

Investment of July Funds

Re-investment is the best use to make of dividends in excess of present needs.

July dividends should be invested in securities that have safety, saleability and pay the investor a fair interest return. Our June List describes a number of higher grade Canadian Municipal Debenture issues yielding

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We gladly mail our June List on request.

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SANE INVESTMENTS

Bonds and Appraisal Reports.

BEFORE the bond of the industrial amalgamation is offered to the public, considerable work is done by the promoters in consummating the actual consolidation. Eight companies, for example, have expressed their willingness for various reasons to combine interests. The basis of that combination has to satisfy the eight individual companies, the promoters and management of the amalgamated company and also the bond investor. An appraisal is necessary to establish that basis. A bond offering unaccompanied with a statement of assets should be eschewed by the investor. A bare statement that the appraised value of the assets is so much is insufficient. It must be known who made the appraisal and the more of the appraisal company's report that is printed in the prospectus, the better is the investor able to judge the merits of the bond offering. Statements in a prospectus that the estimated earnings or value of assets are "based" upon an appraisal should be carefully considered. The investor does not require promoters to "base" very much upon the appraisal, but he desires, and should get most, if not all, of the report itself on which he can make his own calculations.

There are several reputable firms engaged in the work of appraisals. When they tackle an amalgamation promotion, they first ascertain the value of the property and plant of the participating companies. After this is done, the owners of these plants receive cash or securities in the amalgamation and thus become shareholders in the new concern. The investor is then asked to place his money in the bonds of the big company. The security of those bonds are the various properties and plants which have been absorbed. Some prospectuses have stated that the total appraised value of the assets of the various companies amounted to a certain sum. It is not told who made the statement, who has made the appraisals, or that the report was even approximately correct. If the investor accepts such vague information he makes an initial mistake. If the promoters have not obtained a correct and independent appraisal report from a well qualified firm or individuals, the prospective bond buyer may look elsewhere for his investment.

Company promoters know this, so that when they ignore such an important consideration, it may be taken by the cautious investor as a danger signal. As pointed out by Mr. T. C. Allum, of Montreal, the work of the appraisal concern is largely an outgrowth of the requirements of the fire insurance business. It became necessary to enable proprietors of properties to place their fire insurance in as economical and scientific a manner as possible. Appraisal concerns show separately and in detail the value of such properties as are insurable and such as are uninsurable. The uninsurable value comprises cost of excavation and concreting for foundations and generally all work below ground. A plot plan of the whole property accompanies the appraisal, together with floor plans of each building. Every machine shown thereon is numbered so that it may be readily identified in the volume of the appraisal where it is fully described and valued. Several copies of the appraisal are made and the appraisal company itself retains the records, thus reducing the trouble arising from a fire to a minimum.

A SIMILAR plan is followed in the appraisals made for financial purposes. The form is somewhat condensed and valuations are made of physical assets of all kinds, with the exception of stock-in-trade, raw materials and goods in process of manufacture. This certificate, in conjunction with the certificate of profits and liquid assets prepared by competent and reliable accountants, furnishes a complete verification of a company's property.

In a previous article, we have intimated the vital importance of the investor knowing details of past earnings. Just as serious is the question of appraised values. A reputable company should make these, and reputable chartered accountants should verify the earnings. The names of those making the reports should invariably be included in the prospectus. If actual results at a later date reveal weaknesses in the accountant's or the appraiser's statements, it will be possible to trace the errors.

Little is to be gained ultimately by promoters in withholding information necessary for the bond buyer to judge the actual merits of an offering. By campaigns such as that of the CANADIAN COURIER for the cult of sane investments, the average bond investor is becoming educated in the art of discrimination. He is realizing that if necessary information is missing, something is wrong with the promotion, which fact he will probably learn to his cost at some future time. When inclined to purchase an industrial bond, whether it be of an amalgamation or otherwise, examine the company's record as thoroughly as if you intended buying the company itself. Get beyond the mysterious financial atmosphere, which means nothing. Penetrate vagueness or volubility in the prospectus by ordinary sound business sense. That will help to decide whether or not the bond gives value, security and income for your capital.

On and Off the Exchange.

Politics and Industry.

THE securities of Canadian corporations, the successful operation of which depends upon the tariff, are every day assuming a more speculative aspect. When the continuation of the bounties on steel rods appeared to be so certain that insiders sold large blocks of steel stocks to prevent the market exhibiting an appearance of undue hilarity, it was argued in the street that the stocks of protected industries must necessarily be more valuable under the present political administration of the country than they had been before. A little later the steel interests were shocked by a declaration from the government that the bounties would not be renewed and that it could not be expected that the industry's position would be improved by any change in the tariff, for at least a year. Naturally the street immediately turned bearish on the steel stocks and the feeling of depression was accentuated when the annual report of the Dominion Steel Corporation

Investment
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Talk
No. 9

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