The Monetary Times
AND TRADE REVIEW,

With which has been incorporated the "Intercolonial Journal of Commerce" of Montreal, the "Trade Review" of the same city (in 1870), and "The Toronto Journal of Commerce."

ISSUED EVERY FRIDAY MORNING.

SUBSCRIPTION—POSTAGE PREPAID.

Canadian Subscribers .... *$2 a year.*
British " .... *10s. sterling a year.*
American " .... *$2.50 U.S. Currency*

BOOK AND JOB PRINTING A SPECIALITY

Office—Nos. 64 & 66 Church St, Toronto, Ont.
EDWD. TROUT, MANAGER.

TORONTO, CAN. FRIDAY, OCT. 27, 1882

GAMBLING PURCHASES AND REGULAR TRADE.

The effect of gambling purchases on regular trade cannot fail to be disastrous. And this is true, whether produce or stocks be the subject of the gambling operation. People who deal in produce are obliged to keep up their supplies to meet the wants of customers. If there is a "corner" in wheat, millers must supply themselves with wheat at an artificially high price. A collapse comes and the innocent miller suffers along with the gambler, or the miller may suffer and the gambler escape. Every other trader who is obliged to keep up a supply of produce, when the gamblers make it abnormally dear, is liable to lose in the same way as the miller. To the uncertainties ordinarily incident to trade an additional uncertainty is added; and it is one which more than all others baffles foresight and defies all sober estimate of results.

There is such a thing as a normal and an abnormal price; but the abnormal, while it lasts, controls and obliterates the normal. In an exporting country, the normal price for wheat is what it can be purchased for to send to the foreign market, at a fair average profit. If, in a time of plenty, and when there is still left a surplus for export, prices are forced up by gambling transactions, much above this level, an unsound state of things has been created. The regular trader is helpless; he is obliged to pay whatever price is current for the moment, though he may be well aware that the high level of prices which has been reached cannot be maintained. All he can do is to minimize purchases, while this state of things continues. If the laws of supply and demand had not been violently interfered with, the time when the highest prices have been superinduced, might have been the time when he could advantageously have made more than ordinarily heavy purchases.

Not only is there a normal price for produce of which there is a plentiful supply in an exporting country, but that price, however it may be superseded from time to time, has a constant tendency to re-assert itself. It is the recurrence of the operation of this natural law that confounds the gambler in produce, whether he acts as a maker of "corners" or enters into time bargains, which do not contemplate an actual delivery of goods. By either of these processes, the price may be raised far above the level to which it would otherwise attain; but it cannot long be maintained at this height. Time bargains of the gambling class lead to a "cornering" of the particular product which is the subject of the operation. A great deal more wheat having been bought, in Chicago, than could possibly come to market in the month which was to decide the bet, the buyers took care to make resort to the expedient of delivery by the sellers impossible, as is shown in the complaint now before the courts. When the bet is once decided, no one has an interest in maintaining the artificial state of things, and in the absence of manipulation, the normal price re-asserts itself. It would do so, sooner or later, even if an attempt were made to keep up the blockade. Happily natural laws prove too strong, in the long-run, for the gambler's arts. The worst of it is that, in each succeeding collapse, the innocent suffers with the guilty—and whether the guilty suffers or not—the regular trader with, or without, the reckless gambler.

The effect of gambling on margin, in stocks, affects third parties in a different way. Here there are no regular traders, who are obliged to keep up a supply. *Bona fide* investors are not obliged to buy stocks at artificially high prices. As a rule, they prefer to sell rather than to buy at such prices. As a matter of fact, many of them, do seize the opportunity to sell. Large amounts of stocks go out of investment, and their nominal owners have only an interest of ten per cent, often less, in them. If the margins go, as go they will one day, the lenders will find themselves the unwilling holders of unsaleable stocks, at a time when it is of the greatest importance that they should be able to realize. The investor who was warmed out, may or may not prove to have been injured. At all events, he was tempted to drop an investment which he would have preferred, if it had remained at a price which the dividends justified. If he makes a good investment, in substitution, he will benefit by acting upon the temptation to sell; but in the midst of inflation such as this gambling tends to produce, he is assailed by dangers and may yield to the temptation to invest in some "fancy" or untried thing.

The real sufferers are, of course, the Grizzle Greenhorns, whether they be real investors or not. In New York, careful observation shows that a new crop of fools springs up every three years. Though they do not suspect it, they are often playing against men with loaded dice in their hands; men who have inside knowledge, which no outsider can get. Their fault is that they buy without judgment and without even taking the trouble to ascertain the value of what they are paying for. The value of a stock must be estimated by the average dividend it pays. If this dividend is below the average earnings of capital, all things considered—such as safety of the investment, facility of realizing, trouble of management or absence of trouble to the owner—the stock is selling too high. There is one other element which may be taken into account, and that is the future prospect of any particular stock. And here it will be prudent to check the play of the imagination. The future of an established stock must be estimated mainly by its past history; and new ventures must be looked at in other lights than that in which enthusiastic makers of prospectuses delight to put them. Even of large reputed surpluses under whatever name, Rest or otherwise, the question must finally be asked, what do they return in the shape of dividends. We have said so much for the benefit of Grizzle Greenhorns.

One thing which must operate against stocks out of investment finding purchasers is the rise in the rate of interest. If a certain stock promises to yield at most five per cent., and seven per cent. is the average rate of interest, a large amount of capital is not likely to go into that stock. In the case of banks, the higher rate of interest will increase the earnings; but a jump from four and a half to seven per cent. would be a phenomenal dividend, which no sober-minded person would count upon.

All these difficulties and complications arise from the fact that gambling on margins has sent up the price of stocks far beyond what the average dividends justify. Loans on margins, obtained for gambling purposes, must not be confounded with loans on collaterals, not made to abet gambling. The latter is not only perfectly legitimate: it is an ancient and honorable practice, beneficial alike to lender and borrower. And yet how much the two transactions seem to resemble one another; and by what an easy descent the one glides into the other! So much the greater the necessity for distinguishing between the two.

Gambling in its various forms is illegal. And yet what goes on every day at our Stock Exchanges? There men meet together, in person or by proxy, and stake large sums upon the contingency of stocks rising or falling in price. The *bulls* and the *bears* are organized bodies of men, who play with loaded dice. They know or pretend to know something about a particular stock which the public does not know. This knowledge or pretended knowledge is whispered about to catch the Grizzle Greenhorns; the *bulls* and the *bears*, by concerted action, selling to one another, and resorting to a hundred kindred arts, can send the price of stocks up or down. They put their loaded dice against the unloaded dice of the public: the game is not fair; it is even more unfair, and therefore more disreputable, than most other forms of gambling. Stock gambling, backed by large amounts of borrowed capital, is the scandal of the day. If gambling in other forms, even where there is no "bank" with the odds in its favor, where the chances are equal and where skill makes the difference, is put down by the strong arm of the law, is it not worse than an anomaly that a form of gambling in which the chances are not equal, in which there are loaded dice on one side, should be fostered by respectable financial institutions?

The Credit Foncier Franco-Canadien is again to ask Parliament to release it from the restrictions of usury, which it voluntarily took upon itself. As a condition it offers to renounce a monopoly which the legislature of Quebec assumed to give it. Under the circumstances there will probably be no objection to place the company on the same footing as others occupy.