A. G. Becker & Co.

INVESTMENT BULLETIN

FOURTH QUARTER, 1931

Gold Becomes News

FOR many years the gold standard has occupied but a small place in the consciousness of most Americans. That was one issue which was thought of as having been definitely settled, so far as the United States was concerned, away back in the nineties when William McKinley was elected president. But events of the summer and fall have demonstrated that the gold standard has again become a vital problem in many parts of the world with which our own affairs are closely bound up. It is well understood that there is a connection between the practice of gold standard principles and many of the economic disorders with which the world has been contending—the German financial crisis, the suspension of gold payments by Great Britain and certain other nations, the disturbing fall in international trade, the question of service charges on foreign dollar bonds, etc., etc., all of these matters being not only important in themselves but fathers of a long chain of economic consequences. It becomes apparent, therefore, that clear understanding of the principles which affect the world's various monetary systems is helpful in understanding the general line of development through which world economy is at present passing.

When we say that a monetary system is based upon the gold standard, we do not necessarily mean that there is a large reserve of actual gold metal to give value to the representative money which circulates under government sanction. The maintenance of value for this paper money and subsidiary coinage depends, in general, upon the willingness and ability of the government to buy and sell gold upon demand at a fixed parity, *i. e.*, to redeem its currency; and upon the right to export and import the metal freely. Any restriction of the free exchange or free movement of gold leads at once to the depreciation of the representative money which is subsidiary to it.

Types of Gold Reserve

Gold standard money may be based on one or more of various types of reserve—gold specie, gold bullion or gold exchange. Where gold specie is the standard, as in the United States, there is typically free coinage of the metal. Owners of bullion may, without restriction, present it at the government mint for conversion into gold coin. With a gold bullion reserve, such as was established by the British gold standard act of 1925, the reserve consists of gold bars. While free coinage does not prevail, the Bank of England must, under the terms of the act, buy and sell gold freely at a fixed price in minimum amounts of 400 troy ounces. (This provision of the British system ceased to function, of course, when gold payments were suspended by the Bank of England in September.)

The gold exchange standard, a modern development, is based on the theory that people do not care to use actual gold coins in the transaction of business, but want merely the assurance that their money is adequately backed by gold and can be, if desired, converted into gold. Some nations, therefore, maintain their reserves, in part at least, in the currency or exchange of another nation which is, itself, on a gold basis. Thus, many countries have been in the habit of carrying a part of their monetary reserves in British pounds sterling. Obviously, if the country whose currency or exchange is held goes off the gold basis, the reserve of the country holding it is adversely affected, and its own representative money will be depreciated.

In general the world's principal industrial and banking nations have held chiefly to the use of gold specie or bullion for reserve uses. Other nations however, have based their systems on gold exchange.

Among gold standard nations generally a minimum reserve of 30 to 40 per cent in metal has been regarded as sufficient to maintain the value of the circulating medium. American currency, for example, issued through the Federal Reserve, must have a 40 per cent gold reserve. (This does not apply to gold certificates which are issued as convenient representations of actual gold, and which are backed, dollar for dollar, by gold coin in the United States Treasury vaults.)

Gold and International Payments

Difficulties in maintenance of the gold standard arises when the demand for actual gold becomes so heavy and continuous as to threaten the reserves which support the currency. This pressure commonly arises in connection with international transfers of funds.

International payments are as a rule effected through the medium of the foreign exchange markets, a nation's credits in one quarter being set off against its debits in another. There may remain, however, certain balances which must eventually be settled in money, that is, in gold, shipment being made from the debtor country to its creditor. This gold is typically drawn from the actual metal reserves of the debtor nation. Under conditions in which there is normal distribution of the world's gold supply, each nation carries reserves substantially above its minimum requirements. Balances which need to be settled in gold can be paid without embarrassment. For, over a period, the flow of metal back and forth tends to even up, and a nation that loses gold at one time will expect to recover it later.

But the situation takes on a different aspect when, for any reason, a continuing debit balance against a nation requires it to export gold steadily month after month. That process may seriously deplete the gold reserves back of the currency. If it goes so far as to infringe upon the minimum reserve, or even to threaten infringement, confidence in the currency fails, its value depreciates in both domestic and international trade, business is thrown into confusion, the nation's buying power in the world markets is curtailed, and the ill effects are felt in far quarters of the globe. Even so, were depletion of the reserves confined to a single country, the more acute distress might be fairly well localized in that country. If, however, a considerable group of nations is faced, over a period of time, by the necessity of exporting gold in large amounts in order to satisfy debit balances, the dislocation of trade becomes general and serious.

It may be said, of course, and with reason, that there already must be some dislocation in order to cause a one-way flow of gold. Granting this, the abnormal flow of metal still tends to aggravate the bad condition. The exact relationship between gold movements and trade, with respect to what is cause and what is effect, is elusive, and a subject of hearty disagreement among economists.

Europe's Gold Losses

The world today confronts just such a condition as we have been describing. The currents of trade and finance over a period not only of months but of years have been sending a heavy flow of gold to certain centers, chiefly the United States and France. These two nations together hold well over half the world's total stock of monetary gold. Despite large exports of the metal in recent weeks the United States is still by far the largest holder in the world. This excessive accumulation of gold in France and the United States has come about naturally in the settlement of international balances in their favor. Regardless of the cause, however, it has been achieved at the expense of other nations, whose own gold stores have been dangerously depleted.

Ever since definitive reparations were set, Germany has faced the necessity of making large payments abroad. To make these payments out of the country's gold surplus, if any, was an impossibility. They were too great. Credit balances accumulated abroad through trade, however, might be set off against the foreign debts. But tariff walls, trade agreements, surviving war hatreds and natural competition interposed obstacles in the way of building up a foreign trade sufficiently large to cover all the nation's out-requirements. There have been heavy debit balances, therefore, to settle otherwise. The problem presented by the necessity for these transfers reached a critical stage during the past summer.

The German Gold Crisis

The chain of circumstances involving the German gold reserves began with the collapse of the Austrian Kreditanstalt. This affair raised questions in the minds of bankers as to the stability of German as well as Austrian finance. In consequence, there were heavy withdrawals of short term credits in Germany—in other words, a gold run on the country. The gold cover of the Reichsbank was threatened if, indeed, it was not actually reduced below the legal minimum. The entire currency system was endangered, awakening fears of an inflation such as the country had experienced during the years immediately following the war. In this emergency the government followed the only practical course open to it—it shut off the free export of gold. Subsequently, at the recommendation of an international committee of bankers, short term credits outstanding in the country were "frozen" for six months in order definitely to conserve the gold supply for that period. The inevitable effect of these moves was to curtail Germany's buying power in foreign markets. The country's imports dropped sharply, though exports held up well because of price differentials in favor of the German market.

As a direct aftermath of the German financial crisis came that in England. Great Britain was one of the heaviest holders of German short term paper. The freezing of this paper caused serious embarrassment to British bankers. Their difficulties were further aggravated by French withdrawal of short term credits outstanding in London. The Bank of England found its own gold stores being depleted at such a rapid rate that emergency measures were necessary. The government then took action comparable to that of Germany — it suspended gold payments on the currency for the time. Sterling bills promptly went to a discount in the exchange market and the British found themselves in somewhat the same position as the Germans—forced to curtail imports, but relatively strengthened with respect to export trade because of price advantages in their own markets.

As a sequel to Great Britain's action there was a sharp drop in the value of the reserves of those nations which were carrying British pounds or sterling exchange to support their own currencies. In their cases the effect called seriously into question the soundness of a monetary policy employing a vicarious reserve in the form of another nation's currency or exchange.

Economic Laws Affecting Gold Movements

There is an economic theory which holds that, over a period, these violently unbalanced accumulations of gold will shift back into balance through the operation of natural law. Thus, where excessive stocks of money accumulate, the discount rate tends to fall, forcing out foreign capital that was tempted in by high rates; consequently, an outward flow of gold replaces the inward flow. Moreover, when money stocks are excessive for a considerable time, prices tend to rise, foreign buyers are discouraged from making purchases, and export trade wanes; these developments also contribute to an out-movement of gold. Where metal stocks are below a nation's needs, reversal of the influences described tends to bring in gold.

Under the highly abnormal conditions prevailing in the last two years, practical exemplification of this time-honored theory has been lacking. During the greater part of that period the United States has been receiving heavy accessions to its gold stock in the face of steadily declining discount rates; and the country has been experiencing not inflation but drastic deflation, both in the security and commodity markets. Moreover, in the last few weeks, during which the gold tide was running strongly toward Europe, it proceeded for some time at least in spite of a decided firming of interest rates and a tendency for prices, both of commodities and securities, to hold their own if not actually to advance.

National Interest vs. Economic Law

Given time, the economic law might possibly have worked to correct the situation. But national interest can not always wait upon the slow working out of economic forces. When a country is threatened with ruin of its monetary system and its long train of attendant evils, strong measures must be taken to check the outflow and hasten the inflow of the precious gold. Such measures were taken by Germany and England. Having in mind the circumstances requiring this action, and the worldwide distress that would have been occasioned by complete collapse of their currencies, it will be appreciated that the steps taken, though giving an unpleasant shock to the world's business at the time, were essentially constructive. Early indication of their results is seen in the fact that, during the three months since its financial crisis, Germany has set a new high record in export balances each month; and in the fact that, within ten days after Great Britain suspended gold payments, a perceptible improvement of export demand for many of its goods began to be felt.

Bi-Metallism

It is held by some economists that the world's stock of gold is inadequate to meet the monetary needs of the entire family of nations, and that it is this shortage which is largely responsible for the difficulties of the last few years. Were a really adequate supply of metal present in the monetary systems, they hold, it would be a practical impossibility for one or two nations to "corner" the supply. Out of this point of view has come some revival of interest in the theory of bi-metallism —the use of both gold and silver as standard money.

The practical difficulty heretofore in operating a bi-metallic system has been the impossibility of fixing a workable and stable ratio between gold and silver. Unless the mint ratio conforms to the commercial ratio, the metal which is over-valued at the mint tends to drive out that which is under-valued. That is, the latter becomes more valuable as bullion than as coin, and finds its way into the arts and out of the country rather than into the monetary system. Thus, the practical result is again a single standard. Advocates of bi-metallism contend that were it universally adopted, discrepancies in ratio would tend to correct themselves. Needless to say, unity of action in this matter can not be immediately expected.

The Curious Case of the Bond Market

ACTIVITY in the country's security markets in recent months has been featured not only by liquidation of heavy proportions but apparently also by a great want of logic in the matter of prices. Quotations have swung back and forth over wide ranges on a small volume of transactions, and very commonly without the justification of any real change in underlying situations. Many thoroughly sound securities have suffered by these vagaries of the market, along with others of speculative character. During most of the year the downward trend of prices has served to dampen the interest of investors, and buying that otherwise might have had a strengthening effect has been absent. Indeed, it is primarily the lack of buyers that has made it possible for liquidating pressure to depress prices in many cases far below figures that might be justified statistically.

The stocks of many strong, successful, well-managed business enterprises have sold recently at prices which represent less than their equity in the company's net current assets alone—valuable fixed assets and good will standing for nothing so far as market appraisal was concerned. This fact in itself may not make such stocks more desirable for investment than others whose statistical position is different, but it is significant of the general lack of relationship between price and value. Many bonds, too, have been selling at receivership prices although they are not only not in such position but, in a great many instances, well within investment area.

Included among the bonds selling at abnormally depressed levels are practically all types—obligations of foreign governments whose budgets present difficult current problems because of reduced revenues, but whose long term outlook affords a basis for confidence; bonds of foreign corporations whose earnings and records are above question but which have gone off in price largely in sympathy with foreign government issues; bonds of domestic corporations whose prospects over a period of years must be regarded as sound, despite the difficulty they may be experiencing in these unusual times; and, of course, real estate bonds, which are in wide disfavor despite the sound position of many individual issues. Bonds in the strictly high-grade classication have not experienced the drastic break in price seen in other groups, but even these have receded to a level where yields are the highest in years, the group of offerings shown in another section of this Investment Bulletin being an example.

It is not our purpose here to attempt a comprehensive list of bonds whose market price is out of relation with their investment position, but it may be of interest to point to some of the recent happenings in the market which illustrate its thoroughly illogical behavior.

Some Market Examples

On a recent date, for example, Republic of Poland 6s closed at a higher price than Republic of Poland 8s, the latter having not only the higher coupon rate but being generally regarded as in a stronger investment position since they are supported by specific imposts such as do not apply to the 6s. On another day the Soo Line 6s broke from 81 to 40 on a single sale—the first recorded sale, in this case, over a period of weeks. The Missouri-Kansas-Texas Adjustment 5s broke 16 points on the sale of 15 bonds. Insull Utility Investment 6s ranged from approximately 38 to 65 during a single week; their range for the year is over 55 points. Vanadium Corporation 5s ranged 20 points during the same week.

Republic of Colombia obligations have been selling in the 20s though neither the republic nor any of its constituent parts is in default on outstanding obligations, and the president of the republic himself some time ago emphasized Colombia's intention and ability to maintain service on the nation's funded debt. Louisiana & Arkansas Railroad 5s have been selling in the 30s and 40s, though the company's earnings available for interest were greater during the first eight months of 1931 than during the corresponding period of 1930, the year in which the bonds were offered at 92. Unterelbe Power & Light Company 6s have been selling on the New York Stock Exchange in the 30s; yet this German company, which supplies the complete electric, gas and water requirements of a population of more than 250,000 has been meeting its obligations promptly, has been covering bond interest charges consistently during the last three or four years six or seven times (an unusually large coverage, of course, for a utility company), is bonded for substantially less than half the appraised value of its property and is entirely comparable to a large, well managed American utility whose bonds might well be regarded as of the highest grade.

In the High-Grade Section

While fluctuations among the strictly high-grade bonds have been less violent than in other sections of the market, even these have reflected the general lack of reason in appraising values. Obligations of the United States government are commonly regarded as the world's premier investments; yet the government 3s which were offered in September at par moved about sharply over what is, for governments, an exceedingly wide range and sold, at one time within a month after their issue, ten points below par. Commonwealth Edison 4s, recognized as among the cream of utility bonds, issued only a few weeks ago at 94½, sold as low as 84½. North American Company 5s moved from 84 to 92 between sales.

Changes of 5 to 10 points in the lower priced bonds on a single sale have not been unusual; that is to say, the price may have fluctuated as much as 25 per cent on one small transaction.

Without entering into detailed discussion of the investment position of any of these particular issues, which were selected more or less at random, it is obvious from such facts as have been pointed out that prices are being controlled by something decidedly different than investment logic. And in that very lack of logic lies an unusual opportunity for the investor whose requirements do not include the necessity for immediate liquidation. This opportunity is by no means going unrecognized. A good many investors have been taking advantage of it. The case of one man was recently called to our notice who, seeking recommendations for the investment of a considerable sum of money in bonds, specified that they should be restricted to issues selling under 50. There are others of our knowledge whose faith in the long term outlook has not been shaken by current disturbances to business and markets, who recognize that bonds at present prices offer perhaps the opportunity of their lifetime, and who are acting upon that conviction.

The Opportunity for Exchanges

The situation appeals not only to investors with cash on hand but very particularly to those whose holdings include securities that are now in a genuinely weakened position. The market being what it is, it is often possible to shift from one of these weak situations to one of much stronger character, not only without additional cost but sometimes at an immediate price advantage.

Obviously, however, with genuine values being interspersed among issues which are not to be so regarded, selections should be made with care, and on the basis of information as complete as is available.

Investors who believe it good policy to include in their portfolio a proportion of medium grade as well as of the highest grade bonds will do well, in our opinion, to take advantage of the very unusual opportunity now presented.

Sound Investment Bonds

ON the following pages are described briefly a number of bonds and short-term notes which we recommend as sound investments. Recognizing the fact that many investors at this time are particularly interested in investments of short or medium maturity, we have included in this group of offerings a number of exceedingly attractive obligations with maturities ranging from approximately nine months to three years, and with yields, at current prices, from around 4.50% to 10%.

For more permanent investment of funds, longer term issues are now in a particularly desirable buying area. Obligations of strong, successful companies are shown.

These offerings are subject to prior sale and change in price. More detailed information will be given about any of the issues, upon request, or about other particular issues in which readers may be interested.

Short Term Obligations

Due July 15, 1932

ROCHESTER GAS AND ELECTRIC CORPORATION *3% Gold Notes*

A remarkably high ratio of earnings to interest charges makes these Notes of Rochester Gas and Electric every attractive. For the twelve months ended May 31, 1931, net earnings of $7,127,867 were reported available for interest, equal to 5.29 times the annual interest charges on the funded debt, after giving effect to this financing. After depreciation charges of $1,142,290, interest was still covered 4.44 times. Proceeds of the Notes were to be used in retirement of other issues. The company does the entire electric light and power business, and the entire gas business in the city of Rochester, N. Y., and in numerous adjoining communities.

Price about 97¾, to yield approximately 6.30%

Due July 30, 1932

COMMONWEALTH EDISON COMPANY *3½% Gold Notes*

This company, one of the largest and most successful electric utilities in the United States, supplies energy, virtually without competition, to the entire city of Chicago, having a population of 3,375,000. The company, and its predecessors, have paid dividends without interruption since 1889. Despite the depression, net income available for payment of interest on the funded debt was greater for the twelve months ended June 30, 1931, than for the preceding twelve months, total annual interest charges (including interest on these Notes) being covered more than three times. These Notes were issued to provide funds for discharge of all bank indebtedness, and to meet the cost of contemplated additions and extensions during the current year.

Priced at the market (about 99¼), to yield approximately 4.50%

Due July 31, 1932

SCRANTON-SPRING BROOK WATER SERVICE COMPANY *4½% Gold Notes*

The desirable features of water company bonds are fairly obvious. The companies supply a universal necessity for which the demand grows with growth in population, without reference, generally speaking, to the state of business. This particular company, serving an important area in Pennsylvania, is especially well situated. Its ample water supply comes from mountain streams of great purity, and distribution is effected in large degree by the low cost gravity system. Earnings reflect its favorable position. For the year ended July 31, 1931, earnings available for interest were sufficient not only to meet all interest charges but to cover the entire principal amount of these Notes.

Price 98, to yield approximately 7.25%

Due August 1, 1932

PENNSYLVANIA ELECTRIC COMPANY *3½% Gold Notes*

This company, formerly Penn Public Service Corporation, serves directly or through subsidiaries, some 360 communities in western Pennsylvania, including Erie and Johnstown. The population of the territory is some 770,000, and electric customers alone number nearly 110,000. For the twelve months ended March 31, 1931, net earnings available for interest were 2.94 times charges on the funded debt, including this issue; after depreciation charges of approximately $500,000 coverage was more than 2.66 times. The smallest denomination in these Notes is $5,000.

Price approximately 97½, to yield approximately 6.95%

Due July 1, 1934

GARY ELECTRIC AND GAS COMPANY *First Lien Collateral 5% Gold Bonds, Series "A"*

When the United States Steel Corporation located its western plant on the southern shore of Lake Michigan, and established the city of Gary at that point, it formed the Gary Heat, Light & Water Company to supply utility services to the community. Some months ago it disposed of its interest in that company to the newly formed Gary Electric and Gas Company, one of the Midland United group of utility companies. The issue of these bonds by Gary Electric and Gas provided funds to cover, in part, the cost of that acquisition. The bonds are secured by first lien on all outstanding bonds and stock (save directors' qualifying shares) of the old company; they constitute, in effect, therefore, a first lien on the properties themselves subject only to current accounts payable. Earnings for the year ended June 30, 1931, were more than 2.75 times interest requirements of these bonds, the company's only funded debt.

Priced at the market (about 88½), to yield approximately 10%.

Attractive Issues of Longer Term

One of the Leading Rails

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

This is 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 the railroad through the most highly developed section of the United States. 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 (about 80¼), to yield approximately 5.63% to maturity

A Utility of Highest Grade

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

These bonds represent the senior obligation of the Commonwealth Edison Company, described above in the short-term section. The impressive record of the company, the diversity and great value of its assets, the demonstrated ability of its management, and its prospects for future growth and increasing earnings well account for the high investment character of its securities. This is a gilt edged investment, priced on a very attractive basis.

Priced at the market** (**around 85**), **to yield approximately 4.82% to maturity

The Largest Rubber Manufacturer

GOODYEAR TIRE & RUBBER COMPANY *First Mortgage and Collateral Trust 5s. Due 1957*

This company is the largest rubber fabricator in the world, being the leading manufacturer of automobile tires, and a very large manufacturer of other large-volume rubber products. It is one of the principal figures also in aeronautics, manufacturing dirigible airships of the Zeppelin type; the huge United States ship Akron was recently completed in its hangars. These bonds are secured by first lien on the company's fixed assets and by pledge of stocks of Goodyear subsidiaries and by pledge of obligations representing advances to subsidiaries. Earnings have covered fixed charges 3.29 on an average through the five years including 1930. A high grade industrial bond.

Priced at the market, to yield around 6.40% to maturity

Chicago Steel Producer

INLAND STEEL COMPANY *First Mortgage Sinking Fund Series "A" 4½s. Due 1978*

Inland Steel Company is the second largest steel producer in the Chicago area. Its properties include furnaces and finishing units, ore lands, and coal mines. These bonds are a direct lien on the company's fixed assets. Bond interest was earned more than six times in 1930, and an average of more than nine times during the five years through 1930. A sinking fund which began operation in 1929 is to retire the entire issue by maturity.

Priced at the market, to yield approximately 5.20% to maturity

A Leading Texas Utility

HOUSTON LIGHTING & POWER COMPANY *First Lien and Refunding Mortgage Gold Bonds, Series "E," 4½%. Due 1981*

The cities of Houston and Galveston, and some eighty other communities in southeastern Texas are served with electric energy by this company. The region is one that has experienced rapid growth of population and industry suggesting possibilities for steady expansion of this company's business in the future. This series of bonds was issued to retire indebtedness incurred in connection with the acquisition of Galveston properties, and for other corporate purposes. Earnings available for interest in the year ended June 30, 1931, amounted to $4,691,964, as compared with annual interest of $1,297,500 on the total bonded debt.

Priced at the market** (**about 88½**), **to yield approximately 5.14% to maturity

Ten-Fold Average Interest Coverage

GILLETTE SAFETY RAZOR COMPANY *Ten Year 5% Convertible Gold Debentures. Due 1940*

The oldest and largest safety razor manufacturer in the country, this company has had a long and highly successful record. Since its foundation in 1901 the business has paid more than $80,000,000 in cash dividends to shareholders. Earnings available for interest have averaged more than ten times the requirements of this issue during the last five years and, even with somewhat lower earnings this year, are expected to cover requirements by a very wide margin. Of the $20,000,000 of Debentures issued last year, it is stated that the company has already bought back approximately $5,000,000 without straitening its cash position. These Debentures are the company's senior obligation. They are convertible into common stock at the holder's option at the rate of ten shares of common for each $1,000 Debenture. A most attractive investment.

Priced at the market, to yield around 7.40%

An Attractive Railway Obligation

BALTIMORE & OHIO RAILROAD COMPANY

Thirty-Year Convertible 4½% Gold Bonds. Due 1960

The B. & O. has long enjoyed the reputation of one of the most efficiently managed railroads in the country. Its lines operate in heavy-traffic territory between the eastern seaboard and Chicago and the Mississippi river. Earnings for the nine years through 1930 have averaged 1.78 times fixed charges. Coverage for the current year promises to be smaller, but the general outlook for the road is good, particularly in view of the advantages expected for it through the consolidations which now have been definitely proposed for the eastern lines. These bonds are a direct obligation, though not secured by mortgage.

Priced at the market, to yield around 6.80%

Good Income and a Wide Margin of Earnings

ONE of the outstanding developments in business since the turn of the century has been the growth of financing companies organized to facilitate the exchange of goods on installment credit. Indeed, the enormous progress that has been made in merchandising on the deferred payment plan was only possible through the specialized banking facilities provided by these companies. With an active business history running back to 1908, and with an annual volume which, in boom times, approached half a billion dollars, Commercial Investment Trust Corporation is one of the outstanding organizations in this field. While the generally low level of business in 1930 resulted in volume falling below the 1929 peak, it still amounted for the year to some 392 million dollars, and earnings were maintained at a point far in excess of fixed charges. The record of the company through 1930, confirmed by a similar record during the first six months of 1931, affords an impressive demonstration of the essential stability of the business and of its power of resistance to a declining trend in trade.

Although the company's total operations can only be described in huge figures, individual commitments are relatively small. Thus, in the field of retail automobile financing, the paper held on June 30, 1931, represented some 195,000 separate obligations averaging around $325 each. Repossessed automobiles at that date had a depreciated, realizable value of $192,344—this figure being smaller than on either December 31 preceding or June 30, 1930. There has been, too, a marked tendency toward diversification of the business during recent years. Automobile paper (retail and wholesale) which in 1926 represented 82 per cent of the business amounted to only 45 per cent during the first six months of this year, the balance being accounted for by credits on a great many types of merchandise and by textile factoring operations, a field of banking in which the company has become an important figure during the last few years.

Annual and semi-annual reports of the company for the last year and a half show that its current position has been steadily rising, the current ratio on June 30, 1931, being 7.15 to 1. This improvement is particularly significant in view of the fact that during the preceding six months the company had retired all its 6 per cent bonds—some $9,000,000; more than $1,900,000 of its 5½s; and more than 16,000 shares of the Convertible Preference stock.

The company's position in the business and banking world is sufficiently well indicated by the very large line of credit which it has enjoyed—both ordinary bank credit and open market credit such as has been furnished through commercial paper by A. G. Becker & Co. Total borrowings of the company on an unsecured basis have exceeded $80,000,000 at a single time. The use of its own credit has been relatively small in the last year, the June 30 statement showing notes payable amounting to less than $12,000,000.

Net assets of Commercial Investment Trust Corporation applicable to the Convertible Preference stock amounted on June 30, 1931 to $285 per share, as compared with $274 six months earlier. These assets were not in brick and mortar nor in slow-moving inventories but in secured, self-liquidating paper having an average of around five months to run. Earnings available for dividends amounted during this six month period to $3,863,000—more than three times the total dividend requirements for the period of all the first preferred and preference stock outstanding.

The Convertible Preference stock is entitled to quarterly dividends at the annual rate of one-thirteenth of a share of common stock, or $6 in cash, at the holder's option. It is convertible into common stock, share for share. It is listed on the New York Stock Exchange. In view of the company's good record and prospects, the Preference stock is well entitled, in our opinion, to the consideration of investors. At recent market prices (below 75) the stock yields above 8 per cent and is decidedly attractive for income as well as for prospects of enhancement. We recommend it as a desirable investment.

Behind Your Investments—A Plan

THE great rise in the investing class in the United States was due to two well-publicized events. The first was the Liberty Loan drives, which widened immeasurably the circle of people acquainted with securities. The second was the great bull market which culminated in 1929, and which made practically every adult citizen an investor of sorts.

Neither of these events was in its nature likely to inculcate basic investment principles. The purchase of Liberty bonds was a patriotic duty, and only incidentally a matter of investment. The purchase of common stocks for a quick profit was a national pastime and the first step to an easily achieved Utopia.

It is little wonder then that by and large the true nature of investing is little understood by the average man. He is apt to regard diversification, conservation of principal, suitable maturity, maintained adequate return—these and other tenets of investment policy, as vague terms, to take form only where very large sums are involved. The careful formulation of a plan and adherence to it are desiderata, perhaps, but in his opinion not feasible in the average case.

Right now events have rendered many investors completely ineffective. If they invest at all they confine themself to Governments and similar low yield securities, admittedly solely as a temporary expedient, pending the definite return of more normal conditions. When that occurs they will invest, primarily impelled by the rise in values. Their approach again is apt to be largely conditioned by the prospect of speculative gains.

This is therefore a peculiarly appropriate time to reiterate the fundamentals of true investment. The first essential, irrespective of how small the amount involved, is a conscious facing of the investment problem and the formulation of a plan to meet it.

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.