
A. G. Becker & Co.

INVESTMENT BULLETIN

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R. F. C.

THE stated aim of the Reconstruction Finance Corporation which congress created last January is "to provide emergency financing facilities for financial institutions, and to aid in financing agriculture, commerce and industry." This end it plans to achieve through extensions of credit designed primarily (1) to strengthen the country's banking and credit system, including the agencies engaged in financing agriculture; and (2) to aid the railroads, whose ability to maintain their operating efficiency has been seriously threatened by reduced earnings and the difficulty of obtaining needed credit through the banks or the bond market. To finance the operations of the Corporation, two billion dollars was made available—half a billion dollars in capital subscribed by the United States, and authority to raise an additional billion and a half as needed through the issue of obligations guaranteed by the United States.

The Corporation is not to be regarded as in any sense a specific for curing the depression. Rather, it is a bulwark for certain of the underlying supports of the country's economic structure. Additional strength at these vital points will help, as it is believed by sponsors of the organization, to strengthen other parts of the business structure.

Powers of the Corporation

The actual powers of the Corporation are closely circumscribed. It may lend money

to a relatively small group of institutions. These fall into three general classes, as follows:

1. Banks, trust companies, savings banks, insurance companies, building and loan associations and credit unions. Loans may also be made, in an aggregate amount not exceeding \$200,000,000, to receivers of closed banks, to aid in their reopening or liquidation.
2. Federal and joint stock land banks, intermediate credit banks, and agricultural and live stock credit corporations.
3. Railroads.

From this list of possible borrowers it is obvious that there are many kinds of business which can not expect to go to the Reconstruction Finance Corporation for direct help. Scarcely any important branch of industry would fail to benefit, however, from measures that give substantial benefit to those indicated.

No loans may be made upon foreign securities. None may be made for setting new enterprises on foot—agricultural and live stock operations excepted. No single borrower may obtain more than \$100,000,000.

Since the corporation was formed solely to meet an emergency, it has been given only a brief span of life. Its grants of credit must be made within a period of one year—although that period may be extended for one additional year. Loans may be made for a maximum term of only three years, subject to ex-

tensions which shall not aggregate more than two additional years.

What Has Been Done for Banks

The strain under which the country's banking system has labored in the last year is well known. The need has been apparent for measures that would strengthen the system and thus re-establish public confidence. Approximately 2300 banks in the country closed during 1931, tying up depositors' funds in the amount of more than a billion and a half dollars. Aggregate deposits of the country's banks fell during the year from 53 to an estimated 45 billion. It is probably a fair assumption that banks which gave way under the strain were the weaker members of the system and that those which survived were, in general, the stronger, and consequently best entitled to continued confidence. But a practical problem of serious import confronted also the surviving institutions. It lay in the fact that, if withdrawals took on threatening proportions, it would be necessary to liquidate assets which were inherently sound but which could not quickly be disposed of to advantage under current conditions. By making credit available on the security of these slow assets, the Reconstruction Finance Corporation has strongly fortified the position of those banks which are essentially sound, and has in a considerable degree relieved them of the strain under which they have been laboring.

Strong evidence of this is available. The Corporation was organized, as we indicated above, in January. Bank closings in that month numbered 334. The Corporation began actual operations early in February. During that and the following month it loaned \$158,000,000 to banks, chiefly to those in smaller communities. Bank closings declined immediately, the total for February being only 115, and for March only 40, according to preliminary figures—an 88% reduction in sixty days. Reopenings have gained substantially.

It seems quite clear that the operations of the Reconstruction Corporation, aided of

course by such other measures, public and private, as were being directed to the same end, resulted in a prompt and impressive change for the better in the banking situation.

Supporting the Railroads

In the case of the railroads, consideration must be given to the fact that they are not only the backbone of the nation's industrial life, but that, with well over ten billion dollars of bonds outstanding with banks, private investors, insurance companies, educational and eleemosynary institutions, etc., their fortunes affect very closely the personal affairs of millions of our citizens. The credit made available for the railroads is intended as a means of carrying them through their present difficulties and of preventing, so far as possible, default upon their funded obligations or harmful deterioration of their service. Plainly, the benefits are not confined to the railroads alone but extend to a very large section of the population. How the railroads have taken advantage of the relief provided them may be seen by these typical loans:

Chicago & North Western: \$7,600,000 to meet equipment trust maturities and interest.

Erie: \$4,458,000 to meet maturities, sinking funds, the cost of certain additions and betterments, and overdue vouchers.

New York, Chicago & St. Louis: \$9,300,000 to meet bank loans and fixed charges.

Southern: \$7,500,000 to meet equipment obligations, bond interest, rental charges, etc.

Wabash: \$7,173,800 to meet equipment maturities and interest charges.

The total amount of railway applications pending as this was written was in excess of \$350,000,000. The Pennsylvania, for example, sought \$55,000,000 to carry forward electrification work already inaugurated, and which would have to be discontinued unless funds were forthcoming. The Baltimore & Ohio asked a similar sum to meet maturing obligations. Other companies have applications pending according to their various needs

—largely to meet interest and maturities on their funded obligations.

The Corporation has commonly approved loans for amounts substantially smaller than those applied for, but the relief which they have provided has unquestionably rescued the carriers from difficulties whose ill effects would have been far reaching.

Agricultural Loans

The result of credits allotted to agricultural and live stock interests can not be seen so promptly as in the other cases. They involve advances made largely through established institutions in this field, as well as crop loans made under the supervision of the secretary of agriculture. Presumably the funds allo-

cated to this purpose will be disbursed in a large number of relatively small amounts. In any event, the actual benefits will hardly be apparent until the season's crops are harvested and marketed.

General

Appraisal of the work of the Corporation must, of course, await the completion of that work, and its examination in reasonable perspective. The promptness with which it set about its task, however, is impressive, and the relief already afforded by grants of credit which exhaust but a small part of the total amount at the Corporation's disposal, encourage the hope that the ultimate benefits will be of far-reaching importance.

Interest in Commercial Paper Mounts

DEVELOPMENTS in the banking situation over the past year have furnished an impressive demonstration of the place of commercial paper in bank reserves. Put aside in some measure during the bull stock market, when corporations found it advantageous to obtain a large proportion of needed funds through the security market, commercial paper is again coming into its own with the new conditions, and its peculiar fitness as a bank investment, as well as a medium for financing the current needs of large corporations, is being once more generally recognized.

Perhaps no other single investment combines to the same degree the qualities of safety, liquidity, good income, suitable maturities and convenience which prime paper possesses. Its safety has been confirmed by the experience of many years, in both good times and bad. For example, a compilation by an independent agency, taking into account paper outstanding in the last nine years, shows a loss of only a small fraction of 1 per cent of the total.

Names enjoying ready acceptance in the open market are, of course, those which represent credit of a very high order. Practically all of them are concerns that have borrowed in this manner for many years; not only is their financial position intimately known to the commercial paper house handling their account, but their record is also well known to the banking world generally. Consequently, the bank which desires to diversify its lendings by taking the notes of reputable concerns other than those in its local clientele, may select from among many of the country's leading business names with the assurance that full financial information is regularly available. Relatively few banks would ordinarily hold in their note cases the obligations of such a corporation as Sears Roebuck & Co., through personal dealings with the company. But through the open market, the obligations of this and other outstanding concerns in the business world may be, and are held by banks of all sizes in all sections of the country.

Since paper typically has a maturity of six months, its desirability as a bank asset under current conditions is measurably enhanced. When it has run for ninety days it becomes eligible for rediscount at the federal reserve bank; it may then be turned into cash upon a few hours notice. Its short maturity arises from the fact that it represents the turnover of liquid commodities rather than expenditures for capital purposes; it is, therefore, self liquidating, and it is upon this basis that the federal reserve banks accept it for rediscount. While safety, liquidity and income are, and should be, the primary considerations determining the bank's attitude toward any employment of its funds, the fact that, by this particular type of investment, definite and prompt impetus is given to the wheels of industry is, in the current low stage of business, a point worth noting.

Commercial paper rates vary, naturally, from day to day with changes in the general credit situation. The rate recently has been around $3\frac{1}{2}$ to $3\frac{3}{4}$ per cent for prime names. Comparable investments from the point of view of bank requirements—short term governments, and bankers acceptances—have been

yielding $1\frac{1}{4}$ to $2\frac{1}{4}$ per cent. Since paper is bought upon a discount basis, the actual yield is always higher than the stated rate. The following table shows the approximate effective yield on commercial paper purchased at the discount rates and in the maturities given:

Discount Rate	Three Months	Four Months	Five Months	Six Months
$3\frac{1}{2}\%$	3.61%	3.60%	3.62%	3.61%
$3\frac{3}{4}$	3.87	3.86	3.89	3.88
4	4.13	4.12	4.15	4.14

A. G. Becker & Co., has been in the commercial paper business for thirty-nine years. That was, indeed, the original business of the house, the underwriting and distribution of other types of investments having grown out of our earlier operations in serving the needs of banks for short-term investments. Many of our customers have done their borrowing in the open market through us over a long period of years. They are outstanding leaders in their various lines of business. To bankers, and to corporations and individuals as well who have substantial sums to invest for a period of a few months, we offer, as they are available, the short-term notes of this representative group of American business concerns.

The Position of Municipal Bonds

HIGH grade municipal bonds, as a class, have long been considered the most conservative investment medium available, excepting United States Government obligations, and are in no apparent danger of being removed from that classification. True, the financial condition of many American municipalities has been adversely affected by the events of the past two or three years. Weak financial structures have been exposed as never before, and because of slow tax collections, due to curtailed incomes of tax payers, bank failures, and other causes, trouble has been narrowly averted in some places where financial affairs

were thought to be conservatively administered. Needless to say, plenty of publicity has been given to those places which have experienced difficulties, making it easy for one to lose sight of the fact that the great majority of municipalities have been going along quietly paying their bills, and meeting promptly the principal and interest on their funded debt. For example, out of the forty cities in this country of 200,000 population or over, having bonded debt, only two have actually defaulted in principal or interest payments on their direct obligation bonds during the present depression period. We understand one of

these cities has outstanding a matured note issue which has not yet been paid or extended. The other was forced to delay payment for a few weeks on a small bond issue, on account of the failure of one of its depositary banks. The bonds of several other of our largest cities have been severely depressed in price on account of unusual local conditions, and while it is conceivable that there may be at some time a delay in principal or interest payments, there is not much doubt but that the general obligation bonds of these cities will eventually be paid in full.

Good Position of Smaller Cities

The security behind a municipal bond does not vary in direct proportion to population. It should not be inferred, that inasmuch as some of our largest cities have serious tax problems to solve, smaller communities are suffering even more severely. It is true that other factors being equal, the obligations of large population centers are more highly regarded than those of smaller municipalities, but medium sized municipalities possess some advantages which tend to offset the lack of a large population. Finances and other municipal affairs in the medium sized municipalities are often more economically managed, wealth is more evenly divided as a rule, and the sense of civic pride is more highly developed. Also, excepting in industrial communities dependent to a large extent on one or two industries, periods of general business depression are less keenly felt than in the population centers. Accordingly, on the average, medium sized municipalities are encountering possibly less difficulty in meeting their obligations than the larger cities.

The conditions of the last few years have had a beneficial effect also on municipal finances which should not go unnoticed. In many places, unnecessary expenditures have been eliminated, budgets have been balanced, and a general policy of retrenchment has been adopted. Extra precautions are being taken to see that public funds on deposit in banks

are adequately protected. In communities where an approving vote is required for the sale of bonds, voters have refused to sanction proposed issues, except when convinced that the proceeds are to be applied to projects which will be of real benefit to their community, and that it will not place too great a burden on the tax payers.

Also, responsible dealers will not attempt to underwrite new issues, unless assured that the borrowing municipality has put its house in order, and is fully capable of meeting its obligations. In this respect, the investor in high grade general obligation municipal bonds today is getting better security than ever before.

The conclusion is drawn that when general conditions are back to normal, municipal bonds, as a whole, will have come through this trying period with a record second to no other type of security.

Effect of Higher Taxes

The complete exemption from Federal income taxes of the interest received from municipal bonds becomes increasingly important, in view of the tax legislation now being proposed at Washington.

The House of Representatives, on April 1st, passed a new tax bill which provides for an increase in the normal tax on incomes in excess of \$8000, over exemptions, from the 5% rate now in effect, to 7%, and fixes graduated surtaxes which rise to a maximum rate of 40% on incomes of over \$100,000, as compared with the present maximum rate of 20%.

It will be interesting to see what the effect will be on the status of municipal bonds as compared with taxable bonds, with respect to *net income*, should the bill as it now stands become a law.

Assume that an investor, with an income (subject to surtaxes) of over \$100,000 purchases *taxable* bonds at a price to yield 5.33%. Interest derived from this investment is additional income, and under the *existing* law, is subject to a normal tax of 5% and a surtax of 20%, or a total tax of 25%. Deducting the

tax computed at this rate the actual income from these bonds is reduced to 4.00%. In other words, for an investor in that income class, a *tax exempt* bond yielding 4.00% is equivalent to a taxable bond yielding 5.33%. Now, suppose the normal tax is raised from 5% to 7% and the surtax on incomes over \$100,000 from 20% to 40%. This same investor would be obliged to pay a total tax of 47% on his 5.33% return from a taxable bond which would reduce his actual income to 2.83%. Using figures more in line with present yields obtainable from municipal bonds, this investor would have to find a taxable bond yielding approximately 8% to equal a tax free return of 4¼%.

Corporate Tax Possibilities

The measure also proposes an increase in the tax on corporation income from the 12% rate now in effect to 13½%, and provides for an additional penalty of 1½% on consolidated returns of affiliated corporations, making the total rate applicable to such returns 15%. The following table gives an indication of the effect these higher rates would have on bonds owned by banks and other corporations, again using a tax free return of 4¼% for purposes

of comparison:

Tax Rate	Tax Free Return	Equivalent Taxable Return
12% (present rate).....	4.25%	4.83%
13½% (proposed rate).....	4.25%	4.91%
15% (proposed rate on consolidated returns).....	4.25%	5.00%

These figures, of course, are speculative, as the new bill may finally differ in some respects from its present form. Whatever its exact form, however, it is generally conceded that the revenue bill will provide for substantial increases in the tax on incomes. To the degree that such an increase is made, the attractiveness of municipal bonds for investment will be correspondingly increased.

Municipal bond prices rose gradually through March, the average yield obtainable from high grade general obligation bonds having been reduced about 1/5 of 1% during that time. Since the first part of April, the market has been less active, with prices holding firm.

A considerable number of new issues has been brought out during the past few weeks and with few exceptions they have been readily absorbed. The demand has been for bonds of the highest quality. The offerings on the opposite page are made with this thought in mind.

Bond Indices vs. Bond Values

THE various indices of bond prices, based on the average of selected groups of bonds, furnish a useful picture of the general trend of the market. They are not, however, an index to the investment merit of individual bonds. The buying and selling of bonds is not done in "averages" but in individual issues, and each issue has its own unique set of facts. This seems rather an obvious thing to point out, but it is quite plainly a truth which is being lost sight of in the general atmosphere of depression. Entire classes of bonds are dismissed as beyond the investment pale, regardless of the fact that many sound issues are to be found in that class. The fact that a given

group of bonds declines in price, as shown by the published averages, may be a reflection of some weakness in the situation to which that group belongs but it does not alter the fact that strong investment spots may still be found in that area.

It is no uncommon thing, for example, to hear an investor nowadays say, in effect, "Oh, I wouldn't buy railroad bonds. The roads are all in bad shape—traffic down, earnings away off, fixed charges barely covered or not covered at all, and prospects poor." This may be an entirely natural point of view on the part of a person who has followed the news describing the plight of the railroads, and who

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Sound Investment Bonds

*We recommend the following issues for investment at this time,
subject to prior sale and change in price.*

Municipal Bonds	APPROX. YIELD
ALLEGHENY COUNTY, PENNSYLVANIA (Pittsburgh), 4¾s, due 1948	4.30%
CITY AND COUNTY OF DENVER, COLORADO, 4s, due 1945	4.25%
LOUISVILLE, KENTUCKY, 4½s, due 1969	4.35%
STATE OF WEST VIRGINIA, 4¼s, due 1956	4.35%

Short Term Issues	
EDISON ELEC. ILLUMINATING CO. OF BOSTON, 4% Notes, due Nov. 1, 1932	4.00%
GENERAL MOTORS ACCEPTANCE CORP., Serial 5s, due March 1, 1933	5.25%
MARSHALL FIELD & CO., Debenture 4½s, due January 1, 1934	6.65%
NORFOLK & WESTERN R. R. CO., Imp. & Ext. 6s, due Feb. 1, 1934	4.60%

Corporate Obligations of Longer Term	
AMERICAN TELEPHONE & TELEGRAPH COMPANY, Debenture 5s, due 1965	5.06%
ATCHISON, TOPEKA & SANTA FE RY. CO., General 4s, due 1995	4.60%
BROOKLYN EDISON COMPANY, "A" 5s, due 1949	4.65%
CHESAPEAKE & OHIO RY. CO., 1st Cons. 5s, due 1939	4.80%
CHICAGO, BURLINGTON & QUINCY R. R. CO., General 4s of 1958	4.95%
COMMERCIAL INVESTMENT TRUST CORP., Conv. Deb. 5½s, due 1949	6.90%
CONSOLIDATED GAS CO. OF N. Y., Debenture 5½s, due 1945	5.10%
KANSAS CITY POWER & LIGHT CO., 1st 4½s, due 1961	4.85%
MILWAUKEE ELECTRIC RY. & LIGHT CO., 1st & Ref. "B" 5s, due 1961	6.20%
NATIONAL DAIRY PRODUCTS CORP., Debenture 5¼s, due 1948	6.20%
NATIONAL STEEL CORPORATION, 1st 5s, due 1956	7.25%
NEW YORK EDISON COMPANY, 1st & Ref. "B" 5s, due 1944	4.55%
PACIFIC GAS & ELECTRIC CO., Gen. & Ref. "A" 5s, due 1942	5.00%
PENNSYLVANIA RAILROAD CO., General 4¼s, due 1981	5.95%
SOUTHERN CALIFORNIA EDISON CO., Ref. 5s of 1951	5.10%
STANDARD OIL COMPANY (NEW JERSEY), Debenture 5s, due 1946	4.85%
UNION PACIFIC RAILROAD CO., 1st 4s, due 1947	4.75%
WESTERN ELECTRIC COMPANY, Debenture 5s, due 1944	5.30%

Full details about any issue shown will be furnished upon request.

has looked little beyond superficial statements as to traffic and earnings. But there are railroad bonds and railroad bonds, and great variations in position exist among individual companies, and among individual issues of the same company. There are many railroad issues in preferred positions on which the charges continue to be covered by a fair margin despite the inability of the issuing companies to earn their other fixed charges. The position of a bond in the company's capital structure means everything in such a case.

Position of One Railroad Issue

The old Chicago Milwaukee & St. Paul General (now First) Mortgage 4½s — and other series under the same mortgage—are a case in point. The difficulties with which this great railroad system has had to contend have been given wide publicity. They run back for a good many years. They became so serious in 1925 that the company was placed in receivership, and operated under the supervision of the court until 1928. Following reorganization and a brief period of comparative prosperity, another difficult period has been encountered in the last year. But throughout the ups and downs of the last decade, the general mortgage 4½s, secured by first lien on more than 6,000 miles of the company's most productive property, have retained investment merit. Interest was paid throughout the receivership, and the market price of the bonds rose during that period as high as 102 7/8. Indeed, during the darkest hours the low price for the bonds was 77¼—as compared with recent quotations below 65. Preliminary figures on the road's operations for 1931 indicate that charges on these bonds and on other obligations of equal rank (chiefly equipments) were earned by a fair margin despite the fact that the company could not cover the charges on the large amount of junior debt.

While superficial acquaintance with the current record of the country's great railway systems might lead the investor, therefore, to

the hasty conclusion that all obligations of this particular line are in poor position, closer examination of the facts would reveal that bonds of investment merit are still to be found in the group.

Similar situations may be found in many other railway systems—situations in which the underlying issues continue to be well protected despite the hazards to which junior obligations are exposed by the sharp falling off in traffic and earnings. Such issues of roads whose credit position has suffered are the Erie prior lien 4s, the Missouri-Kansas-Texas first 4s, the Baltimore & Ohio first 5s, St. Paul, Minneapolis & Manitoba Consolidated (now first) 4s, a prior obligation of the Great Northern, etc.

Examples in Other Fields

Nor is it only among the rails that a general appearance of weakness may obscure points of relative strength. At the moment, for example, there is hardly any class of bonds less popular than foreigners, and, among foreigners, hardly any group less in favor than those of Brazil, where federal, state and municipal obligations generally are in default, with no immediate prospect of payments being resumed. And, to judge by market quotations, state obligations occupy a position with investors decidedly inferior to that of federal government issues. Yet payments continue to be made on the State of Sao Paulo Secured 7% Coffee Realization loan of 1940, and the statement of pledged revenues shows a substantial excess over needs; the issue has been selling above 60, as compared with prices under 20 on most obligations of this and other Brazilian states.

Additional examples could easily be given in the foreign field, and illustrations of the same general proposition are present in other classes of bonds. There are great utility systems whose holding company obligations are held to be in a precarious investment position, but whose subsidiary operating company bonds continue to be protected by earnings well in excess of all fixed requirements. Even

in the field of real estate bonds, a group which as a whole is very near the vanishing point in investors' esteem, search of the records will disclose issues which are well secured even on the basis of current demoralized real estate markets, and which are still earning their charges.

Under conditions such as have prevailed in the last year and more, attention has been more often directed to weakness in investment situations than to such evidences of strength as have been suggested in the foregoing. The bond market has exhibited the sensitiveness characteristic of a period of general depression; moreover it has been subject to the adverse influence of earnings reports which, for the most part, reflected a declining trend. In this atmosphere of uncertainty investors have acquired the habit of discounting good reports, while giving close ear to news of a disturbing character.

Facts the Only Reliable Guide

Such an attitude of mind is not only understandable but, in large measure, justified. It has resulted, however, in a great deal of extreme undervaluation of sound securities, as in former times and under opposite conditions, there was extreme over-valuation of unsound securities. It is more than ever important in such a situation that the investor keep close to facts and, while avoiding rash commitments

in unsound situations, avoid also being betrayed into equally rash desertion of investments that are fundamentally sound.

One important reason for the decline in market value of good securities has been that holders have not appreciated their merit; alarmed by the deflation going on all about, they have cast them loose for what they would bring, without great regard for their real worth. For similar reasons, investors with funds available for placement, have been timorous not only toward bonds of genuinely questionable character, but toward those of undoubted merit. They have thereby aggravated the generally bad market situation and have sacrificed for themselves an investment position of great strength.

Thoroughly sound securities are available to-day in abundance. Investors who formerly were content with a return of 4 to 5 per cent may now obtain 5 to 6 per cent with a corresponding degree of safety, and up to 7 per cent or more without greatly compromising their scruples. Some examination of facts below the surface of the market is needed in order to determine upon a policy of retention or purchase, but these facts may be readily ascertained through an investment house possessing adequate facilities for the service of its clients. The services of our own organization are at your command, without any obligation to you.

A Summary of Foreign Government Debts

IN view of the widespread holdings of foreign dollar bonds by American investors, and of the substantial change which has taken place in the credit position of certain governments in the last year, we give on the following pages, as information, a brief summary respecting the status of the principal foreign government debts held in this country. The summary applies only to dollar obligations of the national governments—not to sterling or franc loans, nor to state and municipal obligations, unless so stated.

While the number of cases in which debt service has temporarily been suspended is considerable, the amount they represent is a small part of the total. That is, of the total debt considered in this summary, roughly two and a half billion dollars is still in good standing, as against some 650 million dollars on which there has been an interruption in payments. With respect to the latter portion, it is anticipated, of course, that payments will be resumed in most cases upon a return of better world conditions.

The information is as of the early part of April.

ARGENTINE REPUBLIC. Service charges are being regularly met, and it has been indicated that the country's improved trade position has somewhat eased its foreign exchange problems. Provincial and municipal obligations are also being regularly serviced, although in the case of at least one municipality the national government has been obliged to extend aid in order to keep the record clear.

AUSTRALIA. Service charges on obligations of the commonwealth, and of the states and municipalities are being met, although the country has suffered keenly from the deflation, and the debt burden is heavy. New South Wales is not paying interest on its external debt, but these charges have been met by the commonwealth government—an arrangement that has caused some delay in meeting the payments.

AUSTRIA. Payments are being made. The financial position of the republic, however, is well known to be difficult.

BELGIUM. Belgian bonds are in good standing, and are regarded as high-grade foreign obligations.

BOLIVIA. Bonds of the republic are in default, and no definite measures have yet been proposed looking to a resumption of payments. The government is in a difficult financial position, and the fortunes of the country generally have been adversely affected by contraction of the market for its mineral products, notably tin.

BRAZIL. All federal dollar bonds are in default, although service charges continue to be maintained on three sterling loans, and on the State of Sao Paulo coffee realization loan. A plan has been put into operation for funding interest on defaulted federal issues with special twenty-year bonds. The positions of the states and cities vary greatly. In a few instances deposit of funds to meet service charges

is being made locally in Brazilian currency, but inability to obtain foreign exchange makes it impossible to remit to this country the amounts due. No general plan has been worked out for handling these local obligations.

BULGARIA. Service charges have thus far been regularly met. At the end of March, however, Premier Mouchanoff announced a 50 per cent moratorium on the country's exterior debt for a period of six months. During that period it is understood efforts will be made to reach an accord with bondholders.

CANADA. All obligations of the dominion are in good standing.

CHILE. A complete moratorium on national, mortgage bank, state and municipal debts was declared last year. Drastic decline in the important nitrate demand, and general falling off in trade reduced public revenues and led to difficulty in obtaining foreign exchange. At the time the moratorium was declared it was the hope to deposit service charges locally in Chilean currency, with a view to remitting the funds to the United States when exchange became available. There has been some discussion of a proposal to consolidate the country's foreign debt.

COLOMBIA. Interest on the direct federal debt has been promptly met. Due to depleted gold stocks the government has felt obliged to restrict foreign exchange operations and, in consequence, the departments and municipalities have been unable to remit funds to meet their service charges, although in some cases payment has been made out of reserve funds on deposit in this country. As a temporary expedient, pending improvement in the exchange situation, the government has proposed to issue its own interest-bearing scrip in payment of interest on these local obligations, the debtors meanwhile to make appropriate deposits in national currency in Colombian banks. The proposal has not been agreeably received by all local autonomies, and has not yet been put into actual effect.

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COSTA RICA. Service charges on the external debt have been maintained. A moratorium was declared recently with respect to various obligations, but the foreign debt was said not to be affected.

CUBA. Full debt service has been maintained. Demoralization of the sugar and tobacco markets has sharply reduced public revenues, which are largely derived from these commodities.

CZECHO-SLOVAKIA. Obligations of the republic have been regularly serviced.

DENMARK. Obligations of this small kingdom, which have long been regarded as high-grade, are all in good standing.

DOMINICAN REPUBLIC. The finances of this republic are under the supervision of the United States, and interest charges on the dollar bonds have been fully satisfied. Due to depleted revenues the government some months ago, with approval of the agent of the United States, temporarily suspended sinking fund operations.

DUTCH EAST INDIES. Service charges have been fully maintained on dollar loans.

FINLAND. Service has been maintained on all dollar bonds.

FRANCE. French bonds—national, departmental and municipal—are promptly serviced, and are generally regarded as high-grade.

GERMANY. Service charges have been promptly met on all federal, state and municipal long-term issues, and on the issues of private corporations as well. The scantiness of the country's gold stocks and, in the face of general tariff barriers, the difficulty of creating foreign credit balances through its exports, make the transfer of funds a serious problem. The situation will unquestionably be greatly helped if the Lausanne conference in June deals with reparations in a manner satisfactory to Germany. Payment of the short-term debt, very little of which is held by pri-

vate investors, is subject, of course, to the extensions provided by the "standstill" agreement.

GREECE. Payments have been regularly made so far. In view of the government's financial difficulties, however, there has been some talk of suspending sinking fund operations for a few years. Dispatches from Athens late in March stated that the League of Nations finance committee had accepted a plan for suspension of payment of the Greek foreign debt for one year. May 1 payments are in doubt.

GUATEMALA. Service charges have been maintained.

HAITI. This republic's affairs are under the general supervision of the United States. Haitian bonds are secured both by customs and internal revenues, and all service charges have thus far been met.

HUNGARY. Due to shortage of foreign exchange, the government in December decreed drastic restriction of transfers for external debt service. Preferential treatment for certain public debts was provided for, the dollar and sterling loan of 1924 being accorded most favored place, and February interest was paid. During the period of the moratorium, which was decreed for one year, debtors are to deposit the amounts due in Hungarian currency.

ITALY. Payments have been regularly made on all Italian government bonds.

JAPAN. The favorable debt record of the Japanese has been fully maintained, although the empire's military activities in China have affected the market adversely.

MEXICO. The external debt of the republic has been in default for years. The most recent adjustment between the country and its creditors has been approved by the Mexican authorities, but actual resumption of payments has been further postponed until 1934.

NEWFOUNDLAND. Despite the embarrassing financial problems which the colonial government has had to face in the last year, service

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on the debt has been maintained, and bank credits are said to have been arranged to take care of requirements for the near future. Recent political disturbances somewhat cloud the state of affairs.

NORWAY. All obligations of the kingdom are regularly serviced. Like the other Scandinavian countries, Norway has long enjoyed a high credit rating.

PANAMA. All obligations have been regularly serviced.

PERU. No payments have been made on the national debt since early in 1931, and no effective measures have been taken looking to a resumption of payments. In the case of certain municipal issues, interest has been paid out of reserve funds on deposit in this country, but no new remittances have been made by the cities themselves; default on these loans is expected upon exhaustion of the reserve funds.

POLAND. Bonds of the Polish republic have been regularly serviced.

SALVADOR. Debt service was suspended by a decree of February 29. A general moratorium was declared shortly afterward. Salva-

dor's economic troubles have been complicated by revolution.

SWEDEN. Payments have been made regularly on the government debt.

SWITZERLAND. Obligations of this republic are of the highest order.

URUGUAY. Interest payments are being made, and are said to be assured for 1932 by arrangements which the government has already completed. Operation of the sinking fund has been suspended temporarily. The December interest payment on the city of Montevideo loan was delayed for about a month, due solely to lack of dollar exchange.

YUGOSLAVIA. Service charges on the national debt have been maintained.

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.

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