

prices and eager to find some cause which legislation might remove, is not strange. But the truth is, the belief that speculation fixes prices, irrespective of trade conditions, finds lodgment in other and far different brains from those of discontented farmers and demagogue legislators. It shows itself, here and there, even among habitués of the security market. It is certainly to be met at times in financial articles published for the enlightenment of business men. And it is safe to say that so long as such a belief is entertained among intelligent people, just so long measures like the Anti-Option Bill will get a respectful hearing.

The proposition may be unhesitatingly laid down, for the instruction of such hasty reasoners, that in the long run speculation never exerts the slightest influence on prices. We say in the long run because speculation may and in every extensive movement does bring prices temporarily to a point not warranted by the trade situation. A successful "bull movement" is sure to carry prices, whether in the security or produce markets, above the normal level, the reason being that natural conditions, such as the sale of security holdings by shrewd observers of prices, or the rapidly increased shipment of grain to market, will not immediately counterbalance the support of excited speculators. But eventually such conditions must regulate prices, and for the reverse movement which inevitably follows an excessive advance the term reaction has been invented, familiar to all speculative markets. What is true of a speculative advance in prices is equally true of a speculative decline. The effort to depress railway stocks last August ran against such an obstacle and failed utterly. It passed the limit of decline justified by the timid demand, and at the lower level attracted real buyers into the market. The effort to renew in February last winter's advance met with similar collapse, because the demand for stocks, up to that time very urgent, proved to be exhausted.

The combination to put up Chicago corn prices last May was wrecked, not by the machinations of speculators, but by the increased supply attracted from country elevators. In 1888, when wheat was advanced to \$2 a bushel, much of the advance was normal, and the price would conceivably have risen to a "panic level," but for the unprecedented outflow of grain from Russia, called forth solely by the astonishing price paid, which made shipments profitable that never were profitable before.

The whole history of trade is a succession of such incidents, proving that speculation permanently fixes prices only where it works in anticipation of and in accordance with actually changed conditions. There is more confusion on this point in the stock market than anywhere else, because there the actual supply on the market is variable and largely governed by sentiment. Purchase of stocks for investment comes as near to the purchase of wheat for consumption as the conditions of the two markets will allow; but no holder of security ties is so apathetic that he will not sell if the price offered for his holdings assures him an extravagant profit. Conversely if a daring "bear" operator has forced the price of a stock down to ruinous figures, the real owner of such shares, whether holding them on borrowed money or not, is likely to sell in the belief that the decline has proved his stock's worthlessness. The market breaks again under this greatly increased supply, and it is plausibly argued that here, at least, speculation has proved superior to normal conditions. Yet such a view of the case is totally misleading. Confidence or lack of confidence is the foremost of all elements in the creation of security values. Confidence may be impaired and liquidation provoked merely by reckless selling, backed, possibly, by false rumors. But if there is nothing more than this, a thoroughly artificial situation results, promptly reversed by the operation of the normal demand, increasing at the lower prices. This was the result of the "Chilian war scare" on the stock market last winter. The chief sufferers from that episode were the gentlemen who tried to prove that speculation on the

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stock market was independent of natural conditions.

One other point remains to puzzle hasty observers of the markets. It is noticed that in the argument against the Hatch bill the assertion has been made that "future" speculation not only does not depress prices, but actually advances them. It is a poor rule that does not work both ways, and if speculation per se can raise prices, say the advocates of the bill, why can it not per se depress them? If prices are higher because of "future" trading, what becomes of the argument that speculation cannot permanently control prices? The answer is easy. From the nature of the trade the marketable supply of grain or cotton is created within a comparatively short time. The demand, on the contrary, is spread out equally over the whole year. If the farmers were to bring their crop to market as fast as it was ready, a glut in the market would follow. Consumers would not and could not buy all at once; consequently the farmer would dispose of his crop necessarily at bottom prices. Later on, as the supply diminished and the demand remained constant, prices would raise steadily; but of this advance the average far-

mer would gain no benefit. Under such imagined conditions, prices would invariably begin low and end high, with the high prices won by the middleman.

The speculator anticipates and discounts all this movement. Under his operations prices inevitably end the season lower than they would have ruled could his business have been extinguished. But on the other hand, prices at the beginning of the season are necessarily higher on such a basis than they could be if the farmers were left to manage the market for themselves. In July the speculator sells wheat for August delivery. This fixes a minimum for the August price. Wheat marketed a month from now can sell no lower, unless the market is swamped with supplies beyond the expectation of the most bearish speculators. It may sell much higher if there is not enough grain to make deliveries. In other words, the speculator's contracts equalizes prices and put the market on a balance, and the producer is the plainest beneficiary. But equalizing prices is not controlling them. The notion that speculation can for a series of years control prices and defy the laws of trade is too palpable an absurdity to be allowed serious consideration. —New York Evening Post.