INTERESTING INFORMATION FOR Earners, Savers and Investors

AN OPEN LETTER TO INVESTORS

For some weeks we have been carrying considerable space in the columns of the Tuesday issue, Financial Section, of The London Advertiser for the purpose of acquainting the residents of London and district with the existence of a new and wanted industry, already in operation, in their very midst.

While you may not have paid particular attention to what has been said in the advertising, we believe you have been impressed with some of the following facts.

1. That there is such an industry as the Middlesex Mills Limited.
2. That this corporate company is doing business under Dominion charter.
3. That it has a large plant on Dundas street east in the city of London.
4. That its operations comprise, among other things, the preparing of fabrics of different kinds for the wholesale and garment making trade.
5. That it is turning out over 20,000 yards per week and making a profit thereon of more than double that required for dividend requirements on its $150,000 8 per cent preferred stock.
6. That it has already doubled its capacity and is seeking further capital for the development of other additions to plant, capacity, and added lines on which increased profits are assured.
7. That the company is doing work for several of the largest and best wholesale houses in Canada.
8. That an assurance of continued profit-earning business is evidenced by repeat and re-repeat orders from the same firms, some of which order their unfinished supplies direct from the weaving mills in England, to the Middlesex Mills Limited, London, Canada, to be dyed and finished for sales distribution.

You may have thought that we are stating these things in reference to the operations of the company, from a selfish standpoint, and because we want to interest you to make an investment with us in the stock of the company, and to this we at once plead guilty in part. A truthful statement is best made with frankness. We do want to interest you, and in your own behalf we are warranted in doing so.

It is your duty to make your money earn as much as possible, especially now when your money buys less of necessities per dollar than ever before.

You are enjoying every day, whether on the farm or living in the city, something which has taken combined capital to produce. You are plowing, seeding, reaping, threshing, with machines, you are eating food and wearing clothes, the products of large industries which have been organized, built up and are being operated by money from many persons, invested in the stock or bonds of an incorporated company. Our laws are purposely made to cover the combination of capital for the development of industries and other kindred aims.

Your time-saving, horse-saving, pleasure-giving automobile is the product of industries into which millions and millions of dollars have been invested by thousands and thousands of persons, who, having money more than enough to carry on their farming, business or home-keeping, have put their surplus money together in some needed enterprise, under organization and good management, and these have produced and distributed among their shareholders a much larger return than it is possible for any bank or loan company to do. The bank must loan your deposits to the manufacturer, merchant, miner or farmer. Agriculture, industry and commerce are the bank's opportunity for loaning of funds collected from thousands of depositors—at a higher rate of interest than the bank or loan company will obligate themselves to pay. You know it is the combination of capital in this way which has given us our railways, steamship, telegraph and telephone lines.

Mr. Albert Mitchell, the president of this company, of English birth and training to the textile industry, came to this country several years ago. He spent some years in the textile plants in the United States, and seeing in Canada, owing to peculiar conditions with which he had made himself intimately familiar, a great and unique opportunity for individual effort, came to seek out a place for the creation of a textile plant. He recognized in Western Ontario cheap hydro power, climatic and labor conditions, geographical position and transportation facilities, together with the assured and growing market, due to the Dominion's resources, compelling an ever-increasing immigration, bringing more people to clothe, more labor to employ, thereby securing the promise of reasonable wages for operatives—such an opportunity as he had not seen before and one far exceeding in reassuring features anything he had expected to find. Making this city his base, he began interesting people in his project. They soon found Mr. Mitchell to be a practical textile man and not a promoter; that his views of the opportunity here for such a business as he proposed were well sustained by the conditions obtaining, confidence was established, and he personally, with the co-operation of Mr. A. N. Lyster, late manager of the Bank of Nova Scotia in London, and now secretary-treasurer of this company, sold eighty thousands of the preferred stock. With this capital the construction and developing of the plant began. Since "the wheels began to turn" the capital has been increased by further sales of stock; the capacity has been doubled, and the output is increasing every week, the earnings are assured and just warrant established for further development of department appointments which necessitates the selling of a further limited amount of stock.

The preferred stock carries an eight per cent cumulative dividend, to be paid from earnings. It also carries a bonus of 20 per cent of the common stock which is applicable on all amounts of $500 or more of the preferred stock. The preferred and common stock, of which there is $250,000 of the former and $100,000 of the latter, share equally in earnings set apart for dividends, after eight per cent has been paid on the preferred stock. This insures that if earnings should reach thirty thousand dollars net per annum and they are running over $25,000 now, there would be available for equal division between the two classes of stock, after paying 8 per cent on preferred (viz.) $12,000, the sum of $18,000, from which a reasonable proportion might be taken for depreciation of plant, and leave $10,000 to increase dividend on the preferred and make the initial dividend disbursement on the common which costs the purchaser of the preferred nothing. All sales of stock have been made at par.

The plant occupies a site of 2½ acres on Dundas street east, nearly opposite the McCormick Manufacturing Company. It is surrounded by many other large industries. The Dundas and Ridout street cars pass the door. The main building (two stories) is 65x194 feet, with a new dye house 40x70 and a new boiler plant costing $18,000 adjoining. The whole plant and installations have a value of over $150,000, against which there is a mortgage of $15,000. There are no bonds. Both classes of stock have equal voting power.

This business presents an unusual opportunity for the investment of money at 8 per cent with further benefits to be enjoyed on capital invested.

You are interested, in these times of high cost of living, in increasing your income. You owe it to yourself and those dependent upon you to investigate this opportunity. We invite you do so. For further particulars call or write

THE FISCAL AGENT,
MIDDLESEX MILLS LIMITED,
Room 218, Dominion Savings Buildings,
London, Ontario.

ALBERT MITCHELL, President. A. N. LYSTER, Secretary-Treasurer.

Industry, Thrift, Banking, Insurance, Investments

"SURPLUS" DOES NOT ALWAYS MEAN "CASH"

BY B. N. FREEMAN, WHO EXPLAINS WHY THIS ITEM IS A LIABILITY IN CORPORATION ACCOUNTS.

The layman usually holds the opinion that "surplus" should appear on the books of a corporation as an asset, whereas this item is classed as a liability. This situation has often led to arguments. The why and wherefore of this anomalous condition is explained by B. N. Freeman, manager of the bond department of Henry L. Doherty & Co. Surplus as recorded in balance sheets of corporations does not always mean that the entire amount consists of cash.

Mr. Freeman's analysis of this interesting problem follows:

"The stockholder is paid a reasonable dividend upon his investment in the stock of a given company. He receives the statement of the corporation, and under the heading surplus finds entered a very large sum. Intuitively, he conceives this to be something which in reality belongs to him, and wonders why the need of so large an amount, and why it is not paid out to him and his fellow stockholders in addition to the dividends received. He conceives this fund called surplus as something represented by cash.

"The item surplus appears, as does the item in a corporate statement capital stock, on the liability side; the cash which the stockholder conceives to be represented by this item surplus would necessarily appear upon the asset side. Surplus is not cash, but is the amount left over from the earnings of a corporation after the payment of expenses and other charges and the distribution of dividends, and such remaining balance then carried into an account so designated on the liability side of the ledger. On the asset side it is represented, just as the capital stock itself is represented, by investment in all those items which appear on the asset side of the ledger.

"Many a good corporation has fallen into trouble through the distribution of too large a proportion of the earnings in way of cash dividends, and left remaining too small a proportion in the surplus.

"It is true that a portion of the surplus is represented by cash in the assets, but it is just as equally represented by all other items appearing on the asset side of the ledger.

"In the case of public utility corporations, part of the surplus may be invested in materials and supplies, in new construction, in sums of money advanced to subsidiary or allied corporations, in bills receivable or other investments, and in many other asset items, some of which may be convertible while others may be of a permanent nature and not readily convertible into cash, and this is true of nearly all corporations engaged in constructive work.

"Again items may appear on the asset side which have not been properly reduced in value on the books, and if so reduced would correspondingly reduce the amount in surplus. Equally, items may appear on the asset side which in reality may have a much greater intrinsic value than the figures stated, and if so increased on the books to such legitimate value would correspondingly increase the surplus appearing on the liability side.

"A corporation might have a surplus of many millions of dollars and nevertheless for the proper conduct of its affairs be in need of actual cash.

"For example, should a corporation have a profit of $25,000,000 in the current year, out of which it may have paid $10,000,000 in dividends and credited another $5,000,000 to various reserve funds, it would still have a net surplus of $10,000,000 for the year, but this does not in the least mean that such corporation would have $10,000,000 in cash or probably anywhere near that amount to represent this net remaining surplus.

"Many corporations pay dividends in cash, and as well pay further dividends in stock. Many corporations may properly and do declare this character of dividend, stock dividends, which would be quite improper for them to declare and pay in cash in justice to the demands of the business, its proper progress and conservative care. The regular cash dividends paid by a corporation are ordinarily declared from and charged against income for the period, while stock dividends would be properly charged against surplus, and the amount credited to the permanent capital account, thus reducing the surplus and increasing the capital stock of the company, because such dividends have been declared for the purpose of capitalizing expenditures able to be made and made, at some time, for capital account, out of or by reason of the existence of the surplus.

"The growth of surplus in a corporation to a large amount, accumulated under careful and conservative handling of the business and methods of accounting, always presents the potentiality of the possibility of distribution of what is oftentimes termed, in the language of Wall Street, a "melon," by the declaration of a stock dividend and paying the same to stockholders in stock, out of the surplus account, because a large part of such surplus must naturally have been used in and be represented by investments made for capital account, and therefore subject to capitalization.

"To the stockholder in a well and conservatively managed corporation it should be a matter of great satisfaction to find his company showing a large and growing surplus, but the stockholder should never confuse in his mind this surplus with cash.

"Finally let me state again that surplus is in reality a very simple thing, and merely means the undistributed balance remaining and entered on the liability side represented by and throughout all the items appearing on the asset side of the ledger, of which the cash shown is only a part."

HOW PRESIDENT WILSON DEFINES "A JUST PRICE."

"By a just price I mean a price which will sustain the industries concerned in a high state of efficiency, provide a living for those who conduct them, enable them to pay good wages, and make possible the expansions of their enterprises which will from time to time become necessary as the stupendous undertakings of this great war develop. We could not wisely or reasonably do less than pay such prices. They are necessary for the maintenance and development of industry, and the maintenance and development of industry are necessary for the great task we have on hand."—President Wilson.

UNLISTED INDUSTRIAL PREFERRED STOCKS AS INVESTMENTS

The high cost of living has made a great change in the purchasing power of every man's pocketbook, and the investor has felt it just as has the earner, in proportion. The fact that it now takes one dollar to do the work formerly done by 60 cents, has created the necessity for changing many investments, and savings deposits must also decrease unless not less than 5 to 5½ per cent interest is paid thereon.

With the necessity for a larger net return on the investor's money has come the popularity of industrial preferred stocks, paying from 6 to 8 per cent. The demand for this class of security, preferred as to lien upon assets and also upon dividends has greatly increased during the past few years, and the preferred stock issues of many corporations have been taken up with little hesitation by people of large and moderate means invested in bank and insurance stocks paying a much lower rate on the cost of the shares.

The demand for new and varied industries in Canada preparatory to the close of the war and the opportunities that will come through expansion of trade, increase of population and export development, will stimulate the forming of new corporations and the assembling of capital for larger and more useful work. In some cases the preferred stock of a company shares equally with the common stock in net earnings over and above the amount required to cover the specified dividend on the preferred, and when to this is added the cumulative feature, making it obligatory to pay all back dividends on the preferred before the common stock may participate in the net earnings available for distribution, the preferred stock, a very attractive investment, provided always, of course, they have good reason for being, earning power, financial soundness, character of management and character of business done.

WALL STREET CONDITIONS.

In view of continued lower prices for first-class securities it would seem profitable to take a retrospective survey of the market since the opening of the war in August, 1914, during the latter months of which year the Stock Exchange was closed for some weeks following the commencement of the present struggle. The market had during that year been almost continuously on the decline. After the resumption of business on the Exchange it showed a strength not expected by the oldest trader, and reached the high point of the year, 1915, during the month of December. Nineteen hundred and sixteen saw a drop of about 10 points on the average for 40 stocks, from which base another rising market in the same year continued with but minor recessions, until an advance was made culminating during the last week in December of about 20 points from the low of the year, and 30 odd points advance from the low of 1915. Profit-taking with undue alacrity immediately after New Year's of 1917 started a decline which carried prices down over 10 points, with hardly a rally of $2 per share. From that time to the present the market, with but few spasmodic rallies of minor importance, has been on the downward trend, with a total decline from January of over twenty-five dollars per share for some of the old reliables, and much more for steels and motors.

With the announcement of the second Liberty Loan, it was expected the market would in some way be supported, with the view of increasing confidence in general conditions throughout the country and stimuate the buying of the Government 4's by a more buoyant, hopeful feeling among all holders of available funds. But this was not done, as was so successfully carried out by the managers of the McKinley campaign for the presidency, when the market was steady on a gradually rising plane during the whole election year. A large fund of $20,000,000 was organized to steady money rates, and this had the desired effect so far as reducing rates for call loans from 5 and 6 per cent to 3½ per cent, but the market continued to sag, and the buying of Liberty Loan lagged, notwithstanding the enormous resources of the United States are estimated at two hundred and twenty-five billions. This seemingly indifference on the part of investors would appear to have undergone a marked change since ex-President William Howard Taft addressed the members from the floor of the stock exchange on Monday afternoon, 22nd inst., coupled with the activities of Liberty Loan Day. Greater efforts were put forth, many of the large financial institutions increased their original subscriptions, more aggressiveness characterized the campaign, and the time limit saw an over-subscription by several millions of dollars. This means more money, more men, more ships, more fighting power and financial help for the Allies, meted out with a graciousness and expressed sympathy as well as appreciation of our danger that has already won the admiration of the world. J. Pierpont Morgan once said, "The man who goes short on United States will go broke," and we believe it.