

The Monetary Times

Trade Review and Insurance Chronicle

Vol. 47—No. 24

Toronto, Canada, December 9, 1911

Ten Cents

The Monetary Times OF CANADA

PUBLISHED EVERY SATURDAY BY THE MONETAR TIMES
PRINTING COMPANY OF CANADA, LIMITED.

MANAGING DIRECTOR—James J. Salmond.
MANAGING EDITOR—Fred. W. Field.
ADVERTISING MANAGER—A. E. Jennings.

The Monetary Times was established in 1867, the year of Confederation. It absorbed, in 1869, The Intercolonial Journal of Commerce, of Montreal; in 1870, The Trade Review, of Montreal; and The Toronto Journal of Commerce.

Terms of Subscription, payable in advance:

Postpaid to any address in the Postal Union:

One Year	Six Months	Three Months
\$3.00 (12s.)	\$1.75 (7s.)	\$1.00 (4s.)

Copies Antedating This Issue by More Than One Month, 25 Cents Each.
Copies Antedating This Issue by More Than Six Months, 50 Cents Each.

ADVERTISING RATES ON APPLICATION

HEAD OFFICE—Corner Church and Court Streets, Toronto.

Telephone Main 7404 7405 or 7406. Branch exchange connecting all departments. CABLE ADDRESS—"MONTIMES, TORONTO."

Western Canada Office—Room 404, Builders' Exchange Building, G. W. Goodall, Business and Editorial Representative. Telephone Main 7550.

Montreal Office—B33, Board of Trade Building. T. C. Allum, Editorial Representative. Phone M. 1001.

London Office—Grand Trunk Building, Cockspur Street. T. R. Clougher, Business and Editorial Representative. Telephone 527 Central.

All mailed papers are sent direct to Friday evening trains. Subscribers who receive them late will confer a favor by reporting to the circulation department.

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NEED FOR A FINANCIAL HOUSECLEANING.

There are signs that in certain directions Canadian enthusiasm has overruled commonsense and regard for the strict maintenance of Canadian credit. The incidents concerned have been comparatively few, but sufficient in number to cause self-examination, self-admonition, and to create a resolve to mend ways which are not proving attractive or profitable at home or abroad.

The chief unsatisfactory feature in this situation is the inability of various industrial amalgamations to pay dividends on their heavy capitalization, or to show earnings approaching the optimistic estimates made in the prospectus which was offered to the investor at the time of consolidation. One prominent merger has defaulted on its bond interest. Another is likely to do so. A third has failed to declare the dividend on preferred stock. A fourth has earned, during its second year, half a million dollars less than the estimated earnings. These are serious matters, and will have two effects: first, an undermining of confidence in Canadian securities; and second, suspicion on the part of investors in connection with securities issued by mergers. Too often, consolidation of industrial enterprises has meant over-capitalization, counteracting difficulties of individual companies absorbed, making easy money for promoters, and almost invariably over-estimation of economies to be achieved from amalgamation. Although it has been said by President Taft that it is possible to conduct business under modern conditions without the crutch of combination, there are those who think otherwise. We shall, therefore, have more mergers and further issues

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of their securities to the public. The promoters may figure the following as certain factors in the situation:—

- 1.—More information than hitherto afforded as to the past history and actual earnings of companies absorbed, must be given in the prospectus.
- 2.—The investor must know what was paid for the properties acquired by the consolidated company, and whether the consideration was cash, stock, bonds, or all three.
- 3.—Greater discretion and conservatism must be used in estimating the economies likely to accrue from amalgamation.
- 4.—Capitalization must be based upon the cost of acquiring properties, real assets, a reasonable amount for future development, and legitimate profits to promoters.
- 5.—Capitalization should be such as to enable the predicted dividends to be paid even in times of moderate trade depression.

The second undesirable feature, and one which has a tendency to grow stronger, is unbridled speculation in land. Fortunately our banks act as a check in this direction. The past few months have witnessed the birth of innumerable land companies. These have been floated in every part of Canada, and a large number have found their way to England. Prospectuses have been issued forecasting enormous profits to shareholders, profits which may not easily be paid at any time and cannot be disbursed in bad times. Such times come every few years in every country. It looks as though the excitement of land speculation has gained such an impetus that many are no longer content to gamble with their own money. Through the medium of land companies,