A. G. Becker & Co.

INVESTMENT BULLETIN

FOURTH QUARTER, 1930

Bond Market Indicators

WE show herewith two charts which will be of interest to investors. One exhibits the movement, since 1922, of bond prices and of three important factors closely allied to the trend of bond prices. A chronological record of the facts graphically expressed by the chart is also shown in parallel columns so that the behavior of the influencing factors may be readily noted from year to year.

The other chart shows the average yield in dollars since 1926 of a group of bonds, and also the effective purchasing power relative to this dollar yield—that is, the actual yield adjusted to fluctuations in the purchasing power of the dollar. It will be readily observed that an actual decline in dollar return may be more than offset by an increase in purchasing power.

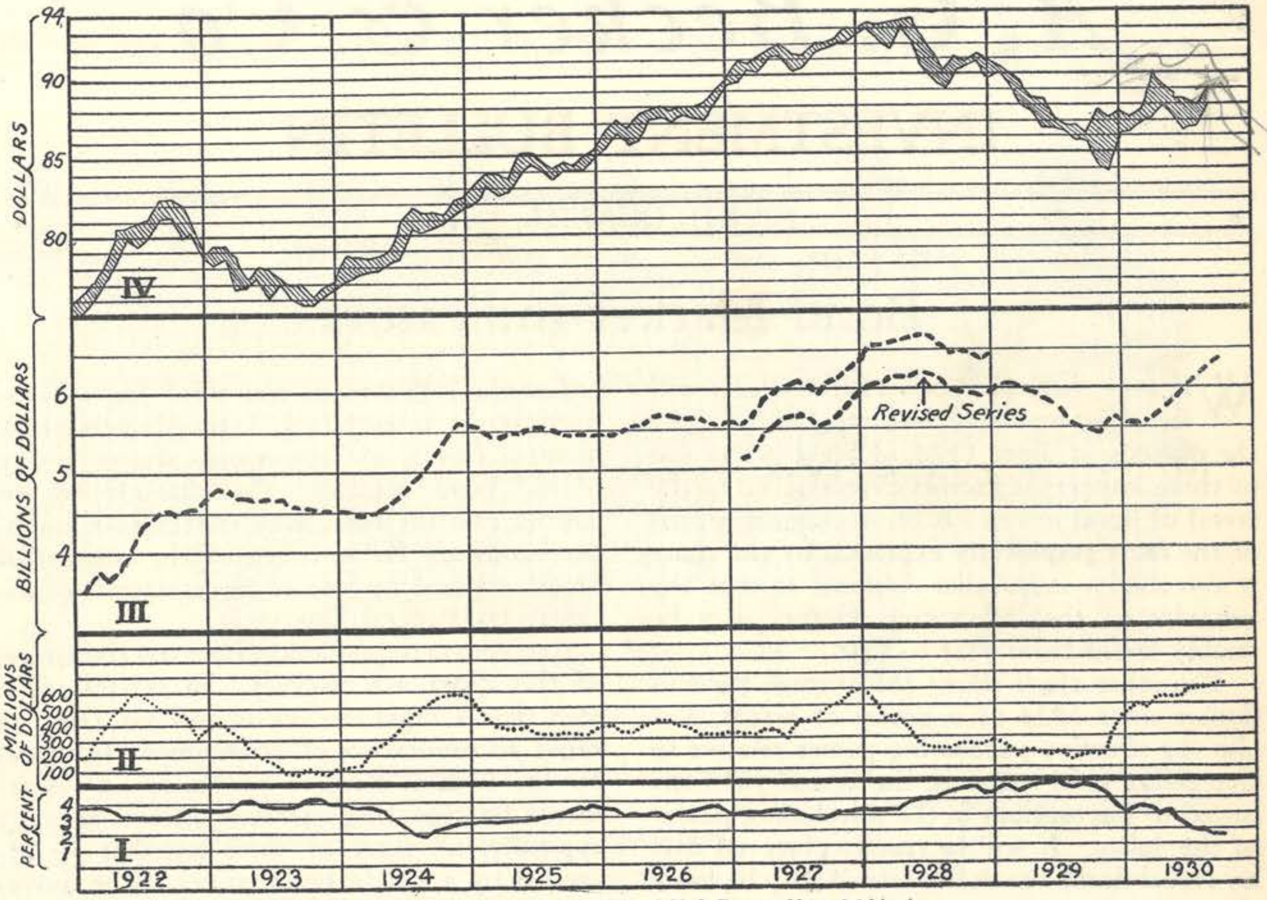
For the chart of factors influencing the bond market use has been made of short term interest rates as represented by the yield on United States Treasury Notes of 3 to 6 months maturities; of the holdings of government securities by Federal Reserve banks; and of the investments of reporting member banks in the Federal Reserve System. For the movement of bond prices, the New York Times average of monthly high and low prices of 40 bonds has been used.

The influence of these three factors is well known. Bond prices normally move in the opposite direction to interest trends. Acquisition of government securities in large volume by the Federal Reserve banks releases funds of banks for credit. This release of credit is ordinarily reflected in the third factor—the purchase of investments (typically bonds) by member banks, and consequent strengthening of the bond market. The chart shows, of course, that the bond accumulations of member banks are far in excess of the amount of credit released by sale of government securities to the Federal Reserve.

Certain correspondences between the curves of this chart are obvious. In general, it is seen that a rapid decline in interest rates, or rapid accumulation of government securities by the Federal Reserve banks, or of investments by reporting member banks—or more typically, all three of these together—is attended by a rise in bond prices. The movements do not always show a uniform degree of correspondence; extraneous factors account for this.

In 1922 a decline in interest rates accompanied by rapid accumulation of securities by the Federal Reserve and member banks, was attended naturally, by a sharp rise in bond prices. Late that year the direction of all four curves was reversed, and a new trend was followed into the last quarter of 1923. The directions then changed again, and the long upward movement of bond prices began which, except for minor interruptions, carried straight forward to the peak of 1928. It will be noticed that the early stages of the movement were marked by rapid and heavy accumulation of securities by the banks, and by a sharp decline in interest rates. These

FACTORS AFFECTING THE TREND OF BOND PRICES



I. Short Term Interest Rates as Shown by the Yield on U. S. Treasury Notes, 3-6 Months.
II. Federal Reserve Banks Holdings of Government Securities.
III. Variations in the "Investments" Account of Reporting Member Banks.
IV. New York Times Average of Prices of 40 Bonds—Monthly Highs and Lows in Terms of Dollars per $100 Bond.

influences steadied in 1925, but the bond market continued to go up, undoubtedly because of the entrance of the public into the market —a factor that can not be accurately reported for statistical uses. In 1927 a new period of bank accumulation set in, attended by slightly declining interest rates, and the bond market rushed on to its peak.

The long decline which then began reflects the fact that the bull stock market of 1928 and 1929 was under way, and that public interest for the time being was turned to securities other than bonds. It will be noticed that this decline in the bond market was apparently foreshadowed in January, 1928, when the Federal Reserve banks began selling government securities—while the upward trend in bond prices did not halt until June. Of interest, at the close of this long downward movement, is the effect of the stock market collapse on bonds, as indicated by the unusually wide spread between highs and lows at that time.

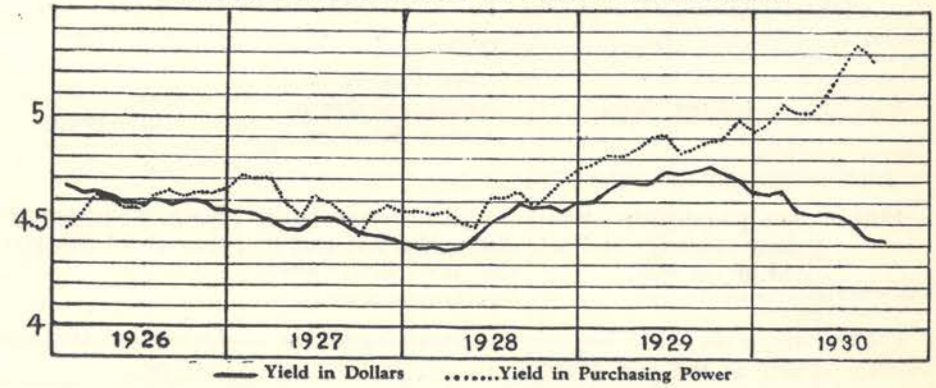
As to the current situation: Bond prices, after rising in the first quarter of 1930 and falling in the second, have again gone up to approximately their spring levels. They are still substantially below the 1928 peak, however, although interest rates have fallen to the lowest point since the war, and both Federal

CHRONOLOGICAL RECORD OF FACTORS AFFECTING THE TREND OF BOND PRICES

Year	Interest Rates	Federal Reserve Banks Holdings of Government Securities	Member Banks Investments	Bond Prices N. Y. Times Average of 40 Bonds
1922	Steady to slightly lower, rising slightly at the end of the year.	Rapid accumulation during the first part of the year, after which liquidation ensues.	Rapid accumulation throughout the year.	Rapid rise in prices to a peak in September followed by a decline.
1923	Slight rise at the beginning of the year, holding steady throughout the last nine months.	Continued liquidation.	Liquidation throughout the year.	Declining throughout the year.
1924	Steady for the first three months declining sharply during the second quarter.	Rapid accumulation throughout the year.	Steady for the first three months followed by very rapid accumulation.	Rising prices.
1925	Rising slowly.	Liquidation in first three months of the year. Balance of the year practically no change.	Steady — practically no change.	Steady to slightly rising prices.
1926	Practically no change.	Gradual accumulation until the middle of the year followed by some liquidation.	Accumulation until the middle of the year and subsequent decline. Net change is upward.	Rising prices.
1927	Steady to declining rates, rising slowly at the end of the year.	Very rapid accumulation in latter part of the year.	Very rapid accumulation to an extraordinary peak at end of year.	Rising prices.
1928	Rising interest rates.	Rapid liquidation.	Rising erratically until the middle of the year when liquidation ensues.	Steady for the first part of the year followed by sharp declines.
1929	Rising interest rates to a peak in May when a gradual decline sets in.	Gradual liquidation ended by a sharp rise in October.	Liquidation at a very rapid rate.	Declining prices ended by a slight recovery in October.
Present Situation	Continuing the decline begun in 1929, falling sharply to a new post-war low at the present time.	Security holdings very large.	Steady for the first two months — accumulation beginning in March.	Steady for the first two months, followed by rising prices in March. Falling prices during second quarter, followed by upturn in third.

Reserve holdings of government securities and member bank investments are as high as or higher than in 1928. The conclusion appears warranted, therefore, that bond prices have not yet fully reflected the influences which make for higher prices, and that the general

RETURN FROM A GROUP OF HIGH GRADE BONDS



trend of the bond market will continue upward for some time. This view is supported by indications that interest rates will continue low, and that bank holdings of securities will be maintained around the present level or that even further accumulations will ensue.

The graphic representation of actual and effective bond yields is of particular interest as an illustration of the fact that the return in dollars is not an accurate index of the purchasing power of bond income. Though the net change in bond prices this year has been to a decidedly higher level, with correspondingly lower yield, the steady decline in commodity prices has proved more than an offset, so far as effective yield is concerned. The Index of Purchasing Power is based on the Bureau of Labor's computation, which is calculated upon wholesale prices, and it is recognized that the incidence of this effect upon the cost of living is delayed. There can be no question, however, that lower wholesale prices are eventually reflected in retail prices and a lower cost of living.

Some economists feel that we are now in a long-term commodity price movement analogous to that which followed the Napoleonic wars and the American civil war. During these movements the price trend was steadily downward from the war-time peak to a low which it took thirty to forty years to reach. If this analogy holds true in the present situation, we may look for the trend of commodity prices to work generally downward for many years, subject to cyclical movements that would cause temporary upturns from time to time, and subject, of course, to another great economic upheaval that would start another major trend. If the price level continues to decline, however, the effective yield will naturally continue to increase.

A Group of Sound Bonds for Investment

ON the following pages we describe briefly a number of bonds which we regard as attractive for investment at current prices. They include rails, utilities and industrials, and vary in yield from 4.40% to approximately 6%.

Prices are quoted subject to market change. Orders may be wired at our expense. We shall be glad, upon request, to give more complete information about any of the issues named, or to submit additional recommendations.

Southern Pacific Company

Oregon Lines First Mortgage 4½% Bonds, Series "A" Due 1977

These bonds are secured by a direct first lien on all the lines of railroad (other than street railway lines) owned by the company in the state of Oregon, including part of the main line from San Francisco to Portland.

Over 1100 miles of railway are covered by the lien. The Southern Pacific is one of the country's major railway systems, and one of the most consistently successful. Net income last year, after all charges, was equivalent to approximately 13% on the capital stock outstanding during the year. This bond represents a very high grade railroad obligation.

Price around 100¾ to yield approximately 4.45%

Monsanto Chemical Works

First (Closed) Mortgage 5½% Sinking Fund Gold Bonds
Due 1942

Monsanto is the largest producer in the country of fine and medicinal chemicals, and an important producer of heavy or technical chemicals. Plants are located both in this country and abroad. The company has greatly increased the scope of its operations in recent years, acquisitions last year firmly intrenching it in new fields of the industry and in new territories. Net earnings available for interest have been several times the requirements of this $2,000,000 issue (of which less than $1,750,000 is now outstanding) in every year since they were issued. This is a high-grade industrial bond.

Price around 102½ to yield approximately 5.22%

Corporation Securities Co. of Chicago

Serial Gold Notes
Due 1931-1935

Corporation Securities Co. is an investment trust of the management type, broadly empowered by its charter to invest and deal in securities. Its investments thus far have been chiefly in the stocks of companies of the Insull group—Commonwealth Edison, Middle West Utilities, Public Service Corporation of Northern Illinois, Peoples Gas Light & Coke, and Insull Utility Investments, Inc. Assets were valued on September 10 (with securities owned and to be acquired under existing contracts taken at market value of that date) at more than $134,000,000. This issue of $40,000,000 Gold Notes represents the only funded debt, and was for the purpose of taking up current indebtedness and acquiring securities contracted for; it also provided the company with a large additional sum in cash. The Notes mature in $8,000,000 annual installments from September 1, 1931 to 1935. The first series bears a 4½% coupon, the others 5%. Net income of the company, available for interest charges, from October 5, 1929, to September 30, 1930 (with September partly estimated) was more than $6,000,000. Annual interest charges on these Notes amount to $1,960,000.

Priced to yield approximately 4.50% to 5.97% according to maturity

Missouri Pacific Railroad Company

1st and Refunding 5% Mortgage Bonds, Series "F"
Due 1977

The Missouri Pacific is controlled by the Van Sweringen interests, among the most successful railroad operators in the country. These bonds are secured by a direct lien on more than 6,700 miles of railroad (on more than 4,000 of which it is a first lien), and on appurtenances, trackage rights, equipment, real estate, securities, etc. The aggregate of the prior liens and First and Refunding Mortgage bonds outstanding is approximately $258,000,000. Book value of the road and equipment, cash, and materials and supplies owned by the company, amounted on December 31, 1929, to more than $543,000,000.

Price around 100 to yield approximately 5%

The Texas Corporation

Convertible Sinking Fund 5% Gold Debentures
Due 1944

The Texas Corporation is one of the leading figures in the oil industry. It owns extensive oil reserves, pipe lines, steamships, and distributing facilities both here and abroad. These debentures, outstanding in the amount of

$100,000,000, are a direct obligation of the company, and the company has covenanted that it will not mortgage any of its property without securing them equally and ratably. The consolidated income account for the last six years shows the interest requirements covered each year from a minimum of four times to a maximum of more than ten times, the average being more than seven times. Beginning in 1935 provision is made for retirement, through operation of the sinking fund, of $5,000,000 of debentures annually. The debentures are convertible into common stock according to a graduated scale of prices according to date of conversion.

Price around 101 to yield approximately 4.90%

Pacific Gas & Electric Co.

First and Refunding 4½% Gold Bonds, Series "F"
Due 1960

This company renders utility services to San Francisco, Oakland, Berkeley, Sacramento, Fresno and nearly 350 other communities in central and northern California. It operates in 38 counties with a population of 2,500,000. Its properties include 47 hydro-electric generating stations, more than 30,000 miles of distributing lines, 19 gas plants and more than 5,000 miles of mains. The company is now completing transmission lines from the California natural gas fields which, through interconnections expected to be completed within a few months, will reach more than 400,000 customers. For the ten-year period through 1929 earnings have averaged more than twice interest and discount requirements.

Price around 98 to yield approximately 4.62%

Foreman-State Trust and Savings Bank as Trustee

5¼% First Mortgage Participation Certificates
Due 1938

These Certificates represent participation in the ownership of a group of individual first mortgages held by the Foreman-State Trust and Savings Bank, as Trustee. All mortgages were made by that bank, which has been a leader in Chicago real estate financing for more than 60 years. No mortgage is made for more than 60% of the valuation placed by the trustee on the property securing it.

Mortgage bankers report greatly increased interest in sound individual first mortgages. These Certificates combine advantages of a carefully selected investment of that type, with the desirable features of diversification and freedom from personal supervision.

Price around 97½ to yield approximately 5.65%

Portland General Electric Company

First and Refunding Mortgage Gold Bonds 4½% Series
Due 1960

This company represents a grouping of various electric power and light properties in Oregon and Washington. It is a part of the Central Public Service Corporation system. Its territory includes the cities of Portland, Salem, Oregon City, Hillsboro and some 70 others in Oregon, and Vancouver, Washington. There are more than 100,000 electric customers in the territory. The company's properties include both steam and hydro-electric plants, transmission lines and valuable city real estate in Portland. Proceeds of this issue of $40,000,000 are to be used in large part for the redemption of outstanding obligations, through the retirement of which these bonds become a first lien on the major portion of the company's property. In addition, substantially all the outstanding stocks of operating subsidiaries are to be pledged as security. Net earnings of the properties now consolidated, for the last fiscal year reported, were more than twice the interest requirements on the entire funded debt, including this issue.

Price around 93.75 to yield approximately 4.90%

Paramount Publix Corporation

20-Year 5½% Sinking Fund Gold Notes
Due 1950

Paramount Publix is one of the pioneers in the motion picture industry and now one of the largest amusement enterprises in the world. It produces and distributes motion picture films, shows them in its own theaters both in this country and abroad, and has other substantial interests in the amusement field. Theaters under its own control number around 2,000; practically all of them are equipped with sound apparatus. Representative of its theater properties is the Balaban & Katz chain, the leading motion picture concern in Chicago. Earnings for 1929 were more than ten times interest on the entire funded debt, including this issue. Earnings for the first nine months of this year are estimated at more than $13,500,000, after all charges including interest and taxes, as compared with $9,731,000 for the same period of 1929.

Price around 90 to yield approximately 6.40%

Super-Power Company of Illinois

First Mortgage 4½% Gold Bonds, Series of 1930
Due 1970

This is a wholesale power company, furnishing current to Commonwealth Edison Company, Public Service Company of Northern Illinois, Illinois Power and Light Corporation and Central Illinois Public Service Company. The capital stock is owned by these companies directly or through affiliated interests. The company's principal generating plant, at Powerton, on the Illinois river, is planned for a total capacity of 320,000 kilowatts, of which 110,000 kilowatts is now in service. Contracts for delivery of service to the four companies named above run until 1980. The compensation agreement provides for payment, by these companies, of Super-Power's fixed charges, and for energy furnished at actual operating cost. Under this arrangement earnings for the year ended June 30, 1930, were $1,438,000 as against total interest charges on funded debt, including this issue, amounting to $900,000.

Price around 96 to yield approximately 4.72%

Some Considerations Regarding Common Stocks

COMMON stocks may be purchased with either of two aims in view. One may intend to take advantage of short swings of the market to make trading profits. Or, with an eye to actual or prospective earnings over a period of years, and to the gradual but solid market appreciation that attends increasing profits, one may intend to hold the stock more or less permanently. The latter method is, of course, genuine investment.

It is estimated that there are some twenty million holders of common stocks in the country today. A great many of them have come into the market in the last few years. The last twelve months has given some of them their first personal experience with the fact that common stocks may not be expected to go up forever. But this fact does not at all invalidate the theory of common stock investment.

There are certain truths about the business situation and about common stocks which, despite their quite fundamental character, are often temporarily crowded to the background by less important facts. It is sometimes a good thing to recall these truths, however obvious they may be. This is a good time to do so.

No one seriously believes that American industry has permanently passed its high point of development. But rising profits year after year with *no* interruptions cannot logically be expected. As a matter of fact many businesses are making more money this year than they did last, and more companies have maintained or increased their normal dividend disbursement this year than have omitted or reduced dividends. Well established, well financed, well managed companies typically show increased profits over a period of years despite occasional bad times. The real value of a common stock is properly determined on the basis of long term results or prospects, and not on the basis of an abnormally good or an abnormally bad year. The stock market in the past has always come up again after it has gone down. It is illogical to believe that it will not come up from the 1930 level. To hold otherwise is to assume that business in this country is on the down grade.

It is only natural, under the conditions of the past year, that many common stocks have fallen to a price which, even taking into account sharply reduced earnings for the current year, is very low in view of past records, prospects, and the character of management. Stocks in this category are, at present prices, well worth acquiring as a permanent investment.

The theory of a well balanced investment account is that high-grade bonds are included for safety and income, with special emphasis on safety; that preferred stocks and medium grade bonds provide safety and assured income, but with certain concessions as to the security in order to gain income; and that common stocks make possible flexibility of income, and capital appreciation. It is this flexibility of income, reflecting variations in corporate earning power from period to period, that makes common stocks particularly useful to the investor.

The dollar varies in purchasing power according to changing economic conditions. The income from bonds and preferred stocks, however, remains fixed, regardless of purchasing power. When the purchasing power of the dollar is declining, therefore, the effective income from securities of that type is declining with it. But declines in dollar value especially characterize periods of increasing business activity. It is then that corporate earnings are growing and dividend payments and capital value are also increasing. A sound common stock investment, therefore, provides an effective hedge against decline in the value of the dollar.

If, on the other hand, the yield from a common stock declines during a business depression, characteristically commodity prices also decline, the purchasing value of the dollar increases, and the yield from fixed income investments becomes effectively greater. In a soundly designed investment structure there is a balance between fixed income securities and equities which accommodates itself to this play of economic forces.

To say that at the moment common stocks are not popular with investors is to point out the obvious. But the very fact of their relative unpopularity makes special opportunities for investors who do not always go along with the crowd. Now, in fact, is a very favorable time for action by careful investors who feel that the addition of equities would give better all-around balance to their accounts.

Preferred Stocks Return to Favor

ONE of the outstanding developments in the investment security field this year has been the pronounced revival of interest in preferred stocks. It has been apparent as the year progressed that investors were far more than ordinarily interested in the income feature of their holdings.

The change in attitude has been a logical one, in view of the steadily increasing purchasing power of the dollar, as referred to on another page of this Investment Bulletin, and in view of the generally changed aspect of business and the investment security market. During the long rise in common stocks the investor in such securities could count with fair assurance on market appreciation; this might be realized on at will and utilized in lieu of fixed income. Such a program has not been generally feasible this year and assured income has steadily gained in favor.

Evidence that this is so lies in the fact that, despite a very unsteady condition in the market as a whole, punctuated by the recurring tendency for common stocks to lose ground, good preferred stocks have been rising consistently in price, as have the more favored groups of bonds.

The attractiveness of a sound preferred stock to the investor who is seeking income is readily explained. Occupying a position between bonds and common stocks, it offers on the one hand, a yield substantially above that of high grade bonds and, on the other, reasonable assurance that the yield will be maintained. Preferred stocks of concerns which are in strong position and have consistently covered their dividend requirements by a satisfactory margin, offer a degree of stability of return comparable with that of a sound bond, plus a substantial advantage in income.

Among the stocks which we are currently recommending to investors are a number of preferred issues with a relatively high yield and which, in our opinion, afford sound protection of the dividend. Brief descriptions are given below. Prices are quoted subject to market change. Upon request, detailed information will gladly be given.

Electric Power & Light Corporation

Cumulative $6 Preferred Stock

(Listed on the New York Stock Exchange)

Electric Power & Light controls a diversified group of companies which supply electricity and other utility services to more than 1,000 communities in ten states. Actual customers number more than 600,000, and the aggregate population of the territories served is around 3,500,000. Operations are chiefly in three regions—the lower Mississippi valley, the Northwest, and the region centering about Dallas, Texas.

Through creation of the subsidiary United Gas Corporation the company has become one of the principal figures in the natural gas industry. It owns extensive gas reserves in Texas and Louisiana and sells gas, both at wholesale and retail, for distribution over a wide area. Deliveries of gas are made from St. Louis on the north to Monterey, Mexico, on the south, the cities served including these two and the other principal centers of population in the territory. The company's gas transportation system includes more than 3200 miles of main pipe line.

Earnings of the company as reported for the twelve months ended June 30, 1930, available for preferred stock dividends were $10,984,550, as against requirements on both the $7 preferred and $6 preferred (whose claims on earnings are on a par) of less than $4,800,000. The company's strong position in the rapidly developing natural gas industry is expected to have a substantial effect in increasing future earnings.

This is a very attractive preferred issue.

Price around 100.50, to yield approximately 5.95%

National Securities Investment Company

6% Cumulative Preferred Stock
With Common Stock Bonus and Warrants

(Listed on the Chicago Stock Exchange)

This company, an investment trust of the general management type, organized in 1926, affords investors an opportunity to acquire an interest in a widely diversified list of securities and to engage in financial operations which might not be available to them as individuals. The published portfolio of June

30, 1930, shows 90 per cent of the company's investment holdings to be in securities of American corporations generally recognized as leaders in their fields. The ten largest investments of the company at that time were in the securities (chiefly common stock) of the following companies: Atchison, Topeka & Santa Fe Railway, Union Carbide & Carbon Corp., American Telephone & Telegraph Co., Electric Bond & Share, Columbia Gas & Electric, North American Company, American Tobacco, Radio Corporation of America, Vacuum Oil Company and Sears Roebuck & Co.

Net assets on June 30 (securities being valued at lower of cost or market) amounted to more than $25,000,000, or more than $133 per share of preferred stock outstanding. As there is no funded debt, the preferred is the senior security of the company.

We were closely identified with the organization of this company, and are active in its management.

The preferred stock is available in the form of Allotment Certificates, each representing one share of 6% cumulative preferred, one-half share of common and the right, to January 1, 1934, to buy an additional half share of common at the rate of $15 a share. These certificates accordingly combine a preferred claim on assets and earnings with a participation in the full possibilities of the situation.

We regard the Allotment Certificates as an attractive investment.

Price at the market to yield approximately 7.06%

National Republic Investment Trust

Cumulative Convertible Preference Shares and Non-Voting Common Shares

(Listed on the Chicago Stock Exchange)

Interests acting in a fiduciary capacity for shareholders of the National Bank of the Republic, one of the largest banks in Chicago, organized this Trust in 1929. Executives of that institution are the Trustees. The Trust has wide powers to hold and deal in securities. The Trustees have absolute discretion as to the investment of funds.

The largest single investment of the Trust, according to its latest published statement, is in the stock of National Republic Bancorporation. That investment, it is understood, constitutes the largest single holding of Bancorporation stock. The Bancorporation, organized with a view to investing in the stocks of sound, well managed banks, has in the last several months brought together into a group ten Chicago institutions with aggregate resources exceeding $250,000,000. The largest of these banks is the National Bank of the Republic.

For its first fiscal period, four months to December 31, 1929, the Trust had income and net appreciation from securities, together amounting to $433,594 after expenses and interest. Dividends paid for the same period amounted to $75,000.

The Convertible Preference shares are entitled to a cumulative annual dividend of $3. They are issued in the form of Allotment Certificates which carry a bonus of one non-voting common share for each convertible preference share. The latter may be converted into common according to a graduated basis of exchange.

Price at the market to yield approximately 7.50%

The Lawbeck Corporation

6% Cumulative Preferred Stock, Series A, With Warrants

(Listed on the Chicago Stock Exchange)

The Lawbeck Corporation renders a short term banking service in connection with large construction projects which, in the opinion of the management, will upon completion be suitable and attractive for permanent financing by insurance companies, trust companies or other conservative lending institutions. Operations of the company have recently been unified with those of Manhattan-Dearborn Corporation which operates in the related field of real estate equities. Manhattan-Dearborn owns practically all the common