A. G. Becker & Co.

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This Business of Foreign Loans

LONG-TERM foreign securities sold in the American market and now outstanding amount probably to something over seven billion dollars. The figure was $7,200,000,000 at the end of 1930, according to a compilation by the Department of Commerce. The sum probably did not change substantially in 1931. There have been few operations in this market during the year in behalf of foreign borrowers. Sinking fund payments may have served to reduce certain items of the debt, but these have been offset to a degree by accruals on other items on which the service has become delinquent.

The seven billion dollars of long-term debt does not by any means represent the whole of this country's financial interest abroad. There are other large amounts in our favor. They include, chiefly, the following:

1. Direct investments in real estate, foreign plants of American concerns, etc., estimated at well over seven and a half billions.
2. Short term advances to foreign debtors which stood at $1,700,000,000 at the end of 1930—represented in part by securities sold to the public but more largely by direct banking advances.
3. War debts owing to the United States with a face value of well over eleven billion dollars. These debts have a present value of around $7,500,000,000, figured on a 4 per cent discount basis from the total sum which the debtors have agreed to pay. Though we list these among the nation's foreign credits they are of a different category from the others. They arise chiefly out of the delivery of war munitions and other commodities during and immediately after the war. These were essentially consumption goods. They did not represent credits of the type that set up or stimulate productive processes out of which their liquidation can be accomplished.

Combining these three items with the long-term debt referred to at the outset, it appears that the country's stake abroad is something under twenty-five billion dollars. The present discussion is concerned chiefly with the long-term debt, representing securities actually sold to American investors. This constitutes the foreign financing to which a certain section of the press and a considerable number of men in public life refer to in disparaging terms as the work of our "international bankers." Much that has been said about these foreign loans has been of a character to suggest that they were extremely ill-advised. It has been stated that the cost to the American investor of placing a portion of his funds abroad instead of keeping them all at home has been terrifically high. Surprisingly little has been said on the other side of the question.

Development of America's Creditor Role

To view America's position in world finance in true light, one must step back a decade or so. The present American role can best be understood in its relation to the situation out of which it developed. The Great War, it will be remembered, left the world in general, Europe in particular, with financial resources very largely exhausted. The United States, among the major nations of the world, occupied a unique position of solvency and strength.

For the first few years following the peace the nations were engaged in preliminary re-adjustments, and in taking stock of the new world. Then began an era of general and obviously necessary reconstruction. For this work large amounts of capital were required. The United States was by far the richest among nations—the only one that had money to lend in considerable amounts. Our country, therefore, took the lead in the necessary financing. We were not, however, as some persons appear to believe, alone in the work. Great Britain, The Netherlands, Switzerland and other nations that had long played important parts in world finance, continued in their traditional roles, in a small way at first but with increasing importance in later years.

This heavy movement of capital from our own to foreign shores did not represent in any way the starving of legitimate American enterprise. Capital is, in a sense, a commodity like wheat or cotton or manufactures. It moves according to the law of supply and demand. A nation with a substantial and continuing surplus beyond its own needs inevitably seeks a foreign outlet.

So it was with the United States in the nineteen twenties. The foreign credits we extended during that period represented the export of surplus capital, i.e., goods. Prosperity was high during most of the decade. Our industries and commerce were creating new wealth in enormous amounts. Most of it went back into American enterprises but, even under the stimulus of mounting prosperity and tremendous optimism, these did not provide a demand sufficient to absorb it all. Thus we began making heavy exports of capital through the medium of foreign loans.

The outpouring of credit continued steadily during most of the decade. Then the development of the great bull market of 1928 and 1929 opened seemingly dazzling new opportunities at home again. Capital exports began to fall off. They shrank in importance as the speculative fever mounted. The check became more definite after the market crash, and was prolonged as the succeeding industrial depression cut down the production of new wealth. Such credits as have been extended abroad in the last year and more have been chiefly direct banking advances for relatively short terms.

It is, perhaps, but a coincidence, but at least an interesting one, that the era of great American prosperity was that during which we were employing surplus capital to strengthen the position of our foreign customers. From overseas during that period came back a continuing demand for American goods and services which helped to keep our industries busy and our workers employed at good wages. The decline of America's industrial prosperity followed very closely on the breakdown of the market for foreign securities.

Distribution of Loans

Europe is now indebted to us for long-term credits in the amount of more than three billion dollars. (We use figures as at the end of 1930, the latest available, unless otherwise stated.) Approximately a third of this sum is represented by German securities. The largest single national debtor is Canada, with outstanding securities of about $1,750,000,000. This sum represents largely, of course, investments in domestic enterprise. South American credits total nearly a billion and a half, the principal borrowers being, in order, Argentine, Brazil, Chile and Colombia. Asia owes us something over 550 millions with Japan and the Dutch East Indies the principal debtors. Australian loans total over a quarter of a billion, Cuban about 130 million. As the accompanying table shows, loans have been made chiefly to governments or under government guarantee. In some countries, however, notably Canada and Germany, there has been a large amount of borrowing by private corporations.

The separate transactions represented by this volume of financing run into the thousands. It is not possible, of course, within the confines of this discussion, to suggest the character of each individual loan, or even of the larger ones. Certain general characteristics, however, may be pointed out.

AMERICA'S PRINCIPAL FOREIGN DEBTORS

Loans Outstanding Close of 1930

(Department of Commerce Figures)

(000 omitted)

	Govt. and Govt. Gtd.	Corporate	Total
Canada and Newfoundland	$1,269,859	$623,047	$1,892,906*
Germany	800,715	376,273	1,176,988
France	299,525	10,000	309,525
Italy	171,366	108,588	279,924
Sweden	30,000	223,536	253,536
Norway	169,053	21,825	190,878
Belgium	188,965	......	188,965
Denmark	163,828	3,971	167,799
Great Britain.....	143,587	......	143,587
Poland	124,130	......	124,130
Netherlands	53,275	69,299	122,574
Hungary	48,966	60,392	109,358
Argentina	449,258	......	449,258
Brazil	343,952	2,883	346,835
Chile	260,092	......	260,092
Colombia	144,034	27,664	171,698
Cuba	126,268	4,577	130,845
Japan	240,474	142,715	383,189
Dutch East Indies.	135,083	38	135,121
Australia	262,439	2,261	264,700

*From which may be deducted about $150,000,000 for international movement of securities. The remaining figures also are subject to certain adjustments of this nature.

Character of Loans

South American loans, for example, were typically, for the construction of railways, highways, utilities, port works, the encouragement of farm ownership, etc. All these were objectives intended to develop and give economic value to the rich and important natural resources of the continent. The loans are comparable to those through which European investors, during the nineteenth century, aided in the development of the United States. The German and French governments borrowed large sums in order to stabilize their currency—a step tremendously important to the world at large, including ourselves, as well as to those particular nations. German and other public bodies borrowed for the development of various public works—utilities, housing projects, agricultural financing, etc. German corporations borrowed to rehabilitate and modernize their properties that they might compete to advantage in the intense economic rivalry developing after the war. How well that particular segment of our credits has been used is indicated by the outstandingly successful record of German industry and commerce. German products now enter every world market in volume. Despite tariff barriers and a worldwide depression, exports have been so well maintained that the nation has become one of the leading export nations of the world, its out-shipments rivalling even those of the United States.

Without attempting to pass opinion on each individual loan included in these billions of foreign financing, it can be asserted that, as a whole, they represented advances for legitimate needs to borrowers who, on their records, were entitled to the credits.

Foreign Bonds and the Market

Much of the criticism directed at foreign loans at the present time is undoubtedly provoked by their sorry market position. If the issues were selling near par few voices would be raised against them. That the prices of foreign bonds are dishearteningly low is undeniable. But so, also, are the prices of many domestic bonds. With respect to certain individual issues, specific cause for market decline may be found. Such causes do not, however, apply to the whole market. The general and almost indiscriminate fall in bond prices—both foreign and domestic—is in part due to a certain weakening in the domestic credit structure, and in part to the fact that the bond market is being ruled by stock market uneasiness. But low prices do not necessarily mean an actual loss. That can be computed only when and if default is made at final maturity. If A sells his bond to B at 25 he may, individually, sustain a loss; but if B holds it until maturity and collects in full, his gain offsets A's loss. It is plain, therefore, that in discussing losses in bonds, there is a differentiation to be made between individual investors and investors as a whole.

There have been, it is true, defaults in certain foreign bonds—chiefly South American. In a considerable number of cases the defaults are of technical nature. That is, the debtor has the money and is willing to pay, but foreign exchange conditions, resting on trade conditions, prevent him from carrying out his intention.

For example: Service has been suspended on nearly all Brazilian foreign loans. Yet, some of the borrowers have been depositing locally the full amount of the service charges in Brazilian money at the *current* rates of exchange. They are ready to forward payments to the American paying agents just as soon as the federal government will or can release the necessary foreign exchange. A similar situation existed last summer in Germany with respect to a substantial part of its short-term foreign obligations. The debtors were able and willing to pay, but the country's gold stocks were so depleted by what amounted to a run on the bank that the Reichsbank would not further endanger the monetary system by releasing foreign exchange to effect the transfers.

These extenuating circumstances may be of small comfort to the bondholder who fails to get his money when it is due, if and when that disappointment becomes actual, but they are entitled to consideration in meeting charges of insolvency or bad faith.

With the great bulk of foreign dollar loans there has been no default. That their markets should reflect uneasiness at a time like this is natural. Current prices, however, for the most part hardly reflect the facts. Argentine bonds, for example, are all in good standing, yet have been selling in the 40s and 50s. Colombian federal obligations have a clear record, and only a single local issue had defaulted at the end of 1931—that being a case in which the funds are available but foreign exchange is not. Still, Colombian issues have been selling in the 20s. Particularly bitter comment has been directed against American loans to Germany. Yet, at the time this is written, not a single long-term German loan is in default. Officials of the present German government and leaders of the Hitler opposition have both declared their intention to respect foreign obligations. Yet German bonds sell in the 20s and 30s.

The Reparations Angle

Some persons profess to see a sinister triangular relationship between American loans to Germany, the German reparations payments owing to the allied nations, and the debts of these latter nations to the United States government. It is stated that American bankers favor the remission of war debts owing to our government. Then, presumably, the debtors would in turn remit German reparations. Thus, Germany would be placed in better position to pay the post-war loans which have been underwritten by foreign (chiefly American) bankers.

The question of war debts goes much farther, of course, than the mere matter of Germany's commercialized loans. The political and economic ramifications circle the globe. Wide variations of opinion exist, among bankers as well as among statesmen, as to what is the wisest course to pursue, all factors being taken into account. Even from the viewpoint of grossest self-interest, it is obviously unwise for Germany's creditors to lay upon her a burden that will lead to complete national collapse. Such a happening would inevitably involve the most dangerous consequences to the rest of the world, particularly to Europe. The realities of Germany's position, as well as the rights of creditor nations, must be given due weight.

At the end of the war, or to put it another way, at the beginning of the reparations period, Germany's resources beyond what was needed to sustain her own population, had been pretty well exhausted. Not only had she been drained in maintaining the war itself, but in the settlement with the victors she lost her commercial fleet, a large part of her railroad rolling stock, and other movables. While, therefore, the heavy obligations laid upon her could only be paid out of earnings, that is, out of trade surplus, the very tools of trade and commerce were largely taken from her at the same time the obligations were imposed.

It must be recognized with respect to American loans to Germany, that directly or indirectly they were almost all concerned with improving the nation's economic position and strengthening its earning power. That some errors may have been made is not only possible but quite to be expected in an undertaking of such magnitude as the restoration of the German economy. It does not appear, however, that the amount of error was any greater than occurs in domestic financing of similar proportions. Much is made in some quarters of the fact that certain German cities used borrowed money to build swimming pools, public baths, and other public works, which minister to the pleasure and general morale rather than to primal needs of the population. The funds that went for such purposes were small compared to the total. (Parenthetically, it may be pointed out that American municipalities, during this period, were no less lavish spenders.) And, it may be pointed out that these German municipal loans are all in good standing, service charges having been promptly met as due.

As a matter of fact, the whole German industrial machine has been modernized and rationalized largely through the use of American and other foreign credits, and the nation's earning power has been built up tremendously. Despite tariffs and other trade barriers, Germany has risen to a point where it is a close second if not actually first among all nations in the value of exports. Under normal conditions that position would be thought of as connoting at least a moderate degree of prosperity. But, in an era of worldwide depression and steadily falling commodity prices, the nation's income has not been sufficient to maintain the domestic economy and at the same time meet the requirements both of reparations and commercial debts. Some adjustment, perhaps temporary, has become imperative.

It is natural that the reparations, which represent punitive damages imposed by the victors in the Great War and not a loan out of which productive power was realized, should be the point at which relief is sought. The actual total of reparations to be paid, it will be recalled, was determined by the Young Plan Committee at a time when the world was still thinking in terms of the 1929 inflation. Payments on the basis then fixed mean now a burden far greater than was originally contemplated. Revision that takes into account the subsequent general deflation and the present economic status of the world does not appear therefore, a wholly unreasonable proposal. Such a revision may or may not involve a re-examination of the present arrangements between the United States and her own debtors. Compromise is often necessary with respect to private business obligations and, if genuinely in the public interest, may fairly be considered with respect to intergovernment business affairs.

Payment of reparations and other war debts can, in the last analysis, only be made from earnings arising out of a movement of goods. Governments, of course, do not deal with each other in goods. Goods move from a seller in one country to a buyer in another. To increase the movement of goods requires that something be done to bring more buyers and more buying into the market: making the goods offered for sale abnormally cheap, for example, by inflating the currency—the usual corollary to which is reduction of imports. Creating such a situation may upset international price levels, throw the whole balance of international trade awry, and visit ill effects upon every nation and upon practically every family. This situation, as we now clearly see, not only may arise but actually has arisen. It is apparent, therefore, that for selfish reasons if for no other, the whole question of international payments must be approached with a broad viewpoint.

Great Britain's Experience

The conclusion that foreign loans generally are bad loans, and that the American investor is imposed upon who is sold a bond representing participation in such financing rests upon the apparent evidence of the moment. A long term view of the matter is aided by examination of the record of Great Britain, the world's leading capitalist.

For more than a century before the late war, Great Britain was the world's banker. British capital flowed from London to all parts of the world, and more freely to our own country than to any other. Inevitably there were losses here and there, for even British lenders are not infallible in their judgments. Indeed, it may be pointed out that a very substantial proportion of the losses were met here in the United States and that not all the incidents connected therewith were creditable to our national character. Heavy sacrifices were called for in adjusting some of the loans which British bankers made for the construction of American railroads. Twenty states of the union at one time or another are said to have suspended payment on their funded obligations—underwritten for the most part by British banking houses. Ten states actually repudiated debts. The repudiated bonds of eight states, which were for the most part, presumably, acquired in good faith by investors, amount now with accrued simple interest to more than 300 million dollars. While good credit standing has subsequently been regained, these old repudiations still stand. In any event, the record of defaults and repudiations hardly provides a fitting background for the disparagement which American politicians now cast so freely at foreign borrowers.

In general the character of the loans which Great Britain made abroad was eminently satisfactory, as is indicated by their steadily increasing total. Before the war, British investments overseas were estimated at from 15 to 20 billion dollars. From these investments was derived roughly 10 per cent of the total national income. The loans not only proved profitable from the point of view of the lenders, but were immensely profitable to the nation at large. For British goods followed the British pound sterling, and the trade empire which was built on this foundation of foreign credits no doubt ministered quite as much to the strength of the British nation and the well being of the British people as did the political empire over which the Union Jack waved. The inter-relationship here of foreign loans and foreign trade and national prosperity recalls again the coincidence, referred to above, of America's foreign financing and her recent heyday of prosperity. Certainly, such a record as that of Great Britain, extending well over a century, is entitled to consideration in the formulation of a judgment with respect to the general proposition of foreign financing, along with the current troubles arising out of the dislocations in world economy.

The Outlook

That a great many foreign borrowers are in difficulty is clear. Some of our debtors who are still maintaining service upon their loans are hard put to keep their records clear. It may be anticipated that there will be some additional defaults in the course of the next several months. But a great many domestic corporations and taxing bodies are in difficulty, too. Domestic defaults far outweigh foreign—indeed, probably exceed the whole amount of American long-term loans now outstanding abroad. This reflects in part the greater volume of domestic financing. It probably signifies, too, that on the whole, foreign loans were weighed by the bankers not less carefully but more carefully than loans to domestic borrowers. In any event, the fact that a borrower is now in difficulty does not mean either that he is faithless to his word, or that he will not survive his present troubles and eventually satisfy his creditors in full.

We are at this time passing through a depression which, in scope and severity, is almost without precedent. It is not surprising that the attitude of many persons is one of exaggerated despair. That is only human nature. But, as to the ultimate outlook for our foreign loans, there certainly is little basis in present conditions or prospects for the degree of pessimism indicated by current market prices for the bonds. The nations that now owe us money will continue to need outside capital long after the hard times of 1931 have become history. It is vital to their own interests that they protect their credit. We believe that they will do so, and that, in the long run, America's foreign financing will justify itself, both on its own record and in comparison with domestic financing.

Bonds Recommended for Investment

THE bonds described on the following pages are, in our opinion, especially attractive among the investment opportunities now available. We regard them as intrinsically sound, while the yield, at current low prices, is obviously unusual. We recommend them. Detailed information will gladly be given about any issue, or, upon request, additional recommendations will be submitted.

Offerings are made strictly subject to prior sale and change in price.

Due in Seven Months

COMMONWEALTH EDISON COMPANY
3½% Gold Notes. Due July 30, 1932

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. The company and its predecessors have paid dividends without interruption since 1889. Despite the depression, net income available for payment of 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. The Notes were issued to provide funds for the discharge of all bank indebtedness, and to meet the cost of contemplated additions and extensions during the current year.

Priced at the market—about 97. Yield approximately 7.95%.

World's Largest Utility

AMERICAN TELEPHONE & TELEGRAPH COMPANY *20-Year Debenture 5½s. Due 1943*

This is a utility obligation of highest grade, suitable for investment accounts of the most conservative character, and attractive at present prices for income. American Telephone & Telegraph is the parent company of the "Bell" system, and by far the largest communications concern in the world. These Debentures are a direct obligation and, while not secured by mortgage, are protected in their position by restrictive provisions in the indenture. For the ten years through 1930 earnings available for interest covered total interest charges an average of more than 6 times annually, and in only one year—the first of the ten—less than 5 times.

Priced at the market—about 104. Yield to maturity around 5%.

An Impressive Current Record

NATIONAL STEEL CORPORATION *First (Collateral) Mortgage Sinking Fund Gold Bonds, 5% Series. Due 1956*

National Steel Corporation was formed a few years ago by consolidation of a large group of independent producers. Among its units are the old and successful Weirton Steel Company, Great Lakes Steel, Michigan Steel, Hanna Furnace, Hanna Iron Ore, and others. Plants are located chiefly in the Pittsburgh and Detroit areas, and extensive ore reserves in Wisconsin, Michigan and Minnesota. Net tangible assets of more than $145,000,000, as shown by the December 31, 1930 balance sheet, were more than three times the amount of the funded debt. The company's earning performance during 1931 has been outstanding among steel companies. For the first nine months the earnings reported covered interest requirements around 3½ times, and the coverage for the full year is estimated at around 3 times. The company's favorable position, as compared with others in the industry, is indicated by the fact that it has maintained and, according to officials, will earn its regular dividend for the year.

Priced at the market—around 72. Yield to maturity about 7.55%.

Serving Three Great Population Centers

NORTH AMERICAN EDISON COMPANY *5% Debentures, Series C. Due 1969*

This subsidiary of the North American Company operates, through its own subsidiaries, several of the most important and successful utilities in the United States. The cities served include St. Louis, Cleveland and Milwaukee, and more than five hundred others in contiguous regions. The total population served is estimated at 4,000,000, and the number of electric customers alone is said to be more than 900,000. Fixed charges have been covered approximately two-fold over a period of seven years. Despite the effect of the depression on the industrial centers in which the company's subsidiaries operate, coverage of 1.89 times was indicated for the twelve months to September 30, 1931.

Priced at the market—around 80. Yield to maturity about 6.42%.

Dominant Colorado Utility

PUBLIC SERVICE COMPANY OF COLORADO *First and Refunding 6% Gold Bonds, Series C. Due 1961*

This is the largest electric and gas company in the state of Colorado. Its position is indicated by the fact that during 1930 it did more than 64 per cent of the total electric light and power business of the state. The communities served include Denver, the capital and principal city, and more than 100 others —with a total estimated population of 465,000. The properties include installed generating capacity of 124,500 kilowatts, with necessary transmission lines. The company also operates a pipe line between Denver and Cheyenne, Wyoming, serving some twenty communities with natural gas. Earnings available for interest have increased consistently during the last ten years. During the twelve months to September 30, 1931, these earnings covered first mortgage bond interest three times, and interest on the first mortgage bonds and debentures together more than 2½ times.

Price 91. Yield to maturity over 6.70%.

A Premier Railway Bond

ATCHISON, TOPEKA & SANTA FE RAILWAY CO. *General Mortgage 4s. Due 1995*

This bond has long been regarded as the most representative high-grade railroad obligation. Despite the unsatisfactory year which the country's transportation systems in general have experienced, the investment position of the Atchison 4s has been well maintained. Operations for the first ten months of the year 1931 indicate that the company's fixed charges were covered 2.85 times. The Santa Fe is one of the largest and most successful railway systems in the country, enjoying management of great ability and penetrating most of the heavy traffic regions of the country southwest of the Great Lakes.

Priced at the market—around 87. Yield to maturity about 4.62%.

An Unbroken Record of Profits

W. F. HALL PRINTING COMPANY *First and Collateral Trust Sinking Fund Gold Bonds, Series A, 5½%. Due 1947*

The W. F. Hall Company is one of the outstanding printing enterprises of the country. Operations have shown a net profit in every year since the company was formed in 1893. Average earnings available for interest have covered present funded debt requirements more than 4 times during the last five years. For the year ended January 31, 1931, the coverage was 4.35 times. Officials estimate earnings for the current year, after all charges, in excess of those of the preceding year. The company specializes in catalogue and large publication work. It prints catalogues for the country's leading mail order firms and many magazines of large circulation. The great bulk of its work is executed under long term contract. Plants are operated both in Chicago and the east. This is a very attractive industrial issue at present prices.

Priced at the market—around 80. Yield to maturity approximately 7.75%.

New York City Gas and Light Utility

CONSOLIDATED GAS CO. OF NEW YORK
20-Year 5½% Gold Debentures. Due 1945

Consolidated Gas, directly or through subsidiaries, furnishes the bulk of the public utility services in the city of New York. It does practically the entire gas and electric light and power business in Manhattan, Bronx, Westchester County and a large part of Queens, the entire electric light and power business in Brooklyn, and a substantial steam business in Manhattan. Earnings have regularly provided a wide coverage for interest requirements. The position of these obligations is shown by their relatively narrow price range—99⅞ to 108½—in a year characterized generally by very wide swings. This company is outstanding among American utilities, and these debentures thoroughly representative of its position.

Priced at the market—about 103½. Yield to maturity approximately 5.15%.

A Common Stock of Investment Interest

THE S. S. Kresge Company is one of the successful merchandising concerns of the country and, in the low price field, second only to Woolworth. The company's long record of solid growth and success, its present strong position, and its excellent prospects make the common stock of decided interest to investors at current price levels.

The first Kresge store was established in 1897 by Mr. S. S. Kresge, who still heads the business. Today the company operates more than 700 stores—38 in Canada, the remainder in the United States. It has specialized in stores of two price ranges — Five-and-Ten-Cents and Twenty-Five-Cents-to-a-Dollar. Growth has been steady for the last thirty years, and has been especially marked in the last half of that period. From the year 1909 to 1928 inclusive, that is, through all the years of war chaos and readjustment as well as the succeeding era of prosperity, each year showed an increase in stores, sales and profits.

The events of the past year have subjected business generally to the severest test it has faced since the war. The manner in which Kresge has met this test is strongly reassuring to those who have an investment interest in the business. Despite the fact that 1931 has been a much more difficult year than 1930, Kresge's sales have declined but little, and net earnings for the year, according to company estimates, will actually exceed the $1.90 a share earned last year. The dividend requirement of $1.60, therefore, is provided for.

Able management is evidenced by this record. In particular it reflects the soundness of Kresge's policy during the easier conditions of preceding years when a large part of the profits was regularly invested in new stores. Three hundred and seventy-two stores were opened during the five-year period ended 1930. This broadening of the company's earning base undoubtedly accounts in large part for its ability to maintain current earnings and may be expected to lead to further increases as business resumes a more normal rate.

The company has paid cash dividends without interruption for the last nineteen years. Increases in the rate have been made frequently and in addition very substantial stock dividends have been paid from time to time. The present dividend has been maintained since 1928, $1.20 a share having formerly been paid.

We recommend this stock as an investment offering an ownership position in a stable, well-managed business, together with a good return and excellent prospects for the future. The stock has recently been selling on the New York Stock Exchange around 16. At this price the yield is 10 per cent.

Following the Averages

MANY investors feel a natural concern at this period as to whether, at the time the recovery of business and markets gets definitely under way, their own common stocks will, as a whole, keep up with the market advance. The more experience the investor has had the more he appreciates, as a rule, the difficulty of selecting issues which, as a group, will keep pace with the market averages. The possibility of acquiring a limited group of stocks which has been moving in almost exact correspondence with the Standard Statistics composite stock index, and which may be expected to continue in that relation, is likely, therefore, to be of definite interest.

Such a group is included in the portfolio of Nation-Wide Securities Company. Brought together under an arrangement that embodies the stronger features of both the fixed and management trusts, it has been recommended as a sound common stock investment program.

Each unit of Nation-Wide includes the stocks of seventy-seven companies—339 shares in all—diversified among the major elements of American industry. The portfolio is absolutely limited to these companies. But an important safeguard against the obvious dangers of a fixed trust has been set up in a provision authorizing the management, at its discretion, to shift funds from one stock to another in the group. The great majority of stocks included are of the type generally recognized as possessing high investment quality. Since, in a rising market, issues of this character are ordinarily among the leaders in the advance, the prospects for the group appear satisfactory. A small portion of the investment is in stocks which are not at present dividend payers but whose possibilities for future development warrant their recognition. If and when any of these issues becomes outstandingly attractive the management, under the authority delegated to it, may shift a larger part of the capital into those situations.

The seventy-seven companies included in the portfolio represent combined assets of approximately 48 billion dollars — roughly one-eighth of the total estimated national wealth. The largest investment in any one stock — American Telephone & Telegraph—represents at current markets less than 6 per cent of the total.

The trustee for the stocks—Central Hanover Bank & Trust Company—makes quarterly distributions to holders by check, these distributions covering all cash dividends received, and all rights and stock dividends of 10 per cent or less. Stock dividends above this figure, if full shares, are retained in the portfolio.

The trust matures in 1950, but may be extended for ten-year periods under certain conditions. A regular market is maintained for the Certificates, and at any time holders have the right to present to the Trustee the Certificates constituting One Unit of the underlying stocks and receive the proceeds of the sale of the stocks at the market. The current price of the shares is around 3½.

A. G. Becker & Co. has followed the progress of fixed and restricted-management trusts closely since their first appearance in this country, and our selection of Nation-Wide Securities Company as a suitable offering to our own customers was arrived at after thorough study and comparison. We believe it represents a sound common stock program, and recommend it as such. As a cross section of the market, the shares are particularly suitable for replacing holdings of individual common stocks having an uncertain outlook. Upon request we shall be glad to furnish full particulars regarding the portfolio, management, etc.

Opportunities in a Confused Market

THE confusion in the security markets in the last two years, and more particularly in the last six months, is fully appreciated by most investors. Faced by a great mass of stocks and bonds, — among which good, bad and indifferent alike are selling at very low levels—the average investor has had a perplexing problem before him in making selections judiciously. Evidence of this situation has been reflected in the activity of our Investment Advisory department which, despite the reduced volume of security transactions generally, has been under such pressure that it has had to be repeatedly enlarged, and is now taking care of a greater number of requests for information, analysis and recommendations than at any former time.

The bond tables appearing in the papers from day to day give an impressive picture of the unusual market situation. Many issues in good standing have sold recently at prices representing hardly a third or fourth of their highs during the year. Bonds of strong railroad and industrial concerns which, until the last few months, have had general recognition as genuine investment obligations —and which still, for that matter, are entitled to be well regarded from a long time point of view—are selling in many instances at practically receivership levels. The issues of utility companies which, as a class, have weathered the depression in good order, show spreads of 20 to 40 points between the year's high and low.

In many instances, of course, the obligor companies are experiencing adversity; the difficult situation of the railroads is well known. But in most cases interest is being earned; in many cases dividends continue to be paid; and in some cases earnings actually show an upward trend. Even with the railroads—that is, those whose financial structure is sound—it may be doubted that anyone seriously believes their present troubles to be permanent, or even of long standing.

Among stocks, the changes in price have been even more drastic. And while price fluctuations in equities are normally much wider than in bonds, many of the recessions have been of such extent as to flout logic quite as clearly as the bond market.

The uncertainties of the business situation are, of course, at the root of the unsatisfactory security market situation, though these uncertainties are not, generally speaking, of such character as to justify the wide open breaks that have taken place. The more immediate cause of price weakness has been simply the lack of buying interest. But, just as the disappearance of normal buying support has caused precipitate declines, so, it may be anticipated, its reappearance should bring about a very decisive gain for issues which are intrinsically sound. Evidence that this is so has already been given from time to time during temporary rallies.

How long securities will continue at or near their present levels no one can say for certain. Everyone is agreed, however, that the opportunity of the times to acquire sound securities at present prices is an unusual one. And, regardless of capital gains, the situation is of prime interest because of the current yields that are obtainable—a feature of especial moment when so many investors are experiencing a sharp reduction of income from their holdings.

Caution must, of course, be observed in making commitments. Important underlying change has actually occurred in a considerable number of situations. Relative prices are not a trustworthy guide in appraising these changes. Decisions should be made in the light of full information. Our Investment Advisory staff is prepared to make available competent opinion about your present holdings or proposed commitments.

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.

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