

dustry, or trade, not in finance, and if it must create a selling machine, it will be only temporary and at excessive cost.

Provided underwriters can be induced to accept the issue many difficulties will at once disappear. In the first place the corporation knows, from the moment the contract is made, exactly how much it is to receive for its stock and bonds; and it knows the exact date at which this money will be paid. Besides, the cost is actually less than selling through the haphazard hit-and-miss newspaper advertising, for the investment banker is an expert in selling securities and has an established clientele of investors to whom he may readily dispose of almost any securities which he recommends.

*In the last analysis the stocks and bonds must be sold to the investor or the speculator. The securities that are placed through an underwriting syndicate appeal more particularly to the investing class. A heavy responsibility is thus placed on the financial house that manages the underwriting syndicate. To a certain degree the preferred stocks and bonds at least are regarded more highly by buyers because they are sold through reputable channels. The public, therefore, has a right to expect that only reliable and legitimate undertakings will be recommended by the members of an underwriting syndicate.*

The underwriter guarantees the sale of the stock within a certain time, at a stipulated price, agreeing to take what is left at a certain stipulated price, usually several points below the anticipated market price, according to the nature of the security. An investment house is selected to manage the transaction. Through it the original contract between the underwriting syndicate and the corporation is made. The firm is known as the syndicate manager and assumes all responsibility, ensuring the sale of the securities and agreeing to purchase what it cannot immediately dispose of itself.

The syndicate manager prepares a document which is circulated among the financial houses which are to be permitted to assist in the underwriting. This document, called the syndicate agreement, sets forth that its subscribers agree to purchase after a given date, at a stipulated price, the amount of stocks and bonds opposite their names. Sometimes an opportunity to subscribe is given to favored customers and clients of the firm, but usually the underwriting is confined pretty much to security houses and banks.

The syndicate manager allots the securities to the various subscribers, not in proportion to their subscriptions, but as he deems best, always remembering that he is responsible for