

MORE NOTES OF LONDON MARKET

Mass of Undigested Securities—Position of the Underwriters

The congestion in the London market continues. Last year nearly every new issue that was made was rapidly absorbed by the public. The underwriters, as one observer says, had seldom anything to do with signed contracts and received cheques for their commission. If an odd half-million or so of the issue remained over it was easily divided up and fed out to investment brokers later on. Such remnants generally paid to hold for a few months, and sometimes, in the case of a sound security, they would soon appreciate considerably. Even the second rate company promoters obtained success.

Popular Appetite Dwindled.

In due time the popular appetite for new securities fell off and subscriptions dwindled. The balances not applied for grew from 10 or 20 per cent. to 40 or 50 per cent., then to 70 or 80, and finally to 90 or 95 per cent. However large they might be, they had to be shouldered by the underwriters, who were soon overloaded. It might seem that the most natural thing for them to do in the circumstances would have been to call a halt, but that was easier said than done.

One is Bound to the Other.

The London Daily Telegraph in an interesting review of the situation says that the chief groups of underwriters may have been committed to a dozen other new issues all waiting to come out at a favorable moment. Once a person has signed an underwriting contract he is completely in the power of the issuing house. He cannot withdraw even by paying forfeit. The issuing house itself is probably also bound hand and foot to someone else. The money to be raised may have been actually spent before the public are asked for it. It is for a Canadian railway there may be a big and ever-accumulating overdraft at the company's bank. This must be paid off before any further advances can be made, and a public issue is the only effective way to do it.

Where a current expenditure of a million dollars a week has to be provided for a railway financiers must look well ahead. They have to contract with one or more issuing houses to place certain amounts of bonds or stocks at intervals extending over six or twelve months, it may be. The issuing houses have to protect themselves by getting the successive issues underwritten. It may be months before they actually come out, and they cannot be stopped simply because one of them falls flat. Railway builders, bankers, and financiers at large are all very sanguine people. When a "frost" befalls them they do not lose heart, but hope for better luck next time.

Will Not Stop Supply.

It does not follow, therefore, that the unfortunate issues of the past few months will at once shut off the supply. The underwriters might be only too glad if they did. But they may have 90 per cent. of a new loan dumped on them to-day, and to-morrow another prospectus may appear in which they are also involved. In the early days of underwriting an innocent person was tempted to put down his name for a few thousand pounds. Only 5 per cent. was taken by the public, and he claimed that in face of such a fiasco the under-taking should be abandoned, or at least postponed. But he was told that the contract had already been let, and the materials were on their way out to the Antipodes.

Moscow and Danish Loans.

In short, there is no escape from an underwriting contract if the principals insist on its being carried out, and often they cannot help themselves. Hence the strange spectacle to be seen of new issues following each other rapidly, in spite of two-thirds of them proving failures. During the past few days three more startling examples have been added to the long procession of "frosts." The City of Moscow loan, though it carried the tempting interest of 4½ per cent., was little more than half-subscribed, the underwriters having been left with 45 per cent. of the whole. The Danish Government loan of £2,500,000 at 4 per cent. was even less successful, the underwriters having had to take up 55 per cent. And they were lucky in comparison with the guarantors of the Algoma Steel Corporation's Five per Cent. Refunding Loan, only 7 per cent. of which was publicly subscribed.

The past three months have left behind them an almost unprecedented list of addled issues. Eight of the largest are set out below, together with a very instructive comparison of the percentages which fell to the public and the underwriters respectively. It will be observed that the latter got on an average three-fourths of a total sum approaching 22 millions sterling. What can they be doing with it?

	Total amount.	Percentage Taken by the Public.	Percentage Left with the Underwriters.
Canada 3½ per cent.	£5,000,000	30	70
India 3½ per cent.	3,000,000	13	87
New Zealand 3½ per cent. (2-year bonds)	4,500,000	15	85
Danish 4 per cents.	2,500,000	45	55
City of Moscow 4½ per cent. ...	3,809,520	55	45
City of Winnipeg 4 per cent.	960,000	26	74
Quebec and Lake St. John 4 per cent.	873,000	5	95
Algoma Steel Corporation 5 per cent.	1,113,000	7	93
	£21,755,000		
Average of the eight issues....		24.5	75.5

A little patience may work off even large percentages of unsubscribed stock, but when they go over 90 per cent. of the total issue there can be no blinking the unwelcome truth that the investment market needs a rest. Of course, all these still-born issues fall at once to a discount, and the subscribers feel disgusted.

As to the Underwriter's Position.

One consolation which the underwriters have is that there are now so many of them, and the business is so widely spread, that their burden is well distributed. Formerly it was almost entirely confined to the Stock Exchange, and even there it was kept within a select circle. Each of the great issuing houses had its clientèle of brokers and jobbers, who took whatever was offered them. Certain amounts graded according to their financial standing were granted to them as a favor, and were received as such. But when the trust companies came in the underwriting area had to be enlarged. Later the insurance companies joined in, and they are now an important class of underwriters. They are, in fact, preferred to the others, because they are more likely to hold their stock.

One of the largest industrial insurance companies is a wholesale underwriter. It signs for £40,000 or £50,000 of a good issue, and locks it up. Presumably, the stock is taken in at actual cost—namely, the issue price, less the commission. Trust companies and other corporate underwriters may be in the same happy position. The temporary discredit of an investment does not affect them seriously. If they believe in it they may take advantage of the depression to buy more. But the professional dealer in stocks has to turn them over as rapidly as he can, and the speculative underwriter simply wants a quick profit. These two classes are the chief sufferers through a bad issue.

Selling of Consols.

Undoubtedly, considerable amounts of Consols and other gilt-edged stocks have been sold of late in order to provide money for underwriting exigencies. The forced selling of Consols has been so persistent that there cannot be much floating stock left on the market. A silent transformation is going on in the whole range of floating securities, which form the stock-in-trade of investment brokers and jobbers. The bulk of them are no longer gilt-edged Two and a Half and Three per Cents. More frequently they are Three and a Half or Four per Cent. Colonial or foreign.

Thanks to this change the underwriter earns a larger rate of interest on his holdings than he used to do. There is a wider margin than formerly between the yields of his securities and the interest he has to pay on the borrowed money with which he carries them. This, however, may be only a temporary advantage, on which he cannot safely count for more than another month or two. When the autumn strain comes on, he may have to pay much higher interest on these loans than he earns on his stocks, and that is where the danger of excessive underwriting may assert itself.

ROYAL COLONIAL INSTITUTE'S WORK.

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distinguished guests was Sir Newton Moore, agent-general for Western Australia, who, on this occasion, delivered a most interesting address on the present conditions of his state; while a little later Sir Elliott Lewis, premier of Tasmania, gave a lucid summary of the past history and the present prospects of that flourishing Australian state. Then the Hon. Richard McBride, premier of British Columbia, took occasion, at the luncheon at which he was guest of honor, to deliver a stirring address on British Columbian loyalty and position as the guardian of Canada's western gate. Later on in the year, Dr. J. Pelletier, the first agent-general in this country of the Province of Quebec, spoke with much feeling of the attachment of his fellow-countrymen to the British Crown, and gave an eloquent description of Quebec's varied and valuable resources.