

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 this 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 remarkable success achieved by the Minister of Finance in floating a \$100,000,000 loan for the Dominion of Canada in New York is the most favorable factor that the present year has developed for the investor. The low rate paid for the loan was a surprise even to veteran financiers in Canada, who had been looking for a $5\frac{1}{4}\%$ yield, and more likely, a $5\frac{1}{2}\%$ yield on a domestic bond issue. This was only natural, with the 1934 taxable bond holding around par, and providing a yield at that of an even $5\frac{1}{2}\%$ per cent.

The immediate effect of the issue was to reduce the discount on Canadian funds in New York to little more than one per cent. with the consequent advantage in meeting financial obligations there and lessening the cost of raw material. It seems hardly possible that a rate lower than 3 per cent. can be maintained for some time yet, but the establishment of the low rate even temporarily has a beneficial effect on the ruling rate for the future. Far more important, however, is the impetus extended to the downward movement in the rate of interest, which is referred to later, when New York taxes our bonds at a yield, net, of about 5.15 per cent., the day of 5 per cent. money in Canada is brought immeasurably nearer; that is for a 25-year issue as the new bond seems likely to be.

It seems probable now that no Dominion loan will be offered investors until next Fall, and only then if it can be floated here at a rate much lower than $5\frac{1}{2}\%$ per cent. The prospect of such a loan has served to focus attention more than ever upon the outstanding Victory bonds as our basic and central form of investment.

Probably only those in intimate touch with investment houses have come to realize the extent to which the country-wide campaigns of 1917, 1918 and 1919 instilled in the public mind an intelligent conception of the nature and value of a first class bond as a receptacle for their savings, and a guarantee of a regular income at almost double banking interest rates. The field thus made ready, in great part by sentiment, and later on by beneficial experience, has been cultivated assiduously by bond dealers since, with securities of widely varied merits, but it is a field to which the Minister of Finance can look with confidence in June or in the Fall, when he must prepare to refund the first maturing Victory bond issue,—the five-year offering of December 1, 1917, which during the past year or so has been reduced from \$194,842,100 to \$182,835,500. For this was not provided for even in part, it seems likely, by the New York loan.

May Be Long-Term Issue

The question as to whether the next issue will be a long term one or not is of great importance; not only in relation to bonds, but to the higher grade securities in the form of preferred and common stocks. An official of a wealthy Canadian corporation that has many millions a year available for investment is on the outlook now,—and will be—for long-term investments. His theory is that interest rates are falling steadily. Where municipals sold

one year ago to give a yield of $6\frac{1}{2}\%$ per cent., the present rate has fallen pretty well to $5\frac{1}{2}\%$ per cent., and will come down to $4\frac{1}{2}\%$ per cent. or even lower in a few years. His policy is to bridge over the "lean" years of interest rates by investments at the present fairly high rates, to cover 15, 25, 30, 40 or even 50 years. By that time, he believes, the cycle of declining rates will have come to an end, and the upward trend will have begun.

Interest Rates in Steady Decline

This is a point that investors should bear in mind. This is why the long-term Victories have risen above par, and why the 1933's and 1937's should go still farther up: this, and their tax-exempt feature of course. This is why a reasonably safe bond that pays 7 or 8 per cent today should see higher levels in the next year or two, moving up above par, in order that the yield to the purchaser at the time may be in conformity with prevailing returns. Just at present the 1934, taxable Victory bond is selling at par, thus giving a yield of a straight $5\frac{1}{2}\%$ per cent:

A Valuable Aid to Your Business

Our Monthly Commercial Letter is a review of agriculture, trade and finance in Canada and abroad. You will find it of considerable value in your business.

A request to the Manager of any branch of the Bank or a postcard to Head Office, Montreal, will place your name on our mailing list.

THE ROYAL BANK OF CANADA