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Steps In The Business Revival

By David Friday

EVERY serious business depression presents the economist and financier with two problems. The first of these is to explain how we got into it; and the second is to explain how we are going to get out of it. It is always puzzling to see why a period characterized by large production, employment for all, good profits, and business optimism, suddenly changes into a situation where men who are willing to work cannot get jobs, where profits are unsatisfactory, and where pessimism and gloom fill the industrial community. Every period of depression presents this enigma. The present one has been particularly puzzling. Many of the signs which usually indicate that prosperity has bred a depression were absent in the spring and summer of 1929. In 1920 *all* the signs of a coming crisis were in evidence; but this time the economic danger signals were lacking, for the most part. We know now that some of the most serious causes of the present situation were political in their nature and largely fortuitous.

Now, after some eighteen months of decline, we find ourselves still near the bottom of the trough. Industrial production is around 35 per cent below the peak reached in the summer of 1929, and factory payrolls are down by a like amount. There is also a good deal of unemployment in the building trades, in mines, and on railroads. Now people are wondering how full prosperity can be restored. In fact, many persons do not see anything on the horizon that can bring us real prosperity for a long time to come. Obviously, if labor is unemployed and is not receiving wages, the laborer and his family cannot buy goods. And if people cannot buy goods how can demand revive? We have been told repeatedly, especially by bankers, that the period before 1929 was characterized by a great over-expansion of facilities and by overproduction. If this is true, industry will not revive through the building of new factories and plants. It is easy to make a perfectly logical argument for the proposition that we are caught here in a situation which will tend to perpetuate itself almost indefinitely. Let us console ourselves, however, with the historical fact that the same arguments have been brought forth in every major depression, and that we have never failed to rise to new high levels of production, within a relatively short period after the depression passed. It may be some comfort, too, to remind oneself, that often logic works just as perfectly when it is going in the wrong direction as when it is headed in the right.

What are the fundamental readjustments which must occur in order to bring us from depression to prosperity,—to replace hard

times with good? The readjustments are primarily three. The first is in the field of prices; the second is in costs of production; and the third is in interest rates, especially on long-time funds which are procured through the issue and sale of bonds and other securities. If we trace through the readjustments that arise inevitably when demand falls off and unemployment appears, whatever the cause may be, we shall be able to understand our present situation a little more clearly; and we shall be in a position to chart our course somewhat more confidently for these months of revival which are ahead of us.

The Course of Price Declines

In the field of prices, slackening of demand and business recession generally bring about first of all a fall in prices of raw materials. In fact, the present decline of business began largely with a buyers' strike in just such commodities. For some years previous to the boom of 1929 there had been great activity in the organization and maintenance of price pools. Rubber was one of the first. There were also pools in copper, coffee, sugar, silk, wool, tin, wheat, and cotton. Besides these there were minor ones. The prices at which these pools maintained their commodities were stimulating production beyond the volume which demand would absorb at such high levels. Presently buyers here and abroad suspended their purchases and postponed them. They hoped for a fall later, and they were right.

Prices in the raw material group of commodities have fallen twenty-six per cent during the last eighteen months. If those items be singled out in which stabilization pools were operating, the fall is around fifty per cent. The fall in raw materials is about completed. Most of them have declined to a point where their producers can realize hardly any profits. In many cases they are being produced at a loss. This is what always happens in times of depression, and when prices get down to this level the first stage of the readjustment is completed. In 1920 the raw materials group in the Bureau of Labor Statistics index number fell from 166 to 81; it reached that point in the summer of 1921. From that time on business revived gradually, and by the spring of 1922 production had risen twenty-five per cent from its lowest point.

This downward trend of raw materials prices is accompanied by a similar one in finished products at wholesale. These fall more slowly than raw materials.

Finally, the prices of goods at retail decline. They fall somewhat less than either of the other two groups, and they reach their bottom still later. We are now in the process of readjusting these prices downward, and so lowering the cost of living. When this has been accomplished, the money income of the people, even though it be reduced, will buy more products than it did during the early stages of the depression when people found their income curtailed by unemployment and the cost of living had fallen but little. In those earlier months of a depression this disparity leads to a sharp curtailment in purchases; it is accentuated by the fear of unemployment and uncertainty generally, which leads even those whose incomes have not been reduced to spend less and save more.

Stability of Income

It should be noted in passing that the money incomes of the people as a whole do not fall as much as the decline in production and in factory payrolls might lead us to believe. Large parts of the population do not have their income reduced at all. Dividends for example are reduced very little in most periods of depression. In 1930 they have been practically as large as the previous year. The employes of government, federal, state, and local, including the teachers in public schools and colleges, suffer no reduction in income. Pensions and similar payments are the same. The payments of annuities, matured endow-

ments, and death claims by life insurance companies, are not affected by business slumps. Interest on bonds and mortgages remains stable. Rents are but slightly reduced, at least in the first year of depression. It is doubtful whether the money income of the people, as distinguished from corporations, is off as much as fifteen per cent, even in the worst periods such as we have experienced during the last three months.

As has already been noted, purchases are off more than this during the earlier months of a depression, because of the more strenuous efforts which people make to save out of such income as they have. But when prices have fallen and people have used up in some measure their stocks of clothing and other commodities which they had accumulated during the flush period, buying picks up. Even if people spend no more dollars than before, the volume of goods moved becomes greater and production cannot continue at a level thirty-five per cent below the peak if it is to meet the demand of consumers. This results in an increase in industrial activity. This, in turn, means increased employment both in manufactures and in the production of raw materials. Thus comes the first stage of the business revival.

Production to Mount This Year

We are now entering upon that stage. With the reduced retail prices and with depleted inventories, production will mount gradually throughout 1931. By December of this year the volume of industrial output should be twenty-five per cent larger, at least, than it was in December, 1930. Productive activity fell from an average of 124 during the six months from April to September, 1929, to 82 in December, 1930. A rise of one-fourth from that point would bring it to 103 at the close of this year. That would still be far from boom activity; in fact, it would be a full ten per cent below normal. But it would make a great difference in the general psychological state of the community. The mere fact that employment is picking up once more will make people more ready to buy goods, and will accelerate the recovery when once it is started.

It will remove the doubts of investors, too, as to the soundness of the bonds of corporations and as to the maintenance of dividends on their stocks. The result of this will be rising security prices in both the bond market and the stock market. Since everyone feels himself better off when securities are rising than when they are falling, this situation will further stimulate consumer buying, especially in the durable luxury goods.

Profits will be maintained at satisfactory levels even at these lower prices. An increase in production such as has been here suggested will give us an average industrial output for 1931 just about equal to that of last year. The difference will be that while we experienced a gradual reduction of output from 105 at the beginning of the year to 82 at the close in 1930, we should have a rise of from 82 at the beginning of this year to 103 at its close. If this prediction is realized profits will be better this year than they were last. The index advanced from 82 in January to 85 in February, this being the first upward movement since April of last year.

The Fall in Production Costs

While prices have been moving downward, another set of readjustments has been taking place. Costs of production have likewise fallen. This is in part due to the price decline in raw materials which has already been described. The manufacturer began the year 1930 with the materials which had been purchased some months before the opening of that year. He entered this year with inventories which were acquired practically at the bottom of the price move. His labor costs, too, have declined materially. This is not due so much to the reduction of wages, although there has been more of this than has been generally supposed or than mere

wage rates indicate; but rather to the great increase in the efficiency of labor and of management which has taken place during the last eighteen months and which is still continuing. Overhead costs, too, have been drastically reduced, and commercial credit for the merchant and manufacturer costs less.

This set of readjustments in production costs places the manufacturer in position where any increase in demand will at once call forth larger production without raising prices. The American manufacturer can make money at these prices, if only he can get volume. With the downward readjustments in costs the economic balance of the business machine has been restored and it can run at full speed on the new and lower price level.

Readjusting Capital Costs

The final readjustment which is needed to restore prosperity must come in the cost of capital. A thoroughgoing revival in business never comes until funds for long-time investment are abundant and cheap, that is, until you have an active and rising bond market.

At this time prosperity is hampered because we lack a market on which bonds can be sold in large volume at rising prices. Why is it necessary to have a good bond market in order to bring business revival? The greatest decline in industry has not been in the production of foods, and most of the other things which people buy to maintain their daily life. It has been most pronounced in those industries that manufacture durable goods—goods which take time in order to get their use out of them. They are houses, automobiles, machines, industrial plants, and the raw materials which are needed for the construction of these things, such as iron and steel, rubber, copper, and the other metals.

These are what the economist calls "capital goods." It is the production of this type of thing which makes the demand for funds in the bond market. When a man buys food and clothing for his family he commonly pays for these out of his current income; five-sixths of all his income will be spent for these things that are necessary to maintain his customary standard of living. But when he decides to build a house he does not pay for it out of the income which he receives during the year in which he builds it. The average man will spend on a house about twice his annual income and about ten to fifteen years' savings. Obviously he cannot finance that out of his income; he must borrow capital to do it. Automobiles are in the same general category, although they are not as expensive relatively to his income as is his dwelling. The same is true of machines for factories, locomotives and equipment for railroads, and electric light and power plant. In order that these may be built someone must consent to save his income rather than spend it, and wait for the future for his return.

Now it is just these capital goods which we have not been producing during the past year. It is the workmen and the firms that have been engaged in this line of industry which have been unemployed. They will never revive thoroughly until there is an abundant supply of capital at cheap rates of interest.

The Capital Market in 1930

Several things have happened in the last year to spoil the capital market. The American people have saved enough so that we might have had a good bond market. A revival in the capital market was started in the spring of 1930; but from June to September certain political occurrences in the world shook the faith of the investing public in foreign bonds, at least. Peru, Bolivia, Argentina, and Brazil, all had revolutions between June and October. The success of each one seemed to stimulate the next. Our people are large investors in South American bonds. Germany was unsettled both politically and financially from July to December, and Australia began to have financial difficulties.

These developments greatly depreciated the quality of the credit of these nations for the time being at least. All of these nations needed capital for the purpose of buying the materials to be used in the construction of durable goods. Because of the political situation they were not able to procure it from us.

The other thing that happened to interfere with the bond market was the series of bank failures in November and December. Prudence, and the desire for liquidity which came with it, led many banks to sell their bonds. The hesitation and suspicion caused by these occurrences are passing and when they pass more completely we can have a good bond market and a thorough business revival. We are likely to have a rise in bonds extending from twelve to fifteen months. It would not be at all surprising if in that market first-rate bonds will see a level of prices higher than that which they reached in 1928. The same sort of forces are at work now in the bond market which were present in 1921, 1924, and 1927, when the important bond markets of the past ten years got under way. The Federal Reserve situation, which is always a guide to the future of the bond market, has seldom been easier in all its history. With the return flow of hoarded currency which will come when confidence is restored, it will remain easy throughout the spring and summer.

In this situation we are bound to develop a large demand for bonds. The bankers of the United States are not going to leave their credit balances lying idle at the Federal Reserve for many weeks before they put them into use. They will do this by buying good bonds, and in my opinion they will make a profit on the operation. If what I have said about the outlook for business this year is true, banks will not have a tremendous demand for commercial funds. There will, however, be an increasing demand for funds with which to undertake the construction of durable goods. If that demand is supplied through the bond market, the revival of activity in the construction of such goods will become pronounced, and prosperity will be well on its way again.

Germany Today

THE economic situation in Germany, and the general background it gives to German investment securities has become in recent years a matter of increasing interest to American investors. This interest is natural in view of the fact that the amount of German obligations outstanding in this market far exceeds those of any other country outside our own continent. German bonds have been increasingly active on the American exchanges in recent weeks, with evidence of heavy buying for the account of German investors attracted by the very high yields afforded at American prices. Quotations have advanced appreciably, and while the advance has not been uninterrupted the net change since the first of the year has been a gain.

An examination of the German situation must properly, of course, be related to conditions in the world at large. To point out that Germany has been experiencing a severe economic depression, that unemployment is extensive, that political rivalries are bitter, that the government confronts perplexing financial and economic problems is to describe a state which is by no means peculiar to Germany but common to all the five continents. More significant are the unmistakable signs which Germany gives of continuing to go ahead despite adverse circumstances. These confirm the good opinion of American investors who have absorbed more than a billion dollars of German securities in the last few

years, and warrant continued confidence in the future of Germany.

German Politics

Germany's place in the newspaper headlines during the last several months has been largely determined by political events. Striking gains were made in last fall's elections by the National Socialist party, better known in this country as the Hitler, or Fascist party. This group, made up of radicals of the extreme right wing in politics, is opposed to socialism, opposed to carrying out the Young Plan, opposed to the Polish corridor that separates East Prussia from the rest of the reich, and opposed to various things that enter into the present status quo in Germany. Its constituents, it may safely be asserted, do not for the most part subscribe to the extravagant purposes of the party leaders, but have voted with the Fascists because this appeared to be the only practical means of registering an effective protest against the unsatisfactory stand of the other parties.

These "protest" votes undoubtedly contributed in a very large measure to the Fascist successes last fall. But though the party's gains were impressive, it still entered the Reichstag as only one of several minority groups and one which, by the extreme position it took, made impossible an amalgamation with other groups for the purpose of obtaining a parliamentary majority. Since the convening of the new parliament last fall there have been repeated tests of strength between the Fascists and the government. In each encounter the latter has demonstrated in decisive fashion its command of the situation. The recent action of the Hitlerites in staging a walkout from the Reichstag served only to emphasize their comparative helplessness as a parliamentary unit. Local elections which have been held since last fall have failed to add to Fascist prestige and have, as a matter of fact, served to strengthen the arm of the government. It is now generally recognized that President Hindenburg and Chancellor Bruening have the parliamentary situation completely in hand and that their government is, perhaps, the strongest the nation has had since the republic was instituted. The recent adjournment of the Reichstag until October, after approving the budget, furnished positive evidence of the government's underlying strength.

The Reparations Question

In view of the low level on which business has moved in the last year, and the increased strain placed upon the government through a simultaneous expansion of unemployment doles and curtailment of revenues, there has been more than the usual discussion of the burden which the reparations payments impose on Germany. It has been suggested that Germany might seek a suspension of payments—a course somewhat inaccurately referred to as a "moratorium." To appreciate the actual possibilities, one must clearly understand the nature of Germany's responsibilities and rights under the Young Plan.

The Young Plan divides the German reparations annuities into two portions — non-postponable and postponable. The former amount to well over 600 million reichsmarks a year; Germany is obligated, without recourse, to make these payments. The German 5½s of 1965 (the reparations bonds) are issued against the non-postponable annuities. No option whatever is left to Germany that would permit her to suspend the service of this issue.

With respect to the postponable portion, the Young Plan expressly fixes the procedure by which Germany, in case of necessity, may temporarily suspend payments—the creditor nations, in such a case, then having an opportunity to study the situation anew. Since the plan plainly sets forth Germany's rights in this regard, a suspension, should it occur, would not in any sense constitute violation

or repudiation of an obligation. As a matter of fact, though talk of a moratorium has been rife, there has been no official intimation that such a course is definitely being considered. Indeed, it is felt that any relief which Germany might seek with respect to the reparations payments, must be preceded by such a thorough readjustment of the nation's internal economy that no grounds would be afforded for charges of waste in this direction. The present regime has been taking determined steps to reduce the costs and increase the efficiency of government, and has accomplished much in this direction.

It should be borne in mind, in connection with discussions of a reparations moratorium, that such a proposal has no bearing whatever, on German corporate obligations or, in fact, on any German obligations held by investors. These obligations, to the degree that they might be affected by a suspension of part of the reparation payments, would presumably be helped rather than hurt by the consequent lightening of the total reparation burden borne by the nation.

German Economy

On the economic side Germany has apparently weathered the adversities of the last eighteen months in better fashion than most other countries. In physical production the country, though experiencing a sharp decline, is still above the low point reached during the depression of 1925-26. According to the index prepared by the Reichs Kredit Gesellschaft (which is based on a figure of 100 for 1929) production stood at 79.2 in October, 1930, the latest date available as this was written. This compared with 77.6, the low point of 1926. In contrast, the index of physical production in the United States (calculated on approximately the same basis) which stood at 90.8 in 1926 had fallen to 72.5 in October, 1930. Most of the other larger countries also showed figures far below those of 1926.

Contributing to the comparatively favorable showing of Germany has been an increased production of electricity, increased coal output and increased agricultural production. With all this has come an increase in labor efficiency. This is strikingly shown by the index of labor efficiency prepared by the Ruhr Coal Industry, which indicates a production per employe of 1415 K. G. in 1930 as against 1114 K. G. in 1926.

In the matter of trade, too, Germany's showing for 1930 though reflecting a substantial decline, was relatively better than that of most other countries. For example, the United States showed for the year a decrease of approximately 25 per cent in dollar volume of export trade, Great Britain a decrease of 21 per cent, Italy a decrease of 20 per cent. By contrast, the German decline was only 10 per cent. Half this decline was accounted for by changes in the price level, the falling off in actual volume amounting to only about 5 per cent. On the import side the decline was heavier, the result being that Germany achieved the greatest export balance of any year since the war.

Going into the current year, foreign trade was substantially off but the January balance was still in Germany's favor, as compared with an import balance both last January and in January, 1929. A favorable balance was again recorded in February, the figures for that month being of special interest in that they marked a halt in the decline in exports which had been in progress since October.

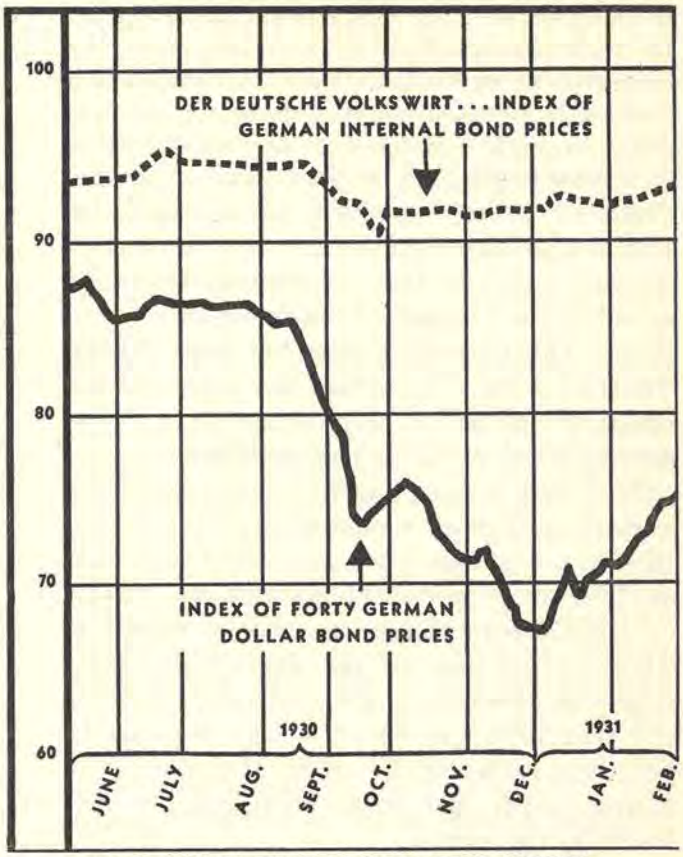
That the individual German economy has been maintained is indicated by the substantial gain made in savings deposits in a bad year. In November, 1930, German savings deposits amounted to approximately RM. 10,275,000 ($2,450,000,000) as against RM. 9,015,600,000 ($2,146,000,000) the year be-

fore. In 1926 they were only RM. 3,184,-900,000 ($758,000,000). Private life insurance investments also mounted at a rapid rate during 1930. These totalled RM. 1,802,500,000 last October as compared with RM. 1,415,000,000 the year before and only RM. 432,000,000 in 1926.

A recent development of considerable significance to German economy is the announcement that an agreement has been reached for a customs union with Austria. The terms, as published, indicate a very close economic alliance, the benefits of which might prove important. The union is not to become effective until next year, by which time the international implications will presumably be worked out.

German Securities

A change has been taking place in German financing in the last few years which is perhaps not fully appreciated in this country. For a good many years following the close of the war America completely dominated the field of international finance, furnishing funds to borrowers in all parts of the globe. Now European nations which were formerly leading factors in this field are beginning to resume their traditional places. To an increasing degree they have been making German loans. How great is the actual change in the situation is indicated by the figures showing the extent of America's participation in German financing. In 1925, according to the Reichs-Kredit Gesellschaft, this country took 72 per cent of Germany's foreign loans. In 1929 it took 55 per cent, last year only 28 per cent. On the other hand, Sweden, which in 1925 took only 2 per cent of Germany's foreign financing, last year took 37 per cent. And France, which formerly had held aloof from German credits, in 1930 took 8 per cent of that country's total foreign loans.



MOVEMENT OF GERMAN BOND PRICES

German dollar bonds have fluctuated over a wide price range in the last year. These wide movements might conceivably mislead one who did not look beyond the quotations, for, as the story of Germany's economic conditions indicates, such changes as have taken place in the general situation underlying these bonds have been, on the whole, favorable rather than unfavorable. But German bonds have been sensitive to day-by-day news, and the news has often magnified happenings of the moment without taking into due account the solid underlying factors. Prices have reflected this fact. By contrast, the price of German internal obligations has moved within a narrow range, roughly following developments in the general investment situation. The explanation lies in the fact that Germany's internal bonds are, for the most part,

traded only on her domestic exchanges. The orders executed there are in behalf of investors who are presumably familiar both with the facts regarding the specific issues and with the true condition of affairs in the nation.

The low price of German dollar bonds, the curtailment of domestic financing, and the presence in Germany of a substantial amount of investment funds as indicated by the trade and savings figures referred to above, have resulted in heavy buying of the dollar bonds in the American market. Buying has been carried on for investors and for institutions, and also for corporations which seized the opportunity to reacquire at bargain prices some of their own securities outstanding in this country.

The factors discussed suggest, in general, continued strength for German bonds. The outlook for foreign issues as a whole has been helped by a number of important developments recently — the Anglo-Franco-Italian naval accord, the January declaration of foreign ministers that there was no danger of European war, the peaceful composition of the Indian situation. Underlying the situation is the general condition of business and credit making for a strong bond market. Since the beginning of German borrowing in this market in 1924, a total of something over one billion three hundred million dollars has been placed here. Principal and interest have been paid on every issue when due without exception, there being no record of a single default. Our own feeling is that German bonds, at current levels, are outstanding among the many attractive obligations now available to investors.

Developments in Gillette Safety Razor

CONSOLIDATION of Gillette Safety Razor Company and AutoStrop Safety Razor Company, Inc., has been steadily in progress since the merger of the two organizations last November. Administrative and distributing functions have been combined, and the task of bringing together the manufacturing operations of the two companies is being carried forward rapidly. The high degree of technical perfection worked out in AutoStrop's manufacturing processes is being applied to various stages of Gillette's production with resulting improvement in quality and savings in costs. Of especial importance in this connection is the installation in Gillette plants both in this country and abroad of the continuous process of blade manufacture which, in large part, gave AutoStrop its strong competitive position in the manufacture of Probak blades.

Further improvements are also being made in the new model Gillette holders which were introduced last year. As a result of these changes it will be necessary to use with them blades of the company's own manufacture—either Gillette or Probak. It is the company's plan to continue both these blades in production since each embodies certain qualities absent in the other and each has, therefore, its own very large market.

The audited report of the company's 1930 operations, recently published, indicates combined net earnings of $8,456,151 available for the stock. This is equivalent to $27.82 a share on the 310,000 shares of $5 preference stock outstanding. Certain expenses and write-offs totaling $6,071,246 were regarded as extraordinary and charged against surplus. For the five years through 1930 average earnings available for the stock have been more than seven times the dividend requirements of the preference stock.

The company's balance sheet as of December 31, 1930, showed current assets of $22,935,010 as against current liabilities of $5,752,648. Cash alone amounted to $4,938,-665. It was stated that at the end of February, 1931, cash and marketable securities together, the latter taken at market value, totalled approximately $9,000,000, and that net current assets amounted to $17,800,000.

Gillette $5 Preference stock is, in our opinion, an attractive fixed-income security. The company's earnings have consistently been far beyond the dividend requirements of the stock, and the commanding position which Gillette holds in the safety razor field warrants confidence that they will continue so. The stock, which is convertible at option into common stock (a privilege that may well become valuable), is listed on the New York Stock Exchange. At recent levels—around 74-75—it yields well over 6½ per cent. We recommend it for investment.

Attractive Bond Investments

THE technical situation in the bond market is strong, and adds weight to the opinion that 1931 will prove a year of generally advancing bond prices. Current prices generally are well above those prevailing around the first of the year. There is some feeling that the movement this year might well carry the market to a level where high grade railway obligations will be selling to yield less than 4 per cent.

New issues offered since the first of the year have been quickly absorbed without material effect on prices, indicating that the market is capable of taking a large volume of high grade bonds. As a matter of fact, total bond offerings during the first three months of this year were around $1,400,000,000. Uneasiness which was felt over the possible effect of government financing made necessary by soldiers' loans appears to have been unwarranted; the credits which the treasury arranged in March, and which were in considerable part for the purpose of meeting loan demands, was carried out without disturbance to the market, and at rates which were said to be the best the government had ever obtained in a transaction of that magnitude.

Despite the advance which the bond market has made since the first of the year, prices are still substantially short of the peak which they touched in March, 1930. Bonds are available which combine security of a very high order with exceedingly attractive yield. It is our feeling that investors have in the present period a decidedly unusual opportunity to make bond investments.

On the following pages are described some of the bonds on our current list. We recommend them as safe investments. Offerings are necessarily made subject to prior sale and change in price. Detailed information about any offering will be furnished upon request.

New York Central Railroad Company

Refunding and Improvement Mortgage 4½% Gold Bonds Series A, Due 2013

This is a very high grade railroad obligation. The New York Central operates more than 10,000 miles of railroad, exclusive of trackage rights, of which about 4,120 miles are operated under lease running to 2029. The company's net investment, after depreciation reserves, in road and equipment and miscellaneous physical property, improvements on leased railway property and other investments amounted on December 31, 1930, to more than a billion and a half dollars. This compares with $672,303,733 long term debt (in-

cluding equipment trust obligations) outstanding in the hands of the public, after giving effect to the issue of $75,000,000 of these 4½% bonds in March, 1931. Income applicable to fixed charges amounted, in 1930, to 1.6 times such charges; in each of the four previous years charges were covered more than twice.

Price at the market, to yield approximately 4.50%

Southern Pacific Company

Fifty Year 4½% Gold Bonds Due 1981

Southern Pacific bonds have long been regarded by investors as among the premier railway obligations. The railway system is one of the largest in the country, and its earnings record one of the most consistent. It has paid dividends on the common stock in every year since 1906. Measured by the strict requirements of the New York savings bank law, fixed charges of the company and lessor companies have been more than twice covered by earnings in each of the last five years.

Price 96¾, to yield approximately 4.67%

Boston and Maine Railroad

First Mortgage Gold Bonds, Series "JJ", 4¾% Due 1961

This company's lines comprise more than 2,000 miles of railroad serving central and northern New England. Traffic is well diversified, and important trunk line connections give the company a strong strategic position. Large expenditures for improvements have been made in the last seven years, and operating efficiency has been greatly increased, many of the present operating records being the best in the road's history. Total funded debt of the railroad and leased lines is $135,587,000, against a valuation of $309,829,375—equivalent to $2,285 of property for each $1,000 of debt. Net income reported for 1930 was 1.8 times total fixed charges, including interest on these bonds. This issue of $13,943,000 was sold to retire a like amount of 6% bonds, an operation through which the company will save $174,300 annually in interest charges.

Price 99.25, to yield approximately 4.80%

Interlake Iron Corporation

First Mortgage Gold Bonds, Series B 5% Due 1951

This company, formerly known as By-Products Coke Corporation, is the largest producer in the United States of merchant pig iron and commercial coke. Plants are located at Chicago, Duluth, Toledo and Erie. These bonds are issued under a first mortgage on properties carried on the books, after depreciation, at $26,656,351, or 2.38 times the $11,187,000 of first mortgage bonds to be outstanding after this financing. Current assets at the end of last year were over four times current liabilities. Earnings available for interest have averaged for the last five years 5.25 times the interest requirements of the total funded debt, including these bonds. Earnings last year covered these requirements 3.87 times.

Price 97, to yield approximately 5.25%

Central German Power Company of Magdeburg

Four Year 6% Gold Note, Due 1934

This company was organized and is owned by Dessauer Gas Company, George von Giesche's Heirs Mining Company and the City of Magdeburg. These three have contracted to take, for a period of forty years, two-thirds of the initial capacity of the plant now under construction at Magdeburg.

The note is unconditionally guaranteed as to principal and interest by German General

Electric Company (A.E.G.), which is building the plant at Magdeburg, and by Dessauer Gas and Giesche. Earnings of these three companies provide a wide margin of coverage for the Note; net income of A.E.G. alone, for the year ended September 30, 1930, exceeded $3,200,000, as against maximum annual interest requirements of $240,000 on this obligation. Earnings of Dessauer Gas, available for management participations and dividends, averaged over $2,000,000 a year for the last three years on which figures are available, according to the company's report; earnings of Giesche, on the same basis, averaged $875,000. These combined annual earnings of more than $6,000,000 compare with principal amount of $4,000,000 for this obligation.

Price at the market, to yield about 7.10%

Associated Electric Company

4½% Gold Bonds, due 1953

Associated Electric Company controls a diversified group of public utility properties. It delivers electricity and/or gas in more than 600 communities, whose population exceeds 2,000,000. These communities are located chiefly in the area extending from Pennsylvania to South Dakota. It renders service in a number of southern and western states, also, and in the Philippine Islands. In the ten years 1920-29, inclusive, the properties showed an increase each year in gross earnings, net earnings, number of electric customers and number of gas, water and steam customers together. This increase in earnings was continued in 1930, according to figures for the twelve months ended October 31, when earnings available for interest on the funded debt of the company and of subsidiaries, and for dividends on preferred stocks and minority common stocks in subsidiary companies amounted to $13,328,188, against a total of such charges amounting to $5,192,654.

Price at the market, to yield approximately 5.15%

Illinois Power and Light Corporation

First and Refunding Mortgage Gold Bonds, Series C, 5% Due 1956

More than 540 communities in Illinois, Iowa and Kansas are served by the companies forming the Illinois Power and Light group, a unit of the North American Light & Power Company. The cities served include Des Moines, Iowa; Topeka, Kansas; and Peoria, East St. Louis, Bloomington, Champaign-Urbana, Galesburg and Quincy, Illinois. The companies render a variety of public utility services, including traction, but more than 83 per cent of net income is stated to be derived from electric power and light, gas, and miscellaneous sources other than transportation. For the twelve months ended September 30, 1930, net income available for bond interest was $15,324,580. Annual interest requirements on the corporation's first mortgage bonds and on underlying divisional bonds amounted, for the period, to $6,121,410.

Price at the market, to yield approximately 5.07%

Koholyt Corporation

First (Closed) Mortgage 6½% Sinking Fund Gold Bonds Due 1943

Koholyt is one of the leading German producers of sulphite pulp. Two pulp factories are located at Koenigsberg, East Prussia, on water front sites which facilitate the receipt of pulp logs and the shipment of the finished product. In addition, the company owns two factories on the Rhine, one producing chlorine and caustic soda and the other abrasives and related products, a paper mill with annual output of 20,000 tons of finished paper, and a plant engaged in production of vegetable parchment. These bonds are a first lien on practically all the lands, buildings and fixed machinery owned by the company. Koholyt earnings last year, and for the last five years have averaged approximately 4.8 times the interest requirements on the bonds now outstanding. A sinking fund, which has already

begun operation, is to retire the entire issue by maturity.

Price around 82, to yield approximately 8.97%

German Building and Land Bank

20-Year 6½% Mortgage Secured Collateral Gold Bond Due 1948

German Building and Land Bank is a quasi-public institution, operated under the supervision of the German government which owns a majority of its paid-in capital stock. Other stockholders include the Reichsbank, German Post Office, the National Railway, and the States of Bavaria, Saxony, Wurttemberg and Baden. The bank is engaged in financing housing projects, chiefly for persons of moderate means. For over twenty-five years every mortgage bank operating under the German law has met its obligations promptly.

Price around 82, to yield approximately 8.45%

Missouri Pacific Railroad Company

First and Refunding Mortgage 5% Gold Bonds Series "I" Due 1981

This company, one of the leading western railroad lines, is controlled by the VanSweringen interests, among the country's foremost railroad operators. Missouri Pacific properties include nearly 7,500 miles of road, extending from St. Louis westward to a connection with the 50 per cent owned Denver & Rio Grande Western, southwest to the Mexican border, and south to New Orleans. The system taps the newly discovered oil field in eastern Texas, regarded by experts as potentially one of the greatest in the country.

For the last five years the railroad has covered its fixed charges on an average about 1.5 times. In 1930 the coverage was more than 1.3 times.

Price at the market, to yield around 5.60%

Management Trust Preferred Stocks

THE portfolios of the better management trusts indicate that their investment holdings are made up, in very large part, of the common stocks of the leading concerns in the country—railroads, utilities and industrials. The average return from these common stocks, at present prices, is around 4½ per cent. Yet, preferred stocks of investment companies, resting on a portfolio made up very largely of these same stocks, may be bought to yield 6½ and 7 per cent and more.

While the appreciation possibilities of such preferred stocks are very much more limited than those of the common stocks on which they rest, a market rise of 30 to 40 per cent at present prices is still possible, without the same degree of risk as is inherent in common stock.

The 6% Cumulative Preferred stock of National Securities Investment Company, for example, yields more than 8 per cent at the level at which it is currently selling on the Chicago Stock Exchange—around 72. The company's balance sheet as of January 10, 1931, showed net assets of $19,397,594, with securities owned valued at the lower of cost or market on that date. This indicated a book value of more than $108 a share on the preferred stock outstanding. On the basis of the current market, therefore, the stock may be bought for less than 70 per cent of its January 10 book value.

A. G. Becker & Co., participated in the organization of National Securities Investment Company in 1926, and the company's board is composed of members of our organization. We regard the company's preferred stock as an attractive investment at present levels, both with respect to income and to possibilities for moderate appreciation. We shall be glad to send detailed information regarding it, including the most recently published balance sheet and portfolio.

BUSINESS BRIEFS

Abbott Reports Improving Business; New Research Products to be Announced

The management of Abbott Laboratories recently reported that operations for the first two months of this year showed both greater volume and greater profits than last year, with indications that March, also, would show an increase.

The final report of the company for the year 1930 showed net combined earnings of Abbott and Swan-Myers of $482,074, after all expenses including federal taxes. This equals $3.32 a share on the 145,000 shares of common stock outstanding, as compared with $4.91 a share on 120,000 shares the year before. There is no preferred stock and no funded debt.

The addition of the Swan-Myers Company has added to Abbott's volume in the amount of around $1,000,000 annually. Dr. Alfred S. Burdick, president, in discussing operations in 1930, pointed out that as the result of an extensive program of expansion, expenditures for advertising, selling and research were increased for the year by $150,000, which was charged against operations. The result has been to place the company in splendid position to benefit during the return of general business to normal. Two new products of the company—A-B-D Malt and Nembutal "844" (a sedative and hypnotic used in operative work)—are reported to be outstanding successes. Three other new research products are nearly ready to be marketed, and will be announced shortly.

The company's year end balance sheet shows it to be in fine working capital position, with current assets of $2,528,680 to meet current liabilities of $440,993. Cash and marketable securities alone, the latter being taken at the market on December 31, 1930, exceeded total current liabilities.

The New York office of the company was recently combined with that of Swan-Myers Company.

Penick & Ford 1930 Earnings High

Penick & Ford, Ltd., manufacturers of molasses, sirups and related products, with whose financing we have been identified for a number of years, reported 1930 net earnings practically equal to those of the record year of 1929. The actual figures were $1,811,348 in 1930 as against $1,882,441 in the preceding year. In the last few years the company has retired all its funded debt and all its preferred stock, leaving the common stock as the only capital obligation.

Bancorporation Report Shows Strong Position, Good Earnings

Final figure on the results of Northwest Bancorporation's operations for the year 1930 disclose that the earnings of the group, comprising 117 banks and 12 investment companies, were well maintained as compared with bank earnings in general. Calculated on the basis of operating earnings, as is the practice with most banking groups, net for 1930 amounted to $3.87 a share, as against $4.50 a share in the preceding year on a somewhat smaller number of shares. Earnings after all charge offs and recoveries were $3.20 a share in 1930, indicating good coverage for the current dividend of $1.80 annually.

Combined assets of the group at the close of the year amounted to $494,485,581. Northwestern National Bank of Minneapolis, on the basis of its December 31 statement, has become the largest bank in the Twin Cities in point of deposits, and practically equal with the largest in point of total resources.

Since the first of the year a number of new banks have been taken into the group, bringing the total number of units to 134 at the time this Investment Bulletin was published.

Southern Natural Gas Enters Operating Phase

Southern Natural Gas Corporation, which was organized to render natural gas service from the Louisiana fields to the southeastern part of the United States, is this year emerging definitely from the construction to the operating stage. The showing of earnings for the first two months of the year reflects a very substantial increase over figures for the latter part of 1930. Net income available for interest amounted in January to $164,366, and in February, despite the short month, to $165,440. Earnings at this rate provide a substantial margin of coverage for the company's first mortgage bonds which it is contemplated will be outstanding after giving effect to the recent sale of the company's Mobile pipe line. Based on contracts now in force the company estimates that earnings for the calendar year 1931 will, with normal conditions, be over three and a quarter times interest on the first mortgage bonds, and allowing for a 50 per cent curtailment of industrial activity from normal to approximately twice the interest requirements. Domestic business alone, it is anticipated, will provide coverage for interest requirement on the first mortgage bonds.

BUSINESS BRIEFS

Westvaco Earnings; Important Additions

The report of Westvaco Chlorine Products Corporation for the year 1930 showed that the volume of sales declined only moderately from the 1929 peak, in spite of the general decline in business conditions. Reduced margins of profit, due to more active competition, resulted, however, in a somewhat greater decline in net earnings. Net for the year amounted to $720,144, as compared with $1,127,054 in the previous year. The 1930 earnings were equivalent to $2.51 a share on the common stock, as against $2 paid in dividends—the regular rate.

Despite the falling off in profits, Westvaco adhered to its policy of making liberal expenditures on plant additions and betterments, these amounting to more than $850,000 for the year. The work included installation of additional facilities for generating the company's own power, from which a substantial saving is expected in the current year's operations. As an indication of the attitude of the chemical industry at large toward the requirements of physical expansion, it is of interest to note that an analysis of industrial building contracts in 1930 showed a substantial increase in the chemical field as compared with 1929, while the figures for industry as a whole reflected a very sharp decline.

Westvaco's position in the chlorine industry is fixed not only by its dominant production but by the fact that a large proportion of its output is delivered under long term contract by which the price is fixed; the company is therefore, relatively, less affected by current price changes than companies whose sales are made on an annual contract basis.

Monsanto Report for 1930 Reflects Larger Research Expenses

Despite the falling off in revenues which business experienced during 1930, it has been of interest to observe that the management of large, sound corporations, has in general followed established policy with respect to expenditures for maintenance and development work which are regarded as necessary to growth and continued good results. An example of this fact is furnished by the annual statement of Monsanto Chemical Works. Monsanto, though adversely affected like other companies by the decline in business activity, not only maintained but actually increased its expenditures for research last year. The outlay for this purpose amounted, during the year, to more than $1 a share. In addition, more than $800,000 was spent on repairs and replacements and charged directly to operating costs, while over $900,000 was added to the reserve for depreciation and obsolescence. After these heavy charges and other reserves, and all expenses including federal income taxes, the company showed net earnings of $732,684, or $1.70 a share on the common stock outstanding after the 1½ per cent stock dividend paid January 2. The annual cash dividend rate on the stock is $1.25 a share.

The company's construction budget for 1931 contemplates an outlay of $2,200,000 largely in connection with work on the Merrimac division's plant at Everett, Mass., with which the plant at Woburn, Mass., is to be consolidated during the year. Edgar M. Queeny, president of the company, recently declared its plants to be at their highest state of efficiency, and in position to show higher ratios of profit with a return to normal conditions.

Hammermill Earnings; Strong Condition Shown

Net earnings of Hammermill Paper Company for the year ended December 31, 1930, amounted to $561,839, after all charges and taxes. This afforded good coverage for the dividends of $297,300 paid on the 6% Preferred stock, and amounted, after preferred dividends, to $1.46 a share on the common, on which the usual dividend of $1 was paid during the year. Earnings in 1929 amounted to $1,149,839. Current assets at December 31 last totalled $3,858,334 as against current liabilities of $924,111. The surplus account stood at $5,921,208 as compared with $5,885,251 a year earlier.

We have for a number of years been identified with the financing of this company, one of the largest and best known paper manufacturers in the United States.

Kimberly-Clark Has Good Year

Kimberly-Clark Corporation, manufacturers of book and rotogravure papers and cellucotton products, had earnings last year second only to 1930. The net income available for bond interest last year amounted to $4,049,338, which was 8.7 times total interest charges including those added by the issue of $3,500,000 of 5% Gold Bonds since the first of the year. The immediate response to this issue reflects the company's high standing with investors.

All statements herein are based on information which we regard as reliable, but we do not guarantee them.
All offerings are made strictly subject to prior sale and change in price.

This advertisement is one of a series appearing regularly in the magazine "Time"

ON THEIR SHOULDERS

• As the structure of business grows more complex each year, the problems of management increase. Industrial leaders realize that the progress of business in the future depends upon the training of personnel—upon the development of technicians, and the creation of management out of the raw material of youth.

On their shoulders—the shoulders of the boys now at their lessons in schools, and the young men now in subordinate positions in industry—will fall the executive burdens of tomorrow's business. One at a time the duties relinquished by those now in charge will be taken over by the army of rising junior executives.

Those organizations most alert to this situation today will be the most successful in the business battles of the next two decades. And the roll call of tomorrow's business achievement will be headed by the organizations which are today seeking out talent in their own organizations, developing capable staffs of junior executives to fill the top places next year and in the years to come.

In underwriting the securities of any company—and in offering for sale such securities—this question of management training is one of major consideration in the judgment of A. G. Becker & Co. Long before the detailed financial statements of today were available, this organization was buying and distributing millions of corporate obligations every month, necessarily basing its decisions largely on its appraisal of management. For on management depends the continuing value and earning power of every security.

The investment service which has grown out of this long and intimate association with American industry is described in an interesting booklet, "Sound Corporate Financing." In writing for this booklet please ask for T110.

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