A. G. Becker & Co.

INVESTMENT BULLETIN

THIRD QUARTER, 1931

The Challenge of Over-Production

THE term over-production runs in a constant refrain through the chronicle of these difficult times. It crops out in both learned and unlearned discussions of The Situation. To nearly everyone it describes a condition—somehow sinister — about which someone should do something, but just exactly what is not clear. Whether the primary relation of over-production to the immediate events of the economic cycle is one of cause or effect is still a moot question. That there has been and is some maladjustment between production and consumption in both agriculture and industry is plain. Some economists have taken such alarm as to predict years of hard times before a proper balance is again reached. They point, for example, to a motor industry with a capacity for producing perhaps twice as many automobiles as it can hope to sell; to an annoyingly fecund agriculture which can not or will not exercise self-control; to manufacturing, mining and other activities whose capacity is apparently excessive even for boom times. To such writers, the present is dismal and the future dark indeed.

Without attempting to underrate a problem that is, patently, serious and requires for its most effective solution the combined thought of business men, economists and statesmen, it is still possible to point to other aspects of the situation which warrant a much more confident feeling.

No business headed by able and ambitious men is organized on such a small scale that its maximum capacity suffices only to meet the needs of slack times or even of ordinary times. The largest profits, as is well known, are those derived from operations carried on above the normal volume, and alert management habitually prepares itself to supply unusual demand as it may appear, seasonally or cyclically. Business executives know well that the facilities to meet this extra demand will not be used regularly, but know, too, that their use in such times as they are needed will usually justify the investment they represent. And, after all, whether this extra capacity actually comes into production or not, well managed business concerns are able to make a satisfactory profit while operating substantially below capacity. The best proof of this lies in the fact that many of them have done so even in the extraordinarily difficult times they have encountered in the last year.

Significance of Growth of Population

But there is another view of the situation which suggests that, regardless of revisions that may be necessary in given plants or industries, productive facilities which now seem, as a whole, overextended will shortly prove to be not excessive. This is the view which takes into account the never-halting expansion of markets through growth of population.

The population of the United States during the last twenty years, with immigration cut in one decade by war and in the other by law, has increased at a rate of around 15 per cent decennially. While students of population statistics detect a slowing up in the rate of growth which convinces them that the increase for the current decade will be at a much lower rate than for the preceding period, the actual figures will still be very large. If the past rate of growth, which would indicate an increase of some 17 to 18 million in the country's population, is reduced to 10 per cent, that would still mean the addition of a new home market approximately equal to the foreign market we now serve. And it has often been pointed out that the 10 per cent of our goods which we sell abroad makes our national prosperity.

How the Market Grows

A 10 per cent decennial increase means the addition of a market roughly equal to the city and state of New York. It means, annually, that a new market is added almost as large as the cities of Boston and Minneapolis, together; or, to put it another way, almost as large as the state of Nebraska. The requirements of this new market in foodstuffs, in steel, in coal, in shoes, in copper, in gasoline, in lumber, in electrical energy, in the myriad articles and services needed to maintain a normal living standard for its people mean an enormously increased demand for the products of industry.

World population is increasing at a rate comparable with that of this country, creating new markets abroad, both for the products of foreign lands and for those products for which the world habitually looks to us.

In considering the problem of temporary over-production there is a disposition to think of markets as fixed at their present limits. Due weight must be given to the fact that the men, women and children who people the globe are increasing in number, creating new needs in such enormous volume as to indicate an early outlet for the now unused productive capacity of business. As President Hoover recently said: "We plan to build (for a 20,000,000 increase in population) 4,000,000 new and better homes, thousands of new and more beautiful city buildings, thousands of factories; to increase the capacity of our railways; to add thousands of miles of highways and waterways; to install 25,000,000 electrical horsepower; to grow 20 per cent more farm products."

Other Sources of New Markets

Still another phase of the situation suggests itself with respect to the fairly near future. That is the opening of new markets through invention and research, and through the demands created by man's natural desire for a better standard of living. Within our own generation enormous industries have sprung from new discoveries and inventions—electric light and power, telephone, automobile, radio, aviation, to name but a few. None of these faces a saturated market. That which is perhaps closest to saturation—the automobile market—is constantly fed by replacement demand. And if normal replacements have been deferred, as in the last year, that only signifies that later they will be correspondingly augmented, thus calling into use that extra productive capacity which the industry possesses.

Nearly a third of America's homes are not yet electrified. Only a fraction of the country's railroad mileage is electrified—less than 5 per cent. The use of electric power for the operation of machines in home, office and factory has begun, but hardly more than that. An infinitesimal part of the country's highways is lighted; effective lighting would facilitate night movement of great volumes of traffic. (Incidentally, less than a fourth of the country's highways have been hard-surfaced.) These thoughts suggest the immediate field for expansion in one industry—electric power and light. It has been estimated that the use of electric current will be practically doubled in the next ten years. In such an event, the present power surplus will need still further additions. New power stations, new transmission lines, new electric appliances call for new construction. New construction, on such a scale as is indicated, extends its effects into many industries.

New industries, and new developments in old industries are clearly indicated for the near future. The use of alloys is having a profound effect upon the course of the metallurgical industries; combinations that are much lighter than steel and equally strong open entirely new fields in construction and manufacture. The Diesel engine, well developed as a heavy work engine, has possibilities that some believe will revolutionize the automobile and aviation industries. The increasing use of steel for small building construction involves possibilities of tremendously increased demand for the steel industry. Great changes are being made in construction technique—lighter walls, windowless sides, artificial ventilation and heat control, etc.,—which may greatly alter the course of that industry. Developments of the vacuum tube which have hitherto been confined largely to the research laboratory hold out prospects for industrial application of startling character; commercial exploitation of the photo-electric cell is already well under way. The mechanization of agriculture, though fairly well advanced in some quarters, has far to go. Soil treatment, a phase of farming that has received relatively scant attention in this fertile land must inevitably grow in importance with continuous cultivation, and opens a tremendous future for the fertilizer industry. And, quite apart from the influence of invention and discovery, the gradual elevation of the standard of living in the more backward countries—South America, Africa, the Orient, Russia—unfolds a stupendous market for goods.

These are but random suggestions of facts well known, for the most part, but not given their due weight at a time when the atmosphere is one of discouragement. They are facts which make it clear that the problem of over-production, which now seems so ominous, is temporary, and must directly give way to the more cheerful problem of expansion.

But the busy era ahead will undoubtedly accentuate the influences that are bringing it into being. The chemist, the research man, the engineer, will function as never before. The inventor will be met with open arms by progressive corporations. It will be an age of conflict between the old and the new, the established and the untried, the natural and the synthetic. New wealth will be created with a rapidity not before witnessed, and many forms of old wealth will have to be adjusted to changing conditions. For the investor in particular, it will be a time for the most careful exercise of judgment. Unprecedented opportunities will be available, but heavy losses may be sustained by those who depend on past performances as the ruling consideration in the making of investments. Never has there been a time when intimate knowledge and foresight played as important a part in investment as they are likely to in the next decade.

The Current Bond Market

LIBERTY Bonds have been selling at consistently high levels during the last several weeks. The Fourth $4\frac{1}{4}$s, for example, touched a new all-time high a few weeks ago. Corporate bonds of the highest grade have been in strong demand for months, and prices have reflected the demand. Despite the difficult situation of the railroads the top stratum of railroad obligations has held firm at high prices. Prime utility bonds have been greatly sought after, and new issues of this type, representing a considerable part of the public financing of recent months, have been readily taken. In short, bonds which are obviously of the highest grade, are and have been for several months selling at prices to afford the investor a very low yield.

Other Bonds Lag

Bonds of the next category have shown little tendency to follow the market pace set by the highest grades, despite their exceedingly attractive character from an investment point of view. In this group are the well secured obligations of railway, utility and industrial corporations whose earnings and past records stamp them as well entitled to the investor's confidence, but whose statistical position or, in the case of certain industrials, whose identification with a business less obviously basic than the railways or utilities, prevents their being classified among the very highest grade. These secondary issues have been and continue to be available on the market at prices which indicate a yield of 5 to 6 per cent, or substantially higher.

Under normal conditions the market for bonds tends to move somewhat as a unit, and the spread between issues of different grade holds fairly uniform in general market advances or declines. But under the abnormal conditions prevailing in the last year and a half, this relationship has been upset, and the usual interval between the first and second rank of bonds has widened very substantially. It is hardly conceivable that such a wide separation of price levels will long continue. The recovery of business and of the financial markets will unquestionably restore the normal relationship between the various categories of bonds. This may be expected to come about by a retreat of the very high prices in the gilt edge section, and by advance in prices for the secondary issues. Though this contrary movement of prices may, at a glance, seem anomalous, it appears not only logical but almost inevitable upon examination of the causes that have brought about the present situation, and the probable course that will be taken in the return of business to normal.

The present unusual demand for bonds of the top grade is an outgrowth of the banking situation that has prevailed for the last year. In order to be prepared for extraordinary demands on the part of depositors, the chief care of banks has been to keep their assets at the maximum degree of liquidity. Marketability took on an importance completely outweighing all other considerations. Bank and institutional buying of bonds (which is the largest single influence affecting the market) has, therefore been almost wholly in the direction of governments, prime rails and utilities, for which experience indicates a ready and fairly stable market at all times. The unusual demand has had the effect of pushing up prices to a point where the values indicated appear somewhat unwarranted from an actual investment standpoint. The concentration of interest upon issues of this type has correspondingly narrowed the market for the better yield but not quite so highly marketable bonds that in ordinary times make up a considerable part of the bank's investment portfolio.

Better Business Will Shift Interest

It is clear that any definite and sustained indication of general business improvement would speedily change this situation. Such a development would in itself create a demand for funds for commercial uses, a demand that would be met both by the extension of bank credits and by the issue of bonds. A noticeable improvement in business would very certainly quicken public confidence in the future and in the obligations of business. That combination of events, which it seems reasonable to believe will not be long deferred, is all that is needed to divert a considerable amount of investment interest from the highly marketable but very low yield securities to those which, though of somewhat lower rating statistically, are thoroughly sound, and much more satisfactory on a yield basis. The diversion of interest thus from one section of the market to another would obviously operate to depress prices in one group and advance them in another just as it did, in the reverse order, when buying shifted in volume from the second grade section to the high grade.

This view, which seems to have a logical basis in the facts, is further supported by an analysis of the recent action of the United States government in announcing an issue of $800,000,000 in long term bonds. Secretary of the Treasury Mellon and his advisers enjoy the reputation of being astute judges of the money market and of carrying out the government's financing on advantageous terms. Apparently they formed the conclusion, on their examination of conditions, that the prices of government bonds were in or near the highest territory they were likely to reach during the present market move, and that a very favorable time had come for the sale of a long term government issue. If they had felt otherwise, that is, if a further rise in high-grade bond prices had been anticipated, it is reasonable to assume that they would have deferred this financing and, for the time being, substituted short term issues for which the market has been very favorable.

So far as the individual investor is concerned, then, medium grade bonds appear now in a more than ordinarily attractive position.

In connection with the outlook for medium grade bonds, an interesting light may be thrown on the situation by comparing the present standing of a group of issues with their standing ten years ago. In 1921, as now, a great many bonds were selling at prices which reflected considerable uncertainty on the part of the public as to their investment quality. In some cases, of course, the later facts justified the market appraisal. But in a great many others the passage of time and the subsequent record of the obligors brought about a greatly changed market opinion, so much so that many of these issues are now in the highest grade classification. Investors who bought then and held their bonds have not only had a handsome yield but have seen their holdings appreciate very substantially. It is interesting to review the record shown below (which might easily be expanded, bearing in mind, of course, that to some degree the changes in price may be attributed to the different level of money rates:

A great many issues selling today at prices comparable to the 1921 prices of the above securities will probably experience a similar market record over the years. It goes without saying, of course, that not all of them will. Competent discrimination will be well rewarded.

A COMPARISON OF CERTAIN BOND PRICES—1921 AND 1931

Issue	1921 Low	1921 Close	Recent Price
American Waterworks and Electric 5s, 1934	61¼	69	102¼
Montana Power Co., First 5s, 1943	82	93½	105
Northern State Power Co., 5s, 1941	76	89	105
Ontario Power of Niagara Falls, First 5s, 1943	75¼	92	106
American Agricultural Chemical, First 7½s, 1941	92½	100¼	103
American Smelting & Refining, 5s, 1947	73	87½	102½
Baldwin Locomotive Works, First 5s, 1940	91	96⅝	107
Corn Products Refining Co., 5s, 1934	89½	96	105
General Electric Co., Debenture 3½s, 1942	66	73¾	99
Tennessee Coal, Iron & R. R., 5s, 1951	85⅝	93⅝	105
Western Union, 4½s, 1951	77⅜	88½	100
Atchison Topeka & Santa Fe, General 4s, 1995	73½	85	99
Baltimore & Ohio, General 5s, 1995	66	78¼	100¼
Chicago Rock Island & Pacific, Gen. 4s, 1988	67	79⅞	89
Union Pacific, First & Ref. 4s, 2008	73	82⅜	97

These Bonds Are Attractive

THE bonds described on this and the following pages are representative of our current offerings. We recommend them for investment. The offerings are strictly subject to prior sale and change in price. We shall be glad to furnish, upon request, complete details about any of these issues, or to submit additional recommendations.

A Gilt Edged Utility

COMMONWEALTH EDISON COMPANY *First Mortgage 4% Gold Bonds, Series "F." Due 1981*

These bonds, issued recently and for the purpose chiefly of refunding older obligations bearing higher interest rates, become, in connection with the retirements provided for as a part of this financing, the senior obligation of one of the largest and most successful power and light properties in the United States and one of the most highly regarded from the investment viewpoint. The company's favorable credit position is well justified by its record. Earnings in each of the last two years have been more than three times interest requirements on the present funded debt; the company and its predecessor have paid dividends without interruption since 1889; equipment is of the most efficient type; properties include valuable real estate in the city of Chicago, coal lands, and interests in railroads serving them; the management is represented by a group of executives brought together and headed personally by Samuel Insull. This is beyond question one of the premier utility investments on the American market.

Price 94½, to yield approximately 4.27% to maturity

A New York Central Obligation

NEW YORK CENTRAL RAILROAD COMPANY *Refunding and Improvement Mortgage 4½% Gold Bonds, Series "A." Due 2013*

A bond of very high grade, this represents the obligation of one of the oldest, largest and most successful transportation systems in the country. The company operates more than 10,000 miles of railway, and its net investment as of December 31, 1930, amounted to more than a billion and a half dollars. This compares with long-term debt (including equipment trust obligations) of $672,303,733 outstanding in the hands of the public. Income applicable to fixed charges amounted to 1.6 times those charges in 1930. In each of the four preceding years charges were covered more than twice.

Priced at the market, to yield approximately 4.60% to maturity

A New England Utility

NEW ENGLAND GAS AND ELECTRIC ASSOCIATION *5% Convertible Gold Debenture Bonds. Due 1950*

A population estimated at more than 950,000 is served by the subsidiaries of this company, the territory including a large part of northeastern New England and the Maritime Provinces of Canada. The communities served include Cambridge, Worcester and New Bedford, Massachusetts; Portsmouth, New Hampshire; Yarmouth and Bridgetown, Nova Scotia; Fredericton, New Brunswick and Charlottetown, Prince Edward Island. Consolidated net assets of the Association are stated as in excess of $89,000,000 after deductions for minority stock interests, compared with consolidated funded debt of $47,569,500. Earnings for the last two fiscal years shown in the circular have been more than twice interest requirements on this debt. An aggregate of half of these bonds issued is convertible up to May 1, 1933 into $5.50 dividend preferred shares, at the rate of 10 shares for each $1,000 bond.

Priced at the market, to yield about 5.62% to maturity

A Favored Industrial

INTERLAKE IRON CORPORATION *First Mortgage Gold Bonds, Series "B," 5%. Due in 1951*

A business which is the largest of its kind in the United States, earnings that over a period have been far above the service requirements of the present funded debt, specific security giving better than two-to-one coverage of the first mortgage bonds outstanding, and a strong financial statement, showing, as of December 31, 1930 (adjusted for this financing) net current assets amounting to nearly 90 per cent of the total funded debt—such is the background for this very high-grade industrial issue. The company, formerly known as the By-Products Coke Corporation, is the largest American producer of merchant pig iron and commercial coke, and also the largest producer of gas for outside sale. Earnings over a five-year period averaged more than 5 times interest requirements on the present funded debt; even last year they were nearly 4 times these requirements. A sinking fund which begins operation in 1933 is to retire 60 per cent of the issue by maturity. The liberal yield makes this issue particularly attractive.

Priced at the market, to yield approximately 5.65% to maturity

Less Than Twenty-one Months to Run

CONSTRUCTION MATERIALS CORPORATION *Two-Year 6% Notes. Due 1933*

These Notes afford an unusual combination of early maturity, impressive coverage as to assets and earnings, and a very liberal yield. The issuing company is the largest sand and gravel producer on the Great Lakes, was the pioneer and is the outstanding leader in the making of sand-fills for reclamation of submerged or low-lying water-front property, and through a subsidiary, is one of the principal factors in street paving in Chicago. The business, founded twenty-four years ago, has grown from an original investment of $100 to a present net worth of nearly $6,000,000. Net assets applicable to the funded debt of the company and subsidiaries are shown at more than two and a half times such debt. The company's balance sheet of December 31, 1930, adjusted to give effect to subsequent financing, shows net current assets nearly equal to the principal amount of these Two-Year Notes.

Earnings for the last four years have averaged 3.78 times, and last year they were 2.23 times the annual interest requirements of the funded debt. Earnings prospects for the current year were substantially enhanced this spring by the award of a $3,000,000 sand-fill contract to the company by the Lincoln Park Commissioners (Chicago). We are in close touch with the affairs of this company and regard these Notes as a sound and exceptionally attractive short-term investment.

Price 99½, to yield approximately 6.30% to maturity

Strong Western Utility

PUGET SOUND POWER & LIGHT COMPANY *First and Refunding Mortgage 4½% Gold Bonds. Series "D," Due 1950*

This company's subsidiaries serve an estimated population of nearly 900,000 in western Washington with electric light and power. The properties include generating facilities with 352,000 horsepower installed capacity of which substantially more than half is hydro-electric. A new hydro-electric plant now under construction on the Columbia river near Wenatchee will add 80,000 additional horsepower and is planned for an ultimate capacity three times that amount. Annual interest requirements on the funded debt of the company and its subsidiaries total $3,641,815. Earnings available for interest (before depreciation) were $7,695,467 for the year ended March 31, 1930, and $8,063,222 in the following year. We regard this as a very attractive utility issue.

Price 94½, to yield approximately 4.95% to maturity

Serving East Jersey

JERSEY CENTRAL POWER & LIGHT COMPANY *First Mortgage Thirty-Year 4½% Gold Bonds, Series "C," Due 1961*

This company, formed to deliver utility services to a large section of the state of New Jersey, will, after taking over properties formerly owned by Eastern New Jersey Power Company, operate in over 240 communities with a total permanent population exceeding 384,000. The territory served comprises 12 of the 21 counties in the state, and includes diversified industrial and agricultural territory. Earnings of the company and subsidiaries as constituted upon completion of this financing, for the year ended May 31, 1931 were more than three times the interest requirements on outstanding First Mortgage Gold Bonds, including this issue.

Price 101, to yield approximately 4.43% to maturity

Backed by an Unusual Guarantee

CENTRAL GERMAN POWER COMPANY OF MAGDEBURG *Four-Year 6% Gold Note, Due 1934*

This company, organized and owned by the City of Magdeburg, Germany, Dessauer Gas Company and George von Giesche's Heirs Mining Company, has a large electric plant under construction at Magdeburg. These three have contracted to take, for a period of forty years, two-thirds of the initial capacity to be installed. These contracts alone, in the opinion of competent German engineers, will provide revenues sufficient to cover the company's fixed charges and enable it to pay dividends. Aside from these contracted revenues, however, is the fact that this $4,000,000 note issue is unconditionally guaranteed as to principal and interest jointly and severally by Dessauer Gas, Giesche and German General Electric Company (AEG) which is building the plant at Magdeburg. For the fiscal year ended September 30, 1930, AEG alone had net income exceeding $3,200,000. For the last three years for which reports are available, Dessauer Gas averaged over $2,000,000 a year available for management participations and dividends; Giesche's earnings on the same basis, averaged $875,000. With such a guarantee, this obligation offers a striking opportunity to obtain a very high yield with strong security.

Priced at the market, to yield approximately 9% to maturity

The Repatriation of Foreign Bonds

THE thought has become well fixed that the United States is today the world's chief creditor nation, and that it is regularly engaged in exporting large volumes of capital to other nations in return for their promises to pay. Though the volume of foreign borrowing here has been obviously small in recent months, it still comes as something of a surprise to a great many persons to learn that in the last year or two a very considerable importation of funds into this country has been in progress along with our financing operations abroad.

This importation of capital has been carried on not through direct extension of credit on the part of foreigners to American corporations or public bodies but by the equally effective method of the purchase in the American market of foreign dollar obligations. In general the process has been referred to as the repatriation of foreign bonds. In strict truth, however, the operation has gone beyond the stage of repatriation, which is the return of securities to the land of their origin. It has included also a considerable volume of buying on the part of various capital exporting countries, with the result that ownership of securities has been shifted from America not to the nation of issue but to other nations with surplus investment capital.

The purchase of foreign bonds here has been due largely to the low prices prevailing in the American market. Bonds generally, of course, except for the very highest grades, have been relatively low in price over an extended period. Influences which have worked to depress the market had a disproportionate effect on second grade issues, and foreigns, in particular, have been much more sensitive to bad news than to good. But though foreign obligations may pass in this market as second grade investments they are not so regarded in the nations where they originated. Investors there, and others internationally informed, regard many of them as distinctly high grade securities, and as decided bargains at American price levels. For more than a year, according to a recent report to the governors of the Investment Bankers Association, foreign governments and foreign bankers have been accumulating foreign bonds from American investors at advantageous prices made possible by American ignorance or fear of the underlying situations.

Foreign Purchases Increase in 1930

"Beginning with 1930," this report pointed out, "at a time when confidence in foreign securities, as expressed by foreign bond prices, was very low, a marked increase in the purchase of foreign dollar bonds by foreign investors began. In many cases these purchases had been steadily going on to the extent that, in certain instances, practically entire issues of dollar bonds had been absorbed by investors abroad.

"The difference between the type of purchasing by the European investor which began in 1930 and that which preceded it was characterized by the fact that in previous years the absorption of issues was largely due to purchases by investors and by foreign governments of the issues of their own countries. In 1930 began to a greater extent purchases by foreign minded bankers and individuals in Europe of foreign dollar bonds of various countries other than their own in which they had confidence, at prices which were extremely advantageous."

In a recent discussion of the same subject Dr. Julius H. Klein, assistant secretary of commerce, indicated the very large volume which has been reached in operations of this kind.

Extent of Foreign Buying

"Here is the situation," he said. "In 1930 the prices of foreign bonds in this country fell, in scores of cases, to absurdly low levels. Foreign bankers and others found that there was not the usual heavy demand for money on the part of business men, because of the depression, so they used their surplus funds to buy up foreign bonds which had become so absurdly cheap on Wall street. That movement was very quiet, but it was terrific, unparalleled. The exact total of our sales of foreign bonds to foreigners in 1930 is not yet determined, but it will probably be between $400,000,000 and $500,000,000. So, you see, we imported several hundred million dollars of long term capital last year at the same time we were so furiously exporting short term capital. You would almost say that we borrowed at long term from foreigners and lent the proceeds to them at short term, an amazing reversal of the trend of recent years."

And Dr. Klein might further have pointed out that, in view of the prices at which we were selling foreign securities, we were paying a very dear price for the long term funds which we were to send abroad again at much lower prices in the form of short term obligations. Plainly there is no profit in selling at 75 a 6 per cent bond that has some twenty years to run in order to buy at 95, with the proceeds, another comparable 6 per cent bond that has perhaps four years to run. Few individuals, perhaps, would engage in a transaction of this character, but the country as a whole, as Dr. Klein indicates, has been engaged in such transactions on an enormous scale.

Foreign bonds, like other investments, are subject to the principle that every security should be judged on its own merit. One can not say "This is a foreign bond," or "This is a domestic bond," and by that distinction determine their relative investment merit. The value of the bond, in either case, is based on the obligor's ability and willingness to pay. If a foreign bond goes off in price entirely out of relation to its intrinsic investment position (a thing that has been regularly happening in the last year), the result is to open an unusual opportunity for investors who buy on a basis of fact rather than of market appraisals. Foreign investors have been taking advantage of just this opportunity.

It may be a good many years before American investors at large acquire the well informed point of view of Europeans with respect to foreign investments. Investors have not been altogether lacking on this side, however, who took in the situation for what it was worth and who have been making careful additions of foreign bonds to their portfolios. Low prices continue for foreign dollar obligations, and it is still quite possible to purchase thoroughly sound issues that yield substantially more than domestic issues of comparable grade. Needless to say, however, careful selection was never more important than now; commitments should be made only on a basis of adequate information.

A Common Stock of Promise

THE business conducted by Abbott Laboratories was founded nearly forty years ago. The company is one of the largest American manufacturers of pharmaceutical preparations and specialties, fine medicinal chemicals and biologics. Its products, long known to the medical profession and drug trade for their high standard of quality, include some 1200 different items, and are distributed through approximately 25,000 accounts. Practically every wholesale druggist in the United States and Canada carries the Abbott line, and branches or sales agencies are maintained in England, South America and the Far East.

The business has grown steadily. From time to time its scope has been widened by the acquisition of other companies. In 1922 it acquired the well-known "D.R.L." line through purchase of the products and plant of Dermatological Research Laboratories of Philadelphia. In 1928 it took over the John T. Milliken & Co. business at St. Louis. Last year Abbott acquired the Swan-Myers Company, a large and progressive drug house at Indianapolis, that acquisition resulting in a large increase in volume, and giving the company an important line of products complementary to those which it already manufactured. The company's main plant at North Chicago, built on a site to which the company moved some years ago in order to gain room for expansion, comprises eighteen buildings which are modern in every particular. The "D.R.L." division continues to operate in its own plant in Philadelphia.

The company has earned a net profit in every year of the last twenty-five. Earnings in 1930, amounting to $482,064 after all charges, were the largest in the company's history except for 1929, and amounted to $3.32 a share on the 145,000 shares of common stock. Earnings for the first quarter of 1931 were substantially ahead of the same period of 1930, and the company's estimate for the first five months of this year indicates that the increase is being sustained.

Abbott has no funded debt and no preferred stock, all net profits accruing to the common. The dividend rate on this stock was increased last year from a $2 to a $2.50 annual basis, a figure which the earnings referred to above show to be very well covered. At current market levels a yield of approximately 6½ per cent is indicated.

The business is one in which research on a large scale is practiced, with the result that new products are constantly being developed. We are in close touch with the affairs of the company, have a very high opinion of its management and prospects, and recommend the stock as an attractive investment. Upon request we shall be glad to mail a folder giving a detailed description.

A World-Wide Utility

THE Argentine, Chile, Brazil, Cuba, Mexico and a number of other South and Central American countries, and the International Settlement at Shanghai are among the regions which subsidiaries of American & Foreign Power Company serve with electricity, gas or other utilities. Recently negotiations were concluded for acquisition of the electric and gas utilities at Bukharest, Rumania, this marking the company's first entrance into the European field. A half interest is also owned in a company managing certain hydro-electric properties in the region about Bombay, India, as well as minority interests in companies operating in five other countries. The total population served is estimated at more than 12,000,000, the number of actual customers exceeds 900,000, and the diversification of interests is almost world-wide.

The extent and character of the company's holdings are important for two reasons. In the first place, of course, their extent minimizes the effect of adverse developments that may occur in any one quarter. Moreover, since the communities which are served are, for the most part, much less completely equipped with modern utility conveniences than the typical American city or town, the opportunities for expanding the service are correspondingly greater, quite aside from what would be expected through the natural growth of the population.

This far-flung business operates under the general direction of Electric Bond & Share Company, which owns a substantial majority of the junior securities. The senior capital of the company consists of $50,000,000 of long-term 6% debentures and approximately 868,000 shares of $7 preferred and $6 preferred, of equal rank except for the dividend rate.

The earnings of the company show a rapidly increasing trend, this being due, in part, to the acquisition of new subsidiaries. Very wide coverage of preferred dividends is indicated, after deduction of all prior charges. For the twelve months ended September 30, 1930, net income available for dividends amounted to $26,000,000, as against the annual requirement of $5,686,975 on the $6 and $7 preferred shares then outstanding. This indicates a coverage of more than four and a half times.

The very wide diversity of territory, interests and industries served in the company's operations, the able and experienced management which the business enjoys, and the unusual opportunities for growth give American & Foreign Power, in our opinion, a very favorable outlook. The company's $6 preferred stock, listed on the New York Stock Exchange, is currently selling to give a yield of more than 7.50 per cent. It is, in our opinion, an attractive fixed-income security. We recommend it as a sound investment.

INVESTMENT BULLETIN

The Investment Bulletin, issued quarterly by A. G. Becker & Co., contains articles of general interest to investors, current news about corporations with whose financing A. G. Becker & Co. has been identified, and facts about some of the current offerings of this house.

We shall be pleased to send the publication regularly to any interested investor upon request.

A. G. Becker & Co.

INVESTMENT BULLETIN

FOURTH QUARTER 1929

The Investment Company

THERE are some 300 to 400 investment companies—investment trusts, so-called—in the United States today. (A wide spread in the figures is necessary to allow for differences in definition of the term.) These companies represent invested capital estimated at well in excess of two billion dollars. Their securities are widely distributed in all parts of the country. Great blocks are held by institutional and large investors, while holdings of smaller size, tapering down to one- and two-share units are in the hands of a considerable part of the general public.

Advantages Offered

The more important advantages which the investment company is intended to incorporate are fairly well known:—diversification; experienced management; large scale operations. There are important technical advantages, too, which have received less emphasis:—underwriting opportunities; ability, by virtue of large resources, to take over promising enterprises which need only proper capital and management to become very successful; command of wide sources of information, making possible intelligent and conservative investment in fields which the ordinary individual would not be disposed to enter; access to information about special market situations which offer unusual opportunities for profit; etc.

Merely to catalogue some of these features of the investment company emphasizes the fact that it stands for a type of enterprise relatively new in American finance. It calls for new methods of evaluation. It is natural, of course, that an attempt should be made to measure it by the old yardsticks of investment—earnings, character of assets, capital structure, market quotations, etc.—and, indeed, these factors do have a bearing which entitles them to close consideration according as facts are available. But, as is pointed out later, many of the facts required for this sort of an analysis are not available, and, even if they were, they would count for much less in appraising an investment company than an enterprise of more conventional type. The investment company embodies principles of action so different from those commonly associated with a closely knit industrial organization that a considerable shifting of emphasis between the various factors to be weighed is necessary in order to arrive at a satisfactory conclusion.

Not a "Trust"

One fact is very clear. The "investment trust" has no relationship to a trust in the ordinary sense of that word. The typical American investment company, that is, a company of the management type, is not at all a trust. It is a trading and financial company, organized to deal in securities on a very broad scale, to foster the development of business opportunities, and, often, to manage or aid in the management of business concerns. One commonly thinks of trust investments in terms of high grade bonds of relatively low yield; the portfolio of the typical investment company, on the other hand, will include not only securities of that type but a large proportion of equity investments, many of them held for future possibilities rather than for current income.

Judging the Assets

One of the chief advantages that an investment company presumably offers shareholders is diversification of assets. To what degree diversification is effected can only be determined by examination of its full list of holdings. Therefore, it is sometimes urged that the full list should be published periodically so that investors and investment counsellors may study it, judge for themselves the character of the company's assets, and form their own opinion of the investment policy followed by the management.

At first thought this does not seem to be an unreasonable request. But it is well known that the great majority of investment companies do not publish their holdings. In most cases their directors are men of known probity and regard for the proprieties in handling the funds of others. Obviously, then, there must be strong reasons for not publishing the contents of the investment portfolio. One needs but to recall the nature of investment company operations to appreciate those reasons.

The typical American investing company, as we have indicated, is a trading company. Its holdings presumably include well-known and seasoned investment issues of good earning power, together with less seasoned issues and some which are not currently profitable but which the management has reason to believe possess exceptional possibilities for the future. There is ordinarily no regular unit of investment. One security may be held in very large amount and others in small blocks. Some items will be held for a long time, others will be sold when a satisfactory profit is offered. To weigh the entire list fairly, one would need to know, with respect to each item in the portfolio, why it was purchased, how long it had been held, the current market situation, the particular relation of the security to the entire investment structure which the management had built up, and its probable future as indicated by special information known to the management but not generally disseminated. Without knowledge of all these factors it would be of little value to attempt a serious judgment of the investment policy reflected by the company's holdings at any given time.

While the practice of making public the list of holdings is in no sense objectionable, in general, assuming a company to be honestly managed, no good end would be served by requiring it to disclose its holdings at regular intervals. Such a policy would deprive the company in some measure of the benefits of superior management and it might have important repercussions in some cases if a large body of investors were to base their own operations, as they might, on the indicated activities of trading companies. Investors would not ordinarily wish to sacrifice the ability of their managers for the imaginary advantage of occasionally seeing in print a list of what their company owned.

Earnings as an Index

Over a period of time the record of earnings is a fair index to the worth of a company's securities—whether in the industrial or the investment field. A few American companies are as much as five years old, and their earning statements are available for most of that period. Such figures are of value when obtainable. But a great many companies in which both the public and large banking interests have shown great confidence, have been in business for much less than five years. Most of them, in fact, are less than two years old; a very great many are less than one year old. The income figures of a company only a year or two old possess little significance for index purposes. Good reports for a year or two do not necessarily give assurance that they will continue. And a record of small earnings may mean simply that the company has deliberately sacrificed quick profits in the interest of the future. This would particularly apply to companies which are devoting a good deal of their attention to undeveloped industries or undeveloped countries.

In course of time earning statements will come to be a valuable index to the character of American investment companies, as they are today with respect to British investment trusts which have been in existence for many years. Their index value, for the present, is relatively low.

Capital Structure

The capital set-up of an investment company is always deserving of examination. With respect to any given class of security, its relation to other securities outstanding or authorized is of concern. Likewise, the relation between senior and junior securities generally will throw some light on management policies. A three-to-one ratio between the various senior securities and the common stock is quite common among British companies. These companies have reached a much more settled position, of course, than any American company so that here again parallels can not be drawn between organizations on opposite sides of the water.

One phase of the capital set-up which may be inquired into is the interest of the company's managers or sponsors. The investor has a right to know if they have made a substantial investment of their own funds in the company—particularly in its junior securities.

The Market as a Guide

Market quotations are always an interesting index for quick reference. After an issue has been traded on the exchange for a reasonable length of time, its market price will reflect fairly well the composite opinion of the investment world regarding it. On the other hand, considerations other than earnings and prospects have a part in the fixing of market prices, particularly in securities of this type. Popular fancy, the magic of certain names, special marketing operations, often lead an investor to pay a higher price for an issue than he needs to pay for another which is statistically as good or better. As an index to real value, then, market quotations are by no means entirely convincing.

The Key to the Situation

It is evident from the foregoing, that the list of the company's assets, even if available, is an unreliable guide to the value of its securities; that earning statements, in general, cover too brief a period to be conclusive; that while the capital structure is an important consideration, it leads to no final conclusions; and that market quotations are not an exact index to values. When, then, *is* the key to the situation? The answer, of course, is *Management.*

Who are the officers and directors of the company? Does their standing in business and financial circles command respect? Supposing the company to be of the specialized type, are they experienced in the special field which is to be its theater of operations? Do they supervise the investment policy in detail, or has a management contract been executed with some other organization? In that case, what of the qualifications of that organization? And does the compensation clause appear reasonable?

Who are the bankers sponsoring the offering of the company's securities? Are they identified with the company simply in an underwriting capacity or also as managers? In the latter case have they, to repeat a question suggested above, made a substantial investment of their own funds in the company?

These are not perfunctory questions. They go to the heart of matters which vitally affect shareholders. These companies are organized and sponsored, for the most part, by bankers and business men whose records are well known.

Though the corporate life of the company may have begun but recently, the men behind it have presumably been active in affairs for a long time, and by their record one may fairly judge their company.

Keeping in mind the essential nature of an investment company—that it is a device whereby men of ability, experience and integrity undertake to manage the investment funds of a great many individuals—it becomes apparent that the qualifications of the management furnish the best index to the company's character and prospects. The investor who puts his funds into one of these companies invests primarily in management. The banker who extends credit upon its securities lends upon management. The advantages which belong to this particular type of organization depend almost wholly for their realization upon the calibre of the management. Inquiries will properly be directed, then, not so much to details of management as to the character of management.

Notes on the Federal Reserve Statements

THE Federal Reserve statement which is published each Friday represents, in highly concentrated form, an expression of the general state of the nation's business. Though it is not an index which may be read and fully comprehended at a glance, a clear understanding of what the various items mean is of help in following business trends. The four most significant items in it are, Total Gold Reserves, and Total Bills and Securities on the Resources side; Federal Reserve Notes in Circulation, and Total Deposits on the Liabilities side. They can be most easily considered in the reverse order to that in which they appear on the balance sheet.

Total Deposits

While this item includes deposits of the United States Treasury, of foreign banks and of non-member banks, it is made up preponderantly of deposits of member banks, and its fluctuations are caused chiefly by fluctuations in these deposits. The law requires member banks to keep with Federal Reserve institutions a fixed reserve against their own customers'deposits. The amount of this reserve varies between different classes of deposits and different classes of banks. On time deposits, the requirement for all banks is a 3 per cent reserve. On demand deposits it is 13 per cent for New York and Chicago banks, 10 per cent for banks in other reserve cities, and 7 per cent for country banks. The amount of Total Deposits shown on the Federal Reserve statement varies, therefore, with the aggregate deposits at member banks, according as customers have made them from the proceeds of loans, the sale of securities to banks, the import of gold, or the contraction of the currency in circulation.

In general, this item rises as banking credit in the country expands, and falls as banking credit contracts.

Federal Reserve Notes Outstanding

Federal Reserve Notes are the most elastic part of our currency. The more active the condition of business, the greater the need, generally speaking, for actual money in circulation. An acceleration of the business pace will presumably have its sequel in an increase in Federal Reserve Notes outstanding; conversely, a slowing down of business should result in contraction of Note circulation. This rule can only be applied, however, subject to modifying influences which discourage hasty generalizations.

For one thing, Federal Reserve Notes, though the chief, are not the only elastic form of our money. The circulation of Gold Certificates also fluctuates materially. Other factors being constant, as the circulation of Gold Certificates increases, the circulation of Federal Reserve Notes decreases; and vice versa. A variation in the Federal Reserve Note circulation may sometimes be traced to a change in the situation with respect to Gold Certificates, rather than to fluctuation in the needs of business.

There has been a general tendency toward reduction in the volume of the circulating medium, due to the ever-growing habit of the American people to pay their bills by check rather than with cash. This habit undoubtedly explains the steady decline in the total amount of money in circulation during the last several years in spite of increasing business activity.

In the face of this decline, Federal Reserve Notes in the last year show a substantial increase. This, however, may be traced to an irregular influence — the effort of the United States Treasury to put the new small-size bills into circulation.

It will be seen, therefore, that while the volume of Federal Reserve Note circulation has an important significance, the various modifying factors must be known and appraised before it can be used as a basis for broad conclusions.

Total Reserves

Against their deposits and Federal Reserve Note issues, the Federal Reserve banks are required by law to maintain a certain reserve of gold. With respect to Federal Reserve Notes this amounts to 40 per cent of the circulation; with respect to Deposits it amounts (Gold and Other Reserves combined) to 35 per cent. "Other Reserves" include legal tender notes, silver certificates and standard silver dollars. The Federal Reserve Ratio shown in the weekly statements is the ratio of reserves to Deposits and Federal Reserve Notes combined, adjusted so that it can be expressed in a single figure. This ratio has recently been around 73 per cent. Obviously, credit could be very greatly expanded before the ratio would drop to the minimum prescribed by law.

Total Bills and Securities

This item is made up of Bills Discounted (including Bills Secured by United States Government Obligations, and Other Bills Discounted), Bills Bought in the Open Market, and United States Securities. The total figure represents reserve bank credit. A great many persons look upon a rise in Total Bills and Securities as a sign of inflation. This might be so, but is not necessarily so. Suppose, for example, that, over a period, the volume of Federal Reserve Notes in circulation remains constant, and that the members' reserve Deposits also remain substantially unchanged, while at the same time, due perhaps to financing of foreign loans, heavy gold exports cause the Gold Reserves to fall. Inevitably, then, the item Total Bills and Securities must increase to balance the loss of Gold. In such a case the variation in Total Bills and Securities is purely of a balancing nature. Some economists prefer to use the item of Deposits rather than Bills and Securities as a quick index to the credit situation.

Interpreting the Statement

To make a thorough analysis and interpretation of a Federal Reserve statement, one needs to have access to a great deal of collateral information, and to possess a background of familiarity with Federal Reserve policies. Few persons, aside from professional economists, have the training or facilities for such a study. Still, for the financially-minded, the week-to-week figures, when examined in the light of this brief explanation of their significance, offer an interesting commentary on the banking situation and on the state of trade. Any inferences which one draws from them regarding business trends or outlooks must be regarded, of course, as purely suggestive.

INVESTMENT BULLETIN

The Investment Bulletin, issued quarterly by A. G. Becker & Co., contains articles of general interest to investors, current news about corporations with whose financing A. G. Becker & Co. has been identified, and facts about some of the current offerings of this house.

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Chicago Tool Expects $5 a Share Earnings; Will Introduce New Drill Bit

ON the basis of operations for the first eight months of the year, during which net earnings of Chicago Pneumatic Tool Company ran more than 90 per cent ahead of the same period of last year, H. A. Jackson, President of the Company, recently declared that with a continuation of operations at the present rate the company should show earnings on its common stock of more than $5 a share. This compares with $3.07 a share last year. Net earnings for August were $130,493, and for the entire eight months, $949,207. The company has outstanding approximately 200,000 shares of common, preceded by 188,000 shares of convertible preference stock and funded debt of $2,800,000. Interest on this latter amount, as well as depreciation and federal taxes were, of course, deducted before arriving at the earnings indicated above.

Recent press dispatches state that the company expects shortly to introduce a new rock bit for drilling which should prove important in the oil industry. The principal advantage claimed for the new bit is its ability to drill straight holes, thus overcoming one of the major difficulties of oil exploration. In many cases the drills now in use go off at an angle when they strike a hard stratum, and occasionally turn upward again. In consequence, drillers have sometimes been unable, even in fields of known productivity, to get through to the oil. Tests which have been conducted by a number of oil companies have demonstrated that the new drill bit will hold to the desired direction even through the most difficult strata.

Our interest in the company has extended over a long period, during which time we have offered its commercial paper, convertible preference stock, and common stock.

Economist Gives High Opinion of German Investment Bonds

A high opinion of German-dollar bonds is expressed by Prof. Jacob Viner, a University of Chicago economist, in a recent magazine article. Professor Viner was in charge of the round table on "Interallied Debts and Reparations" at the recent Institute of Politics in Williamstown, Mass.

"The long tradition of sound and even over-conservative financial policies of Germany," he says, "was not destroyed by the war, and only temporarily weakened by the inflation period. If one considers the acute economic distress to which Germany was subjected as a result of the war and the post-armistice allied blockade, one is forced to express admiration for the extraordinary recuperative powers which German industry and commerce have displayed.

"There is going on in Germany a steady and gratifyingly rapid process of economic restoration and advancement. Industries are being reorganized, technical processes improved, factories rebuilt, new products developed, and connections with old markets re-established. At present rates of return, no securities should seem more attractive to investors for long-run investment than the great bulk of German securities floated here."

C. I. T. to Finance Hudson Sales

An important contract entered into recently by Commercial Investment Trust Corporation and the Hudson Motor Car Company provides for the financing by the former of the motor company's products on a world-wide basis.

Commercial Investment Trust has recently opened an office in Santiago, Chile, to serve American and other foreign manufacturers who distribute their products in that part of South America.

Ruhr Gas Gets Cologne Contract

Ruhr Gas Corporation has concluded a contract with the City of Cologne, according to press reports, providing for the delivery of coke oven gas to that city. Cologne, with a population of more than 700,000, will furnish an important outlet for the company's product. It was pointed out last fall, when the company's 6½ Per Cent Secured Sinking Fund bonds were offered by a group including A. G. Becker & Co., that the company expected, before 1930, to add to its then existing contracts, others with the cities of Cologne, Duesseldorf and Duisburg, as well as with a number of industrial concerns.

Parker Gets New Canadian Site; Uses Radio Advertising

A site for a new Canadian plant in Toronto has been acquired by The Parker Pen Company. The present Parker plant in that city is a leased one. The new site is ample in size for the company's requirements, is well located and has the important advantage of a railway siding.

The company has recently extended its advertising program by the use of radio advertising on the West Coast. The program consists of music, short talks on graphology, and Parker announcements. The company has been a heavy national advertiser for years, supporting its distributive facilities not only with space in newspapers and magazines of national circulation, but by use of the newer forms of publicity. An example of the latter was the goodwill flight last year of the company's airplane, the Duofold, which cruised the country in promotion of the company's interests. Announcement was recently made of an additional appropriation of $100,000 for the current year's advertising fund to promote autumn and holiday business.

To Convert Twice-Wasted Wood into Building Material

THE efficiency credited to packing-house operations by the saying that "they use everything but the squeal" has an interesting counterpart in another field, according to plans for converting waste wood to economic uses which A. A. Schlesinger, president of The Newport Company, recently announced. This company, a leading factor in the chemical and wood distillate industry, obtains a large part of its supply of resin, turpentine and pine oil from stumps and other discarded light wood which represent waste from the lumbering industry. After the extraction process has been completed the wood becomes waste a second time in the form of spent wood fibre.

A process has now been developed by which this by-product can be converted into insulating material and building board, and a new corporation has been formed by The Newport Company and the Armstrong Cork Company, which jointly carried on the experimental work, to conduct the business. Construction of the first unit of the manufacturing plant will be undertaken shortly at Pensacola, Fla., according to Mr. Schlesinger, who heads the new company. It is planned for The Newport Company to operate the plant and for the Armstrong Cork Company to market the product.

Autostrop Shows Gain During First Nine Months

Profits of AutoStrop Safety Razor Company, Inc., for the first nine months of the year will run around $625,000, according to reports in the financial press. This figure represents a substantial increase over the corresponding period of 1928. It is of particular interest in that it reflects a material acceleration of operations in the summer quarter.

The company is now in production on Probak blades, a double-edged blade which has been well received in the early marketing activities. Recent completion of a new plant in Toronto doubles the capacity of the Canadian unit, and places the company in a good position to take care of the rapidly expanding market for its products there.

Morrell Increases Facilities

An increase of 40 per cent in the stock yard facilities of the Sioux Falls, S. D., plant of John Morrell & Co., Inc., is being effected by enlargements which were initiated recently. It was planned to have the work completed around October 1 so that the additional facilities would be available for the heavy hog runs of the early fall. A new power plant is also being installed at Sioux City. Announcement has been made, too, of plans for erection of a new branch house at Philadelphia.

Experienced observers regard conditions as favorable for the packing industry. The maintenance of domestic prosperity and the satisfactory export situation have combined to give support to the market. Morrell has been operating on a very satisfactory basis this year, earnings for the six months ended March 30 being the highest in the company's history for a similar period.

Common stock of the Morrell company (its only security outstanding) was offered last fall by A. G. Becker & Co.

Bancorporation Assets Pass $400,000,000

The group of northwestern banks affiliated in the Northwest Bancorporation has been materially strengthened recently by the addition of several new units, including four in the State of Montana and one in Washington. Total resources of the group now exceed $400,000,000. Recent additions to the group include the Spokane and Eastern Trust Company, Union Bank and Trust Company of Helena, Mont., Great Falls National Bank, First State Bank of Malta and Hill County State Bank of Havre.

Other banks which have lately affiliated include the First National Bank of Winona, the Midland National Bank & Trust Co., of Minneapolis, the Metropolitan National Bank of Minneapolis, and the Union Investment Company, the latter a holding company in operation since 1904 which controls thirty-one banks located in smaller towns in Minnesota, North Dakota and Wisconsin.

Directors of the Northwest Bancorporation recently voted to increase the company's capitalization from $75,000,000 to $300,000,000, and authorized additional sale of shares, the amount to be determined later. Priority rights will be given present shareholders. The common stock of the company has been listed on the Chicago Stock Exchange.

Fashion Park Has 30 Stores

More than thirty retail stores are now comprised in the system operating under the name of Fashion Park Associates, Inc., which was formed recently by a merger of some of the largest clothing interests in the country. It is reported that additional manufacturing facilities may shortly be brought into the group. The Hub, Henry C. Lytton & Sons, which is the Chicago unit of the company, recently acquired the exclusive Michigan Avenue store of Dockstader & Duncan. A. G. Becker & Co. is closely identified with Fashion Park Associates, Inc., and is represented on its directorate.

Wieboldt's to Enlarge New Store

Enlargement of Rosenberg's, the Evanston department store recently acquired by Wieboldt Stores, Inc., of Chicago, is being planned, and is expected to start immediately. When completed, it will give the Wieboldt group, including the three stores now in operation and a fourth in Englewood which is to be finished next year, a total floor space exceeding 1,300,000 square feet.

Sound Stocks for Investment

During the last several years, A. G. Becker & Co. has been closely identified with a number of successful investment companies. The two described below possess very interesting possibilities. A brief statement of facts is also presented regarding an industrial issue of which our close acquaintance with the company has given us a very high opinion.

National Securities Investment Company

Allotment Certificates

(6% Cumulative Preferred Stock, Common Stock and Common Stock Warrants)

THIS company, formed in 1926 as an investment company of the general management type, has been unusually successful. At the end of 1928, realized profits for the two and a half year period of operations, plus unrealized appreciation on securities held, totaled more than $8,000,000—approximately 265 per cent of the estimated average investment by stockholders during the period. Common stockholders received a stock dividend of 1400 per cent in the Spring of this year. For the first eight months of this year (resources having been increased to approximately $31,000,000 in the meantime through a recapitalization) net income, realized profits and unrealized appreciation on securities held represented a high return on the company's capital funds.

The present capital structure of the company comprises 200,000 shares of 6 per cent Cumulative Preferred Stock ($100 par) and 950,000 shares of Common. In addition, 350,000 shares of Common Stock are reserved against outstanding warrants, and 200,000 shares are available for future corporate purposes.

Allotment Certificates of National Securities Investment Company represent units of 1 share of Preferred stock, one-half share of Common, and the right to buy an additional half-share of Common for $7.50. Certificates and Common are listed on the Chicago Stock Exchange.

Both Allotment Certificates and Common stock are in our opinion attractive investments at current levels.

Priced at the market

John Morrell & Co., Inc.

Common Stock

With a background of more than one hundred years of continuous operations, the business of John Morrell & Co., Inc., today is in an exceedingly strong position. This meat packing company's last fiscal year showed profits of $9.06 a share—the largest in its history. Productive facilities have been steadily enlarged during the last few years, and sales volume is reported as substantially larger this year than in 1928.

All profits accrue to the common stock, as there is no funded debt and no preferred stock.

The Company is under the able management of men who have grown up with the business, and are descendants of the founder.

Morrell common stock is listed on both the New York Stock Exchange and the Chicago Stock Exchange, and has been recently quoted around 76, or about 8½ times last year's earnings. In our opinion, it is a stock of investment calibre and decidedly worthy of our recommendation.

Priced at the market

Manhattan-Dearborn Corporation

Common Stock

Manhattan-Dearborn Corporation, organized by Lawrence Stern and Company and A. G. Becker & Co., is an investment company with broad powers but giving particular attention to the field of real estate equities. It is generally appreciated that large opportunities for profit exist in this relatively neglected but important investment field. This Company, which begins operations with capital funds of $18,750,000, is in excellent position to take advantage of them.

Directors of the Corporation include executive officers of the two banking firms mentioned and the following well-known business men: William Wrigley, Jr., John Hertz, Albert D. Lasker, Herbert Bayard Swope, Charles A. McCulloch, Herbert L. Stern and Charles S. Pearce.

Of the 375,000 shares of Common stock recently offered, more than 190,000 shares were purchased for investment by the bankers and closely affiliated interests. Among the larger shareholders are interests whose cooperation is expected to be of material advantage to the Corporation in managing its funds.

The stock is currently quoted on the Chicago Stock Exchange around 53. We recommend it as an investment for permanent holding.

Priced at the market

Well Secured Foreign Bonds of High Yield

The current bond situation enables the investor to obtain foreign issues which combine a generous yield with excellent security. The bonds described on this page exemplify that fact. They include two German issues of our own underwriting and an attractive guaranteed bond of South American origin.

Koholyt Corporation

First (Closed) Mortgage 6½% Sinking Fund Gold Bonds

Due 1943

KOHOLYT is one of the largest European producers of sulphite pulp and sells its products internationally. Its two main factories, at Koenigsberg, East Prussia, are situated at the mouth of the River Pregal, convenient to large sources of raw material, and well located for shipments by water. Half of the company's production is exported.

The company has plants in western Germany also—a paper factory at Bielefeld; two establishments near Cologne—one producing chlorine and caustic soda, the other emery paper and grindstones; and another known as The Oberlahnstein Vegetable Parchment Mill.

This issue of bonds, totaling $4,000,000, is secured by first mortgage on properties appraised at more than $11,000,000. Latest published figures show average annual earnings of more than four times the maximum interest requirements. The sinking fund provisions call for retirement of the entire issue by maturity.

These bonds are comparable to very high grade industrial issues of domestic origin. Their current high yield makes them decidedly attractive.

Priced to yield approximately 7.55%

Unterelbe Power & Light Company

25-Year 6% Sinking Fund Mortgage Gold Bonds, Series A

Due 1953

This issue will bear comparison with domestic utility bonds yielding from 2½ per cent to 3 per cent less. It therefore affords an unusual opportunity even at a time when bond yields in general have advanced to high levels.

This municipally owned company supplies the complete electric, gas and water requirements of the city of Altona. Altona, with more than 225,000 population, lies on the lower Elbe immediately adjacent to Hamburg. Its interests and developments are virtually identical with those of that great German port just as Brooklyn and the City of New York have closely interrelated interests.

The property securing these bonds is appraised at more than two and a quarter times the amount of the issue.

Net earnings of the company for the last two years reported have averaged annually more than five and one-third times maximum interest requirements.

On the facts, these bonds are obviously well secured. The return is most unusual.

Listed on New York Stock Exchange

Mortgage Bank of Chile

Guaranteed Sinking Fund 6% Gold Bonds of 1929

Due 1962

These South American bonds furnish yet another instance of the exceptional opportunities in the current bond market. Aside from the issuing bank's promise to pay, they are, in addition, unconditionally guaranteed as to principal, interest and sinking fund by the Republic of Chile. The Mortgage Bank of Chile is itself a quasi-governmental institution, its principal officers holding position by appointment of the president of the republic. The bank has been in operation more than 73 years and has never failed to meet its obligations. Its bonds are a legal investment for savings banks and trust funds in Chile.

The operations of the Mortgage Bank of Chile consist in making credit available on reasonable terms for the development and improvement of real estate in Chile. All loans are secured by first mortgages or pledges registered in the name of the bank. Of this $20,000,000 issue, $10,000,000 is to provide for loans secured by agricultural products or farm machinery and implements, and the balance to provide for the redemption of bonds which the bank deems it advantageous to retire.

The high character of the security and liberal yield should give these bonds an especial appeal for conservative investors.

Priced to yield approximately 6.73%

Well Secured Foreign Bonds of High Yield

The current bond situation enables the investor to obtain foreign issues which combine a generous yield with excellent security. The bonds described on this page exemplify that fact. They include two German issues of our own underwriting and an attractive guaranteed bond of South American origin.

Koholyt Corporation

First (Closed) Mortgage 6½% Sinking Fund Gold Bonds

Due 1943

KOHOLYT is one of the largest European producers of sulphite pulp and sells its products internationally. Its two main factories, at Koenigsberg, East Prussia, are situated at the mouth of the River Pregal, convenient to large sources of raw material, and well located for shipments by water. Half of the company's production is exported.

The company has plants in western Germany also—a paper factory at Bielefeld; two establishments near Cologne—one producing chlorine and caustic soda, the other emery paper and grindstones; and another known as The Oberlahnstein Vegetable Parchment Mill.

This issue of bonds, totaling $4,000,000, is secured by first mortgage on properties appraised at more than $11,000,000. Latest published figures show average annual earnings of more than four times the maximum interest requirements. The sinking fund provisions call for retirement of the entire issue by maturity.

These bonds are comparable to very high grade industrial issues of domestic origin. Their current high yield makes them decidedly attractive.

Priced to yield approximately 7.55%

Unterelbe Power & Light Company

25-Year 6% Sinking Fund Mortgage Gold Bonds, Series A

Due 1953

This issue will bear comparison with domestic utility bonds yielding from 2½ per cent to 3 per cent less. It therefore affords an unusual opportunity even at a time when bond yields in general have advanced to high levels.

This municipally owned company supplies the complete electric, gas and water requirements of the city of Altona. Altona, with more than 225,000 population, lies on the lower Elbe immediately adjacent to Hamburg. Its interests and developments are virtually identical with those of that great German port just as Brooklyn and the City of New York have closely interrelated interests.

The property securing these bonds is appraised at more than two and a quarter times the amount of the issue.

Net earnings of the company for the last two years reported have averaged annually more than five and one-third times maximum interest requirements.

On the facts, these bonds are obviously well secured. The return is most unusual.

Listed on New York Stock Exchange

Mortgage Bank of Chile

Guaranteed Sinking Fund 6% Gold Bonds of 1929

Due 1962

These South American bonds furnish yet another instance of the exceptional opportunities in the current bond market. Aside from the issuing bank's promise to pay, they are, in addition, unconditionally guaranteed as to principal, interest and sinking fund by the Republic of Chile. The Mortgage Bank of Chile is itself a quasi-governmental institution, its principal officers holding position by appointment of the president of the republic. The bank has been in operation more than 73 years and has never failed to meet its obligations. Its bonds are a legal investment for savings banks and trust funds in Chile.

The operations of the Mortgage Bank of Chile consist in making credit available on reasonable terms for the development and improvement of real estate in Chile. All loans are secured by first mortgages or pledges registered in the name of the bank. Of this $20,000,000 issue, $10,000,000 is to provide for loans secured by agricultural products or farm machinery and implements, and the balance to provide for the redemption of bonds which the bank deems it advantageous to retire.

The high character of the security and liberal yield should give these bonds an especial appeal for conservative investors.

Priced to yield approximately 6.73%

A Fixed Return of Over 6%

A well secured first mortgage bond possessing stock purchase rights of very interesting possibilities is represented in the Southern Natural Gas Corporation issue described below. With it we present an attractive secured note, issued by a company which has engaged successfully for more than twenty years in a specialized field of finance.

Southern Natural Gas Corporation

First Mortgage 6% Sinking Fund Gold Bonds

Due 1944

(With Common Stock Purchase Privilege)

THE strong position into which the natural gas utilities have moved in the last few years gives special interest to this issue of bonds.

The bonds will be secured by first mortgage on properties developed by the company to distribute gas to a large area of the south which extends from the Mississippi River to Atlanta, Ga., and takes in a region of great industrial development. Contracts to furnish gas to Atlanta and a number of other cities indicate earnings which, according to conservative estimates, should be several times the maximum interest requirements of this issue.

Among the cities which are to be supplied with gas, according to contracts already concluded with Southern Cities Public Service Co., are (in addition to Atlanta), Marietta and Rome, Ga.; Anniston, Gadsden and Tuscaloosa, Ala.; and Columbus, Miss.

The company's main transmission line will pass through the Birmingham, Ala., district, one of the most important and rapidly growing industrial sections of the country.

The company's initial distribution system will have a main line 421 miles long, of which 130 miles is completed. The balance is to be completed by the end of this year, and gas deliveries to Atlanta are to begin not later than February 28 next. An ample supply of gas from the Monroe and Richland fields of Louisiana is assured by agreements with the leading producers in those fields.

Each $1,000 bond of this issue entitles the holder to buy, between July 1, 1930 and July 1, 1938, thirty shares of the company's common stock. Until July 1, 1932, the price to bondholders is $12.50 a share, while the stock has recently been quoted on the Chicago Curb Exchange around 17.

In our opinion these bonds are well protected by the properties pledged. In view of the good yield they offer, and the excellent possibilities for profit through exercise of the stock purchase privilege, we regard them as an attractive investment.

Priced to yield approximately 6.25%

National Bond & Investment Company

6% Serial Gold Notes

Due 1933-39

The nature of this company's business, which consists chiefly of the purchase of selected evidences of indebtedness arising out of the sale of standard makes of passenger automobiles, results in the great bulk of its assets being of extremely liquid character. The important relation between this strong balance-sheet position and the worth of the company's securities will be the more appreciated when it is pointed out that the company states that it could ordinarily retire its entire indebtedness in four months by the application of cash on hand, plus normal collections for that period.

National Bond & Investment Company is the outgrowth of a business that has been successfully conducted since 1908. The extent of its operations is indicated by the fact that since 1919, it has bought receivables aggregating substantially more than $200,000,000. More than 52,000 items were purchased last year of a total value exceeding $25,000,000—an average of $487 per item. The risk is consequently well diversified. The receivables purchased represent, on an average, approximately two-thirds of the sale price of the car, and are secured in every instance by an instrument retaining title in or conveying first lien on the vehicle.

Invested capital and surplus of the company, as shown by its statement of December 31, 1928, amounted to more than $4,000,000, of which more than $3,000,000 represents earnings retained in the business.

Average earnings available for interest for the eight years ended December 31, 1928, were more than $865,000, against average annual interest charges of $493,353. Last year's earnings were more than $1,000,000.

These notes, in addition to being a direct obligation of the company, are specifically secured by deposited collateral of 110 per cent of the principal amount of the notes outstanding.

We recommend these notes as a sound investment.

Priced to yield, according to maturity, 6.10% to 6.15%

Additional Recommendations

Representative of Our Current Offerings

Corporate Obligations

	Approx. Price	Approx. Yield
SOUTHERN PACIFIC CO., Gold 4½s (with warrants), due 1969	97⅜	4.63%
BELL TELEPHONE CO. OF PENNSYLVANIA, 25-Year 1st & Ref. 5s, due 1948	102½	4.80%
ILLINOIS BELL TELEPHONE CO., 1st & Ref. 5s, due 1956	101½	4.88%
AMERICAN TELEPHONE & TELEGRAPH CO., 35-year Sinking Fund Deb. 5s, due 1960	101½	4.89%
AMERICAN SMELTING & REFINING CO., 1st Mtg. 5s, due 1947	101½	4.88%
ILLINOIS CENTRAL RR. CO., and CHICAGO, ST. LOUIS & NEW ORLEANS RR. CO., Joint 1st Ref. 5s, due 1963	99¾	5.03%
YOUNGSTOWN SHEET & TUBE CO., 1st Mtg. Sinking Fund 5s, due 1978	99½	5.12%
BOSTON STORE (Chicago), Secured Gold 5s, due 1938	99	5.10%
CANADIAN NATIONAL RAILWAY CO., 40-year Guaranteed Gold 5s, due 1969	98½	5.10%
MILWAUKEE ELECTRIC RY. & LIGHT CO., Ref. & 1st 5s, due 1961	98	5.12%
EASTERN UTILITIES INVESTING CORP., Deb. 5s (with warrants), due 1954	94	5.45%
MONSANTO CHEMICAL WORKS, 1st Mtg. Sinking Fund 5½s, due 1942	100	5.50%
NORTH AMERICAN EDISON CO., Debenture 5½s, due 1963	99¾	5.52%
WEIL-McLAIN CO., 5% Serial Gold Notes, due 1931-35	Var.	5.75%
GOODYEAR TIRE & RUBBER CO., 1st Mtg. & Coll. 5s, due 1957	89	5.80%
INTERSTATE IRON & STEEL CO., 1st Mtg. 5½s, due 1946	96	5.88%
EDGEWATER BEACH HOTEL CO., Gold Deb. 5½s, due 1932-38	Var.	6.00%

Foreign Bonds

AUSTRALIA (Commonwealth of), External Gold 5s, due 1955	92¾	5.47%
DENMARK (Kingdom of), External Gold 6s, due 1942	102¾	5.70%
ARGENTINE GOVERNMENT LOAN, External Sinking Fund Gold 6s, due 1961	98	6.13%
UNTERELBE POWER & LIGHT CO., 2-Year 6% Note, due 1931	99	6.70%
TOKYO ELECTRIC LIGHT CO., LTD., 1st Mtg. 6s, due 1953	88	7.03%
GERMAN BUILDING & LAND BANK, 1st Mtg. 6½s, due 1948	95	7.05%
FREE STATE OF ANHALT, External Gold 7s, due 1932-46	Var.	7.30%

Investment Stocks

L. GREIF & BRO. INC., 7% Cumulative Pfd. Stock Listed on the New York Curb Exchange	At the Market	7.37%
CONSTRUCTION MATERIALS CORP., \$3.50 Convertible Pfce. Stock Listed on the Chicago Stock Exchange	At the Market	8.40%
THE LAWBECK CORPORATION, 6% Cumulative Pfd. Stock Listed on the Chicago Stock Exchange	At the Market	6.12%
MONSANTO CHEMICAL WORKS, Common Stock Listed on the Chicago Stock Exchange and New York Curb Exchange	At the Market	
NATIONAL SECURITIES INVESTMENT COMPANY, Common Stock Listed on the Chicago Stock Exchange	At the Market	
NORTH AND SOUTH AMERICAN CORPORATION, Common Stock Listed on the Chicago Stock Exchange	At the Market	
NORTHWEST BANCORPORATION, Common Stock Listed on the Chicago Stock Exchange	At the Market	
THE PARKER PEN COMPANY, Common Stock Listed on the Chicago Stock Exchange	At the Market	

Offered subject to prior sale and to change in price.

Full details on any issue listed will be furnished upon request.