

Growing Popularity of Bonds

Brief Review of Bond Market

By COUPON

NINETEEN HUNDRED AND TWELVE has been a great year for Canadian bonds. The market has broadened out in a remarkable manner. Millions of new issues have been brought out and the readiness with which they have been absorbed has been a matter of great surprise not only to bankers but to bond dealers themselves. Canada enjoys the reputation of being the country which has the greatest wealth per capita of any country in the world, and the readiness with which small investors are now buying bonds makes it look as though within a comparatively few years Canada will also enjoy the reputation of possessing one of the richest bond markets. Like every previous year, 1912 has had its notable features, the most important among them being the entrance of the small bond buyer as a real factor in the market.

SMALL BOND BUYER BECOMES A FACTOR.

UP to a year or so ago it was practically impossible for the small investor to purchase bonds owing to the large denominations in which they were issued, with the result that bonds had the reputation of being only a rich man's investment. The rapid increase in the number of new bond issues and the competition brought about by the entrance into the field of dozens of new bond houses has resulted in a complete change in this situation, and now perhaps the year 1912 will easily be known as the year that brought about the great development in bonds of small denominations of \$100. The introduction of the periodical payment plan enables the investor, no matter how limited his means may be, to purchase a bond by making a small payment at the outset and then gradually making up the balance out of his savings. It has taken a considerable time to educate the average investor in the country as to the attractiveness of bond buying, but some of the larger bond houses both in Montreal and Toronto have spent large sums of money in educational campaigns and these have been steadily bringing larger returns.

EXCHANGE SYSTEM POPULAR.

ANOTHER development which has been one of the means of making such a big bond market during the entire course of the year has been the system of exchange introduced by many houses. This is worked out in somewhat the following way: Bond salesmen who are calling on clients find out what a bond investor may have among his holdings, and usually comes across a great many bonds for which there is a very ready market. This enables him, when he has a new issue, to make a proposition to the investor to give him either the market or a little above the current market price for some of his older bonds which have appreciated considerably in value since the time they were purchased and to give him in exchange a block of the new issue which his house is just bringing out. The average bond buyer, once he has purchased a bond, never looks at it again, and this system of exchange permits of his making oft-times a substantial profit, so that it is usually very readily followed. In the same way the house that negotiates the exchange finds it a very convenient way, as almost without exception there is a ready market on one of the stock exchanges for the older bonds which have been taken in exchange, and at the same time a customer is found for a block of the new securities which, after all, is the very thing that the house is most anxious to get at the time.

GOVERNMENT REGULATION NECESSARY.

TO any student of the bond market as it has been growing the question naturally arises—has Canada been sufficiently careful about the kind of bond issues it has been standing for? With the character of quite a few of the issues which have been made during the year 1912 it really looks as though the government should have some means of protecting the investors of the country and insist on certain safeguards before a bond issue can be made. It would not be going a bit too far to say that there are a number of bond issues which have been made, in fact more than one generally would expect, that in the real sense of the word should never have been bond issues at all. It would have been very much better had the interests behind many of these issues recognized that the capitalization of their companies should have represented a class of stock only, and not bonds, as the character

of the security or assets behind the so-called bond issues were not of a nature to permit of a bond issue being made at all. Promotions, however, have been coming so fast that some interests could see that there was a very much readier market for bonds than there would be for stocks, and, in this way, it would be easier for them to secure the necessary money for the different enterprises. This market condition, more than the nature of the proposition, has resulted in the creation of a number of issues that have been brought out during the course of the year. Of course, it is naturally difficult for a small investor in the country to be able to size up such situations, and, this being the case, it would seem to be all the more necessary for some government regulation as a matter of protection to the thousands of investors now in the country.

WORD BOND SHOULD MEAN SOMETHING.

THE word "Bond" to the average investor means a high-grade investment, which is absolutely secured by assets which will always bring the face value of the bond. It would seem not to be

asking too much for the government to have some regulation which would provide for it being necessary for every company that issues bonds to show such a condition and also see that the assets as included behind the bond have not only been appraised along conservative lines but also that it would come pretty near the figure that would be secured, if the company, following on bad times, had to pass its bond interest and turn over its affairs for the benefit of the bondholder. Considering the very large number of new enterprises that have been created during the year, it can be said that a number of issues of this kind is reasonably small, but, at the same time, they have also been too large. It would seem to be good business on the part of the bond houses which are trying to build up a permanent connection in the country to see that every issue they bring out is one behind which they can stand at any time and have their salesmen continually go back to call on the same men to whom they have sold various issues.

There is every indication that the bond market of the country will go on increasing very rapidly for many years to come. The evolution that the country is going through at the present time, in passing from small, privately-owned manufacturing concerns to tremendous enterprises, will result in new bond issues coming out all the time, more especially as the chartered banks of Canada are now insisting that the larger enterprises of the country should arrange their financing through bond or stock issues rather than large loans.

Where Bulls and Bears Wrestle

The Canadian Stock Market in 1912

By COUPON

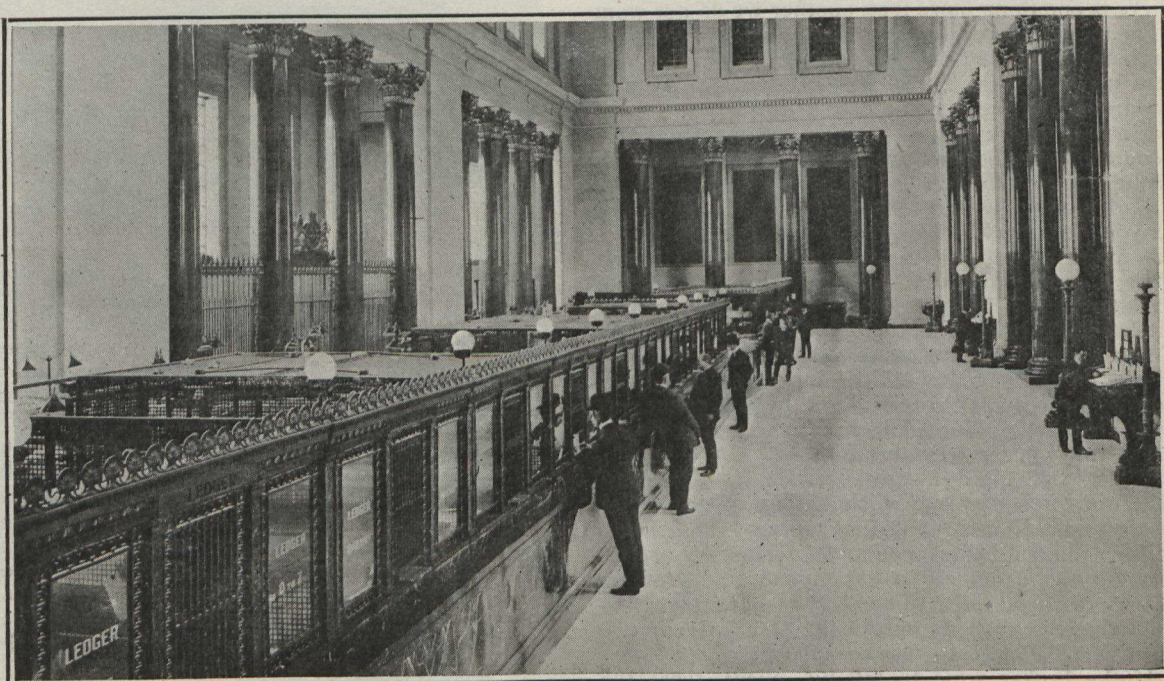
CANADIAN stock markets are dependent to such a degree on London that a word in this connection is necessary. Their dependence was indicated in a special manner in the fall of 1912, after the outbreak of the Balkan war. Canada was only in a very slight degree interested in the development or outcome of that war, but the stock markets in the closing months of the year felt its effect as keenly as the London exchange and the continental bourses. The reason for this is that the possibility of a greater European war tightened the strings of London's money bags, checked the flow of funds for investment in Canadian municipal and industrial bonds and other securities, and caused a world-wide feeling of uneasiness by reason of the fact that London bankers are known to have exceptionally accurate information regarding the movements and designs of every chancellery in Europe. The financial supremacy of London was never so successfully demonstrated as since the opening of the Balkan war.

On the other hand, Canada's growing independence of Wall Street was evidenced on several occasions during the year and is the first feature of

stock market activities in 1912 to which attention must be drawn. The Canadian stock market is dependent upon Wall Street only to the extent to which Wall Street is dependent upon the Royal Exchange. In other words, the United States and Canada are both governed to a large extent by conditions prevailing in London. On holidays, when the English and continental exchanges are closed, the stock exchanges of Toronto and Montreal look for guidance to some degree to New York; but this is for the reason that the great Wall Street houses, on account of the magnitude of their transactions, are compelled to keep in cable communication with their London and European advisers, and are likely to be informed of any important changes in the situation on days when these changes cannot be revealed by the market movements. The Canadian stock markets are dependent on Wall Street only in so far as Wall Street is in somewhat closer touch with the old world markets.

THE broadening of the market is the feature of the situation in 1912 which has been the subject of most comment. Not only has the number of speculators greatly increased, but the volume of

MAIN CORRIDOR OF THE HEAD OFFICE, BANK OF MONTREAL



The Bank of Montreal is the most imposing bank edifice in Canada. On St. James St., opposite Place D'Armes Square, it stands exactly in the centre of Montreal's financial district. Its history is the history of Canada in Finance.