A. G. Becker & Co.

INVESTMENT BULLETIN

SECOND QUARTER 1929

A Promising Field for American Investment

FOREIGN investments seem bound to play in the future an increasingly important part in American finance. The rapid growth of the country's wealth, together with the development of an enormous export trade in manufactured goods, make it more and more desirable for the United States to look abroad for commercial and investment outlets. The proximity of Latin America and the rich field it offers for development and, more particularly, President Hoover's recent good-will tour of this part of the world, combine to give present interest to opportunities in that direction.

South America, as a whole, is complementary to our own country in an economic sense. The commodities it produces for export do not, generally speaking, compete against those of North America. There is, therefore, an absence of economic friction which should promote friendly business relations. The Argentine, it is true, is a direct competitor of the United States in the grain and meat trade, but even this competition tends to diminish with increasing domestic consumption leading to a steady reduction of our exportable surplus of such products.

Our trade with Latin America forms a considerable percentage of our total foreign trade. The report of the Bureau of Foreign and Domestic Commerce indicates that this percentage was 22.2% in 1927, made up of exports totaling $932,197,000 and imports of $1,116,135,000, or a total of more than $2,000,000,000. The United States sold more goods to Latin America in 1927 than did the United Kingdom, Germany and France combined, and we also bought more goods from our southern neighbors than these three countries combined.

The enormous expansion of this trade since the beginning of the century is shown by the following figures:

U. S. Trade with Latin America

Year	Exports to Latin America	Imports from Latin America	Total (Exclusive of Gold and Silver)
1900	$135,059,000	$ 191,902,000	$ 326,961.000
1913	372,520,000	484,772,000	867,292.000
1927	932,197,000	1,116,135,000	2,048,333,000

Our purchases from South America consist largely of raw materials and our sales include cotton goods, wheat flour and other food-

stuffs, manufacturing and transportation equipment, iron and steel and other construction materials.

Investment Opportunities

Investors viewing the South American field see widely varied conditions in different parts of the continent. There are, first, the comparatively well developed countries, such as the Argentine and Uruguay. Securities originated in these countries are well known in world investment markets, particularly in Great Britain, and therefore they offer a return more in line with that of comparable domestic securities. Then there are the countries which are still in a comparatively virgin state industrially. Here the need for capital is greater and the returns larger. The greatest opportunities are to be found, naturally, in investments in equities and because of the high favor of equity investments with the American investor, it is likely that such investments in South American countries will grow rapidly in the next few years.

North Coast Countries

One of the most interesting fields for investment of this type exists in the country which lies nearest us on the South American coast—Colombia. Colombia, Venezuela and the Guianas, although they are an integral part of South America, have a greater community of interest with the other Caribbean countries than with the rest of the South American republics. They are close to the United States, they are served by facilities for rapid and frequent communication and they have been the field of large American investments. Unlike some of the other South American countries which produce agricultural products more in competition with our own and, therefore, find a market for them in Europe (which accordingly becomes an important buying center for them), the agricultural products of the north coast countries are tropical and semi-tropical, and therefore, non-competitive with our own.

The general conditions essential to safe and profitable investment are all found in Colombia—stable political conditions, a sound currency and banking system (patterned after our own), rich natural resources, and large opportunities for the employment of capital.

Colombia

With an area greater than that of all the Atlantic seaboard states of the United States combined, and with an even greater diversity of climate and products, the Republic has a population smaller than that of the New England states. The people are gracious and hospitable, honorable in their business dealings, and eager for American capital to come in on an equitable basis to help them bring the country's potential wealth into being.

Colombia is located in the northeast corner of South America, immediately joining the Panama strip which links the continent with Central America. It is the only South American country with both an eastern and western sea-coast. It is bounded on the north by the Caribbean Sea and Venezuela, on the east by Venezuela and Brazil, on the south by Ecuador and Peru, and on the west by the Pacific Ocean.

Physical Character

The Caribbean coast, which has been a factor in the American banana trade for many years, is a hot region with comparatively small white population. The midland regions, lying on lofty tablelands, are ideal white man's country. Difficulties of transportation have in the past cut this section

off from extensive business contact with the world. Railroads and highways now under construction will in a few years open the interior to both the Caribbean and Pacific coasts.

Agricultural Wealth

Coffee is the main agricultural product of the country. Colombia ranks second only to Brazil among the coffee producing regions of the world and this product represents about 75% of the country's total exports. Bananas are the second most important crop and an important export item. The other agricultural products, such as cacao, wheat, sugar, rice, cotton, corn, potatoes, beans and tobacco are as yet of relatively little importance. Cattle are raised in quantity but because of transportation difficulties, they are largely consumed locally. The hides are, however, exported and rank fifth among the country's exports.

Mineral Resources

Oil is the most important non-agricultural resources so far developed. Operations are controlled by an American company. In 1927, petroleum exports amounted to 15,679,000 barrels, valued at $22,400,000. Gold and platinum are the principal metals produced and are exported in the amount of about $5,000,000 annually. Colombia is also important in the production of emeralds, and is in fact the principal source of such stones. Important salt deposits are operated by the Government and contribute to its revenue. Coal, sulphur, asphalt, copper, iron, lime, ceramic clay, mica and asbestos are present but there is little or no commercial exploitation of such deposits. The manufacturing industries are very limited in extent and such as there are mainly supply purely local consumption.

Trade With U. S.

During recent years the United States has taken more than 80% of Colombia's exports and has furnished about 50% of her imports. Our purchases from Colombia in 1927, exclusive of gold and silver, totaled $87,103,-351, of which coffee accounted for $65,585,-255, petroleum $13,559,123, platinum $4,-397,883, bananas $1,437,434, cattle hides $1,006,735. Colombia took from us in the same year a total of $48,058,296, exclusive of gold and silver. Machinery of various types made up over $8,000,000 of this total and constituted the largest single item of export. Automobiles and accessories totaled $4,500,000, cotton cloth amounted to $3,-698,000, and iron and steel in various forms accounted for $3,450,000.

Importance of Panama Canal

It is only within the last few years, and primarily because of the opening of the Panama Canal, that Colombia has begun to realize some of its possibilities. Prior to the opening of the Canal, it was the most remote country from American and European markets. Backed against huge mountain ranges across which there were the most primitive means of transport, it had no outlet except around the Horn, or to Panama whence a costly trans-shipment could be made to the Atlantic side. The Panama Canal, however, changed the situation entirely. It made possible the opening up of the country and a beginning in the development of its rich and varied natural wealth.

Buenaventura, with one of the finest harbors on the Pacific coast, has become a busy port, and will become infinitely busier with the early completion of the railway and

highway which are being built across three mountain ranges to tap the rich interior.

Immediately back of Buenaventura is the famed Cauca Valley. This fertile region parallels the Pacific coast for the greater part of the Republic's length. It is served by the Pacific Railway, which reaches tidewater at Buenaventura and gives a splendid commercial outlet. This railway is already taxed to its limit, and highways are being constructed to carry a part of the flood of traffic that will pour in from the east when connection is completed with the Bogota Railway. Cali, the capital of the Department of Cauca Valley, has grown by leaps and bounds and has now a population well in excess of 120,000.

The chief need of the country at the present time is the development of adequate transportation facilities. Because of the great expense involved in providing them, owing to the mountainous character of the country, most of this work has been undertaken by the Central Government and the departmental authorities, and some progress is being made. Proper transportation facilities will make a tremendous difference in the opening up of the country's resources.

Fiscal Condition Sound

The fiscal and monetary condition of the country is very satisfactory. Colombia is on the gold standard. Its unit of currency, the peso, is one-fifth of the pound sterling, or $0.9733. In 1923, the Banco de la Republica took over the note issuing function and its notes are backed almost 100% by gold. As of the end of 1927, the ratio of gold reserves to notes was over 95% and at the end of 1928, the ratio was actually over 100%.

American investment capital has been slow to penetrate Colombia. For one thing, financial offerings have often been too small to interest American investment bankers. In the field of public utilities, for example, which today offers in Colombia some of the most exceptional investment opportunities available anywhere, there are scarcely half a dozen plants in the entire Republic that would conceivably need financing beyond the sum of half a million dollars.

Investments have been halted, too, by the difficulty of getting accurate information about Colombian industries. The practice of publishing regular financial statements and reports on the condition of the business has not been generally adopted by South American industry. The individual investor is, therefore, sometimes at a loss as to how to inform himself about an enterprise in which he is interested.

Investment Trusts Provide Effective Investment Medium

The rapid and extensive development of investment trusts in the United States provide a very satisfactory medium by which investments of this type can be undertaken. Such organizations are in position to make large enough investments to warrant representation on the board of local companies, and supervision of the investment then becomes entirely feasible. It is possible for financial organizations equipped to make equity investments in South America, to join with local capital in those countries and, therefore, to benefit from a community of interest.

As Europe gets further away from the war and the reconstruction period, the theatre of operations for American capital is likely to move more definitely towards the south.

Safety Plus Participation in Profits

The two bonds described below afford, in addition to security and assured income, an opportunity to participate in profits through the growth of the enterprises whose obligations they are. Conservative investors who adhere to the policy of buttressing their equity holdings with a strong structure of bonds have an exceptional opportunity now to strengthen this aspect of their account.

Eastern Utilities Investing Corporation

5% Gold Debentures

Due 1954

EASTERN UTILITIES INVESTING CORPORATION is engaged primarily in the business of acquiring and holding, for long term investment, securities of public utility and allied enterprises. Its holdings are chiefly stocks.

The Corporation has broad powers under its charter, including authority to underwrite issues. It does not engage in the management or supervision of plants, its chief business being the reinvestment of its income, investment of proceeds from the sale of capital securities, and the disbursement to security holders of income received.

The Corporation's balance sheet of January 31, 1929, giving effect to the financing involved in this $35,000,000 issue of debentures and to other recent financing, shows total cash and investments exceeding $80,000,000, against funded debt confined to this issue of debentures. Net earnings of the Corporation for the twelve months ended January 31, including an allowance at 5% a year on a portion of funds from recent financing pending permanent investment, were in excess of four and a quarter million dollars, or nearly two and a half times interest requirements of this issue.

Each $1,000 principal amount of definitive debentures will carry warrants entitling the holder to purchase, after December 31, 1929, and up to December 31, 1934, 20 shares of Class A Common stock at $15 a share. In the event the debentures are called for redemption, the stock warrants will become detachable and may thereafter be exercised up to and including the date indicated.

Priced to yield approximately 5.15%

Commercial Investment Trust Corporation

5½% Convertible Debentures

Due 1949

Commercial Investment Trust Corporation is engaged in a specialized banking business. It makes funds available for the distribution of manufactured goods on credit. It is one of the largest factors in this field in the country, its annual volume of business exceeding $300,000,000.

It is not only one of the largest but also one of the most successful organizations of its kind. It was founded in 1908 with a capital of $100,000. The corporation's balance sheet on December 31, 1928, showed total capital stock and surplus in excess of $41,000,000. Substantial profits have been earned in every year of the company's operations. Earning figures from 1924 to date, including subsidiaries, show a growth from approximately $2,300,000 in that year to $4,670,000 in 1928.

A considerable part of the corporation's business is with automobile purchasers. Through arrangements with the manufacturers it plays an important part in the distribution of many leading makes, among them Chandler, Essex, Graham-Paige, Hudson, Hupmobile, Nash, Pierce-Arrow, Reo and Studebaker. In other fields of distribution the manufacturers served include American Piano Company, Brunswick-Balke-Collender Company, The Hoover Company, Radio Corporation of America, United States Radiator Corporation, and Westinghouse Electric & Manufacturing Company.

The debentures are convertible at the principal amount into common stock of the corporation at $200 a share up to and including February 1, 1931, and thereafter on a rising scale of prices until February 1, 1935. The conversion option expires on that date unless it is ended earlier through calling of the debentures. Because of the remarkable growth of the business the conversion privilege may well prove valuable.

Priced to yield approximately 5.86%

Three Issues From a Broad List

Industrial bonds constitute in themselves a field of investment which offers almost unlimited possibilities of diversification. The three securities described below are typical issues of high character which afford a very satisfactory income return at current prices. We recommend them for investment.

American and Continental Corporation

5% Gold Debentures

Due 1943

THIS Company, organized in 1924, has shown earnings during the last four years, before taxes and interest, averaging more than two and a half times interest requirements on this $7,500,000 issue of debentures.

The Company, empowered under its charter to engage in a variety of financial activities, confines itself chiefly to financing European industrial enterprises. It usually obtains security or a guaranty for any notes or obligations it may acquire, and in many cases participates in the profits of such enterprises. It has been an inherent part of the Company's policy that there shall be European participation in all such financing.

The security for these debentures is substantial. The total liabilities of the Company including this issue, according to the last published statement, were $8,195,176, against capital stock and surplus of $12,394,774, of which $8,000,000 is callable at any time from subscribers to the Class A Stock, which include some of the leading financial institutions in the country.

In our opinion, this issue provides a most unusual investment opportunity.

Priced to yield approximately 6.90%

Weil-McLain Company

5% Serial Gold Notes

Due 1929-35

Weil-McLain is a consolidation effected in 1920 of two firms organized in 1891 and 1881 respectively. It is engaged in the manufacture and wholesale distribution of heating and plumbing supplies, and is one of the principal factors in this business in the Chicago territory. The Company has a large plant at Michigan City, Indiana, for the manufacture of hot water and steam boilers, and one at Erie, Pennsylvania, for the manufacture of radiators.

The business has earned a net profit in every one of the last thirty-seven years reported. In each of the five years, 1923-27 inclusive, net earnings after all charges except federal income taxes, were not less than eight times the maximum interest requirements of this $1,000,000 issue. In the seven year period, 1921-27 inclusive, the Company's net worth increased approximately two and a quarter millions from earnings, after payment of liberal dividends.

These Notes are the Company's only funded debt. They are due serially, $140,000 each year, May 1, 1929 to 1934, and $160,000 on May 1, 1935. Not all maturities are now available. We have a few of the 1933 maturity on hand, and may from time to time have small amounts of other series.

1933 maturity priced to yield approximately 5.75%

National Bond & Investment Company

6% Serial Gold Notes **Due 1932-39**

National Bond & Investment Company, incorporated in 1921, is the outgrowth of a specialized banking business organized in 1908 and conducted continuously since that time by the present management. Invested capital and surplus, as shown by the financial statement of December 31, 1928, amounted to $4,188,241, of which $3,028,241 represents earnings retained in the business.

Operations consist chiefly of purchase from dealers of selected evidences of indebtedness arising from the sale of standard makes of passenger automobiles. In 1928 the total amount of receivables purchased was $25,372,306, comprising 52,062 items averaging $487 each, indicating the broad diversification of risk.

Net earnings available for payment of interest and federal taxes for the eight year period ended December 31, 1928, averaged $865,395 a year, against average annual interest charges of $493,353. For the year ended December 31, 1928, such earnings were $1,081,277 as compared with interest charges of $528,597.

These Notes are secured by pledge with the Trustee of secured and unsecured paper equal at least to 110% of the principal amount of the Notes outstanding. We regard these secured Notes as a desirable investment.

Priced to yield 6.10% and 6.15% according to maturity

Three Investment Stocks

The Securities of Old, Successful Concerns

L. Greif & Bro., Incorporated

7% Cumulative Preferred Stock

L. GREIF & BRO., Incorporated, is one of the largest manufacturers of men's clothing in the United States. Under the trade name "Griffon Clothes" its products are distributed through thousands of retailers in every state of the union, and in several foreign countries. The Company operates fifteen modern factories in Maryland, Virginia and Pennsylvania, in accordance with its policy of decentralization of manufacturing activities, and employs normally some 4,500 persons.

The business was founded in 1862 and has earned a net profit every year since that time. Net earnings last year were $816,787, and for the seven year period ended December 31, 1928, averaged $766,095 a year—more than four times the maximum annual dividend requirement on this issue.

Although this $3,000,000 issue has only been outstanding for three years, the Company has already repurchased $376,000 of it, of which amount $180,000 has been retired in accordance with the provisions of the Sinking Fund.

The stock as currently quoted on the New York Curb yields approximately 7.37%, a very high rate of income considering the character of the security.

Chicago Pneumatic Tool Co.

$3.50 Cumulative Dividend Convertible Preference Stock

This Company, headed by Mr. Charles M. Schwab, as Chairman of the Board, and Mr. H. A. Jackson as President, is the largest manufacturer of pneumatic tools in the world. It also makes gas and oil engines, electric drills and other appliances. Its products are used extensively in structural steel work and road-building, in the railroad, mining and oil industries, and are standard throughout the world. The Company operates, in addition to its three principal plants in this country, subsidiary plants in Canada, Scotland and Germany.

Chicago Pneumatic Tool Company has paid dividends every year since 1910. Average earnings for the last three years have been approximately $1,235,648 per year, or $6.57 per share of this stock. The financial statement of November 30, 1928, showed total current assets of $8,762,203, or about 8.9 times current liabilities of $977,209.

This stock is convertible into common stock of the Company, share for share, up to within fifteen days of redemption. It is redeemable at $65.

The current market for the stock on the New York Stock Exchange is around 50, giving a 7 per cent yield and making it, in our opinion, a very attractive investment opportunity.

Abbott Laboratories

Common Stock

Abbott Laboratories, manufacturers of high grade pharmaceutical and chemical preparations, widely used by the medical profession and the drug trade, is the outgrowth of a business founded nearly forty years ago. It manufactures more than 1,200 different items, and distributes them through some 25,000 accounts, including virtually every wholesale druggist in the United States and Canada. The Company's main plant includes seventeen modern buildings on a twenty-six acre tract at North Chicago, Illinois. Additional plants are operated at Philadelphia, and Toronto, Canada.

Abbott Laboratories has earned a net profit in every one of the last twenty-five years. For the last three years it has shown earnings on the common stock now outstanding of $2.86, $3.08 and $4.00 per share respectively. This is a business in which new products and new sources of income are constantly being opened up through research. The Company has always laid great stress on developmental work of this kind and annually makes large expenditures for this purpose which are charged to expense. In the last five years it has expended from $75,000 to $100,000 annually in such work.

Dividends have been initiated on this stock at the rate of $2 per share per annum. At the present price of the stock on the Chicago Stock Exchange, around 40, the current yield is 5%.

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THE TREND OF BOND YIELDS

IT IS obvious that the rate of return on capital has been declining steadily in the past few years. The price curve of good bonds has been going up and their yield has been going down. 4½'s and 4's are again becoming common and the investing public indicates its acceptance of the facts by quick oversubscription of each new offering.

Furthermore, it is generally felt, and on good authority, that the downward trend of investment return will continue. Many factors are involved in this judgment. Chief among them is the tremendous and steadily growing volume of funds in this country seeking investment.

It has occurred to us that it would be worth while; first, to examine critically just what has taken place in investment yields during the last few years; secondly, to attempt to determine the reasons for what has taken place; and finally, to indicate the factors which must be taken into account in forecasting the probable future course of investment yields. This article will concern itself only with the first point, leaving the others for subsequent discussions.

Make-Up of Bond Yield

A bond yield, theoretically, is a combination of two distinct elements. In the first place, it contains what is generally referred to as "pure interest." This is the net return demanded simply for the use of capital and assumes that there is absolutely no question that the rental for the money will be received regularly and that the principal will be paid back promptly upon the maturity of the obligation.

As a matter of fact there is, theoretically, always a possibility—however remote it may be in many cases—that difficulty will be encountered in collecting interest or principal. Consequently, the bond yield must include a second element—a compensation for the risk taken. The higher the public estimation of the amount of risk involved the greater will be the allowance for it, with the result that the bond may carry a very high apparent rate of return.

Difficulty of Definition

Expressed in such simple terms, the theory does not cover the situation adequately. The statement implies that there is but one "pure interest" rate. Actually there are many. The term "bond yield" is conventionally applied to designate the average rate of return which a bond will bring if it is held to maturity. Scarcely any two issues mature on the same date, and the yield average in almost every case is computed upon a different number of terms. What reason is there to suppose, for example, that the average rate of pure interest is the same in a ten-year bond as in a one-year note or a hundred-year obligation? To a degree, both short term and long term loans are supplied by the same investors and to some extent they react to the same influences. But short term borrowings feel the full force of day to day changes in commercial and speculative requirements, while the effect of such factors on the yield of a long term security is usually almost negligible.

Other Factors

Risk is by no means the only factor for which the bondholder receives a compensation above a pure interest rate. Another very important element is that of taxes. In the bond market there are various gradations of taxability, all of which have a bearing upon security yields. Some bonds are entirely exempt from Federal and other taxation. Others are not subject to levies by the Federal Government, but may be taxed by the states and their political subdivisions. Some securities are partially exempt from Federal Taxes and wholly exempt from state taxation. Some receive a small advantage from their "tax free covenant" clause.

The size of the borrowing concern and its standing are often of importance. A security may sell for a higher price than its intrinsic worth justifies, merely because the borrower is large and favorably regarded by the

investing public. The bonds of a small concern, to the contrary, may suffer because the borrower is not well known.

The reputation and facilities of the bond house underwriting an issue often have an important bearing upon the price at which a security sells. An issue sponsored by a large and reputable house naturally secures a wide distribution and investors regard the offering with a feeling of confidence which cannot but be reflected in the yield.

The marketability of a security also plays an important part in its selling price. A large issue, actively traded in, often tends to gravitate to a lower yield basis than a small obscure issue of equal security in which there is little investment interest.

Restatement of Definition

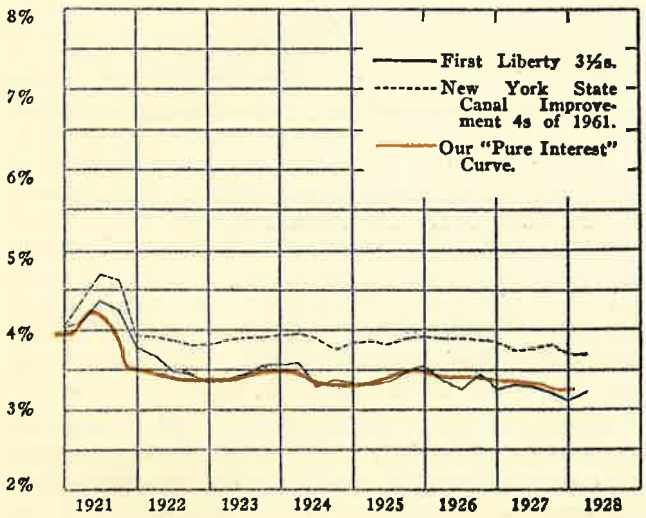
All these objections apply rather to the way in which the theory is stated, than to its basic concept. To meet them we may restate the theory about as follows: The yield of a bond consists of two elements, the first, the rate of return borne by an "ideal" investment; the second, an additional compensation measured by the degree to which the security deviates from the requirements of the ideal.

An Ideal Investment

The nearest approach to an ideal investment which we have found is the First Liberty 3½s. These bonds are entirely exempt from Federal Income Taxes and also from state and local taxation. The risk of loss of principal or interest is almost negligible. They enjoy an active market and can be sold readily at any time.

Chart of "Pure Interest" Return

The "Pure Interest" Curve based on the yield of Liberty 3½s and a high grade municipal



Yet there are objections even to this issue. In the first place its maturity is uncertain; it may be called in 1932 or it may run until 1947. If the former is the effective date, the term is rather short for the bond to be used as a standard for long term interest rates. Short term money rates have already become an important influence on its yield. Another possible objection to the First Liberties is their limited amount. Large as the issue is, it may not be sufficient to meet the requirements of investors who wish to obtain their interest free from the compensation factor. It is quite possible that there may at times be such a shortage of investments yielding "pure interest" in unalloyed form, that the return may tend to rise above a theoretical ideal.

Municipal bonds, even of the highest type, contain to a limited degree some of the features for which compensation is received. Therefore, their yields are not wholly typical of the ideal investment. They do, however, provide a check upon the reliability of the First Liberties as an index. Where there have been unusually wide deviations one may reasonably conclude that the Liberty bonds have departed from the ideal investment yield.

As a typical high-grade municipal we have selected the New York State Canal Improvement 4s of January 1961, and on Chart I show the yield of this bond in quarterly intervals from 1921, together with the yield of the First Liberties for the same period. From the graphs of these two securities we have prepared what may be considered a fairly reliable approximation of the yield of an ideal investment of medium term.

Course of Interest Rates

The rise of interest rates in 1921 was rapid and the subsequent decline precipitous. With the return of more normal conditions, however, the fluctuations became much less marked. In fact, the range of our ideal investment curve has been surprisingly small. Since early in 1922 it has varied only from about 3.20% to 3.50%—a difference of but .30 per cent.

For some time the curve traveled in a rather regular cycle—low at the end of 1922, high at the close of 1923, low at Dec. 31, 1924, and high again at Dec. 31, 1925. Beginning with 1926, it began to work rather steadily—

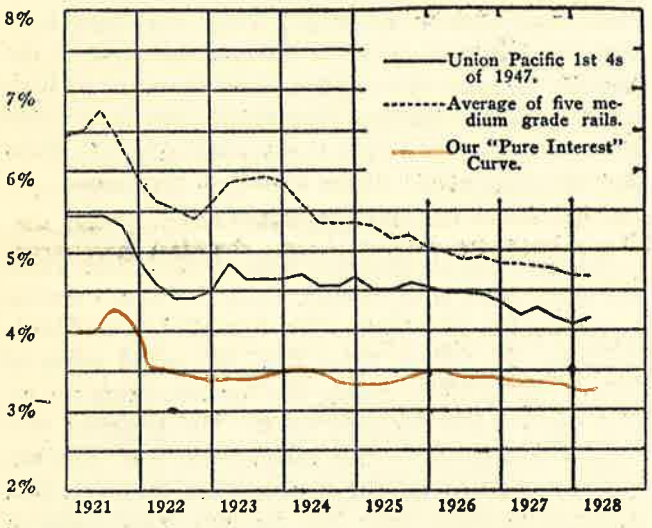
though slowly—downward, and thus far a renewal of the former cyclical tendency has not been manifested.

Railroad Bond Yields

In the best railroad bonds the risk element is considered very low and the securities have a broad and ready market. They are, however, usually fully taxable. A very large part of the compensation factor, therefore, is an allowance for income and other taxes. Lower grade rails have this same tax disadvantage and in addition their yield contains a substantial allowance for risk.

Chart No. II shows a comparison between the "Ideal Investment" curve and the yields of some railroad bonds. The high-grade rail used is the Union Pacific Railroad and Land Grant First Gold 4s of 1947. The other curve is an average of five 5% bonds which sold on a 6.50-7.00% basis in the middle of 1921.

Railroad Bond Yields and the "Pure Interest" Rate



The rail curves exhibit a tendency quite different from the ideal investment. The yields on rails dropped more in 1922 and rose sharply in 1923. Since 1923 they have shown an unmistakable downward tendency. The yield on the medium-grade securities has dropped much more rapidly than has the yield on the higher type bond. The differentials over the yield of our ideal investment, or in other words, the return beyond that of pure interest, have been as follows:

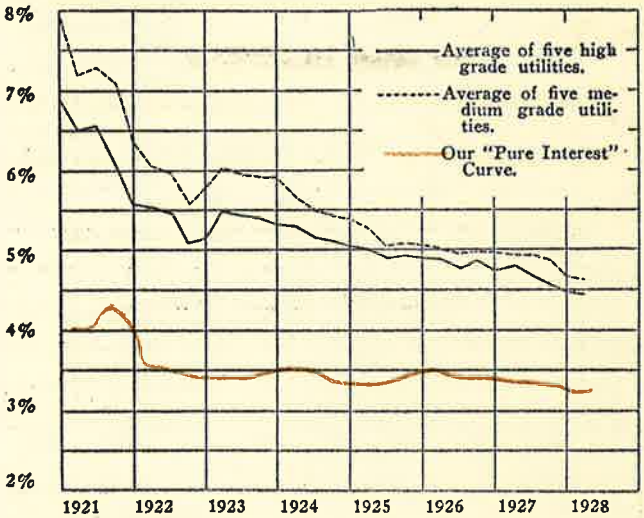
	Union Pacific	Medium Grade Average
March 31, 1923	1.40%	2.40%
March 31, 1924	1.20%	2.10%
March 31, 1925	1.20%	2.00%
March 31, 1926	1.05%	1.55%
March 31, 1927	.90%	1.45%
March 31, 1928	1.00%	1.45%

In five years, the differential over the yield of our ideal investment which we can call the compensation factor, has dropped from 1.40% to 1.00% in the case of the Union Pacific bonds, while it has fallen from 2.40% to 1.45% in the case of the bonds in our medium-grade average.

The Return on Utilities

The trend of the yields of public utility bonds and their relation to a theoretical ideal interest return are shown in Chart No. III. The ideal investment curve is the same one shown in the two preceding charts. The lower of the two utility curves is the average yield of five 5% bonds which are contained in the Dow-Jones utility bond average. The other curve is also an average of the yields of five 5% bonds. A tabulation was made of all the 5% utilities which the Chronicle quoted at 70-75 in the middle of 1921. The five largest issues which are still outstanding make up the average.

Utility Bond Yields and the "Pure Interest" Rate



As with the rails, the yields dropped rapidly in 1921 and 1922 and there was a reaction in 1923, followed by an almost continuous decline to the present time. Over the period the yields on utility bonds declined to a greater extent than the return on rails, and the differential between high and medium-grade securities decreased to a greater extent.

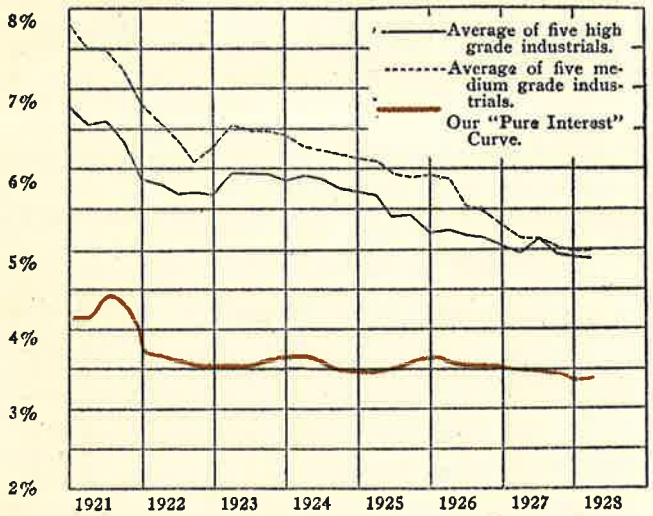
Since March 1923, the compensation factor in the utility averages has fallen as follows:

	High Grade	Medium Grade
March 31, 1923	2.10%	2.60%
March 31, 1924	1.75%	2.20%
March 31, 1925	1.70%	1.95%
March 31, 1926	1.40%	1.55%
March 31, 1927	1.40%	1.55%
March 31, 1928	1.25%	1.45%

Industrial Bonds

The yields of industrial bonds did not drop as much in 1921 and 1922, but their decline from the level of 1923 has been even greater than in the case of the utilities. This will be seen from Chart No. IV. One of the curves shown is an average of five 5% bonds used in the Dow-Jones industrial average. The index for lower-grade securities was prepared in the same way as it was in the case of the lower-grade utilities.

Industrial Bond Yields and the "Pure Interest" Rate



The amount of the compensation factor in the industrial indexes has been as follows:

	High Grade	Medium Grade
March 31, 1923	2.50%	3.15%
March 31, 1924	2.35%	2.75%
March 31, 1925	2.30%	2.70%
March 31, 1926	1.80%	2.35%
March 31, 1927	1.60%	1.80%
March 31, 1928	1.65%	1.80%

What Has Happened

Each of the three charts—rails, utilities and industrials—demonstrates that bond yields have declined very materially in the last five years. The ideal investment curve representing "pure interest," however, has shown a declining tendency only during the last two years, and then to a limited extent only. It is the allowance for the other features of an investment which has dropped, so that the difference in yield between securities of the highest type and those whose standing is not so high has come closer together. How much closer is indicated by a comparison of yields of five years ago with those now obtained, shown at the bottom of this page.

Conclusion

We may conclude then that most of the decline which has taken place in investment yields has been a decline in the amount of compensation demanded in an investment for the factors other than the rental value of money. In addition, during the last two years the actual rental value has gone down. The questions that suggest themselves on this analysis are; first, why has the compensation for the factors other than pure rent declined; secondly, why has the pure rental value of money declined recently; and finally, what may be expected as to the future of both of these trends? Subsequent articles will develop these points.

	March 31, 1923			March 31, 1928			Decrease		
	Return on Ideal Investment	Allowance for Other Features	Total Return	Return on Ideal Investment	Allowance for Other Features	Total Return	Return on Ideal Investment	Allowance for Other Features	Total Return
U. P. Land Grants.....	3.4%	1.4%	4.8%	3.2%	1.0%	4.2%	0.2%	0.4%	0.6%
5 Medium Grade Rails.....	3.4%	2.4%	5.8%	3.2%	1.4%	4.6%	0.2%	1.0%	1.2%
5 High Grade Utilities.....	3.4%	2.1%	5.5%	3.2%	1.3%	4.5%	0.2%	0.8%	1.0%
5 Lower Grade Utilities....	3.4%	2.6%	6.0%	3.2%	1.5%	4.7%	0.2%	1.1%	1.3%
5 High Grade Industrials...	3.4%	2.5%	5.9%	3.2%	1.7%	4.9%	0.2%	0.8%	1.0%
5 Lower Grade Industrials..	3.4%	3.1%	6.5%	3.2%	1.8%	5.0%	0.2%	1.3%	1.5%

Municipal Bonds

Is the Market Overlooking Evident Values?

IT IS a fact, as the table below indicates, that for corporations and for investors with large incomes, high grade municipal bonds are at present cheaper than high grade rails. To an individual paying a tax higher than 13½%, the differential in favor of tax-exempts is, of course, even greater.

Comparative Yield of Some Municipals and Rails

Issue	Tax Free Yield	Taxable Yield At Market
A. T. & S. F. RR Gen. 4s 1995		4.13%
N. Y. C. & Hud. R. RR Mtg. 3½s 1997		4.13%
Pennsylvania RR Cons. 4s 1948		4.18%
Union Pacific RR 1st 4s 1947		4.18%
Atl. Coast Line RR Gen. 1st 4s 1952		4.18%
		*
Minneapolis, Minn., Improv. 4s 1941	3.80%	4.39%
State of Oregon, Road 3¾s 1952	3.85%	4.45%
Chicago Sanitary District 4¼s 1933	3.95%	4.57%
Detroit, Mich., Improv. 4½s 1944	4.05%	4.68%
State of La., Port Com. 5s 1964	4.15%	4.80%

*The taxable equivalent yields shown for the municipals represent the yields a bank or a corporation, or an individual in the 13½% tax bracket, must get on taxable securities in order to realize the net return of these municipals.

In 1901, according to The Bond Buyer's "Index," high grade municipals yielded about 3.10%. This was, of course, before the day of the income tax. At the present time, high grade municipals, with the benefit of the exemption feature, yield, according to the "Index," about 3.85%. In view of the general opinion that the long-time trend of the return on capital invested in securities is definitely downward, it is not at all inconceivable that municipal bond yields may gradually approach the levels of 1901.

Municipals have much more than tax exemption to commend them to the conservative investor. Long before the day of the income tax, investors had indicated a preference for them by a willingness to accept a lower return from them than that available from securities of any other type except obligations of the Federal Government. This preference was based upon a recognition of their elements of safety. Payable from taxes, a lien ranking ahead of mortgages and limited in amount to a small fraction of the value of the property subject to this tax lien, sound municipals deserve a leading position among safe investments.

At this time we recommend selected municipals as a particularly advantageous purchase.

From Our Current List

Exempt from all Federal Income Taxes

Issue	Rate	Maturity	Basis Price
STATE OF NEW YORK	3½%, 3¾%, 4%	1930-1978	3.55%-3.65%
MINNEAPOLIS, MINN., Improvement	4%	1941	3.80%
DULUTH, MINN., Water and Light	4%	1932	3.80%
STATE OF OREGON, Veterans State Aid	3¾%	1952	3.85%
BERGEN COUNTY, N. J., Road and Bridge	4¼%	1936	3.90%
RACINE, WIS., High School	4½%	1937-1946	3.90%
WORTH COUNTY, IOWA, Primary Road	4¼%	1934-1937/33	3.90%
LAKEWOOD, OHIO, Gen. Improvement	4%, 4¼%	1930-1948	3.90%-4.05%
CITY OF DETROIT, MICH., Direct Oblig.	4¼%, 4½%	1932-1948	3.90%-4.05%
CHICAGO SANITARY DISTRICT	4¼%	1933	3.95%
STATE OF SOUTH DAKOTA, Refunding	4.20%	1948/33	4.00%
DOWNERS GROVE, ILL., Sch. Dist.	4½%	1936-1941	4.00%
CHARLOTTE, N. C., Direct Oblig.	4½%	1945-1965	4.05%
BARBERTON, OHIO, W. W.	5%	1937	4.05%
MONTGOMERY CO., OHIO, Water Supply	5%	1941	4.05%
STATE OF ARKANSAS, Road	4½%	1944	4.10%
STATE OF LOUISIANA, Port Commission	5%	1951-1969	4.15%
PARKERSBURG, W. VA., Sch. District	5%	1943-1945	4.15%
ORLEANS PAR. SCHL. BOARD, New Orleans, La.	4½%	1956-1967	4.20%
BATON ROUGE, LA., Direct Obligation	5%	1948	4.30%

Investment Stocks

The following stocks have all been underwritten by this organization and while we now have none of them on our list, we simply recommend them as attractive purchases at current market levels. We shall be pleased to have orders executed on the several exchanges on which these stocks are listed.

Acme Steel Co.

Common Stock

In every year since its establishment in 1880 this business has earned a net profit and for over 30 years regular dividends have been paid without interruption on the common stock. The present net worth of $7,734,147 has been built up practically entirely from earnings.

While the Company is the largest producer of hoop steel, both hot and cold rolled, in the United States and also manufactures strip steel for general manufacturing purposes, it is primarily a producer of steel specialties enjoying unusually wide markets. The Company's active customers at the present time number approximately 15,000 and the list grows steadily, about 2,500 new customers having been added last year.

With the payment of a quarterly dividend of $1.25 on April 2, this stock is now on a $5 per annum dividend basis and at current levels on the Chicago Stock Exchange and the New York Curb yields about 5.25%.

Sales in the first quarter of 1928 were 32% ahead of last year and on the basis of its past record, strong position and excellent possibilities, we feel that the stock is a desirable purchase for permanent investment.

The Stein Bloch Co.

7% Cumulative First Preferred Stock

An unbroken record of earnings extending back to 1854 is, of course, impressive. Equally impressive is the fact that in each of the past 38 years, the Company has earned a net profit in excess of at least twice the maximum dividend requirement on this issue. In 1927 the preferred dividend was covered 3.6 times.

The company has no funded debt and 1927 balance sheet showed an excellent working capital position with current assets 3.3 times current liabilities. Net tangible assets of $270 were shown for each share of preferred and net current assets equaled $174 a share.

At current levels on the New York Curb, this stock yields about 6.85%. In view of the exceptional record of earnings and the unquestioned position of the company in its particular field, we feel that this is a high grade preferred giving a yield out of line with its true investment position.

Autostrop Safety Razor Co.

Convertible Class "A" Stock

Established over 20 years ago, the Company is one of the three largest manufacturers of safety razors and blades and distributes its products in practically every country in the world.

The Company has no funded debt. This stock is its senior security and is preferred as to assets and as to cumulative dividends at the rate of $3 per annum.

For several years, earnings have covered dividend requirements of this stock by a good margin—in 1927 per share earnings were $8.49. The company has recently made important improvements in its products and the full benefits from these improvements should be reflected in 1928 earnings.

At current levels on the New York Stock Exchange this stock yields over 6%.

We recommend this stock as a preferred issue giving a good current yield and having distinct possibilities for the future because it is convertible share for share into the Class B stock.

Monsanto Chemical Works

Common Stock

This Company is the largest manufacturer in the United States of fine and medicinal chemicals and an important producer of heavy chemicals.

In every one of the past 20 years, with the sole exception of the depression year 1921, the Company has added a net profit to its surplus, after all charges. In 1927 earnings for the common equaled $6.11 per share. If the earnings of the English subsidiary are included and if effect is given to present capitalization, these earnings are substantially higher.

The stock is now on a $2.50 per annum dividend basis through the payment of a quarterly dividend of 62½ cents on April 2nd. This stock is listed on the New York Curb and the Chicago Stock Exchange. We feel that it represents a desirable equity in a strong and growing Company engaged in a comparatively young industry with large possibilities.

We Recommend and Offer

German Building and Land Bank

Mortgage Secured 6½% Gold Bond, due 1948

This bank is largely owned by the German Government and is operated under its direct supervision, exclusively in the public interest.

Since 1770, the mortgage banks in Germany have been making loans against real estate. About 1900 a very thorough Mortgage Bank Law, providing for State supervision, was passed and for the last 25 years every bank operating under this law has met its obligations promptly.

Mortgage Certificates issued by the high grade institutions sold before the war at rates to yield 4% and less.

Price 98½ and interest, to yield 6.65%

The Foreman Trust and Savings Bank, as Trustee

5¼% First Mortgage Participation Certificates, due 1938

The Foreman Trust and Savings Bank of Chicago has been making first mortgages and distributing them for over 60 years. In that long period no investor has ever lost anything either of principal or interest on such investments purchased from the Bank.

Having in mind the long experience, unusual record and high standing of the Bank in the first mortgage business, we felt that an unusual opportunity presented itself for developing a security for general investment purposes which would have a wide appeal. We have, therefore, deposited funds with the Foreman Bank with which it has selected and purchased individual first mortgages on improved real estate in Chicago. These mortgages are held by the Bank in a separate trust account and against them are issued First Mortgage Participation Certificates to the amount of the mortgages.

In the past six months we have sold two previous series of these certificates, each series secured by an entirely different group of mortgages.

We strongly recommend these First Mortgage Certificates for the most conservative investment requirements. We have placed them with many estates, trust funds, etc., many of the individual sales ranging between $50,000 and $100,000, showing the high regard in which these securities are held.

Price 100 and interest, to yield 5¼%

St. Louis-San Francisco Ry. Co.

Consolidated Mortgage 4½% Bonds, due 1978

The St. Louis-San Francisco Ry. System operates a total of 5,707 miles of road. Lines extend from St. Louis and Kansas City into the Southwest and with another important line to Birmingham, Ala. Upon completion of an extension, now under construction, the southeastern line will reach the Gulf of Mexico at Pensacola.

The sale of this issue, together with $49,157,000 of preferred stock, will supply funds to retire $133,792,000 of higher rate securities, principally 6% obligations. Funded debt will be reduced $26,292,000 and interest charges will be materially less. Present interest requirements have been covered by a wide margin in each of the past five years.

This is a sound railroad obligation, suitable for conservative investment.

Price 97 and interest, to yield 4.65%

Super-Power Co. of Illinois

First Mortgage 4½% Gold Bonds, due 1968

This Company was formed to furnish power at wholesale to the Commonwealth Edison Co., Public Service Co. of Northern Illinois, Illinois Power and Light Corp., Central Illinois Public Service Co. and to other nearby utility companies that require a large and reliable supply of electrical energy. The Company thus becomes an important part of one of the greatest power pools in the world.

The fifty-year contracts which Super-Power Co. has with each of the above named companies should give it earnings over three times the interest requirements of this issue.

We recommend these bonds as a high grade utility investment.

Price 98½ and interest, to yield 4.58%

Some Additional Offerings

Representative of our current list

Corporation Bonds and Notes

	Rate	Maturity	Price	Approx. Yield
METROPOLITAN EDISON CO., 1st Mtg.	4½%	1968	Mkt.	4.39%
CANADIAN NATIONAL RAILWAYS, Gold	4½%	1954	100½	4.48%
C. C. C. & ST. LOUIS R. R., Series "E"	4½%	1977	99¾	4.50%
GREAT NORTHERN RAILWAY CO., General	4½%	1976	100¼	4.50%
ILLINOIS CENTRAL RAILWAY CO., Joint	4½%	1963	100	4.50%
STEEL CAR EQUIPMENT TRUST, Certificates	4½%	1932	99.55	4.63%
CHICAGO ROCK ISLAND & PACIFIC, Secured	4½%	1952	96	4.75%
INTERSTATE PUBLIC SERVICE CO., 1st Mtg.	4½%	1958	95½	4.78%
CENTRAL POWER & LIGHT CO., 1st Mtg.	5%	1956	101½	4.90%
SOUTHWESTERN GAS & ELECTRIC CO., 1st Mtg.	5%	1957	101½	4.90%
NEW ORLEANS, TEXAS & MEXICO RY., 1st	5%	1954	100⅞	4.97%
INDIANA ELECTRIC CO., 1st Mtg.	5%	1951	100½	4.98%
CHESAPEAKE CORP., Convertible Coll.	5%	1947	100	5.00%
HEARST PUBLICATIONS, 1st Mtg.	6¼%	1929	100.20	5.00%
WEST TEXAS UTILITIES CO., 1st Mtg.	5%	1957	100	5.00%
PITTSBURGH HOTEL CO., 1st Mtg.	5½%	1948	100¼	5.47%
INTERSTATE IRON & STEEL CO., 1st Mtg.	5½%	1946	100	5.50%
CHICAGO BEACH HOTEL CO., 1st Mtg.	6%	1941	101	5.90%
COMMERCIAL INVEST. TRUST, Convertible Deb.	6%	1948	100	6.00%
LOEWS THEATRE & REALTY, 1st Lien	6%	1947	100	6.00%
ALBERT PICK & CO., Deb.	6%	1936	100	6.00%

Foreign Bonds

CANADA, DOMINION OF	4½%	1936	101	4.35%
DENMARK, KINGDOM OF, Ext. Loan	4½%	1962	95	4.80%
AUSTRALIA, GOVERNMENT OF	5%	1955	98⅜	5.07%
OSLO, CITY OF	5½%	1946	100¼	5.47%
ARGENTINE, GOVERNMENT OF	5½%	1962	97⅛	6.12%
FREE STATE OF ANHALT	7%	1945	101	6.90%
MANNHEIM & PALATINATE ELEC. COS'	7%	1941	100	7.00%
ITALY, KINGDOM OF	7%	1951	99½	7.05%

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

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