MONEY AND MAGNATES

SANE INVESTMENTS

Strength of Railroad Bonds.

LEAVING government bonds for the ultra-conservative and municipals for the cautious investor satisfied with an income of anything up to 5 per cent., the next important class is railroad bonds. While they are included in the circle of corporation securities, they form a distinct class by themselves. This is because the majority of the better known systems have been in business sufficiently long that their future earning capacity, on which money for the payment of bonds depends, can be determined accurately. This, in turn, has a bearing upon the safety of the bonds, which are usually issued to provide funds for building, extensions, or equipment. They are secured by the revenues and properties of the road issuing them.

An enormous sum has been borrowed by the Canadian railroads for these purposes. Since 1905 the Canadian Pacific, Grand Trunk, Canadian Northern and Grand Trunk Pacific have obtained for construction, equipment, etc., more than $360,000,000, the money being raised largely on bond issues. At first glance, this may seem too large a sum for legitimate railroad building, but a close examination of the situation shows that we have borrowed only what we have needed. The Dominion is growing on its lines of communication, and during the next few years much more money will be required for railroad building. Last year more than $100,000,000 of Canadian railroad bond issues were made. This is a record for Canada in that class. Most of our railroad bond issues are purchased by British and European investors, who bought in 1911, 95.24 per cent. of the entire Canadian issues. Canada's investors purchased only 0.54 per cent. This fact is due largely because the investment absorption powers of Canada are comparatively small and because the British investor, who is placing his money in every part of the world, has great faith in railroad and equipment bond issues which return an income of 4 or 5 per cent. and which do not require a great deal of watching, however far distant.

In railroad securities, particularly bonds, more than in any other form of corporate issue, are to be found elements of stability and value. We have previously noted the chief considerations which make a bond attractive, viz., the security of principal and income, the qualities of convertibility, a good rate of interest, and to which we might add, a reasonable chance of appreciation in value. The railroads are necessary to the growth of the country. The operating companies are employers of thousands, and railroad prosperity has, therefore, a mutual interest. One of the greatest safeguards in the protection of railroad securities is the actual cost of their construction and what amounts to the practical impossibility of replacing the road. The success of the railroads means prosperity for the nation, and we are, therefore, assured that legislation affecting the railroads will not be such as will hurt the road, the investor and the country.

The selling price is a good guide in selecting a railroad bond. If it is and has been for a considerable time, quoted at a premium, and can show a good record for dividends paid, it argues for safety in the bonded capitalization.

One very important fact to ascertain in investigating any railroad company with a view to purchasing its bonds is emphasized by Mr. Montgomery Rollins, an American bond expert. This is the question, as to whether or not it is keeping up its physical condition and making proper expenditures for the same directly from earnings. The tendency of recent years is to run much heavier rolling stock and larger train loads, calling for heavier rails, more substantial bridges, and a reduction of sharp grades and curves, all of which many of our better roads have accomplished. The statement has been made that an old road which has not spent at least $10,000 per mile for such purpose within the past ten years is behind the times. Roads which have been able to accomplish this without increasing their indebtedness on account thereof should be considered, everything else being equal, sound financially.

Compare cost of operating any road under consideration with that of other companies similarly located, and form, thereby, an opinion as to whether or not the particular road is being economically managed.

The management of a railroad property, its control, class of business tributary to it, its competition, or the likelihood of competition, the importance of its terminals, must all be carefully investigated.

There has been a desirable tendency on the part of most of our railroads not to pay or increase dividends until the permanency of the rate is reasonably insured. The Canadian roads usually finance improvements out of earnings and this is a good feature, as it means that railroad mileage earns twice what it disburses in the way of dividends.

Some investors prefer the bonds of the larger railroads, notwithstanding that the earning power of the smaller ones may be greater. The transcontinental or large railroad derives its traffic from a wide territory, and that traffic does not depend so greatly upon local conditions in various directions. Damages arising from accidents are more easily met also by the big railroads. Despite these advantages there are many good bonds of the smaller transportation companies. In selecting a railroad bond, the Canadian investor may again use common sense. There is little mystery in investment and finance. Its understanding is enhanced by the application of sound sense and an analytical examination rather than by relegating those assets to the background and floundering in the dark.

On and Off the Exchange.

New and Old Banks.

MANY and diverse are the remedies proposed to prevent further banking amalgamations. The opinion of the man on the street is summed up in the familiar sentence: "What we want in this country is more new banks." Whatever wisdom there may be in this familiar remark it remains that the one thing Canada is likely not to get is many more new banks. Accompanying the ascent of everything else the cost of banking has gone up to a level which makes the paying of dividends and the provision for inevitable losses a task