the Railway Investment Trust, which have been founded for the purpose of splitting up the stocks of different railways, in the same manner as has been done by some of the

British railways, by dividing the stocks into preferred and deferred stock, with the view of separating the investment element from the speculative element.)

As an example of the *modus operandi* of a financial trust company I take at random from the 'Stock Exchange Official Intelligence' the information given as to one of the Scottish companies, which was "formed to invest money in debentures, bonds, property, stocks, and shares in the United States, Canada, and elsewhere, and generally to carry on a financial business." The explanation of another states that it was "formed to carry on the business of a trust company. Not more than one-thirtieth of the issued share and debenture capital may be invested in any one security except with the unanimous approval of the trustees. The resolution of the trustees as to the selection of securities must be unanimous."

The capital of these companies is generally divided into three classes—Debenture stock and Preferred and Deferred stocks or shares. In the London Share List there are eighteen companies where the preferred and deferred capital exceeds half a million sterling. The aggregate capital of these consists of—

Preferred stock	.	.	.	£10,312,000
Deferred stock .	.	.	.	7,867,000
Debenture stock	.	.	.	12,059,000
Total	.	.	.	<u>£30,238,000</u>

Now if we take these companies in the aggregate it may be held that their debenture stocks form a security of the best class, the £12,000,000 of debenture stock being a first charge on property which has cost £30,000,000. This opinion is, of course, based on the assumption that the investments of the companies have been selected with ordinary judgment, and in the case of well-managed companies this is undoubtedly the case. It is true that in the initial stages a good many mistakes were made. Most of the companies were founded in the years 1887 to 1889, when speculation was booming and prices were high—in fact the companies themselves were suggested by the boom. The

sums they received from the individual investors were invested therefore at high prices, and in many cases in securities of a doubtful character; hence a considerable amount of capital has been lost in the interval. Since 1887 the companies have had to face three crises in the financial world—namely, (1) the Baring failure in 1890; (2) the collapse of the Australian banks in 1893, and (3) the American railway depression in 1894 and 1895.

These misfortunes have acted beneficially in purging their balance-sheets of a mass of rotten securities, and have caused them to put their houses in order. Some of the weakest of the companies had to be reconstructed. The majority have during the last few years strengthened their position. In several cases the lost capital has been replaced, and if the companies take advantage of the lessons of the past—as they doubtless will—there is every reason to believe that even the deferred shareholders may look forward to satisfactory results, while the interests of the debenture and preferred stockholders will be well secured. Of course the security of the debenture stock is much the best. Many of the companies have equal amounts of debenture stock, preferred stock, and deferred stock, so that the debenture stock will not suffer until two-thirds of the capital is swept away.

The majority of the companies publish a list of the investments with each annual report, so that an investor is able to see for himself how the securities are placed. I can imagine no better training for any one desirous of studying investments than the careful scrutiny and valuation of a list of investments of one of the higher class of these companies. It is true that many of the investments will be unknown to him, and will not be found in the Stock Exchange list; but a sufficient number will remain for him to scrutinise, and if on valuing these he finds securities yielding ample margin over the debenture debt he may be quite satisfied as to the safety of the trust debenture stock. At present the prices of the 4 per cent debenture stocks of the eighteen companies I have referred to range from a little below par to $106\frac{1}{2}$, so that the return from

them exceeds considerably that from the higher priced British railway debenture and preference stocks, many of which really do not provide equally good security.

COMMERCIAL AND INDUSTRIAL SECURITIES.

I had not anticipated, when I prepared the syllabus of the lectures, that so much time would have been taken up with the classes of investment already dealt with, otherwise I should not have included Commercial and Industrial Securities; for it seems to me that a full lecture would be required to treat the subject even superficially. In the remaining time at my disposal I can only make a few general remarks on the subject; and, as you will doubtless understand, these remarks are confined to the comparatively few items in the list that may be considered investments, and are not merely speculative securities. The list is, on the whole, of a much wider character than any of the others, and if dealt with thoroughly would open questions of more general interest than any of the other classes. It contains companies connected with all kinds of industries and enterprises, from the most important to the most unimportant,—companies for distributing penny-in-the-slot machines, for making soap and matches, companies owning theatres and menageries, butchers' and grocers' shops, hotels and tea-rooms. On the other hand, it includes the large combinations formed for the manufacture of chemicals, or thread, or electric apparatus, or machinery. The majority, as I have mentioned, are outside the scope of our inquiry, and I can only attempt to direct your attention to one or two of the points to be kept in view in arriving at some judgment as to the few that remain for consideration.

The general rule may, I think, be given to the investor in the first place, to invest only in debenture stock. It might be thought that preference shares are as good as debenture stock when the articles of association provide that no debenture stock should be issued, and such a proposition you are likely to hear advanced; but for one reason alone the position is quite different. In the event of de-

fault preference shareholders have no power to take possession of the property, whereas in the case of debenture stock the assets are generally vested in trustees for the stockholders, who could act if the debenture obligations are not punctually met.

In the second place, the investor should carefully scrutinise the prospectuses of the companies he has in view, and should avoid those where a statement of profits merely, and no valuation of the company's assets, is given. The average annual profits may be four, or five, or even ten times greater than the sum required to pay the debenture interest, but that information alone is not sufficient proof that the company's obligation will be good in all time coming; for the profits may depend upon the *personnel* of the management, or on the state of trade in the country; and in a joint stock company equally with other organisations you cannot be sure that the future management will be as successful as the past or the present, or that a particular trade may not come to grief. You should therefore have a valuation before you; and this leads up to the third point, which is, that the security of which you propose to take a part should be well within the value of the property belonging to the company. It strikes one as rather an anomaly that limited liability companies should be able to borrow larger sums than individuals and at cheaper rates, but there is no doubt such is the case. Many lenders who would never think of advancing money to a private firm on security of manufactories or warehouses, and who would require the usual margin of one-third if they lent on the best property, will lend on manufactories or warehouses, and be satisfied with the smallest possible margin (or with no margin at all), when their security takes the form of debenture stock.

In the fourth place, the nature of the valuation should be carefully scrutinised. It is not wise to trust to a valuation of the business as a going concern. Most of you will doubtless have known of many companies which at one time were most prosperous, but from one cause or another had eventually to be wound up, and where the

costly machinery and other assets that had been entered in the balance-sheets at large sums were sold by the liquidator for "an old song." Of course if you adopt a principle of this kind you will place no value, whatever on such items as patent rights or goodwill, which we find so often used to swell the value of businesses turned into limited liability companies. In fact if the rules I have mentioned were generally adhered to by investors who wish really good security, I fear that many of the debenture stocks of commercial and industrial companies at present held in high repute would stand at a much lower price than they do to-day. There is no doubt that a large portion of the public think that they are getting a gilt-edged investment when they subscribe for the debenture stock of a company doing a prosperous business, and ignore the possibility of adverse circumstances.

If we ask ourselves the reason of the high estimation in which a good many commercial securities in this country are held I think we shall find that it is to a considerable extent due to a lack of what might be called financial perspective on the part of the public. I am sure many of you will be able to recall examples of successfully managed businesses in your own city being turned into limited liability companies, where all the classes of debenture stock are greedily taken up. The premises where the business has prospered in the past are known to every one. Most people are confident that there is no chance of the collapse of the business, and even if such an unlikely event should take place, they will lose nothing as they will have the property to fall back upon. They forget that the management of the business or its character may change, and that it may even be wiped out altogether by foreign or other competition, and that property sold at a forced sale realises very much less than any estimate made in a time of prosperity. In short, the favourable features of securities at our own doors are apt to bulk largely in our eyes, while really good investments out of our own country are neglected.

In these four lectures I have been able to take up only a few of the classes of investment in the Share List, and I leave the suggestion to your Committee that the large blanks which I have left might be judiciously filled up at some future time by the delivery of a second course of lectures.

It is, however, right before closing that I should mention what one might call the text-books of the investor on the Stock Exchange. The most important and most useful is the volume to which I have several times alluded—namely, ‘The Stock Exchange Official Intelligence,’ which is published by authority of the Committee of the London Stock Exchange, and is edited by the Secretary of the Share and Loan Department. Similar information, but perhaps not quite so full, is furnished in the ‘Stock Exchange Year-Book.’ A large number of financial newspapers are published daily and weekly, which give information on financial matters. Some are reliable,—such as ‘The Economist’ and ‘The Statist,’—and some are not.

I have already mentioned that while you should take the skilled advice of a stockbroker you should also study the investment for yourselves, and only accept those where your judgment, after careful inquiry, confirms his opinion. From the text-books I have mentioned you can obtain the information required for the purpose of forming your judgment. It has been my aim in these lectures to indicate one or two of the general principles to be employed in the study and selection of investments, rather than to furnish you with details of the various classes of security.



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