MINING INVESTMENTS

(Written by a Mining Accountant.)

Preliminary.

What are the prospects as regards the payment of a fair rate of interest and the ultimate return of capital, and what are the risks? are the two vital questions which should be satisfactorily answered before entering into any mining investment.

Unfortunately, the average investor does not possess the necessary knowledge of mining or the experience in mining investments to enable him to size up or review all the demerits usually so much in evidence with this, the most hazardous of all investments; and, moreover, except in cases where the mine has been sufficiently developed, even a mining engineer would not be justified in arriving at any definite conclusion regarding the possibilities ahead of the mine.

That it is possible, however, to draw a line of demarcation between what might be termed "a fairly sound investment with reasonable prospects of success," or "a rank gamble," cannot be denied; otherwise this article would not have been written in the best interests of those who, as a result of inexperience, are apt to invest their money where the prospects of the return of capital, let alone the payment of a fair rate of interest, appear anything but favourable when denuded of the glowing reports and misrepresentations which are sometimes made in good faith, but more often as a lever for unscupulous promotions.

Investments in mining stocks at par or before the mine has reached the producing stage, while offering the chance of realizing larger profits, must, for obvious reasons, be more or less of a gamble, but in cases where the mine has been reported on by a reliable engineer and systematic sampling of the surface showings reveals a continuity of payable values over an appreciable length and width, and the indications are such as to justify expert contention that the pay shoot will not diminish in legth, width, and value at depth, the acquirement of an interest in the mine can justly be considered a fairly sound investment, if it has not been over-capitalized, or, in other words, the surface indications or showings will obtain at depth, it appears evident that a large enough tonnage can be mined and treated to show a return of 20 per cent. per annum on the original capital.

If, on the other hand, however, the mine has not been sufficiently developed to justify a definite expression of opinion by a reliable engineer as regards its possibilities as a dividend earner, then the mine is still in the prospecting stage and intending investors would do well not to participate in any floatation in connection therewith, unless they are looking for the very worst kind of a gamble where the chances as evidenced by the formidable array of "wild cats" are less than those on the race course, and that, even to those who know as much about a horse as a cow does about a side pocket.

Apart from the necessary assurance on these salient points, intending investors should also satisfy themselves that the flotation involves men of high standing, who, as promoters, consulting engineers, and directors, cannot afford to risk their reputation by statements which cannot be theoretically or practically demonstrated, that the concern has not been over-capitalized, and that the working capital is sufficient to develop and bring the mine through to the producing stage, and does not indicate that either the purchase price is considerably in excess of the actual value of the property, or that the promoters' profits are unsually excessive.

A careful perusal of the memorandum and articles of association or by-laws, is also advisable, as the answering of such questions as: What are the directors' fees? How many shares must the directors hold to qualify? and what are their powers, etc., etc.? often expose conditions which are anything but favourable in the best interests of the shareholders.

A great deal more could be said on this very knotty question of sizing up the merits or demerits of mining propositions in their nifancy. This, however, when dealing with the geological conditions, favourable or otherwise, to gold deposits with permanency at depth, the evils of mismanagement, and unfavourable working conditions, etc., etc., would be unintelligible except to those having the necessary technical knowledge and experience. Moreover, that which has already been written is sufficient in itself to make it apparent that without instituting rigid inquiries and obtaining expert opinion as regards the possibilities ahead of the mine investors when relying solely on the statements of the promoters and stock vendors, are incurring risks, which, when brought to light, would cause even the most reskless speculator to fight shy of the venture.

It naturally follows that by only entertaining propositions where the risks are apparently reduced within reason, the opening up of the mineral resources of the country would be seriously retarded by such cautious proceedings. This, however, outside of the common loss thereby sustained by each and every member of the community, does not effect the individual, and is, therefore, beside the question, especially as the consistent turning down of everything in which the element of speculation predominates, would gradually force promoters to realize that without risking something to develop the mine to the point of establishing its position as a dividend earner, their chances of realizing the enormous profits (at present usually out of all proportion to the outlay) are as remote as those which under existing conditions, the average shareholder is expected to carry.

The foregoing deals with the acquirement of shares in any mining company at its inception, and although the risks are in proportion to the prospective gains, this, for reasons set out herein, appears the most favourable period in the life of the mine to become interested therein.

For example, let it be assumed that a company capitalized at $600,000, showed a profit of $200,000 over all charges, including plant depreciation and development redemption as a result of operations during the first year after reaching the producing stage, and that the positive ore reserves were such as to assure a similar profit for a further period of four years. Now, under the present methods this profit would be paid out in the form of a dividend representing 33 1/3 per cent. on the par value of the shares which, everything being favourable, would then rise in consequence until returning, say, 15 per cent. when maintaining this profit. This would represent a sound investment if the life of the mine and similar profits were assured for twenty years, but in view of the possibilities as regards the pay shoots not continuing at depth, etc., etc., it certainly could not be considered safe with only four years' ore