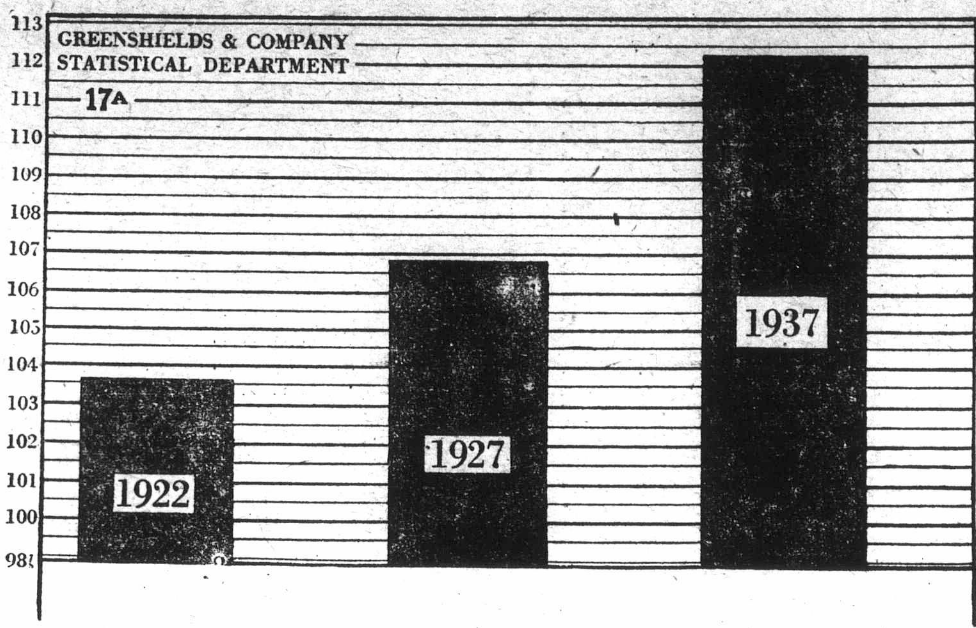
The Three Victory Bonds



The government plan for handling the initial transactions of Victory Bonds, prior to their listing on the Montreal Stock Exchange, has proved a wise one; briefly the plan is as follows:

All bond dealers and Stock Exchange houses are co-operating with committees which have been formed throughout the country. All buying and selling orders have to pass through these committees and all transactions take place at the fixed price of 97⅞ to 98⅞ and accrued interest, representing approximately the price at which the bonds were originally issued.

In a large issue, such as Victory Bonds, with its numerous subscribers, there are bound to be people, who through force of circumstances, have to sell. By this organized method of handling the initial transactions, holders of the bonds are protected against any needless sacrifice. They know that if they have to sell they will receive approximately the amount they paid for the bonds originally. There are many buyers in the market for these bonds who are quick to take advantage of any offerings.

The thorough distribution amongst investors that these bonds are receiving is a factor which will prevent for all time any material decline in their price, unless the war should continue indefinitely and the government be forced to pay a higher rate of interest, but the investor in Victory Bonds to-day is protected against any such decline because his bonds are exchangeable at par into any similar issue that may be made in the future.

We have received a good many inquiries from clients asking advice as to the respective merits of the five-year, the ten-year and the twenty-year Victory bond. One of our good reasons for recommending the twenty-year bond as the best purchase for the average investor is presented in the graph given above.

The securities of the Canadian government are selling to-day at prices to yield about 5¾ p.c. against a normal rate of 3½ p.c. to 4½ p.c. When war borrowings cease, interest rates will decline in due course and the purchaser of a Canadian government bond at a price to yield about 5¾ p.c. may look forward with reasonable certainty to seeing his security selling at a price to yield new buyers only about 4 p.c.

When that time comes the present-day buyer will have a double advantage — he will be receiving a return in excess of the then current return on such securities, if he continues to hold, or he can realize a substantial increase of his invested capital if he sells.

The graph shows the price a holder of a Victory bond could count on selling at if Canadian government securities were selling to yield 4 p.c. half way through the life of the five-year issue, half way through the life of the ten-year issue or half way through the life of the twenty-year issue. It would be 103.53 for the five-year bond; 106.74 for the ten-year and 112.26 for the twenty-year.

Further, if it should happen that the 4 p.c. basis would be reached in 2½ years, the twenty-year bond would then command a price of 118.74 against 103.53 for the five-year and 109.63 for the ten-year; or if the 4 p.c. basis should be reached in five years, the twenty-year would command 116.79 against 106.73 for the ten-year, while the five-year would be in course of retirement at par.

The chances of appreciation in market value all rest with the long-term bond and this is important from the standpoint of the average investor when the long-term bond is yielding an abnormally high return.

Short-term issues of course give a higher interest return from which the investor receives immediate benefit, important to many people at the present time as an offset to the high cost of living.

We continue to recommend the Victory bonds as the best investment offering to Canadians to-day, and one that will be looked back upon as an unparalleled opportunity. With the price 98⅞, or close to par, the full return on an investment is dependent to but a slight extent on the premium that will be realized at maturity.

Thus on the money invested a Victory bond yields 5.55 p.c. a year, irrespective of the 1⅛ p.c. premium that will be paid the holder when the bond is redeemed at par. On the assumption that the war bonds of the earlier loans will be held to maturity those issues and the Victory bonds give practically the same return. But on the basis of the return from the coupon, and disregarding the premium to be collected at maturity, the 5.55 p.c. return offered by a Victory bond compares with about 5.33 p.c. for the earlier loans.

In calculating his return, the average investor is interested chiefly in what his coupon is giving him, not in the premium he may collect at the maturity of the bond, for no investor knows how soon circumstances may arise compelling him to sell. He has the definite certainty of slightly better than the 5½ p.c. of the coupon when he buys Victory bonds and he can count on that every year he holds the bonds.

Retail Prices in Great Britain

According to the Labour Gazette the general level of retail prices of the principal articles of food, on January 1, 1917, was about 87 per cent above those of July, 1914, and on January 1, 1918, the corresponding increase was 106 per cent; so that the total increase during the year amounted to about 19 per cent on the prices of July, 1914, or about 10 per cent on those of January, 1917.

As an illustration of the restricting effect of Government control, it should be noted that almost the whole of the increase took place between January 1 and July 1, or before the food controller took the action which has resulted in the control of the distribution and fixing of price of almost every article of food, since which time the percentage has only advanced from 104 to 106.

It is stated that between January 1, 1917, and January 1, 1918, the advance of the percentage increase from July, 1914, was greatest with bacon, eggs and fish; while for bread, flour and potatoes a net decrease was reported. In bacon the increase was nearly continuous throughout the year and amounted to 9d. a pound. The fresh egg, after declining from 3¼d. in January to a minimum of 2d. in April, had risen to 4d. by December. Almost the whole of the increase in the price of fish occurred during the autumn, in which connection it might be mentioned that the food controller now announces a list of fixed prices for the sale of fish.

Bread rose from 10d. for 4 pounds in January to 11½d. in May, where it remained until the introduction of the subsidized 9d. loaf in September. The movements of flour were practically similar. Potatoes, the shortage of which was so felt during the winter, ranged from 10½d. to 7¾d. per 7 pounds in the first half of 1917, but resulting from the heavy crop the price has fallen to between 6½d. to 7d.

The price of British meat increased by about 3¾d. per pound during the first half of the year, but by the end this was reduced to about 1½d. above that of twelve months earlier. In the case of imported meat the increase in the summer and the subsequent decrease were both less than with British meat.

Similarly, owing to shortage of supplies, the average price of tea rose from 2s. 4d. in January to about 3s. 2d. at the end of November, since when there has been a slight reduction. Milk, after averaging 5½d. a quart from January to September, began to advance until 7d. was reached at the end of the year. Butter fluctuated considerably during the first half of the year, but since August 1 great scarcity has been experienced, and the price has been increased by 5d. Supplies of margarine have also been far below the demand, with the result that its price rose from 9d. per pound on January 1 to a maximum of 1s. 0½d. on July 1, and most rigid control has only resulted in a fractional reduction. Incidentally it might be mentioned that the food controller anticipates a decided improvement in supplies of margarine resulting from increased production in this country, for which arrangements have been made. Cheese rose by 4d. between January and June, but Government control has now reduced the price to within 1½d. of that of a year ago.

The following table reproduced from the Labour Gazette shows for each of the above articles the average percentage increase in retail prices at January 1, 1917, and January 1, 1918, in comparison with July, 1914:—

AVERAGE PERCENTAGE INCREASE SINCE JULY, 1914.

Article.	United Kingdom. Jan. 1, 1917.	United Kingdom. Jan. 1, 1918.
Beef, British—		
Ribs	64	81
Thin flank	84	101
Beef, chilled or frozen—		
Ribs	85	116
Thin flank	101	137
Mutton, British—		
Legs	59	77
Breast	84	92
Mutton, frozen—		
Legs	86	134
Breast	122	162
Bacon (streaky)	56	139
Fish	131	196
Flour	88	52
Bread	73	54
Tea	51	98
Sugar (granulated)	170	189
Milk	57	99
Butter—		
Salt	71	105
Fresh	73	103
Cheese	75	91
Margarine	25	66
Eggs (fresh)	175	242
Potatoes	122	37
All above articles (weighed percentage increase)	87	106

ARGENTINE WHEAT PURCHASE.

A report received by the Department of Trade and Commerce at Ottawa, from B. S. Webb, acting Trade Commissioner at Buenos Aires, gives details of the agreement signed by the English and French Governments under which the Argentine Government undertakes to finance all cereal purchased up to the value of $200,000,000 in gold.

The purchasers agree to purchase and export before November 1st, 1918, 2,500,000 tons of cereals at minimum prices of $5.30 per one hundred kilos for wheat, $2.97 per one hundred kilos for oats and $6.37 per one hundred kilos for linseed.

The convention is not a contract of sale but rather a loan contracted. The Argentine Government does not requisition any grain, neither does it impose any sort of obligation on holders.