"Mining as an Investment"

Paper of Mr. T. A. Rickard, of San Francisco, before Mining Convention at Vancouver shows inherent risk involved in Mineral Development—risk taken requires proportional compensation in return on capital.

Mr. Richard said:

"The chairman of your programme committee told me that the subject allotted to me was 'Mining as an Investment.' I assume that he meant the gainful use of money in mining, that is, the making of money through the exploitation of mineral deposits, not other people's pockets. However, I deem it well to start by defining the terms to be used in the present discussion, because definitions are essential to a correct understanding of any subject.

Money can be employed profitably in three ways: Investment, speculation, gambling. An investment looks to income; the use of the word assumes the comparative safety and stability of the principal. A speculation looks to an increase of the principal; the use of this word suggests the minor importance of interest, income, or return on capital; it assumes not the stability, but the comparatively rapid appreciation of the principal. A gamble involves a risk so large as to require the aid of luck; it ignores interest or income; it anticipates the alternative of a big winning or a total loss.

"Obviously the definition is subjective: it is based upon the expectation of the individual making the purchase. To one man the use of money for a certain purpose is an investment; to another man the same use appears to be a speculation. Similarly, one man's speculation is another man's gamble. Six years ago Mr. Lloyd George and Lord Reading, then Sir Rufus Isaacs, were persuaded by Mr. Godfrey Isaacs, a brother of the present British Ambassador and Lord Chief Justice, to buy a block of American Marconi shares as an 'investment,' that is, as a steady dividend-payer. Three days after Mr. Lloyd George had bought his shares they rose so rapidly that he sold them, on the urgent advice of his broker, to whom he was disinclined to listen, because his intention was to hold the stock "as an investment." He was then Chancellor of the Exchequer, therefore, he was hauled over the coals for 'speculating'; he was charged with a levity of conduct unbecoming the chief of the British treasury. He replied by saying that when he bought the shares it was his intention to hold them indefinitely, and that the sudden and surprising rise justified him in selling. In short, his 'investment' had proved a 'speculation.' The distinction is in the mind of the purchaser.

"Similarly, a Boston school teacher may buy the shares of the Great Wildcat Extended as an 'investment,' whereas a Wall Street broker recognizes that it is highly 'speculative,' and a Nevadan mining engineer knows that it is a rank 'gamble.' These terms are relative, they connote a crescendo of risk; even an investment has a slight element of risk; a speculation has more; a gamble, most. Sometimes a stock is bought on the expectation of a rise; it remains steady for years, it proves to be what is called a 'forced' investment. The idea of expectation is implicit; the human factor is never absent; we are dealing not with lexicons, but with human affairs.

The other significant word is 'mines.' A mine is an excavation in the earth's surface from which mineral is extracted. It is not a company nor the shares of a company owning that excavation. A flippant definition says that a mine is a hole in the ground with a liar sitting on top. A promoter is said to be a man who sells something he has not got to somebody who does not want it, or, if you prefer, a promoter tries to sell nothing for something to a man who expects something for nothing. However, these perversions of honest business do not concern us for the moment; my subject is the reasonable speculation that is based upon the legitimate exploitation of mines. Permit me to remind you that the word 'mine' was used in the language of warfare before it entered that of peaceful industry. It comes to us through the Latin Mina, signifying an excavation to be used for killing the enemy. The original sense of the word survives in 'minatory,' meaning threatening. During the war we have heard more of mines in the North Sea than of mines in Mexico, for example, and you will allow that those who sailed the seven seas had to deal much with speculation concerning mines, and the floating of mines on water, reminding us of minatory performances on the stock exchange during times of peace. Now, however, we hope soon to forget the derivation of the word and to interpret it, not in terms of maleficent activity, but of beneficent industry.

"You will note that I have chosen 'speculation' in preference either to 'investment' or 'gambling' as being more appropriate to mining. The use of money in mining in seldom an 'investment'; usually when it is meant to be so it affords an example of the triumph of hope over experience. I admit that certain forms of iron and coal mining on a large scale are characterized by such security, continuity, and steadiness of income as to be 'investments,' but the mining of the so-called base metals or of the precious metals, in which most of you are engaged, does not come within the category. In metal mining the chance of a considerable risk and of a correspondingly large gain is inherent. Some of you will demur, you will point at the Homestake, the Bunker Hill, or Sullivan, or the Utah Copper as examples of an investment, as representing a type of security so safe as to be gilt-edged, but I venture to say that your opinion is "ex post facto," you are writing last year's almanac, you are wise after the event. The history of such persistently profitable mines causes you to regard them as safe because you can retrace their history for ten, twenty, or thirty years. You imagine yourself buying into such mines soon after they had undergone preliminary development, and you know that if you had done so at an early date your purchase would have proved extremely remunerative; but I submit that in the early stages of development these splendid enterprises were speculative, as is suggested by the fact that these successful ones are a few survivors from the much larger number that were started at about the same time and proved disappointing. I may remind you, to make my point clear, that many of the famous mines of the world 'broke' those who first attempted to bring them to financial success. If to-day you were to advise a widow to put her savings in any one of the three magnificent mines that I have instanced, you would, in my opinion, be an unwise counselor, because, looking forward, not backward, for ten or twenty years, they would represent a speculative use of the widow's savings. You might be sagacious in using your own money for such a purchase, because you could take the relatively small risk for the sake of the probably large gain, but the widow would be better advised by Liberty bonds.

"At this stage of my argument I beg of you not to be annoyed at my apparently over-cautious attitude; you will find that my conclusions will not deprecate the industry in which you and I alike are so deeply interested. I shall hammer my point home by one further suggestion. You would not be willing to lock up your mining stock in a safe for five or ten years, as you might do with first-class bonds; you know that in the course of five years the fluctuations in market-value are likely to be so wide as to compel you in your judgment either to cut a loss or take advantage of a market profit. On the other hand, a mine is not a 'gamble,' because the risk it involves is not unreasonable; it is diminished by knowledge and experience, it is lessened by the skill you can apply both to the finding and to the treatment of the ore. A miner always needs some luck, of course, but