THE INVESTMENT FIELD

Specially Written for the Illustrated Canadian Forestry Magazine

In line with our policy of broadening the scope of The Illustrated Canadian Forestry Magazine, we publish each month a Financial Section in which various phases of the Investment field are reviewed. This Section is written by a thoroughly competent and entirely reliable financial authority who will each month prepare an article of special interest to our readers. Needless to say, the department will be conducted along purely informative and educative lines, without any attempt to influence our readers unduly in their financial undertakings.—EDITOR.

THE relation of the "stock market" to investment is frequently misunderstood. Many associate the stock market with violent fluctuations, according as it is being manipulated up by a professional, "inside" "group of optimistic "bulls", or staged in an opposite direction by a professional and determined—and merciless—group of "bears", out to "smash" somebody, or everybody unlucky enough to "stay in too long."

Those who feel this way of the stock market are perfectly certain that "whatever goes up is sure to come down," and that over a defined period, of a comparatively short space, there is no net gain in the price of a security; an advance of ten points being followed inevitably—as under "the laws of the Medes and Persians"—by an equal decline. Hence the theory that no man can win on the stock market without inflicting a loss either in bulk on one individual, or all of it distributed at least.

Has Constructive Functions

Such a view disregards, in the main, the real constructive function of a stock exchange, and narrows it down to a medium for speculative investment. It is quite true that there are well recognized cycles of advance and decline in securities—stocks as well as bonds—just as there are cycles in commodity prices, in interest rates, in cost of labor, and so forth. Hence it follows that as interest rates went up during the latter portion of the War and the inflated period following the Armistice, bond prices declined in order to maintain an equilibrium of yield. It necessarily followed that stocks—common and preferred— went the way of the bond market, where it was felt they were stabilized as to yield: went down first, as did bonds, and later on, but following afar off, began a gradual upward movement which has been in process for a few months now and should continue for several years, until interest rates begin to reverse and start up on a new cycle.

Stocks and Bonds Compared

There is an essential difference, however, between the movement of bonds and stocks, and one that is too little appreciated by intending investors: in a bond the unit of valuation is more or less a fixed, unchanging quantity, whereas in a stock it is apt to fluctuate widely. That is, the element of the interest rate in a bond remains unchanged during the entire period of its life: if it begins at six per cent. it continues at six per cent. and at maturity is redeemed at par, or 105 or at whatever premium was pre-determined when the issue was made originally. In a good class bond the maintenance of the interest payments and the final redemption may be regarded as reasonably assured. In a word, a safe investment, with a minimum of risk, and—as in commercial enterprises as a rule,—for that very reason offering not as much inducement in profits from increasing value. Risk much? Win—or lose—much.

The preferred stock holds an intermediate position, and, usually, ranks much higher as an investment than the common stock. It resembles the bond in having a fixed rate of interest, termed, however, a dividend. As its name implies a preferred dividend has a prior claim for payment out of earnings. and far fewer preferred dividends have been passed in the past 18 months, than common. Usually a reserve is created behind the preferred dividend as a fair guarantee of its being maintained, before a common dividend is begun. In many cases, even if a preferred dividend is passed temporarily, there is a provision, whereby it accumulates, and eventually is paid; hence the term "cumulative preferred stock." If a common dividend fails to be met it is rarely that the shareholder ever receives what he feels like considering as "arrears" in dividends. In this respect, again, the return from a preferred stock is much more assured than that on the common.

Under these considerations the price of a first class preferred stock paying 7 per cent. runs around par or even more unless interest rates stand high, and the better