

# THE MINING REVIEW

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### ENGLISH VERSUS AMERICAN MINING COMPANIES.

Nothing could be more widely distinct than the English and American methods of floating joint stock mining companies. The English system is the outcome of a long series of legislation with the avowed intention of protecting the shareholder against the rapacity of the promoter. Whether it accomplishes this result with greater success than the American plan, which leaves the shareholder very much to his own resources, is doubtful in the extreme.

There are very stringent regulations in the English law as to the selling of stock by a corporation, and the issue of stock for less than its face value is a penal offense. Whereas under the American system the trustees of a company may sell stock to provide working capital for just what it will fetch.

Then again under the English system a certain amount of the stock must be subscribed for before an allotment of shares is permissible and the company can come into existence as an active corporation. Whereas in America the promoters simply incorporate and place their treasury stock on the open market at such a price as will command purchasers and go ahead.

Such are the main differences. What effect have they upon the interests of the shareholders? The object of not allowing stock to be issued at a discount is to prevent the inside ring from getting stock practically for nothing while the public pays pound for pound. But alas for the vanity of human contrivances! A property is bought by a small ring of promoters or secured by them under an option. It is determined to float a public company. On the average sixty per cent of the capital stock is issued in paid up shares to the promoters for their property, and the original vendors are lucky if they get ten per cent out of that for the property, which is very likely its intrinsic value. Of the forty per cent of working capital one half probably is issued to the public at par and one half reserved. So that of the eighty per cent issued sixty is retained by the promoters and has cost them practically nothing.

It is of course hard to make a market for this stock. Enormous sums are spent to induce the public to subscribe. It costs about £4,000 in advertising of all kinds to float a public company of this class. But when once the public has taken up the working capital a market is established in the stock and here we have seventy-five per cent of the issued stock in the hands of the promoters for purposes of manipulation. And as the price of the stock is determined by what the public has paid for it, it becomes possible to judiciously unload at a price which bears no conceivable ratio to the intrinsic value of the investment.

Now contrast the American plan. A group of promoters secure a property. They issue stock to themselves and reserve forty per cent as treasury stock. They then proceed to sell blocks of this stock, beginning at a very low figure. As the value of the investment increases the public comes in at an increased price. But it is impossible for the promoters to sell their stock at a higher figure than the treasury stock is bringing in the open market. Of course the resources of inflation and manipulation are open to English and American promoters alike. But look at the enormous economic waste in capturing the markets in the one case as compared with the other, and the opportunity afforded for an illegitimate profit to the promoters detrimental to the shareholders, afforded too, by the very legislation intended to protect the latter.

The regulations of the English law with regard to the amount of stock which must be subscribed before flotation is allowed has led to an ingenious device known as the underwriting contract. Professional brokers enter into contracts to guarantee the flotation of so much stock, and for this they receive a commission varying according to the popularity (not the merit) of the enterprise. If a promotion is an assured success the brokers compete to underwrite the stock; if it is doubtful the difficulty of securing underwriters is greater, and so is the percentage paid. So that the more speculative the enterprise the less proportion of the money subscribed by the public actually goes into the treasury of the company.

Such is the result of legislative regulations, to protect shareholders. They make the fleecing of the pub-

lic a little harder perhaps, but they make it more complete when it is done. In fact there is no legislation of this kind which the ingenuity of man cannot find a way round. In England, as in America or elsewhere, the only guarantee that investors have is the character of the people who promote the enterprises in which they sink their money. This is the only real safeguard in any country.

### A DOUBTFUL ENTERPRISE.

A company has been successfully floated in London by Mayor T. C. Dupont, of which two of the directors are Mr. Justice Crease, of Victoria, and the Hon. Forbes G. Vernon, of London, agent general there. The working capital of this company is £50,000. The purpose for which this capital has been subscribed is to construct engineering works on an immense scale so as to reach the prodigious deposits of gold in the bed of the Quesnelle river.

The prospectus dilates upon the enormous amount of gold which undoubtedly exists in the bed of the river, but maintains a judicious silence as to the difficulties of reaching it. There is not an authoritative voice in the prospectus as to the feasibility of the undertaking from an engineering point of view. There have been authoritative statements made outside the prospectus by men who know what they are talking about and who have no hesitation to say that the thing cannot be done and certainly not with the capital at the disposal of this company. The gallant major and the Hon. Forbes pose as representative British Columbians in London. If they do not identify themselves with legitimate enterprises they are likely to identify the province with much that is the reverse. It is a remarkable proof of the attention which British Columbia is attracting in London that the underwriters of this company had only to make good 13 per cent. of their liabilities.

The Ruecau mine in the Slocan has been incorporated for \$1,000,000 by the owners, Messrs. Harris, Wharton & Kelly. It is a mining company with three shareholders and no treasury stock. The treasury is on Ruecau mount. It has been ample to date for development purposes and contains a reserve of \$1,000,000.