

election of directors, in many others having half the voting power, in many others with a small amount of preferred they can control the company. They soon become hungry for dividends and commence a campaign on the directorate for their payment, with the result that all the profits or a greater portion of the profits which should go to the reserve for the payment of dividends on stock which was issued for value is paid out to people who never gave the company any value for the stock and when dull times come along the company is compelled to pass its dividend on its preferred stock because it has been unable to build up a proper reserve against lean years, and when it wishes to make additions to its business it is compelled for the same reason to make a further issue of bonds. In a great many cases besides these evil results the common stock prevents the company from accumulating a proper working capital so that it is always at the mercy of the bank. Prudent investors will hesitate and wise solicitors will refuse to advise their clients to purchase the preferred stock of companies, no matter how flourishing, which have a large quantity of outstanding water securities. The only persons who desire or who derive any benefit from watered stock are the speculating public and the brokers. It is not the law's business to encourage stock speculation. Its duty ceases when it provides the machinery for creating companies and affording to them power and means of carrying on the business on sound financial principles for which they are incorporated. No stock should be issued excepting for an equivalent in cash or in property as it is expressed in some of the English cases "an equivalent in meal or in malt."

Common stock is used by promoters as a lure to induce the public to purchase preferred shares. If an equal amount of common is given to every buyer of the same amount of preferred clearly no benefit accrues to any; if an unequal proportion is given to various purchasers of the same amount of preferred then an injustice is done to those who receive the lesser amount; and if a large amount of common is given to promoters and underwriters for services or risk as is the common case an injustice is done to the purchasers of the preferred who came in because of the bonus of common. If no bonus of common is given, true no injustice is