

# The Chronicle

Banking, Insurance and Finance

ESTABLISHED JANUARY, 1881

PUBLISHED EVERY FRIDAY



Vol. XXXX. No. 32

MONTREAL, AUGUST 13th, 1920

Single Copy 20c  
Annual Subscription \$6.00

## THE GENERAL FINANCIAL SITUATION

The slump on the local Stock Exchanges which began in the middle of last week and continued at the beginning of the present week results from a variety of causes. The occasion of it, rather than a cause, is found in the European situation, with its possibilities of fresh warfare upon an extended scale. The financial markets always suffer most in a state of uncertainty, and such uncertainties as those existing in regard to Poland, and the extent to which Allied arms may be there involved, naturally had a decidedly adverse influence upon the New York market, and consequently upon the local exchanges. But it is doubtful, if in the case of the Montreal market, these influences would have resulted as they have, had there not been other purely local influences at work, which constitute the primary reason for the slump of which developments in the European situation were the occasion.

In recent months, the general public has become very extensively involved in local Stock Exchange speculation. The meteoric rises of the paper stocks have brought into the market a whole army of people of moderate means. A great number of these folk, who are constitutionally nervous when engaged in Stock Exchange speculation, were badly scared by the failure of a firm, which in recent months had taken quite a prominent place in Stock Exchange dealings locally. Not only was liquidation started by those who hastened to assure themselves of profits; but the gossip consequent upon the failure, which gossip as usual did not stick at trifles, resulted in further liquidation by those who had no profits, but got nervously filled with the one desire to get out of the market before things got worse. A sideline of this nervousness was seen, in the experience which many brokers have had, of the extensive withdrawal from their custody of securities, deposited as collateral, and not actually required at the moment. Technically, also, the market was in a weak position and due for a reaction. It had had a long rise at a pace, in the case of some stocks, which was obviously excessive, and was bound to result in a sharp recession. This factor, combined with tight money, and consequent lack of buying power, com-

pleted a debacle which needs no further explanation.

At a time like this, it is perhaps well to emphasise a very simple and trite fact, which is too easily forgotten, that the inherent value of the stocks which have slumped so much is just the same now as it was two or three weeks ago, and the companies are going on earning money as before. This remark is particularly true of the paper stocks. The more the situation is studied, the more clearly does it appear that in regard to this matter of pulp and paper, the position of Canada is an extraordinarily strong one. To put the matter quite briefly, the fact is that Canada is at present, and probably will be for some years to come, the leading export country in these necessities of the present day. Mr. Dawe, the Secretary of the Pulp and Paper Association, in the address which he gave at Ottawa before the Empire Press Conference last week, estimated that the present shortage of supply and consequent high prices, would last for five years. There is apparently no reason to doubt the substantial accuracy of this statement. In such circumstances, it is obvious that the well established Canadian paper companies, and also some of the younger companies, which have been organized under favorable conditions, have an extremely bright future before them. That the Stock Exchange, in its usual manner, had somewhat over-discounted that future is probably true; but that ultimately the stocks of the leading paper companies will be selling at very much higher prices than those prevailing at the crest of the recent high wave, is, to put it mildly, a very considerable probability.

Quite naturally, there is now a certain amount of gossip afloat in regard to the possibility of British capital becoming heavily interested in pulp and paper prospects in Canada, when the exchange situation becomes more normal. That is quite to be expected; but we may remark that there is a long way to go from the hot-airish kind of speeches about it, which were indulged in at the Empire Press Conference, and the practical schemes of financing and construction which such undertakings involve. It is to be remembered also that pulp and paper mills, of any considerable capacity, cannot be put up in