BANK EMPLOYEES AND PENSION FUNDS

7th April, 1920.

To the Editor,
The Chronicle, Montreal.

Dear Sir:—

In a recent issue of The Chronicle you published a table showing the disposition of Bank profits for ten years.

You show that over $7,000,000 of shareholders money has been transferred to Pension Funds.

If the wages of the Employees of Banks are to be increased, and made in many cases better than those of other institutions, surely it is time that all shareholders profits, should be given to shareholders, and allow Bank Employees to depend upon their savings, as shareholders must.

It would seem only fair, either that subscriptions to Pension's Fund should cease, and dividends be increased, or some method of shareholders sharing in Old Pensions, should be arranged.

Yours faithfully,
SHAREHOLDER.

PREFERRED STOCKS PRO AND CON

By Stevens Palmer Harman.

Fundamentally what is good for a corporation is good for its security holders. Owners of a company's stock and bonds are concerned, first of all, that the company should earn enough to pay dividends and interest, lay by a sufficient reserve or surplus to tide it over lean years, and in general that it should be honestly and efficiently managed. However investors like other people are often short-sighted, preferring the present gain to the ultimate larger gain. For this reason the provisions under which preferred stocks are issued are usually most carefully hedged about with stipulations as to what shall be done with the money earned, under what conditions new securities may be issued, and where the voting power of the corporation's stockholders shall lie. In these stipulations will be found the chief advantages, as well as the principal dangers, attaching to issues of preferred stock.

Such issues are a frank attempt to induce investment by people who find the income from bonds too small to suit their tastes or needs, but who are unwilling to accept all the uncertainties inherent in common stock.

In not a few instances, the agreement under which preferred stock is issued provides that the company shall always maintain "quick assets" (including cash, bills receivable, materials on hand and the like) equal to a certain percentage of the preferred issue; sometimes a figure as high as 100 per cent. or even more is specified. This is in recognition of the fact that corporate difficulties, sometimes resulting in bankruptcy, are often the result of inability to meet current obligations, even though a company's "fixed assets," including, plant, equipment, sinking funds and the like may far exceed its obligations. In one sense too, such a provision is a safeguard against improper payment of dividends even on the preferred stock, for if the stipulation is rigidly adhered to, dividends obviously cannot be paid if such payment would reduce the current assets below the minimum stipulated. This matter of the payment of dividends is something that needs to be closely guarded. Pressure from the common stockholders will often be exerted to force payment of preferred dividends, even when they have not been earned, since the common stock can expect no dividends as long as there are arrears on a cumulative preferred issue. Good management on the part of a company's officers and directors, and self-restraint on the part of the stockholders, are needed to see that no financial mistakes of this sort are made.

Accumulated dividends due on a preferred issue are, of course, one of the factors that may result in substantial gain for the preferred stockholder. The Colorado Fuel & Iron Co. in 1916 paid off 60 per cent. in back dividends which accumulated on the preferred issue. It requires painstaking analysis, however, on the part of the prospective buyer to determine what the chances are for the liquidation of back dividends. If a company is ably managed and is gradually improving its position, the chances of payment are naturally much better than in other cases; in other words, the fact that dividends have accumulated does not mean that they will inevitably be paid. It may happen that a proposal will be made for a compromise on back dividends, usually permitting them to be cleared up through the issue of new stock rather than by cash payment. The stockholders, recognizing the hopelessness of looking for the cash to which they are nominally entitled, may accept such a compromise.

As elements in the attractiveness which corporations seek to throw around their preferred stock, the most conspicuous may include a provision permitting the preferred to share in profits equally with the common after the stipulated dividends have been paid on the former—a provision which naturally, would not be viewed with favor by the holders of the "junior" shares, and which is not frequently encountered. Or it may be provided that in case preferred dividends are omitted, an increasing amount of voting power shall accrue to the preferred shareholders. Or it is sometimes stipulated that no bonds or other prior obligations may be put out or assumed by a company without the consent of a large majority of the preferred holders. And finally, it may be agreed that a

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