THE MINING GAME

From the Standpoint of the Investor.

By W. CLIMIE

"THIS whole mining game is a gamble and no one but a gambler has any business in it." I have heard this remark while sitting at the blazing roadhouse fire during the winter rush into Gow Ganda, in the comparatively staid and settled camp of Cobalt, in the rotunda of the King Edward, and on the mining exchanges, you may hear it wherever mining men congregate. It is not true; but there is enough truth in it that the kindest word one could give to the beginner in the game would be the classic advice of *Punch*, concerning another sort of venture — "Don't." So long as men and women and mines exist people will continue to venture, however, in mines as well as marriages, and a consideration of the mine investor's chance of making good may help some of us in Canada just now.

If the game were always played fairly, then the more a camp is developed the less the element of chance applies to it and in the newer camps it would be more exact to call it a lottery than a gamble—a lottery in which the few draw rich prizes and the many draw blanks. When crooks get hold of the deal in any camp the great sucker public has no chance of winning at all, except by rare accident. The richer a camp is, the greater the wild-catter's opportunity; the sugar attracts the flies.

The Ontario companies law, and especially the conviction and imprisonment under it of a noted wild-catter last January, has cleared the air a whole lot in Ontario, and bold, bald steals of share-subscribers' money are by no means as much in evidence as in former times, but there is quite as much need to be on one's guard as ever for while the law and the administration of it may improve, the masters of the game make even more rapid progress in the skillful and cunning evasion of its provisions and a good law often creates a fancied security that plays into their hands. No matter how carefully the hedge of legal safeguards may be constructed, the public must, in the long run, learn to take care of itself.

Outside of pure and simple stock gambling, on margin or otherwise, mining investments are made in two ways, in the purchase and development of mining claims or in the purchase of shares in an incorporated mining company. To the average investor the latter is usually the only available one.

Mining claims have a value, somewhat elastic, but, after all, the limits of which are pretty well fixed by conditions. There are thousands of claims staked and recorded that are not now and never will be worth anything. The value of a claim depends upon the showing made, the formation of the rock thereon, and its location. If the country around it is proving up well it will have a fair market value, though with the same showing in an unknown country it might be unsaleable, except to the "sucker." If the amount involved is at all considerable the experienced investor will only buy after examination by one, two, three, or even more experienced men in whose ability and reliability he has confidence and who make independent reports on it. Lots of cheap claims can be had all over the country at from two or three hundred dollars upward, but a claim with any reasonably good silver showing and in a good locality will be held at $50,000 to $100,000 and upwards. The larger operators would rather pay $50,000 for a reasonably well-proven claim than $500 for an unproven one. More money is risked but the chances of making good are better. The point is that even the best claims have a cash market value that can be fairly closely fixed, and that is a point to remember when discussing the stock company side of the situation.

STOCK companies are not usually floated by the original stakers of the claim. They sell out for cash, or for an interest in the company, frequently for both. The purchasers turn over the claim, or claims, to the company generally at much more, often at very many times more than its actual cash value. A wonderful variety of ways have been invented for doing this and many curious expedients are resorted to, but it all amounts to the same thing in the end. The net result is that the investing public, who have put up all the money to buy the mine and put it on a paying basis, own but a small fraction of the mine, the bulk of it belongs to the promoters who may not have paid in a single dollar in cash, who may even be drawing a good salary or commission for their arduous work in "skinning" the public. In addition they frequently sell considerable amounts of the stock they "hogged" for themselves, the proceeds going into their private pockets, yet they retain enough stock still to control the company in case the property should happen to show up well enough to make it worth while holding control. They are thus in the happy position of having allowed the public to pay for the mine and for its development, of having paid them a salary for allowing the public to do this; they have taken the precaution of stowing away as much cold cash as possible for themselves, in case the mine does not turn out well, and of retaining more than half the mine for themselves in case it should happen to turn out well. It is a good safe game; it has been worked again and again, and it is being worked yet.

In the earlier days they did not bother themselves much about the kind of property then handled or whether they had any property worth a cent or not; they simply gathered in all the money their glowing literature could draw from the public and let it go at that. But prison bars are objects these gentlemen do not contemplate with equanimity; their ingenuity now enables them to make a good thing of it and at the same time keep within the law.

THE law now requires that all the facts sufficient, or supposed to be sufficient, to put the public wise to the whole ins and outs of the scheme shall be published in the prospectus and a copy of it filed with the Provincial Secretary. The prospectus will give you a fairly good idea of what is doing, provided, first, you can get hold of it, and, second, that you can understand it when you get it. For since the companies are compelled to publish certain facts therein they are by no means flooding the country with them as of yore. When you do get them the essential facts are sometimes printed in small, modest type in an inconspicuous corner, like an unimportant afterthought, while the allurements are beautifully displayed, both as to language and typography.

The writer called at the offices in Toronto of as many brokers as he could get track of who were handling the stock of more recent flotations and in only two cases did he obtain a copy of the official prospectus, though he asked particularly for it. All he got was a bunch of nicely printed matter, reports, maps, etc. No doubt the statutory prospectus could be inspected at the provincial secretary's office, but that does not make it available to the ordinary investor.

Let us take a typical case of mine flotation and see what it means. Let us place the issue at one million shares, one dollar par value, or $1,000,000 capital, which is very modest, as flotations go. The company make a contract for the purchase of mining property and agree to issue 800,000 fully paid up shares in payment. The vendors thus own eight-tenths of the company and as directors have the sole management of it. The balance of the stock, 200,000 shares, is offered to the public at, say, fifty cents. If a share sold to an outsider is really worth fifty cents it ought to be worth as much to a director. On that basis the directors were paid $400,000 for their property. The chances are the property could not have been sold in the market for more than $10,000 in cash, quite possibly not for the half or the quarter of that amount. The director can still remain a director though he may retain but a single share of his stock and for all the investor knows he may be buying the directors' stock and not the treasury stock of the company. In any event the money received from the sale of treasury stock will be all the actual cash available to make a mine, and the people who have put up all the actual cash, or practically all, will own one-fifth of the mine. The proportion which the promoters "hog" for themselves, and the consequent proportion which the public, who pay the piper, are graciously allowed to acquire depends upon the nerve of the promoters and the eagerness or otherwise of the "suckers" for the bait at the time.

Another company may issue, say, only ten per cent. of the capital stock as payment for the claims sold to the company, retaining ninety per cent. as treasury stock to be sold to the public. This looks so fair, so generous even, that the old hand at once gets suspicious. It is possible that the claims sold are so devoid of value, and the capital stock so large that even ten per cent. of it sold would bring in a few thousand dollars and such people may only be playing for small stakes. One per cent., even, on a million dollars is $10,000, and small stakes are not to be despised when the public get wary and big ones are hard to land.

An intending investor should insist on seeing a complete prospectus of the company whose shares he contemplates buying; he should study it till he understands what the proposition really is; if he cannot understand it he will be wise to leave it alone. If he does understand it he will probably leave it alone anyway.

Here would be a straightforward deal. A mining claim can be bought for, say, $20,000. It is worth that; a good mining man would, we will say, be willing to pay that much in cash for it. A company is formed, stock sold, those who have given any service to the company by way of promotion, selling stock, or in any other way are paid a reasonable wage for their services. The rest of the proceeds of stock sale belongs to the company, its working capital. The claim is bought, paid for, developed, and the shareholders take equal chances on it becoming a mine of value. If the original claim-holder thinks so well of it that he wants stock in the company let him buy it, the same as anybody else. Mining companies have been formed along such lines, but not often.

Yet it would be a mistake to imagine that the whole mining game is in the hands of an unmitigated gang of scoundrels. Of the new mines being developed to-day perhaps two-thirds of them are operated by clean men of business on straightforward business lines, men who never bother their heads with the stock-jobbing end of the game. They use their own best judgment or the judgment of the best men they can employ, buy and develop claims and take their chances on making good. If they win out once out of ten times they will probably be ahead. These men are not peddling out stock to the public to raise money for mine development. When a mine has advanced enough to give its shares a marketable value they may, frequently do, dispose of a portion of their holdings. They are usually men who have many interests and may require a portion of their money for other ventures, they may have a variety of reasons for selling without necessarily having lost confidence in the value of the stock, but this is quite a different thing from selling stock that never did have and in all human probability never will have any value at all.

There are claim holders who form companies in order to raise money for development purposes and who are willing to give the public they sell to at least a reasonably fair show. But before investing make sure of this: first, that they turn in their claims at something like a fair cash value; second, that your money cannot be diverted from its proper purpose of mine development; and third, and this is perhaps of most importance, that the men in charge are reputable men who will now allow themselves to be mixed up in a dirty deal. Otherwise don't touch it. You have not one chance in a hundred, probably not one in a thousand, of making good.

IT is surprising how, among the bigger operators, it is the confidence men have in one another that influences the investment of money, not only in mines but all other lines as well. The first thing they ask is: Who are behind it? Unless they know that the men in control are people who will give them a fair deal the proposition is turned down at once. Among themselves a reputation for playing the game fairly is essential to success. After all, in all the unsavoury work that has been done in mining circles in Canada there have not been many men of repute who have lent their names to help on the fakes. It is getting better, for once they do it they are soon spotted, and in looking over the list of directors or promoters I have not noticed a single name of prominence or good standing in financial circles in any of the flotations that seems to me to be a wildcat.

It is a good rule to follow that, if you are not sure of the men in charge, give yourself the benefit of the doubt and leave it alone.

The public press can by no means be held blameless in this matter. Without its aid the frauds practised could not have been nearly so extensively or so successfully carried out. The papers, or a portion of them, published what on the face of them were schemes for swindling the public and accepted their share of the plunder—at regular advertising

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