VALUATION OF BOND HOLDINGS.

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suggests itself is to find a set of values (which might be called "'amortized market values of 1917") following the principle of amortization but avoiding any shock by taking some other starting point than the original purchase price. The logical starting point would obviously be the values used at the end of 1917. The result would be a set of values thereafter free from any abnormal fluctuations and always well within the statutory amortized values. This method would also have the further advantage that the amortized market value of a bond purchased prior to the end of 1917 would be the same at the same point of time by whatever company it was held; whereas, under the regular amortization plan it has different values at the same point of time according to its original cost. Of necessity all new purchases would have to be amortized from cost value. As concrete examples of this proposition two cases have been worked out. One of a bond bought at a premium and one bought at a discount, having about 18 years to run, which is slightly less than the average time to maturity of present bond holdings as shown earlier in this paper.

The bond purchased at a premium was a 5 per cent bond, maturing January 1, 1937, for which $1,086 was paid in 1910. Its regular amortized value on December 31, 1917, was $1,071, while its market value by the 5-point method was $920, and its quoted value was $820.

The bond purchased at a discounut was a 4 per cent bond maturing October 1, 1936, for which $843 was paid in 1908. Its regular amortized value on December 31, 1917, was $881, while its market value by the 5-point method was $730, and its quoted value was $610.

An accompanying diagram represented the values of both bonds graphically, giving:

1.—Regular amortized values to maturity.
2.—Departmental market values December 31, 1913, to 1917.
3.—Actual market values December, 1913, to 1917.
4.—Proposed amortized market values from December 31, 1917.

The diagram showed at a glance the great variations of market values, the regularity of the proposed method as from December 31, 1917, and that such proposed values are always well within the statutory amortized value.