Municipal Finance

BY JAMES MURRAY.

MUNICIPAL BONDS AS POPULAR INVESTMENTS.

Probably one of the most enlightening articles on the popularity of municipal bonds in the United States appeared in the April number of the "National Municipal Review." The writer, Howard F. Beebe, after tracing the financial situations and their effect on the sale of municipal securities from 1890 to the present time gives a comparative analysis between them and industrial securities, to show the permanent strength of the one and the fluctuating weakness of the other. He gives his own reasons for this, which while true of the Republic to the south of us—Mr. Beebe has had a large and long experience of the municipal bond market in the States—might also be applied to Canada, but in a lesser degree, for while American municipals have been bought principally by their own people, the bulk of Canadians have been sold outside the country. Mr. Beebe says:—

"In order to trace and appreciate the relative importance of these influences, it is necessary to retrospect to about 1890 which will carry one back to the early '90's. At this time the rapidly accumulating wealth of that character which seeks employment by investment in bonds was finding it increasingly difficult to secure a relatively attractive return on municipal obligations of the larger and better known communities, and even then was looking to bonds of the newer western and southwestern communities to obtain a satisfactory income return. Many investors whose natural disposition was to purchase municipal securities were turning to other channels, chiefly railroads and so-called public utility corporations, for the investment of their funds. However, with the first signs of business depression and decreasing earnings on the part of the railroads, attention again was centered upon municipal bonds with the result that except during the acute stages of the depression municipal securities were much sought after and this resulted in a steady rise in their prices and correspondingly decreasing return on the investment until in the period between 1900 and 1902 they had attained such a high level that a great many investors again turned their attention to other forms of security. Th rapidly increasing deposits of savings banks throughout the eastern portion of the United States and the restricted fields in which these deposits might be legally invested contributed largely to the high level of prices attained by municipal bonds during this period. Although the 1907 panic was of comparatively short duration, its aftermath brought about a heavy demand for municipal bonds and it was only a very short time after conditions had readjusted themselves when they reached a level of prices fully as high as had prevailed prior to this great financial disturbance.

These brief references to what actually happened to the price level of municipal bonds lead one to the conclusion that the present demand is largely attributable to the disposition on the part of investors of all classes, both institutional and private, to turn under unusual and disturbed conditions to that form of investment which is freest from possibility of loss and to that end be willing to accept a smaller return than would satisfy them under normal conditions."

Converting Municipals Into Cash.

Again referring to the question of converting municipal bonds into cash, the following should give complete confidence to those, particularly in Canada, who are afraid to invest in municipal securities, because of the danger of not being able to re-sell them should the occasion arise.

"Of prime importance to many investors in bonds of all classes is their ready convertibility into cash or their use as collateral in borrowing large sums of money. Municipal issues as a rule have been quickly placed in the hands of permanent holders and therefore few have been listed or at all actively dealt in when listed, on the important exchanges. This resulted in a false belief that a ready market could not be found without undue sacrifice in times of financial stringency. This belief was heightened by the practice of some municipalities selling their bonds to local investors without having the legal proceedings in connection therewith passed upon by competent and well known legal advisers and who took no thought of the possible necessity of re-selling. When such bonds