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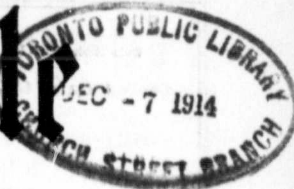

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THB VALUATION PROBLEM.

The problem of the valuation of investments for balance sheet and other purposes, always a matter for keen thought on the part of those in charge of large amounts of invested funds, has been intensified ten-fold by present circumstances. The solutions which have been thus far suggested are as numerous as they are varied. A good many undertakings are in the position of being a law unto themselves in this matter, and the course eventually adopted can be that which the judgment and discretion of those responsible consider safe and sound. Others responsible for immense amounts of invested funds have their decision in this respect made for them by supervising authorities, whose decision they are bound to follow, whether or not they agree that it is the best course that can be adopted. Notably is this the case with the life companies, who are practically in the position of trustees of hundreds of millions of investments for their policyholders. These supervising authorities, however, do not agree as to the best course to be adopted. The Canadian Superintendent of Insurance has arranged that for this year's government returns, values of life companies' securities will generally be taken as they were at December 31, 1913, an exception being made in the case of any securities which have obviously depreciated in intrinsic value since that date. The Insurance Commissioners of the United States, on the other hand, favor June 30th, 1914, for fixing the values of securities. Which of these two dates or anyone of half a dozen others which might quite reasonably be suggested, is the best, is a matter for academic argument. The ordinary business man responsible to others for invested funds will pin his faith less on the figures of these particular valuations of whatever date they may be, than on his own knowledge of the intrinsic values of the securities he holds.

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Some interesting aspects of this problem of valuation of securities were touched upon in a recent paper prepared by Mr. Henry Moir, the well-known New York actuary, for the Faculty of Actuaries in Scotland. Mr. Moir is a firm believer in the amortisation method for the valuation of life insurance funds for the reasons that life companies accumulate funds not for immediate necessities, but for the distant future; that in a progressive company funds steadily increase and there is no need for liquidation of assets; that life companies are not (or should not be) speculative dealers in securities; a rate of interest is assumed for discounting liabilities, which rate will be effective until the obligations mature; while life companies are permanent institutions, whose primal duty is to equalise the ups and downs of life, and the valuation of fixed term securities by means of amortisation is a scientific development tending towards equalisation. The adoption of this method, however, does not, in Mr. Moir's opinion, shut out the necessity for unceasing vigilance in investment supervision. "A careless and wasteful management," he says, "might manipulate investments so as to show considerable profits while concealing losses under the amortisation method. If a company were deliberately to sell bonds which appreciated in value and carry on the amortised basis those which depreciated, it is easy to see that the condition of the company would be imperilled. Judicious and honest management is needful under this plan as under any other."

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Mr. Moir considers that for the valuation of securities which are not to be sold, the valuation at the price on a single day is altogether indefensible. Even with annual valuations, as on this side the Atlantic, fluctuations from year to year, he points out, may be quite violent, though admittedly the method may be suitable under occasional market conditions. He also pleads for stability and uniformity in practice. It seems objectionable, he says, to change from time to time either the basis of valuation of policies or the method of treating sound securities. An average system and consistent policy regarding both conditions is sounder practice than frequent change of either or both."

"I do not wish to be misunderstood," he says in conclusion, "as suggesting that fixed rules can ever supersede personal judgment and acumen on the part of a board of directors. Investments cannot be made by rule, and directors cannot relax their vigilance over the classes of securities as well as the individual securities to be purchased. In boom times they can with propriety lay out the available funds in short-term loans, mortgages, and other investments which can be easily realised, while in periods of depression, like the recent past, they can with advantage place a much larger proportion of their funds in long-term well-selected securities, even taking up some of the maturing short-term loans in order that funds may be permanently invested and fluctuations in the interest rate minimised. This attitude represents the best guiding principle for the investment of accumulating funds, and it is a principle which has been followed by many of the most successful financiers."