Bank Profits, Stock Prices and Yield

BANK.	Last year's profits.	Rate on present assets.	Rate on present Cap. & Res.	Rate on Capital.	Price March 16th, 1914.	Rate earned on Price.	Dividend.	Yield to holder.
Commerce	$2,992,951	1.17	10.50	19.95	$210	9.50	10+2	5.71
Montreal	2,648,402	1.09	8.27	16.56	246	6.32	10+2	4.87
Royal	2,142,100	1.19	8.88	18.53	225	8.65	12	5.33
Merchants*	533,653	1.53	9.54	18.55	190	9.75	10	5.26
Imperial	1,125,971	1.38	8.04	16.58	214	7.53	12	5.6
Dominion	950,402	1.05	7.52	17.75	231½	7.06	12+2	6.
Nova Scotia	1,210,774	1.51	7.12	20.80	261	7.7	14	5.36
Union	750,095	.94	8.92	15.00	144	10.41	8+1	6.25
Toronto	850,693	1.40	7.73	17.00	211	8.05	11+1	5.68
Ottawa	706,740	1.32	8.07	18.00	205	8.06	12	5.85
Hamilton	498,273	1.08	7.54	16.61	203¼	8.16	12	5.9
Standard	555,095	1.21	8.69	21.16	222½	8.77	13	5.84

*Five months.

a channel of investment as bank stocks, than probably any other month in the year, a discussion on the subject is as well timed as it is thoughtful and deliberate. Remembering the causes which led to the passing of the Canadian chartered banks which have disappeared in the past fifteen years, and the dishonesty and incompetency revealed in the post-mortem examinations, one must agree with the writer in the conclusion that the greatest factor to be considered in deciding the question of the safety of a banking institution is the "Men."

The argument proceeds:

"The investor will probably find his greatest security by selecting that institution which by pursuit of sound methods, 'by tradition of the bank,' by esprit de banque, or by whatever name one chooses to give it, has equipped and collected at the bank's head a personnel, inspired by the policy which has brought that institution to its present position. On such a standard we have our own opinion as to the most attractive securities of this class, but each investor may also have his own and find it quite as well based; since the basis is a judgment of men, not of statistics."

As to the influence of recent events in adding to the attractiveness of bank stocks as investments, the firm calls attention to the fact that the youngest of the chartered banks is thirty-one years old and the oldest ninety-six, showing that the existing institutions have withstood the test of years, and one well fortified against competition from new ventures in the banking field. There are other advantages now operating in favour of the established banks. Under the former Bank Act the circulation of a bank's notes was limited to its paid-up capital, and a heavy fine was imposed for exceeding that amount of circulation, subject to permission for emergency circulation during the crop-moving period, at a cost to the bank. Under the new law, Messrs. Jaffray, Cassels & Biggar point out, banks are permitted to issue notes against the amount deposited by them in a central reserve. This new provision removes the necessity for new issues, so far as circulation is a factor. The present rates for money and the expectation that slower trade will keep rates down, are reasons for thinking that the banks will not care to increase their capital if new funds cannot earn more than money costs. As an evidence of how rapidly new capital issues have been made by the banks, the case of the Dominion Bank is of interest. Its paid-up capital in 1900 was $1,500,000; to-day it is $6,000,000. So much for the expectation that new issues will not be forced on the market.

If, then, there is to be a decrease in the supply of bank stocks, that factor alone would tend to appreciation, but further, it has been the policy of the banks to hold back from the earnings large amounts which have been placed to the reserve fund. Now most reserve funds are at least one hundred per cent. of the paid-up capital, and the policy of further additions to them is not likely to be followed. Again, many of the leading banks have built large head offices. The heavy expenditures on premises account can be said to be largely completed. To these two accounts, reserve funds and premises, large amounts of earnings have been diverted in the past. The future does not seem to call for such a diversion of profits. The shareholder should therefore look forward to an increased distribution from profits. Under these circumstances, we expect a gradual appreciation in the price of such securities.

The accompanying table shows the profits of the banks and the rate which these profits represent upon the assets, the capital and the reserves.

Three Months' Stocks

THE Canadian market has taken its spring medicine earlier than usual this year. After its experience of 1913, one would think that a purifying process was the last thing that the patient required, but we find at the close of the first quarter the average price of securities very slightly above the low level existing on January 1. Thus, twenty representative preferred issues stood at the end of March at 92.75, as compared with 90.79 at the beginning of the year. Twenty representative industrial common stocks made a fractional reaction, the average price being 57.51 on January 1 and 57.24 now. The securities of fifteen utility corporations have an average price of 117.6, an advance from 113.23 in the three months. The appreciation in the values of bank stocks has extended from 205.61 to 212.47, and finally, ten active bond issues have increased in average value in the same length of time from 92.47 to 93.20.

On the face of them these figures tell of an uninteresting and uneventful market, and they do not reveal anything of that rather remarkable market phenomenon—the January rise. They relate only the story of the dull beginning and the drab ending of an absorbingly interesting chapter of stock exchange history. No one yet has been able to adequately explain the evolution of sentiment which produced the dramatic revival in practically every market in the world during January, which was as short lived as it was unexpected. That sudden demand for securities which sprang up after one year of apathy on the part of investors and which heralded the advent or easy monetary conditions has left some relics of its presence in the markets for gilt-edged securities, but so far as public interest is concerned the markets for listed stocks are as colourless and as semi-stagnant as ever.

It will be noticed in the preceding comparison of prices that while there has been a fair appreciation in the average value of bank stocks and bonds, particularaly in the former, common issues have remained about stationary. There has been an average gain of four points in the securities of the public utility corporations and of two points in preferred stocks, whereas the advance in bank stocks is seven points.

The appreciation in bank stocks represented by the statistics of the quarter actually occurred for the most part within a period of a few weeks. The recognition of the fact that bank investments were selling out of line with other securities came all at once, and although the offerings had been plentiful before the close of the year, buyers when they entered the market in January and February found it practically bare of stocks. The prejudice against bank investments because of the double liability appears to have worn off, but possibly the greatest incentive towards the accumulation of these securities was contained in the changes in the Bank Act, one of which will operate against further large increases in capital by the banks naturally resulting in a less number of new securities being created. Again, the banks' reserves have reached a level which makes further large additions to them in many cases improbable, and special accounts, such as reserve funds and premises, have attained such proportions that smaller contributions to them will be necessary in future. And the pension and sick benefit funds have been in the majority of cases established so that profits which have been for years directed in these channels may now be diverted to the proprietors of the institutions.

If traders generally were asked to name the two stocks which provided the basis of the speculative markets in the last three months there would possibly be no exception to the general reply of Dominion Iron and Brazilian common. Almost every large financial interest in the country is concerned in either one or the other of these securities, and their market movements have both depended, or were thought to depend, upon political action.

The prospect of assistance from the Dominion Government, which has been dangling in front of the Dominion Steel Corporation for many a long day, came closer during the first quarter of 1914. As a preliminary to this assistance the corporation passed the dividend on its common stock, an occurrence which, although it could not have been accurately foretold, had been discounted by the market weeks before. This year as yet has brought no improvement in trade conditions, and foreign competition is still being experienced. Because it has come to be regarded in the public mind as an enterprise dependent on politics for its prosperity, there exists a popular feeling against Dominion Iron common, but in spite of its many vicissitudes that stock has held its position remarkably well.

The other market leader, Brazilian, was moving along triumphantly, as the bullish element fondly expected, to par and better, when the muddle in Brazilian national finances developed and the Paris crowd, which had the handling of Brazilian Traction, found the task too much for them and were forced to unload. At this critical time a revolution in an obscure section of the country and a drop in exchange on London, largely based on the fears that the government would not be able to meet its interest obligations, placed victory unexpectedly in the hands of the bear crowd in the market. The onslaught which brought the quotations close to 77, or twenty-three points below its high level, was the final triumph of the bears, and a large part of the rally

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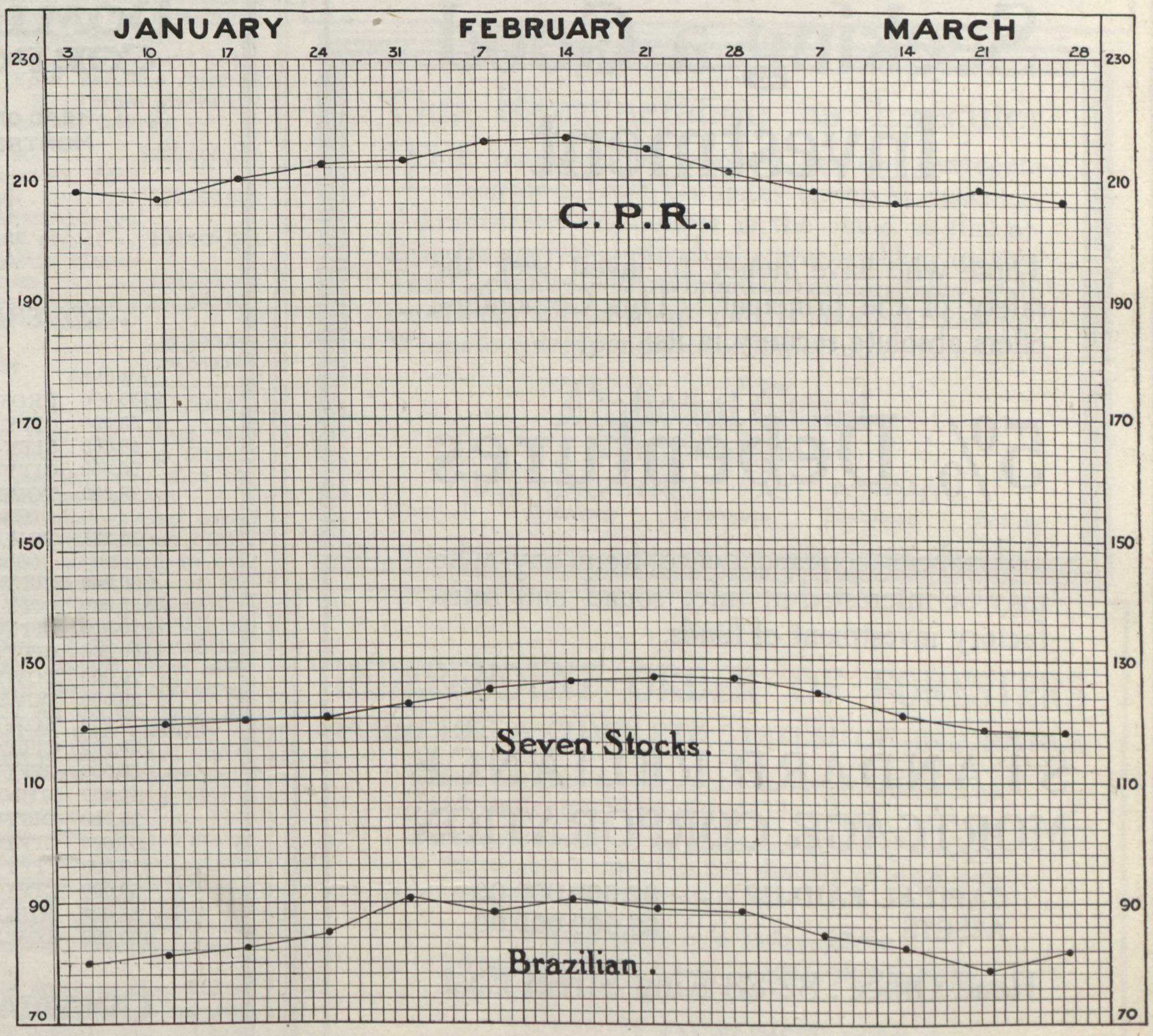
THE STOCK MARKET FOR THREE MONTHS IN DIAGRAM



By This Diagram it is Seen That the Level of Representative Stocks is Practically the Same as Three Months Ago. C.P.R. Was a Little Lower and Brazilian a Little Higher at the End of the Quarter. The Closing Figures on April 4 for the Nine Stocks Quoted Above Were as Follows: C.P.R., 206½; Brazilian, 81⅝; Bell Tel., 147½; Can. Gen. Elec., 109; Dom. Steel Cor., 32½; Laurentide, 188; R. & O., 103½; Rogers, 119; Tor. Rails, 138½.