A. G. Becker & Co.

INVESTMENT BULLETIN

SECOND QUARTER, 1930

The Outlook for Foreign Financing; the German Situation

FOR more than a decade now the American investment market has been absorbing large amounts of European securities. Foreign governments and business concerns—mostly European—obtained more than a billion dollars a year here during the four years from 1925 to 1928 inclusive. While the volume fell off in 1929 to some 40 per cent of this amount, a ready explanation lay to hand in the fact that interest rates were so high during most of the year as to discourage all but the most necessitous borrowers.

But now money is easier. It promises to continue so for most of the year. That condition would seem to favor an increase in foreign borrowing again. It has been assumed, too, that a good deal of financing planned for 1929, and deferred because of unfavorable conditions, would now be consummated. Moreover, the ratification of the Young Plan will no doubt lead to offerings of German reparations bonds here in some volume. Together, these considerations have led many to feel that 1930 will be a year of very heavy foreign offerings in the American market.

There is reason to believe, however, that this expectation will not be entirely fulfilled. The total of foreign financing may well be nearer to the 1929 figure than to that of the four preceding years. Few European nations, taking into consideration a credit position which makes borrowing readily possible, need outside funds at the present time. As a matter of fact, it may be said that Europe as a whole does not need any. Germany is the only nation whose requirements and whose credit position make her a major figure in the international loan market. The German situation, and certain other related factors which enter into the composite picture of European finance throw some light on the probable extent of foreign borrowing in this country during the year.

Germany Today

Germany recently ratified the Young Plan. That action, when seconded by the necessary ratifications of creditor powers, will reduce the Dawes schedule of German reparations payments by an amount roughly equal to the interest on all the money she has borrowed abroad between the close of the war and beginning of the present year. To that very considerable degree, therefore, Germany's needs for outside funds are reduced.

The nation's industries are sound. Ever since 1925 she has been busily improving—or rationalizing, as the Germans say—her industry. She has put in new machines, improved processes of production, and increased the output per hour of labor. During that time she has gradually built up her foreign trade until the balance is now substantially in her favor. The profits of industry have been well maintained, the 1928 and 1929 figures being close to the level of the peak year of 1927. A great number of men in Germany, it is true, are out of work. But this is due in large measure to the greater use of machinery and more efficient equipment which should increase output. All these factors together support the view that Germany is prepared for a period of great industrial expansion.

Funds for Industrial Expansion

To finance a large program of expansion, great sums of money will of course be needed —both for internal credits and for raw material purchases abroad. Her internal requirements Germany will probably meet out of her own funds. The Reichsbank has over 4 billion marks of gold—quite sufficient for the needs of her domestic banking machinery. On the other hand, large sums will be needed for operations beyond her own frontiers—chiefly for the purchase of raw materials—and for these purposes there will undoubtedly be resort to foreign financing. Economists have estimated the nation's needs in this respect for this year at a maximum of five or six hundred million dollars.

In the light of other German financing in recent years it is natural to think of American credits as the answer to Germany's 1930 requirements. While large loans will no doubt be offered here, it is a fact that Germany would not necessarily have to cross the Atlantic for a penny of what she needs. Europe is well able to furnish it. Indeed, France could supply the whole amount herself without strain upon her resources. The other banking centers of Europe—Amsterdam, Zurich, London—are also well able to furnish credits for such security as Germany is able to offer. It may well be therefore that American investors will not be called on for more than half the total of Germany's needs.

France in International Finance

No current view of international finance is complete without taking into consideration the strong French position. Since the war, France has emerged as one of the real world money powers. A recent statement of the Bank of France revealed that it had sight balances abroad and negotiable bills which, together, totalled more than 25 billion francs, or approximately a billion dollars. In addition, the French government had some 400 million dollars in foreign credits. This is more than the total that has been received from Germany in reparations under the Dawes Plan. And, beyond all this, are the extensive foreign credits of various French municipalities. It is apparent, therefore, that France, traditionally a capital-accumulating and investing nation, has again built up a huge surplus, and that she alone might conceivably finance not only Germany's needs but those of all Europe. That she will elect to go far in that direction seems logical, in view of her available resources and the efforts which the French are putting forth to make Paris an international banking center comparable to London and New York.

The Reparations Bonds

Consideration of international loan operations this year, particularly with respect to Germany, must also take into account the matter of German reparations bonds to be issued under the Young Plan. While no official announcement has been made regarding them by officers of the Bank for International Settlements through which the transaction will be initiated, the arrangements have been widely discussed in banking circles and the tentative plan (subject of course to modification) is understood to be somewhat as follows:

The first series of reparations bonds is to be issued at a fairly early date—possibly in May or June. It is expected that the amount will be around $300,000,000. Approximately one-third of the issue is to be offered in France, one-third in Great Britain and one-third in the United States, though allotments may be made to other nations, which will reduce these quotas. There is a possibility that the bonds will be guaranteed by the creditor powers—France, England, Italy and Belgium.

It is understood that, in connection with the marketing of the French quota, the French government will offer to take outstanding bonds of its own issue in payment for them, thereby effecting a reduction of its own debt.

The marketing of the reparations bonds will involve a great deal of advertising of Germany—most of it favorable. The fact will be impressed upon the investing public that the German government and German industry, as pointed out above, are in thoroughly sound position. These facts are, of course, not new, nor worked up for the occasion, but have been well known for a long time to those in close touch with German conditions. It seems fairly obvious that the dissemination of information about Germany which tends to put the reparations bonds in a favorable light will also strengthen the position of other sound German issues. In other words, the investor who sees that a comparatively low yield German obligation has great investment merit, will feel that other well-secured investments of German origin offering much higher yields are also entitled to consideration. The effect should be to move up prices of good German bonds, bringing them more into line with domestic bonds of comparable security. A trend in that direction has already become apparent without the help of open marketing operations for the reparations bonds. German issues have been moving up almost steadily since the first of the year.

Conclusion

To summarize: Foreign borrowings in the American market for 1930 have apparently been overestimated. Germany, the chief European figure from a borrowing standpoint, needs money in the main only for the purchase of raw materials abroad. Her requirements for the year (aside from reparations payments) probably do not exceed five or six hundred million dollars. France is in a position (although it may not be expected to do so) to supply, if necessary, this entire amount without strain upon her banking and credit structure. The United States may not be called on for more than half the German requirements. Marketing operations incident to the issue of German reparations bonds this year will advertise Germany favorably, and may be expected to result in a general rise in the price level of sound German obligations.

Sweeping Back the Inland Sea

OLD residents of Chicago still speak of the days when Lake Michigan used to lap the beach just east of Michigan boulevard. The Illinois Central then ran past to Randolph street on rows of trestles. Beyond was only water—where for half a mile or more now stretches the solid ground of Grant Park. Much younger people remember when the lake came in close to the railway yards at Sixteenth street. There it has been forced back to make a place for the monumental Field Museum and for the stadium at Soldier Field. Both these are on "made land". Grant Park, too, is "made land". So are the long stretches to the north and south now occupied by parks and waterfront boulevards. South and east of the stadium whole islands of made land will rise out of the water to form a site for the Century of Progress exposition in 1933.

Development of an Industry

Not only Chicago but other cities on the Great Lakes are steadily forcing back their shore lines—extending their limits lakeward by the simple process of displacing water with sand. And many industrial concerns whose plants are located near the water's edge are meeting the need for more land by winning it from the Lake. The lake itself gives up the sand that makes this encroachment possible. A tremendous industry has grown up, devoted to the business of making the sand-fills which are the basis for the new acres created. Park boards, municipalities and industrial concerns that own riparian property which they wish to extend offer a large demand for the services of the company which can speedily and satisfactorily do the work. The growing concentration of population about these favored lake regions gives reason to believe that the demand will not only continue but will increase.

One of the largest of the concerns engaged in the work of making sand-fills is Construction Materials Corporation. This company made the fill for the Field Museum site, taking over a task of peculiar difficulty after it had been considered almost hopelessly expensive by other engineers. Mr. J. R. Sensibar, president of the company, at that time developed new methods for making fills which, protected by patents on the floating equipment especially designed for the work, have given the company a great competitive advantage. The method consists, briefly, in pumping sand from the bottom of the lake into specially designed craft, transporting it to the point of the fill, and then discharging it hydraulically through pipes as needed to raise new land of the desired contour. Since completion of the museum project the company's equipment has been in steady demand for similar work, not only on the Chicago waterfront but at many distant points on the lakes.

Though the making of sand fills offers perhaps the most picturesque view of Constructions Materials Corporation's operations this is by no means its sole interest. The Company also extracts and merchandises sand and gravel for commercial uses. In this connection it is now completing facilities near Ferrysburg, Michigan, to serve what is said to be the largest deposit of high grade gravel in the entire Great Lakes country accessible for all-water haul. As transportation is one of the principal items of cost entering into the marketing of this commodity, there is a decided advantage in having a supply base at the water side. In addition, the company, through its subsidiary, the R. F. Conway Company, is one of the principal factors in the street paving and highway construction business in the Chicago area.

Growth and Earnings

Construction Materials Corporation was incorporated nineteen years ago to carry on a business founded by the same interests a few years previously. The Conway division of the company is more than half a century old. All divisions of the company have been profitable for many years. Net earnings of the business last year amounted to \$961,000—equal to \$12.82 a share on the \$3.50 Convertible Preference stock, and after dividends on that stock, to \$3.98 a share on the Common. The preference stock has recently been selling on the Chicago Stock Exchange to yield around 7%.

We are intimately acquainted with the affairs of this company, and are represented in its directorate. The essential nature of its related lines of business, its strong financial position, and the demonstrated ability of its management lead us to feel that its securities, at present prices, are investments of unusually attractive possibilities.

The Commodity Price Trend

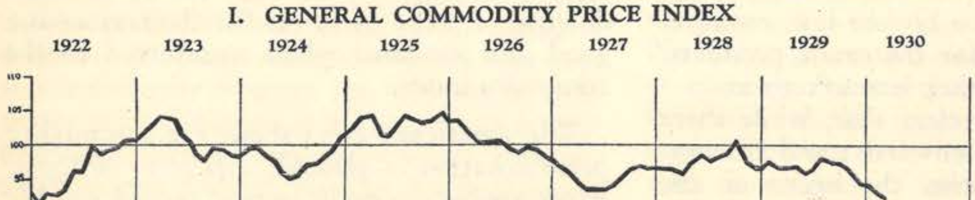
THE commodity price situation has been giving the country a good deal of concern in the last several months. In February of this year the general commodity price index (which includes both agricultural and non-agricultural products) fell to 92.1, the lowest point it had reached since 1927. With the exception of January, 1922, when the index went to 91.4, this is also the lowest figure reached since the war. The figures are those used by the United States Bureau of Labor Statistics, and take as 100 the average price for 1926.

Reference to the first of the charts given herewith shows that the fluctuations have not been violent nor, in fact, very great. The maximum range is from 91.4 to 104.5, a variation of less than 13 per cent. The peak was reached twice—in 1923 when a rise in non-agricultural prices pushed up the general index, and again in 1925 when farm commodities went to a high level, the short Canadian wheat crop having brought about a $2 price for that grain.

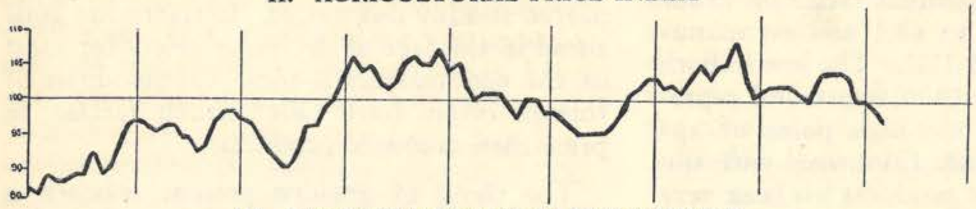
The significance of the general commodity index is perhaps somewhat clarified by breaking it down into its agricultural and non-agricultural components, as is done in Charts 2 and 3. The effect of changes in these two groups of commodities upon the general price trend is thus more easily followed. The fluctuations of the component groups are seen to be much sharper, and the trends to be, in general, in opposite directions.

Agricultural prices range from a low of 86 in January, 1922 to 108 in September, 1928 and to 105 on several occasions. There has been a fairly sharp decline since last September to the February figure of 97, but this is well above the low for the period covered by the chart; and it is clearly seen that, save for seasonal variations, the trend has been rather generally upward.

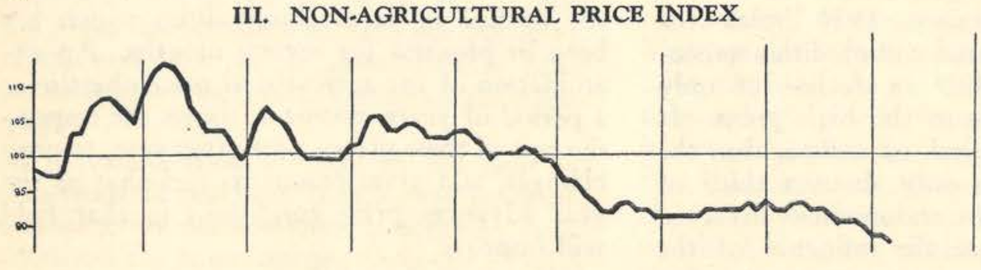
I. GENERAL COMMODITY PRICE INDEX



II. AGRICULTURAL PRICE INDEX

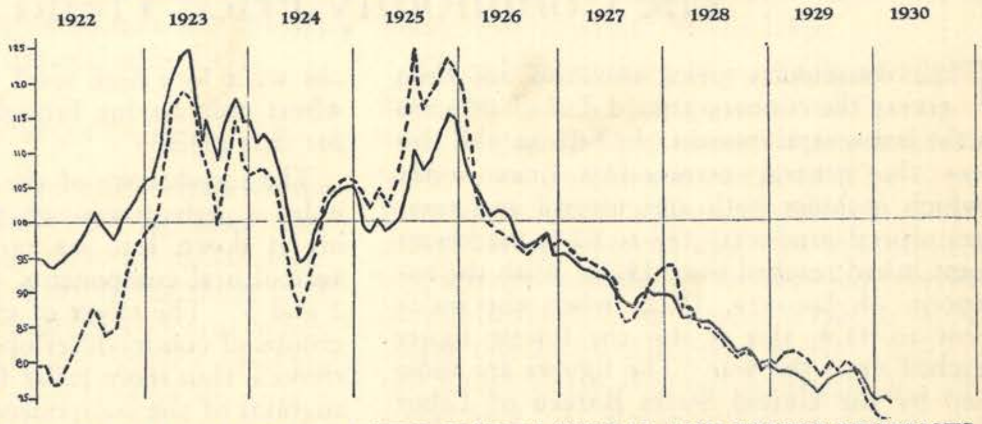


III. NON-AGRICULTURAL PRICE INDEX

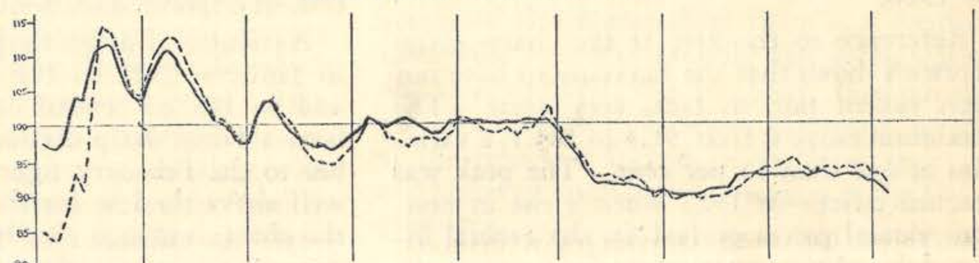


The trend for non-agricultural commodities, on the other hand, has been with corresponding steadiness, toward lower levels. The high of 113 was reached in 1923, and the low of 87.5 is the last figure shown—for February, 1930. An interesting thing to consider in this connection is that, despite steadily declining prices, industry has shown steadily increasing profits—a fact which should serve to quiet un-

IV. PRICE INDEX OF RAW IMPORTS AND THEIR MANUFACTURE



V. PRICE INDEX OF DOMESTIC CRUDE MINERAL AND FOREST PRODUCTS AND THEIR MANUFACTURE



The Broken Line Represents Crude Products, the Solid Line Their Manufactures

easiness that may be felt for the future of industry purely on the grounds of falling commodity prices.

It is possible to obtain some very interesting information by further breaking down the non-agricultural index into two components—first, imported raw materials and their manufactures (rubber, sugar, coffee, silk, etc.), and, second, domestic crude minerals and forest products and their manufactures. The result of this separation is shown in Charts 4 and 5. The broken line, in either case, indicates prices for the crude products, and the solid line for their manufactures.

The charts make it clear that, while there has been a steady downward trend in non-agricultural commodities, the brunt of the decline has been borne by foreign producers. The prices show a maximum range on crude products from 124.5 to 68.1 and on manufactures from 124.7 to 71.2. The low in both cases is the February, 1930 figure and represents a decline from the high point of approximately 45 per cent. Compared with this the decline in domestic products has been very moderate. The February, 1930 index for crude and manufactured commodities respectively was 91 and 89.9—a decline of only about 18 per cent from the high point. It should be borne in mind, of course, that the volume of imports is only about a third of the volume of domestic commodities involved in the figures, so that the influence of the downward trend of prices for the former is a good deal modified when transferred to the composite index.

The significant facts about the commodity price situation in general, appear to be these: Farm products have in general moved steadily upward. Non-agricultural commodities have moved steadily downward. Industry has gone ahead in the face of declining prices for most of the commodities it uses. Commodities of foreign origin have fallen much farther in price than domestic products.

The thing of greatest present concern is the decline in farm commodities which has been in progress for several months. An examination of the agricultural price chart over a period of years, however, shows the responsiveness of these prices, year after year, to crop changes, and gives reason to feel that as the year advances price conditions in that field will improve.

In the Fore-Front of Its Industry

IT has been said of the beginnings of The Parker Pen Company that its formation resulted from the meeting of two men, one of whom had an idea and the other $500. Whether or not this picturesque statement adequately covers the facts regarding the company's origin, it is true that its beginnings were very small. The initial authorized capital was only $1,000. The present net worth of more than $4,000,000 has all grown from the small original investment, and has been accumulated after liberal cash dividends.

In 1892 the fountain pen was a decided novelty. George S. Parker contributed something new to the industry when he developed the "Lucky Curve" which has been one of the distinguishing features of Parker Pens. Through succeeding years the company has continued to introduce new ideas, whose practical value has been convincingly demonstrated by their acceptance by competitors. A survey of the industry for the last several years affords striking evidence of Parker's leadership in many matters. Parker was first to introduce the oversize pen and pencil; first to recognize the importance of color in selling its product and to anticipate public requirements in this respect; first to standardize on the $7 price for its leading product; first to follow a consistent program of year-round advertising; first to introduce the movable desk set; first to offer a pen capable of being used either for a desk or for a pocket pen.

All of these features except the last have been adopted by the industry generally. The last is Parker's contribution to the current sales program. It has been enthusiastically received, and it is to be assumed that other manufacturers will soon capitalize its popularity.

The introduction in 1922 of the now famous Duofold pen in its striking red color and with its great ink capacity, practically revolutionized the fountain pen industry. Parker immediately took a commanding position in the trade. Growth since that time has been especially rapid. Net profits rose from $548,906 in 1923 to $1,183,542 in 1929. Increased demand for Parker pens has overtaxed the capacity of the modern manufacturing plant, built at Janesville, Wisconsin, in 1920, and an addition is now under way which will give 25% more area and 50% greater capacity.

The capital structure of the company is simple, consisting solely of 200,000 shares of Common stock of $10 par value, on which dividends are currently being paid at the rate of $2.50 a year. There is no funded debt. Mr. George S. Parker, the founder, and his family control and manage the business.

At this particular season it is of interest to note the company's position with respect to current business conditions. The company's heaviest sales come in the final quarter of the year, reaching their climax with the Christmas trade. In the normal cycle, there is a slack period in the first quarter of each year. No interruption of the company's rising trend of earnings resulted from the disturbance of business in the last quarter of 1929. Whatever depression has existed since that time coincides with the company's normally slack season, and so is of minimum effect. If conditions improve with the advancing year as most competent observers believe they will, the result should be that the level of general business activity will reach its maximum height at just the time most favorable to Parker.

We have been identified with this company for a number of years, and are represented on its board of directors. We have formed a high opinion of the management and of the company's prospects. In our estimation, the common stock of the company is a sound investment, offering very attractive possibilities. Earnings in 1928 were $5 per share and in 1929, $5.91 per share. It is currently selling on the New York Curb and Chicago Stock Exchanges around 42.

The Research Man in an Important Role

IN no field of human endeavor does research play a more important part than in medicine and in the related science of pharmaceutics. The work of discovering new preparations and of improving old ones to help man overcome the infirmities that threaten him goes on continuously. Out of the country's laboratories may come to-day a wonderful new treatment for rickets, affecting, perhaps, the lives and happiness of millions of children; followed to-morrow by an anti-virus for the humble but excruciating boil. This week it is a new and more powerful germicide; next week a hypnotic for use in treatment of epilepsy.

These particular products come to mind because they happen to be among those recently added to the 1200 or so which Abbott Laboratories manufactures and dispenses. The research department of the company, though not responsible in each case for the original formula, has been of substantial help in developing methods for production on a commercial scale, thus making the items generally available.

Abbott Laboratories has for years placed great emphasis on the work of its research men, and has made increasingly liberal approriations annually for their investigations. Several new products which have recently been developed are to be placed on the market during the next few months, and plans of the management call for the work of the department to be still further extended during 1930. The expense of research is regularly charged to current operations, a conservative practice which the company has been well able to follow because of its consistently good earnings.

Last year was the best in Abbott's history, net earnings increasing more than 23 per cent to $591,013, or more than $4.90 a share on the common stock—the only security which the company has outstanding. Sales volume also increased, though the gain in net profits was largely accounted for by economies in management. The dividend rate has recently been increased from $2.00 to $2.50 annually, effective with the payment of July 1.

The company is now nearly forty years old. It early built up a reputation for quality which it has scrupulously maintained, so that its products to-day enjoy ready acceptance with doctors, dentists, hospitals, infirmaries, etc., to which they are distributed through some 25,000 outlets. A large plant at North Chicago, Illinois, with nearly twenty modern buildings, provides ideal conditions for the preparation of drug products. A second plant at Philadelphia is operated in connection with the Dermatological Research Laboratories which Abbott acquired in 1922.

The Common stock of this old, well-established company is listed on the Chicago Stock Exchange. We regard it as a sound investment.

Getting Diversification Into First Mortgages

AN analysis of the investments and reserves of fifty-two legal reserve life insurance companies, as of the end of 1929, showed that more than 40 per cent of their funds were in real estate mortgages. One of the largest life insurance companies in the United States recently published in Chicago newspapers a statement of its investments in the middle west showing that, of total investments of $332,000,000, more than $200,000,000 was represented by real estate loans.

There is nothing new about this. It merely shows that institutions of conservative investment policy recognize what has long been known to be true—that sound real estate mortgages are among the safest of all forms of investment.

Insurance companies, by reason of the great number of real estate loans they hold, obtain an element of safety not found in the individual mortgage. That element is diversification. Few individual investors can achieve this diversification or, having apparently achieved it through ownership of a considerable number of mortgages, can give the close supervision required by investments of the mortgage type. If, however, one could select a group of high grade first mortgages on properties diversified as to type, location and ownership, have supervision and all technical details taken care of by a competent institution, and then issue certificates of participation in the collateral represented by the mortgages, he would have a security which preserved the most desirable features of the individual first mortgage and yet gave the diversification which every prudent investor seeks.

Just such a procedure has been followed in the issuance of the group mortgage bonds known as the Foreman-State Trust and Savings Bank as Trustee, 5¼% First Mortgage Participation Certificates. Money for the purchase of selected Chicago mortgages was turned over by A. G. Becker & Co., to Foreman-State Trust and Savings Bank, which has for more than sixty years been a leading figure in real estate financing in the city. Against this group of mortgages, Certificates were issued in convenient denominations, and were listed on the Chicago Stock Exchange. The bank, as trustee, retains the mortgages and takes care of all details regarding titles, taxes, insurance, etc., which constitute the chief objection to first mortgage investments from the individual's point of view.

These Participation Certificates, in our opinion, represent a most desirable form of first mortgage investment. At recently quoted prices, around 96, they return approximately 5.88% and are attractive on a basis of yield as well as security. We have a booklet which briefly sets forth the facts about them, and shall be glad upon request to mail it to any interested investor.

An Attractive Railroad Bond

A NUMBER of years ago, the Interstate Commerce Commission undertook to prepare a plan for the consolidation of the various railroad lines of the country into a relatively small number of systems, each designed to serve a very large territory efficiently and still preserve wholesome competition. The result of this long labor was published recently, showing the country's railways grouped into twenty-one systems. While these groupings are subject to modification, they are highly important to the railroads, in that they offer a plan toward which railroad men can work on the assumption that their negotiations will meet with the commission's full approval.

ponents is the Louisiana & Arkansas Railroad Company which, with the controlled Louisiana Railway & Navigation Company occupies a decidedly strong position with respect to traffic passing in or out of the rich territory tributary to New Orleans. The railroad operates more than 600 miles of main and branch lines, serves such key cities as New Orleans, Shreveport, Baton Rouge and Alexandria, operates valuable terminal properties at these and other points, and connects at various points with other lines serving territory both east and west of the Mississippi.

Linking up of the Louisiana Railway & Navigation Company with the L. & A., was sion has authorized the issue of First Mortgage 5% Bonds, Series A, due 1969, in the sum of $13,000,000. Twelve millions of this sum covers the new acquisition, the additional million being to reduce short-term indebtedness.

The bonds are secured by first mortgage on the fixed property and equipment (except certain equipment securing equipment trust notes) of the L. & A., by pledge of the capital stock of the L. R. & N., and by pledge of the lease on the latter's properties. In case of the consummation of the Rock Island-Frisco consolidation they will become a divisional lien of that system.

The properties of the companies have been independently appraised at approximately $35,000,000. Earnings available for interest have averaged above $1,000,000 a year for the last five years, and have been above $1,000,000 each year except in 1927 when the unprecedented floods in the Mississippi valley reduced the figure to $535,000. Net for interest last year was approximately $1,500,000. The annual interest requirements of these bonds and other interest-bearing indebtedness is $756,920.

We are offering a limited amount of this issue at 92 and interest to yield 5.50%. This is, in our opinion, an excellent return on a railroad obligation of such character. We recommend the bonds for investment.

Growth of a Modern Type of Banking Service

THE practice of selling merchandise by extended payments has in the last decade or so become an established fact of American business. It has been one of the instrumentalities in the great expansion of the market for manufactured goods—stimulating sales, and encouraging volume production and its consequent economies for the benefit of purchasers. Growth of this plan of merchandising has been made possible by the development of a new type of banking service which stands between manufacturer and purchaser, furnishing cash to the one and credit to the other.

Well managed companies engaged in this form of financing possess one distinguishing characteristic that is of primary interest to investors, namely, a very high degree of asset-liquidity. One, with whose own financing we have been identified for a number of years—National Bond & Investment Company—is in a particularly favorable position in this re-

Our service to the company has included the purchase and distribution of its commercial paper, and the underwriting, with associates, of two issues of Gold Notes—one, with a 5½% coupon, issued in 1925 and maturing serially to 1931; the other, with a 6% coupon, offered in 1929 and maturing serially from 1932 to 1939. Of the second issue we are from time to time able to furnish limited amounts of most maturities at prices affording a yield of 6% to 6.15%.

National Bond & Investment Company is the outgrowth of a business which was founded in 1908 and incorporated in 1921. The 1929 earnings available for interest and taxes were $1,618,841—an increase of more than 50% over 1928 and comparing with the preceding eight-year average of $865,395.

The indenture under which these Notes are issued provides that they shall at all times be secured, either by cash or government obligations equal to the amount outstanding, or by

Let's look at the Investment Trust

WITH characteristic enthusiasm, the American investor took the investment trust to his heart last summer and then with equal intensity turned away from it last fall. The sharp decline in investment trust securities went along with a serious disturbance of public confidence in them.

But with the appearance of the reports of many of these investment companies, a new appreciation of their position is rapidly finding expression. It is becoming increasingly apparent that well managed companies of this type did substantially better than was at first thought and substantially better than most individual investors were able to do for themselves.

This superior performance, after all, should not be surprising. The soundly managed "trust" achieved diversification on a scale that was not in the power of most investors, even of considerable means, to achieve. It held to the true investment point of view. It was not over-extended on borrowed funds. It possessed the means and had the courage to take advantage of the low levels that followed the hysteria of the break.

At the present time, the investor will do well to consider the securities of sound investment trusts as long term holdings. The senior securities of such companies afford a good return with a high degree of safety. Their common stocks provide an excellent medium for equity investment. They give you seasoned and responsible management alive to its responsibilities. They assure you wide and effective diversification. They enable you to participate in a conservative manner in the progressive betterment of American industry from recent low points. We believe that selected issues are sound and attractive.

A. G. Becker & Co.

Sound Securities for Investment

100 South La Salle Street, Chicago