A. G. Becker & Co.

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PROSPECTS FOR PROSPERITY IN 1929

THE year 1928 closed with industrial production and general profits at the highest level they have ever reached. In considering whether this prosperity will run through 1929 or not, we have the results of several recent years to guide us. Both 1925 and 1926 started with a high level of business activity and maintained the high level throughout the year. 1923 and 1927, however, started well but showed business decline in the latter part of the year. This article will attempt to examine the causes for the declines in 1923 and 1927 and to analyze the essential factors in the current situation.

Reasons for Business Recession in 1923

The recession of 1923 followed a pronounced advance in commodity prices which had led to commodity speculation and some accumulation of inventories. Wholesale prices of all commodities had run up from 91.4 in January 1922 to 104.5 in March 1923. The loans and investments of banks had increased 12½% in a year, and bank deposits had gone up 15%. The Federal Reserve scented inflation and raised its rediscount rate from 4% to 4½% in the early spring. It also sold government bonds and thus forced the member banks to increase their rediscounts from less than $400,000,000 in the summer of 1922 to over $800,000,000 a year later. In addition the inflation of the German mark was nearing its worst stages and European currency systems were generally undergoing demoralization and disorganization. Our exports fell to a low volume. Agricultural prices were falling again after having recovered somewhat during the winter and spring. The purchasing power of the farmer was still lagging.

So business recession set in and lasted with a short interruption until the summer of 1924. Then the revival of wheat prices, and the increase of demand from Europe,—occasioned by the settlement of the reparations question and the evacuation of the Ruhr,—brought a revival of demand and production. Gold imports reduced money rates and raised bond prices. By the autumn of 1924 the rediscounts of the member banks were down to $230,000,000.

The Falling Off in Business in 1927

In 1927, four special causes cooperated to bring about what turned out to be a rather mild and short-lived depression which lasted from July to December. Two of these causes centered in the south. They were the collapse of the Florida land boom and twelve cent cotton. The third cause was the Mississippi flood in the spring of the year; and the final one was the curtailment of production by the Ford Motor Company. These events checked the demand for raw materials and finished commodities sufficiently to bring about some unemployment. Commodity prices had been falling steadily from the early months of 1926 until the decline reached 10%. These forces led to a decided diminuation of profits for 1927.

No Commodity Inflation Apparent Now

The new year opens with conditions which resemble 1926 much more than 1923 and 1927. Commodity prices have seen no such uprush as occurred in the late months of 1922 and the spring of 1923. There is no accumulation of inventories. Yet these prices have not weakened as they did late in 1926 and early in 1927. Instead there has been a moderate firming of prices indicative of an active demand for the products of industry.

Nor is there any sectional depression as there was in the south during the closing months of 1926. Prosperity exhibits a remarkable uniformity in most industries as well as in all sections of the country. Finally we are trading with a world which has entered upon a new era of expansion. Our foreign trade should be large in 1929.

High Cost of Credit

The one disturbing feature in the situation is the cost of credit. Commercial paper rates are higher than they were at any time in 1923; and a full percent above 1926. Such a rise in rates is apt to check long time borrowing for construction projects and for expansion of plant. When this happens the rate of business activity declines. Certainly if the cost of commercial borrowing were to continue its rise there would be a decline in business expansion, unless corporations and business men find a new way of getting the necessary capital cheaply.

Increase in Stock Financing

That they have found such a way is evident from the figures of new securities issued during the last year. Of a total of $5,078,000,000 of new corporate securities issued during the first 11 months of 1928 there were $2,358,000,000 of stocks. This compares with $1,258,000,000 of stocks issued in 1927 out of a total of $4,787,000,000. And 1927 was a high record both for new corporate securities and for stocks.

This tendency may well continue until credit conditions ease, money rates fall, and bond prices rise. For our present credit stringency is in a very fundamental sense due to temporary conditions. The savings of the American people were not smaller in 1928 than in previous years. They were undoubtedly larger. So the supply of capital was ample. But the expansion of bank credit has been checked by the export of gold. Not only that but bankers have become nervous at the growing use of Federal Reserve credit and especially at the rise of their rediscounts.

Exports of Gold

On July 3, 1928 the rediscounts of the member banks stood at $1,191,000,000. This was an increase of $506,000,000 from twelve months previously. By December 19, the rediscounts of members had fallen to $946,710,000, which was only $368,554,000 above the corresponding date of 1927. In the closing months of the year, rediscounts again ran up to over $1,100,000,000 and so were almost exactly $500,000,000 above the close of 1927. This increase in rediscounts was caused primarily by a loss of gold amounting to half a billon dollars, and to the further fact that the Federal Reserve banks have refused to offset these gold exports by the purchase of acceptances and Government bonds. These stand at about the same figure now as they did in September 1927 when the outflow of gold got under way.

Growth of Exports

Now the loss of half a billion dollars of gold is no cause for worry if the banking system still has adequate reserves left, and if the outflow is not caused by a rise of prices in the home market which has put it out of balance with foreign commodity markets. If it is out of balance then imports will rise, exports will fall and gold will flow out until there is an actual shortage. But this has not been the case in America. Our exports have been growing and our imports have been falling during the last two years. The excess of merchandise exports over imports was $377,772,000 in 1926; and $680,633,000 in 1927. During the first eleven months of 1928 the excess was over $900,000,000.

Reasons for Loss of Gold

How did the world get our gold? They borrowed it, and gave us interest-paying assets for the yellow metal which was earning us nothing. Today the Federal Reserve banks hold a corresponding amount of earning assets which they got in exchange for the gold when they gave it to the member banks who exported it. The member banks themselves own the securities which foreigners gave them for the gold. These securities earn interest, and with it the member banks pay the Federal Reserve the rate which it charges them on their rediscounts. The foreigner who got the gold is really paying for our additional rediscounts at the Federal Reserve banks today. We did not take commodities for the gold which we exported; but instead we took investments.

And we still have an abundance of gold in this country. The reserve banks hold $2,600,000,000, and there is another billion in general circulation in the form of gold certificates. America is in no danger of embarrassment for lack of gold with which to maintain its banking reserves.

Gold Imports Likely

High rates have discouraged foreign borrowing here, and so have stopped the export of gold. With a continuation of the high excess of exports, gold is bound to flow back to America in the absence of further loans abroad in large amounts. The outside world has supplied itself abundantly with gold. In addition to that which we have sent out, the world is producing two hundred million dollars' worth annually which goes into monetary uses. The French peasants have brought into the Bank of France almost a hundred million dollars since stabilization in June. The Russians have sent the Germans seventy million dollars this year which have not previously figured in the monetary stocks. Argentine, Spain, and Germany, all three have more gold than they need. The sum of their surplus holdings is not less than three hundred million dollars. Out of this excess gold, together with that which will be produced during the year, America may well get several hundred million dollars. If this happens the American monetary situation will ease almost as rapidly as it tightened. For it will at once reduce our rediscounts and Federal Reserve credit used by a corresponding amount.

All told, it is doubtful whether the credit situation and the state of the security market will hamper the financing of enterprise and construction seriously during the next year. There is, then, the possibility that 1929 will repeat the history of 1926, and that, barring unforseen and unforseeable calamities, profits will not recede from the high-water mark of 1928.

Interesting Investments

Two Stock Investments that combine preferred and cumulative dividends with participations in the full growth of the business

Lawbeck Corporation

6% Cumulative Preferred Stock
Common Stock
Offered in units of one share of each

This Company was organized by Lawrence Stern & Company and A. G. Becker & Co. We invested $500,000 in the Company jointly for which we received common stock. Our investment is, therefore, junior to that of preferred stockholders and our participation in profits can come only through dividends on the common stock.

The Company was organized primarily to engage in specialized financial operations for which there is a large field—namely, the granting of short term building credits on properties which will, upon completion, be suitable for permanent financing by insurance companies, trust companies and other conservative lending institutions. Financing of this type has for many years had an excellent record in the larger cities and Lawrence Stern & Company, who manage the Lawbeck Corporation, have had extensive experience in this work.

The assets of Lawbeck Corporation will consist primarily of cash and high grade short term first mortgages. The Corporation will ordinarily receive 6% on the loans it makes plus a commission. It has been in operation only for approximately a month and a half and already it has made loans of seven and a half millions. It is apparent, therefore, that even on this basis the 6% dividend on the preferred stock will be more than earned. As a matter of fact, loans already made indicate, in addition, some earnings for the common stock.

As the operations of the Corporation expand, earnings available for the common stock should increase and the management anticipates a substantial increase in its volume of business. In purchasing the units of preferred and common, therefore, you receive a cumulative dividend of 6% and share as well in the full earnings of the enterprise. At present prices on the Chicago Stock Exchange for the unit of one share of preferred and one share of common, around 102, the yield is 5.88%.

We recommend the purchase of Lawbeck units. Our own faith in the business is attested by the fact stated above that we have made a substantial investment in the Common Stock.

The Newport Company

Class "A" Convertible Stock

This stock, available around 50, pays a cumulative dividend of $3 per year. The yield is therefore 6%. The holder of this stock is furthermore given an opportunity to participate fully in the progress of the Company because of the conversion feature. At any time at his option the holder may convert his "A" stock into common of the Company at the rate of two shares of common stock for each share of Class "A" Convertible Stock held. Furthermore, in the event of the redemption of the "A" stock, the holder will continue to have the privilege of purchasing common stock of the Company for a period of three years at $25 a share in the ratio of two shares of common for each share of "A" stock which he holds.

Because of the nature of Newport's business, we regard the conversion privilege as a valuable one. The Company is a chemical concern and may be expected to share in the progress of the chemical industry in the United States which, in our opinion, has large possibilities. The business is one in which new products are constantly being developed and new sources of income opened up.

The desirability of an investment in this stock does not, however, have to be determined on the basis of the possible future growth of the Company. Newport has an established earning record extending over a period of years. For 1928 the Company estimates earnings at $820,000, which is more than twice the dividend requirement on the "A" stock and is equivalent, after payment of the "A" stock dividend, to $1.71 a share on the common stock.

Assets as shown in the descriptive circular are approximately 150% of the par value ($50) of this stock.

At present the Class "A" Convertible Stock is listed on the New York Curb and the Company has agreed to make application to list it on the New York Stock Exchange.

We recommend its purchase and shall be pleased to execute orders at the market.

DIVERSIFIED

The following diversified securities are
We recommend them as desi

Corporate Obligations

	APPROX. PRICE	APPROX. YIELD
STANDARD OIL CO. OF NEW YORK, Deb. 4½s due 1951	97	4.70%
WEST PENN POWER CO., 1st Mtg. 5s due 1946	102½	4.75%
ALABAMA POWER CO., 1st & Ref. Mtg. 4½s due 1967	95	4.78%
PACIFIC GAS & ELECTRIC CO., Gen. & Ref. Mtg. 5s due 1942	101¾	4.80%
NEW YORK POWER & LIGHT CORP., 1st Mtg. 4½s due 1967	93¾	4.90%
TEXAS & PACIFIC RY. CO., Gen. & Ref. Mtg., Series "B" 5s due 1977	101¾	4.90%
INLAND STEEL CO., 1st Mtg. 4½s due 1978	92¾	4.90%
MILWAUKEE ELECTRIC RY. & LIGHT CO., Ref. & 1st Mtg. 5s due 1961	100⅝	4.95%
CENTRAL ILL. PUB. SERVICE CO., 1st Mtg. 5s due 1968	100	5.00%
YOUNGSTOWN SHEET & TUBE CO., 1st Mtg. 5s due 1978	100½	5.00%
PHILADELPHIA CO., Secured Gold 5s due 1967	99⅞	5.00%
THE CHESAPEAKE CORP., 20-Year Convertible Coll. Trust 5s due 1947	99½	5.05%
NEW ORLEANS, TEXAS & MEXICO RY. CO., 1st Mtg. 5s due 1954	99	5.05%
CHICAGO, ROCK ISLAND & PACIFIC RY. CO., 1st & Ref. Mtg. 4s due 1934	95	5.13%
W. A. WIEBOLDT & CO., 1st Mtg. 5½s due 1939	102½	5.15%
WEST TEXAS UTILITIES CO., 1st Mtg. 5s due 1957	97½	5.16%
FOREMAN TRUST AND SAVINGS BANK, AS TRUSTEE, 1st Mtg. Part. 5¼% Ctfs. due 1938	100	5.25%
INDIANA ELECTRIC CO., 1st Mtg. 5s due 1951	96	5.35%
MONSANTO CHEMICAL WORKS, 1st Mtg. 5½s due 1942	101	5.40%
THE COPLEY PRESS, Serial Coll. 5½s due 1930	100	5.50%
GRIESS PFLEGER TANNING CO., 1st Mtg. 5½s due 1948	100	5.50%
ARMOUR & CO., 1st Mtg. 4½s due 1939	92	5.50%
INTERSTATE IRON & STEEL CO., 1st Mtg. 5½s due 1946	100	5.50%
BALABAN & KATZ CORP., Serial 5½% Gold Notes, due 1938	98.12	5.75%
EDGEWATER BEACH HOTEL CO., Gold Debenture 5½s due 1938	96.28	6.00%
ALBERT PICK & CO., Gold Debenture 6s due 1936	100	6.00%
DETROIT HOTEL CO., 1st Mtg. 6½s due 1941	102	6.28%

Foreign Bonds

DOMINION OF CANADA, Gold 5s due 1952	104¼	4.70%
KINGDOM OF NORWAY, External Gold 5½s due 1965	101½	5.40%
KINGDOM OF THE NETHERLANDS, External 6s due 1954	100¼	5.98%
GOVERNMENT OF THE ARGENTINE, Gold 6s due 1957	100¾	5.95%

All offerings are made subject to prior sale and change in price. Full d

INVESTMENTS

epresentative of our current offering list.
able purchases for investment.

Foreign Bonds—*Continued*

	APPROX. PRICE	APPROX. YIELD
GOVERNMENT OF THE FRENCH REPUBLIC, External Gold 7½s due 1941	112¾	6.00%
UNTERELBE POWER & LIGHT CO., Sinking Fund Mtg. 6s due 1953	95	6.40%
FREE STATE OF ANHALT, 7% External Gold Loan due 1939	101	6.85%
GERMAN BUILDING & LAND BANK, Mtg. Secured Coll. 6½s due 1948	96	6.85%
RUHR GAS CORPORATION, Secured Sinking Fund 6½s due 1953	94	7.00%
KOHOLYT CORP., 1st Mtg. 6½s due 1943	94	7.20%

Investment Stocks

U. S. & INTERNATIONAL SEC. CORP., 1st Pfd. 5% Stock, 25% Paid Listed on the Boston Stock Exchange	100	5.50%
THE LAWBECK CORP., 6% Cumulative Preferred Stock Listed on the Chicago Stock Exchange	102	5.88%
*HAMMERMILL PAPER CO., 6% Cumulative Preferred Stock	100	6.00%
L. GREIF & BRO., INC., 7% Cumulative Preferred Stock Listed on the New York Curb Market	Mkt.	7.00%
*THE NEWPORT COMPANY, Class "A" Convertible Listed on the New York Curb Market	50	6.00%
AUTOSTROP SAFETY RAZOR CO., Convertible Class "A" Stock Listed on the New York Stock Exchange	Mkt.	6.35%
ACME STEEL COMPANY, Common Stock Listed on the Chicago Stock Exchange & New York Curb Market	At the market	
HART, SCHAFFNER & MARX, Common Stock Listed on the Chicago Stock Exchange	At the market	
HUPP MOTOR CAR CORPORATION, Common Stock Listed on the New York Stock Exchange	At the market	
*JOHN MORRELL & CO., INC., Common Stock Listed on the Chicago Stock Exchange	At the market	
MONSANTO CHEMICAL WORKS, Common Stock Listed on the Chicago Stock Exchange & New York Curb Market	At the market	
THE PARKER PEN COMPANY, Common Stock Listed on the Chicago Stock Exchange & New York Curb Market	At the market	
WIEBOLDT STORES, INC., Common Stock Listed on the Chicago Stock Exchange & New York Curb Market	At the market	

****It is expected that application will be made to list on the New York Stock Exchange.***

ls on any issue and additional offerings will be furnished upon request.

Recent Economic Developments in the United States

Adapted from a talk delivered recently before the American Statistical Association by Dr. David Friday

DURING the last two decades there has been a new industrial revolution in the United States. It had gotten under way even before the flood of war orders struck American industry in 1915 and 1916. After that there was a constantly increasing pressure for output, which continued for five years. This hastened the development of the new industrial order which was destined to blossom here.

Doubtless this would have come earlier than it did, had it not been for the inflation of commodity prices in 1919 and 1920. This put our credit situation to the utmost strain, and when the collapse came in 1920, it was followed by industrial depression, with curtailment of output and the profitless year of 1921.

Plant Expansion During the War

As a result of 1921, there was a notion that the profits which had been earned during the war were fictitious and illusory. There was a widespread belief that when prices fell and returned to "normal," it would be found that our war profits were only paper profits; and that the surpluses accumulated during inflation would vanish with deflation as rapidly as they had grown.

The price decline of 1921 seemed to corroborate these fears. In that year the net showing of all corporations was a loss, after payment of taxes and interest. But when it was found that corporations had distributed dividends which were only about ten per cent below those of the highest previous year, and when these were increased for 1922 and reached a new high-water mark for all time in 1923, the complaint over fictitious profits vanished. The Census of Manufactures gave unmistakable evidence of an enormous plant expansion made with war profits.

Profits Maintained in Face of Reduced Prices

A second worry was over the possibility of maintaining profits in the face of reduced prices. The decline in 1921 had wiped out earnings completely. In 1922 and 1923, profits revived quickly. When allowance is made for higher depreciation charges, for tax-exempt income, and for the reduction in corporate income tax, corporations in 1923 earned materially more for their stockholders than in 1919. Dividends reported for income-tax purposes were the highest in history. In 1924, there was a renewed price decline. Profits fell somewhat, but dividend payments still increased.

In 1927, we reached a new low level of prices for industrial products, as distinguished from agricultural commodities. Yet profits were maintained and dividends continued to increase.

During 1928, we have reached the highest level of corporate profits in history. Dividends paid by corporations, even after eliminating intercorporate dividends, will approximate $5,500,000,000. This compares with $2,633,-000,000 distributed in 1922.

A New Industrial Revolution

The argument repeatedly heard during 1924 and 1925 that business is in good volume, but profits are sure to be disappointing because of falling prices has been well-nigh silenced for a year. This is one of the most important accomplishments of our new industrial revolution. We have improved the technique of production and management so rapidly that lower costs have forced prices down while profits have been maintained.

Efficiency of New Plant

With this experience in profits, the worry about over-extended plant capacity has been decidedly reduced. We have learned that the ability of industry to reduce costs and so to maintain profits in the face of falling prices depends upon the efficiency of the new and improved plant which is being installed—not upon the amount of old plant rapidly becoming obsolete. The competitive pace is set, not by the plants constructed ten or fifteen years ago, but by the modernized plants which are coming into operation currently.

Importance of Tax Reduction

High taxes were another source of concern for security holders. A consistent program of tax reduction has added billions of dollars to the value of corporate securities. For the current year the net earnings of all corporations, after allowances for differences in depreciation but before taxes, were a billion and a half dollars larger than in 1919; yet federal income taxes will be a full billion dollars less. This money has become available for corporate dividends and has been distributed as such.

Foreign Competition

The danger of foreign competition was another of the elements which gave us real concern until very recently. In 1924, when the Dawes Plan had just been put into operation, it seemed clear that the steel industry would suffer seriously. With Germany's pre-war efficiency in automobile production and with her wages at ten dollars per week, when ours stood at thirty-five or forty, it seemed as clear as daylight that we could hardly hope to compete against Europe in the markets of the world in this sphere. Imagine, then, the amazement of German industry when they found that they could not produce a motor car as cheaply as America could. They quickly realized that they were using their labor inefficiently, and came here to study this "new industrial miracle" as they put it.

During the last four years the fear of foreign competition has gradually subsided. Doubtless the other nations will study our methods and will introduce them. But we have the trained technicians for research, and we have a mental habituation on the part of both management and labor, which will serve to keep us several steps ahead of the procession for years to come. England had the same experience a century ago.

Current Developments

We have effected tremendous improvements in our financial arrangements and in our industrial technique, both mechanical and psychological.

We have universalized a new mode of transportation among our people; every workman has not only his coach and four, but his coach and twenty. Not only have we universalized this mode of transportation, we have participated in the development of a new one. The possibilities of transportation by air are sure to come to pecuniary expression.

We have been active in the development of a new means of verbal communicati,on the radio; and of a new process for producing the most seductive textile, silk.

It is the age of electrification, and America is leading the world. There has been the most amazing progress in the technique of producing energy. Plants which were the latest word in efficiency and low cost in 1915 are already obsolete. As a phase of this development there has appeared a new means of refrigeration whose possibilities are boundless.

There has been a revolution in the machine technique of agriculture; and we are experimenting with a new technique of merchandising.

Is it any wonder that we have had a revaluation of the equities in American industries?

Common Stocks for Investment

Both of the companies described below have no bonds or preferred stock outstanding.* There is, therefore, no charge on earnings for bond interest or preferred dividends which must be met before dividends can be paid on the common stock and there are no capital liabilities for the retirement of which earnings must be set aside. In the case of each of these stocks, it is the intention of the management to inaugurate the payment of dividends shortly. And in both cases, we are the underwriters of the security and are represented on the Board of Directors of the Company so that our recommendation is based on an intimate knowledge of the business.

John Morrell & Co., Inc.

This is one of the largest meat packing concerns in the United States. Its sales for the year ended March 31, 1928, were $85,000,000. Its net earnings per dollar of sales and dollar of invested capital, according to the latest available figures, are larger than those of any of the Big Four, the largest concerns in the packing industry.

The conspicuous success of Morrell is due to the strategic location of its plants, to the unusually high quality of its products and management, and to the efficiency of its methods of distribution. The Company's plants at Ottumwa, Iowa, and Sioux Falls, South Dakota, are situated at the approximate geographical center of the Corn Belt, where two-thirds of the hogs and one-fourth of the beef cattle of the country are raised.

The business has been a profitable one. The present net worth of $17,936,204 has been accumulated entirely from reinvested earnings after the payment of substantial cash dividends. Furthermore, the business has earned money in good years and bad, as is indicated by the substantial net profit in each of the last 15 years including the post-war period of depression. These earnings for the common stock for the 5½ years ended September 29, 1928, averaged $5.34 per share and for the six months ended on that date were equivalent to $4.36 per share. In this connection, it is pertinent to note that competent authorities are looking forward to a good year for the packing industry in 1929.

The Company intends to pay a dividend of $3.60 per share per annum so that at present prices, around 65, the yield will be over 5½%.

This stock is now listed on the Chicago Stock Exchange and the Company is now making application to list it on the New York Stock Exchange. We recommend its purchase at present prices.

**Provision has been made for the retirement on February 1, 1929 of all of the preferred stock of The Parker Pen Company now outstanding.*

The Parker Pen Company

This Company manufactures standard articles of wide distribution in every-day use. The business is international in scope, operations in other parts of the world being conducted through Canadian, English and German subsidiaries. The foreign business has been expanding rapidly and the Company looks forward to further large increases in this field.

This long established business received a great impetus with the introduction early in 1922 of the Parker Duofold Pen, which revolutionized the fountain pen industry and gave the Parker company a commanding position in the trade. The Company was quick to take advantage of its new opportunities and by consistent and substantial advertising and through constant improvement in its products, it has retained its leading position. Natural developments were the introduction of a large mechanical pencil in the same colors as its pens and more recently a line of desk sets which have opened new markets for the Company.

The high quality of Parker products is unquestioned and the aggressive advertising and wide-spread dealer distribution have built up a definite established market and an extremely valuable good-will. More than $4,000,000 has been spent in advertising in the past five years and the present expenditure of more than $1,000,000 a year in national media is strengthening and extending the demand for the Company's merchandise.

The management estimates that net earnings for the common stock in the year 1928 have been in excess of $5.25 a share. Dividends at the rate of $2.50 per annum will be inaugurated, it is expected, with a first quarterly payment on February 15, 1929.

In view of the character of this business, the essential nature of the Company's products, their established position and wide-spread distribution, we feel that the Company may be expected to show steady growth and we regard its stock as a common stock investment with definite possibilities.