

PREFERRED STOCKS PRO AND CON

(Continued from page 415)

certain amount of the preferred issue will be retired each year out of a sinking fund, the redemption price representing as a rule a handsome premium above the par value—a premium greater than would ordinarily be expected to attach to the market price of the stock.

Now, all such provisions, while they doubtless enhance the security and attractiveness of the preferred issue, must be recognized to operate in more than one direction. All may go well as long as a corporation can finance its needs by selling preferred stock, but a time may come when investors demand bonds rather than preferred stocks, and in such case it may be difficult to obtain the necessary consent for a bond issue, which would rank ahead of the preferred. While the holder of preferred shares is apparently favored by the numerous restrictions mentioned, these restrictions imply a lien upon his common sense or financial astuteness which may require him at some future time to sacrifice his immediate interest; and in a large body of stockholders it is dangerous to count upon the existence of such good judgment. Similarly, the operation of a sinking fund for the retirement of the preferred shares may work a hardship, in requiring the redemption of preferred shares at a time when the company needs its money for its current business.

In a word, those minute provisions surrounding preferred stocks, while they safeguard that particular issue impose restrictions upon the issuing company. What is an asset from one view-point is a liability from another.

It is true that while bonds are usually protected by a mortgage upon the company's property, while preferred stocks are not, the bondholders in time of financial trouble seldom exercise their right to foreclose on the property, preferring rather to permit its reorganization through receivership. Hence it has been very truly noted that in the United States a first mortgage fails to give the protection which it ostensibly affords. Yet it should be borne in mind that in case of reorganization, the bondholder usually fares better than the preferred stockholder. While the bonds of a company may be "scaled down" or exchanged for preferred stock in the reorganization, the preferred stock will usually be exchanged for common stock.

An attempt to raise all the funds needed for a new company through the issue of cumulative preferred stock is to be regarded with great scepticism, since it is hardly probable that a new enterprise will from the outset earn the 6 or 7 or 8 per cent. called for by the preferred issue. A generous proportion of the capital should be represent-

ed by common stock, which carries no definite claim upon earnings.. Investigation and study are needed by the would-be investor in preferred shares, quite as much as by the buyer of common stocks or bonds. The *London Economist* recently laid down some rules for the guidance of stock buyers, which are excellent advice of a general sort for investors in preferred issues. They may be summarized as follows:—

(1) Be sure that a reasonable proportion of the capital is represented by common shares; otherwise the company may be financially "top-heavy."

(2) Mergers of companies that have been built up by individual skill and enterprise are apt to be handicapped at the outset, in case the men who made the old business successful sever their connection with the enterprise.

(3) Shares in companies whose business is the producing of articles of luxury must be regarded in these uncertain times as speculative.

(4) Do not judge the prospects of a business solely by the profits made during the war years.

(5) Find out whether the men who are running the business are really familiar with it, or whether directors are chosen merely because of their reputation in other fields.

(6) A good record promises a sound future.

QUEEN INSURANCE COMPANY

The forthcoming retirement at the end of the present month, of Mr. George W. Burchell, President of the Queen Insurance Company, and of Mr. William Mackay, the company's Canadian manager, was made the occasion of a banquet and presentation on the 15th instant in New York. Among those present at the function, was Mr. J. H. Labelle, Montreal, who succeeds Mr. Mackay as Canadian Manager.

Mr. Nevett S. Bristow, Vice-President of the Queen will succeed Mr. Burchell as President.

ALLIANCE ASSURANCE CO. LIMITED

Mr. H. J. May, superintendent, Accident Department, of the Alliance Assurance Company Ltd., London, England, arrived in Montreal a few days ago, and left on the 15th instant for the West. Mr. May proposes to visit Toronto, Winnipeg and Vancouver before returning to Montreal. He informed *The Chronicle* that he is very favourably impressed with Montreal, and its fine buildings. Mr. May is paying his first visit to Canada, and is making a general survey of the casualty situation, the Alliance having recently commenced operations in Canada in this branch of insurance.