

GOVERNMENT'S "BABY" BONDS

Price Must Be Attractive, Say Bond Men—Question of the Sales

Sir Thomas White stated in his budget speech that the Dominion government will issue 5-year debenture stock in small denominations in order "to promote saving among the public and afford a ready means of remunerative investment in Dominion securities for funds seeking investment during the intervals between public offerings." The terms of these issues will be announced later. In discussing the matter with the bond houses, *The Monetary Times* gathered that three points are raised by them as being important, namely, that the price must be made attractive, that the bond houses should assist in the sale of the securities, and that the stock should be well advertised.

Price of the Issue.

As to the price of the issue, Messrs. Brent, Noxon and Company, investment brokers, Toronto, say that it should be borne in mind that on a five-year basis the incidental expenses, etc., including brokerage, would mean that the net return to the government would suffer materially in proportion as compared with a longer issue of ten years. In other words, if the five-year bonds were floated at the same price as the recent ten-year lot (97½), after deducting all incidental expenses, the government would be paying for the money about 6 per cent.

"The success or failure of a loan of this character," say this firm, "will be in a measure determined by factors outside altogether of conditions as to price, terms, etc., under which the issue is made, although, of course, these conditions will have a large bearing. It is, therefore, rather difficult to size up the situation until further information is published by the Finance Department, but it is, in any event, very important that the price to the public be made attractive, having in view competing securities, and also that the hearty co-operation and thorough support of the brokerage houses be enlisted."

Competition with Other Bonds.

Conditions at a later date may be more favorable than at the present time for a flotation of this character, but just now, strictly on its merits as an investment proposition, especially in competition with the Anglo-French loan, a five-year issue of this kind would suffer very materially by comparison, think the firm quoted above, as these Anglo-French five-year gold bonds can be purchased to yield the investor considerably better than 6 per cent., and large blocks are being absorbed by Canadian investors, including banks, insurance companies, etc.

"On patriotic grounds," they continue, "a five-year Dominion stock issue would appeal to a considerable constituency, but it is doubtful if this patriotic appeal would be weighty enough to of itself carry the loan through to a successful conclusion, and it will be necessary to have an extensive advertising campaign, and the co-operation of the brokers should be thoroughly enlisted."

Current Price of War Loan.

Mr. Hew R. Wood, bond broker, Montreal, thinks the proposed issue of debenture stock by the Dominion government is a step in the right direction. "The main difficulty," he says in a statement to *The Monetary Times*, "might lie in the fact that the general public would not absorb securities readily without the facilities of the bond houses in presenting the desirability of any given issue before them. This is illustrated quite well at the moment by the current price of the last war loan and the sale prices of Ontario municipals."

Mr. Russell D. Bell, of Messrs. Greenshields and Company, investment brokers, Montreal, discussing the matter with *The Monetary Times*, says if such an issue of bonds is to be distributed to any extent a considerable programme of advertising and merchandising is necessary, and, he adds, if the government expects to make any domestic loan, the expenditure called for for the proposal referred to above would be largely wasted ammunition.

"Those who are experienced in raising money," says Mr. Bell, "know that the greatest results are obtained by a definite campaign, beginning at a certain time and ending at a certain time. The various patriotic fund campaigns and the last government loan are examples of the success

of this method. It is a matter of merchandising, advertising and psychology, well understood by business men. If a future internal loan is to be made it would, therefore, be more wise to avoid expenditure of effort and money until such an issue is made, when the same expenditure can be made with far greater results.

"Incidentally, to place any considerable number of \$100 bonds and to spread the propaganda of thrift and saving very generally among the public, more effective methods of distribution will have to be employed than were employed with the war loan. A study of the methods recently used by Great Britain will illustrate what I mean. The British war loan was floated by means of the most modern advertising and merchandising methods known. Reliance was not placed on the technical prospectus, but actual advertising salesmanship of the type highly developed on this continent was used with great success. It will be necessary for our government to take cognizance of these methods in order to get the greatest results from an offering of \$100 bonds.

DOMINION SAVINGS AND INVESTMENT SOCIETY

Among the several strong companies which have made London, Ontario, their headquarters for many years is the Dominion Savings and Investment Society. This company has been doing business for forty-three years, and under conservative direction and management, long ago placed itself in a substantial position. As a result of operations last year, net profits of \$57,404 were made. From this amount, dividends calling for \$46,738 were disbursed. The remainder of the profits was placed to the credit of the reserve fund and the contingent account, the former benefiting by \$10,000 and the latter by \$665. The reserve fund now totals \$235,000 compared with permanent stock of \$934,300, therefore being equal to more than 25 per cent. of the paid-up capital. The contingent fund amounts to \$5,129.

Mr. T. H. Purdom, president of the company and a well-known London financier, was able to present, with his co-directors, a very satisfactory financial statement to the shareholders. The cash value of mortgages held by the company is \$2,222,005, that naturally being the principal asset. The remainder of the assets, amounting to \$2,260,765, is made up of cash in hand and in banks, and totalling \$38,759. The company has deposits of \$678,977, currency debentures of \$112,289, and sterling debentures of \$267,347. The managing director of the Dominion Savings and Investment Society is Mr. Nathaniel Mills, who is regarded as a capable manager and a sound financier.

BANKING IN UNITED STATES

"A system of tolerably strong banks" is the description of Canada's banking system used by a United States writer in a volume just issued. The shading of the adjective does not do justice to the strength of our banking institutions. However, that little drawback may be overlooked in the interesting volume from the pen of the secretary of the federal reserve board of the United States. The book begins by describing the general functions of banks and giving a working definition of credit. Then follows an enumeration of the chief kinds of banks. The actual course of banking is next set forth in detail. The organization and management of a bank are discussed, and then capital, reserves and the governmental control of banking in the United States. The chapter on foreign banking contains brief descriptions of all the chief national banks and closes with a discussion of modern banking systems in general, including that of Canada. The final chapter deals with "Problems of American Banking," including the fundamental questions of national finance—crises and panics, the effect of reserve banks, the relation of the reserve system to state banks and its relation to the government, the development of commercial paper, foreign trade, branch banks abroad, and the new burdens laid upon United States banks by the European war.

Having unique opportunities, the author has produced an interesting survey of American banking.

American Banking. By Dr. H. Parker Willis. 360 pages; limp leather; \$2, postpaid. Published by LaSalle Extension University, Chicago.