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BRITISH CONSOLS AND CANADA'S BONDS.

The experience of the banks in the United Kingdom with their investments in consols is not apparently of a nature to induce the banks in Canada to employ a great part of their resources in the purchase of Government bonds. The decline in the quotations for the world's premier security has caused paper losses of millions of pounds in the aggregate to the old country banks. In the last three or four years they have been obliged to draw very heavily upon current earnings and upon their funds of reserve profits in order to adjust their book values to the lower market level. Of course, if circumstances should arise to compel them to realize upon their investments, and the market remain at its present level, their paper losses would become actual losses. But the banks do not, apparently, contemplate selling out at these prices. Having written their investments down to the market, they are holding them, and any recovery that ensues will be just that much of losses made good. It may be that the directors would not, on a recovery, show it on the books by raising the book price of their investments, but if the price improvement was of a permanent nature the amounts so regained would be there whether they were shown or not. Speaking generally, it is hardly considered good conservative banking to raise book values of investments even if market prices seem to warrant the proceeding. It is the better practice to regard profits scored in this way as potential profits until they are made actual profits through sale or realization of the securities. That course is what may be expected from the highly conservative British bankers at any rate. They will be slow to mark up their consols when changed conditions in the world's money markets produce cheaper money followed by rises in quotations.

With regard to British consols it is well known in investment circles that several special causes have operated to bring about the decline. One of the earliest was the reduction in the interest from 2½ to 2¼ p.c. This was followed by two others—the temporary cessation of sinking fund purchases and

the extension of the lists of investments available for trustees to include certain colonial government and other securities. These three factors when aided by the large issues of British government obligations during and after the Boer war, and latterly by the monetary stringency have been sufficient to break the time-honoured steadiness of the consols market.

It is thus worthy of notice that the previous high quotations were owing to special causes. Under the terms of its sinking fund arrangement the British Government was itself a heavy purchaser of its own consols, the supply of which had not been increased for a number of years. And trustees of estates were limited by law to a very few securities for purchasing, British consols being the principal security on the admitted list. To the extent that these influences operated, consols were therefore on an artificial basis. They were somewhat similar in position so far as artificiality of price is concerned, to the bonds of the United States Government at the present time. Americans often quote the fact that their Government's 2 p.c. bonds sell above par as an indication of the superior credit and strength of the United States. Whereas everybody familiar with the subject is aware that the high price is due to the fact that national banks must buy and pledge the Government bonds as security for their note circulations.

But it can be said about the Canadian Government bonds that there is nothing artificial about their position. Their price is not bolstered up by Government buying or by special privileges enjoyed by holders. Instead it rests more securely on the basis of natural value. In the issues he is about to make, it can be taken for granted that the Finance Minister will base his terms on market conditions. He would not be able to succeed with them if he took any other course. For example, if an issue were to be attempted at the present time (which is not likely in view of the partial failure of the Manchurian Railway Loan in London a few weeks ago), he would have to bear in mind the fact that investors now can pick and choose from an excellent range of high-interest-yielding stocks and bonds. For them to be at all drawn to a Dominion of Canada issue the terms would have to be attractive.

So, any banks that desired to invest moderately in the bonds, when issued, could feel reasonably certain that they could acquire them on favourable terms. Their position, in the long run, is likely to be very much better than if they bought during a time of easy money when gilt edged securities were at top-notch prices. In the latter circumstance they would, no doubt, be subject to the danger of losses such as the old country banks are now facing through the decline in consols. But, bought under circumstances like the present, with the bonds