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EDITORIAL.

Frenzied Finance in Canada.

The record and recent collapse of the York County Loan Company, of Toronto, is a fair sample of "Frenzied Finance," as we sometimes have it in Canada. The revelations made following the suspension of the Company have not disclosed anything dishonest, so far as the diversion of funds is concerned, but they have demonstrated the fact that President Phillips and the directors of the Company at least lacked foresight, business acumen and financial discernment. The enterprise itself was fundamentally at fault, and it was only a question of time before the inevitable crash came.

Originally, the Company's capital was derived from the sale of terminating or withdrawable shares, and the success of the concern was, to put it in a plain way, based upon the misfortune or carelessness of shareholders. In other words, the Company depended for success upon the lapses, which ran anywhere from \$130,000 to \$140,000 a year. These lapses were large, because of the character of the shareholders, who were mostly of the poorer classes, and while the Company could count on this big income the officers took no heed of future contingencies. By lapses is meant failure to make payments regularly on the shares, resulting in the forfeiture or loss of what was already paid in.

Mr. Phillips explains that he endeavored to conduct the Company on principles that have been so successful in industrial insurance. But he made one fatal mistake. In industrial insurance the companies can "load" the premiums so as to cover expenses. Then the lapses also enter largely into the calculation. When Mr. Phillips applied this principle to a loaning institution, he discovered that it worked well for a comparatively short time, and we find that in 1899, after confining itself to mortgages since 1893, the year in which Mr. Phillips took charge, the Company decided to purchase and develop lands in the city. The forfeitures continued to amount to a very substantial sum annually, but in 1902 the Government stepped in and changed the law so that holders of terminating shares, instead of forfeiting all money paid in when they lapsed, only had to pay in for six months, when they could cease payments, and at the end of three years could draw out their money, less 10 per cent., which was allowed the Company for expenses.

This Act cut off the York Loan's most prolific source of profit, and sounded the death knell of the Company. Even then Mr. Phillips had an opportunity of saving the enterprise, but it was not until the early part of last year that the Company inaugurated the policy of changing the stock over to permanent shares. In the meantime, the expenses of the Company were excessive, the cost of collecting payments ranging from 17 to 22 per cent. That is, the Company received only from \$78 to \$83 for every \$100 they were compelled, under their share agreement, to pay out on maturing stock.

Meanwhile, the purchase of real estate was continued on a large scale in the vicinity of High Park, at the Western limits of the City of Toronto. Immense sums were spent in improving this property, and most expensive houses were erected, one of them costing \$20,000, another \$16,000, and still another \$11,000. It was Mr. Phillips' intention to make this district the finest residential portion of the city. But there was no market for such expensive dwellings, and the Com-

pany soon found itself with enormous unproductive investments on its hands, and heavy expenditures to meet in the way of taxes, amounting, it is said, to \$25,000 a year.

The hope of the Company was that the real-estate holdings would appreciate in value and be sold off fast enough to meet the increasing calls of the maturing shares. But this expectation was doomed to failure, and just at the time when the Company most needed the money to protect and further develop its real estate, large blocks of these terminating shares fell due, and had to be met.

In the meantime a number of subsidiary companies had been formed, including a piano manufacturing concern, a life insurance company and a real-estate company, and several publication schemes on the side. In addition, Mr. Phillips subscribed for \$200,000 bonds of the Southern Light and Power Company, and with all these funds tied up, the president finally discovered the Company to be seriously embarrassed, and as a last resort he suggested the merger with the Permanent Loan, a proposition which, if it had gone through, would have perhaps offset Mr. Phillips' many previous errors of judgment, by transforming the shares of the Company into stock maturing in periods of from three to ten years. This expedient would have removed the immediate burden of the Company, and allowed time for the real estate to appreciate or be transferred to other hands, but at this juncture the shareholders stampeded and commenced to clamor for their money.

These are the facts that have been brought out by the Government investigation, and, when summarized, they indicate that the Company failed, first, because Mr. Phillips endeavored to pay too much for what he received, viz., \$100 to every \$78 or \$83 received, after commissions and other expenses were met; secondly, the profits from lapses, the main source of revenue, was cut off by the Government; and, finally, because its assets were not negotiable, thus leaving the Company without the means of refunding the money it had promised to pay on demand.

Just where the Company stands in a financial way has not yet been clearly shown. However, this much is known, according to the deductions of Mr. Masten, solicitor for Mr. Cross, the Government investigator: Total liabilities to shareholders amount to \$3,178,768; the assets are \$2,040,634, leaving a deficit of \$1,138,134, or nearly one-third of the total indebtedness. With other allowances, the deficit would probably be reduced to \$1,000,000. It is therefore assumed that the Company will pay 66 cents on the dollar, though this will depend upon the disposition of the real estate, the chief asset.

The Company had, in all, 113,740 shareholders, so far as it is known, representing, perhaps, 20 different classes of stock, issued at various times and in various ways by the Company. It will be for the courts to decide how these different classes of stock are to rank when settlement day comes. The finding of Mr. Cross will show a lamentable state of affairs. For example, he will report to the Government that the Company had no system of bookkeeping; that the officers themselves did not know the real liabilities of the Company, and had no clear idea of what had to be earned in order to fulfill their agreement to the shareholders; that the books were not audited, and that what were termed the auditors' reports were untrue and misleading. The case is another warning against investments of money in concerns about which people have no definite knowledge, and on the strength of payments of abnormal dividends, held out as a bait.

Dr. Smale and the Hog Question.

There is a letter in this issue of "The Farmer's Advocate" from Dr. F. J. Smale, Assistant-General Manager of the Wm. Davies Co., Limited, that will make interesting reading, particularly for those who were present at the discussion on the hog-marketing question that took place at the Ontario Winter Fair, in which Dr. Smale took part. Not unexpectedly, he takes exception to our resume of this meeting, and occupies some space in an endeavor to refute our presentation of the case, as brought out on that occasion. We do not see that he brings up any new points, or in any way lays our position open to question. The report, published in our issue of Dec. 28th, speaks for itself. Our readers will do well to re-read and inwardly digest it. For lack of space, simply, the part of the discussion which Dr. Smale thinks we slighted, viz., Prof. Day's remarks on the cost of producing pork, was not printed in the issue in which the rest of the report appeared, but, so far from considering it unimportant, we printed the full typewritten copy in the following issue (January 4th), which, by this time, will have been in Dr. Smale's hands. As for the character of the report published by us, we have only to say that the side of the packers was certainly presented with admirable skill, but, seeing that we were after the real kernel, or truth, of the matter, and seeing that, in our opinion, the farmer has a genuine grievance, our report of the discussion will naturally have the appearance of partiality to those who were espousing the cause of the packers. As for Dr. Smale's letter, we cannot refrain from remarking the meagre reference to the second of the three points, which the author complained he was unable, on account of interruptions, to deal with completely at Guelph. The taciturnity of the packers on the matter of discrimination in price in favor of hogs of the right grade, does not contribute to our estimation of the packers' sincerity regarding the other phases of the subject.

At the beginning of his letter, Dr. Smale denies our charge that the representatives of the packers failed to get down to the root of the question—why they sometimes want to import hogs. He says: "The reason we gave was that rightly or wrongly, farmers believed that it did not pay to raise hogs, and acted upon this conviction." Why they believe it does not pay to raise hogs may be best answered by Duncan Anderson's opening remark that, while the average prices of the past few years had been fairly satisfactory, the occasional slumps in price, which farmers believe unwarrantably extreme, curtailed production unduly, and introduced an element of uncertainty which deterred many a farmer from embarking so freely in the hog business as he otherwise would. This is the "root" of Dr. Smale's cause, and a disposition on the packers' part to deal earnestly with this snag of uncertainty is what farmers are looking for. "The Farmer's Advocate" does not contend for the maintenance of constant values the year round. They must ordinarily be lower in the autumn than in other seasons, else everybody would turn off his hogs then and choke the packing plants. We do not say, although we think that something might be done in that direction—that any arrangement can be made to fix prices absolutely six months ahead; it may be that the "bacon barometer" is not sensitive enough to determine what hog values should be so long in advance, but from a limited though intimate acquaintance with pork-packers, we suspect that the real reason it is so difficult for farmers to approach any