

LESSON III.—Continued.

Uses of preferred stock. Although preferred stock was originally the offspring of receiverships it is now widely used by industrial concerns. The reasons for its use are as follows:

(1) Preferred stock furnishes a convenient means of separating a company's stock into different voting classes. Some times the preferred stock carries with it no vote at all; again it may elect only a limited number of directors. In either case the majority of the owners of the common stock may elect a majority of the board of directors. It follows that a much smaller interest may control the business than if all the stock issued voted alike.

(2) Preferred stock is very useful in forming industrial combinations. It represents the present value of the whole concern, while the common stock represents potential earnings. The subsidiary company stockholders will be willing to accept preferred stock for their former holdings, whether common or preferred, whereas no one can foresee whether common dividends will be paid or not.

(3) Preferred stock issues are useful in changing partnerships into the corporate form. In this case the preferred stock may have preference over the common with respect to its voting power alone.

(4) Preferred stock may attract conservative investors in a new business—or, indeed, in any concern—whereas they might not care to buy the more speculative common stock of a corporation. The preferred stock, as will be recalled, stands in point of security between the lowest grade of bonds and the common stock.

Voting power of stock. Originally the universal custom in all corporations was to give one share of stock one vote. The custom is still general but by no means universal. The following important modifications should be considered.

In order to protect the minority holders of stock it is a very common custom, especially in England, to restrict the number of votes allowed to any one stockholder. Thus a man with ten shares or less may have one vote for each share; for each additional share up to twenty he may have half a vote per share; and so on as his holdings increase. The arrangement, at first glance, seems an admirable one. The difficulty, however, is found in the ease with which the owner of a large block of stock can divide it up among his family and friends, and thus secure complete control of the corporation.

The system of "cumulative" voting followed in the United States is more effective. In this case each share has as many votes as there are directors to be elected. If these votes are