

A FINANCIAL REVIEW OF 1912

Sane Investments

Some Good Advice and a Little Criticism

By T. C. ALLUM

ONE must approach the topic of "Sane Investments" with his hat in his hand. Only a sane person *should* write upon it, and I doubt if a really, genuinely sane person would do so. There is, of course, a bare possibility that he might be sane and yet dishonest, and chose his topic as a means to advertise his wares. This consideration removes us from the field of economics into that of ethics or philosophy; because it might with reasonable accuracy be argued that no sane man is dishonest. Then we would be getting into the field of the alienist and the policeman and find ourselves face to face with the burden of passing judgment on the majority of our fellows.

On the whole, it would seem the part of discretion to confine the discourse to the realms of economics and write wisely of sane investments.

I should say, then, that permanency was the prime consideration in investment, and that it is this which in the main distinguishes it from speculation. The reader, however, must not suppose that the terms themselves are so used by those who use them. On the contrary, when the client asks his broker what stock he would recommend as a safe investment, nine times out of ten the anxious enquirer is not looking for an investment at all. Like the rest of us—he is just looking for easy money. He wants a stock which is selling low, in the hope that by entering into possession of it for a short period he may derive a profit and flit along to the next honey flower. He really is not in the least concerned with investment as distinguished from speculation. In fact, if there is one thing more than another he does not want, it is investment—because investment related to the more permanent characteristics of commerce and industry, and what he wants is a quick turn and a profit, especially a profit.

THIS, perhaps, is the most dangerous phase of the present development—I mean this fact, that if there is one thing more than another we do not want it is to get landed with a stock which is "slow," even though it is "safe" and gives a good interest return. We want a rise in price and we want a good rise and we want it fast.

Now, that is speculation, pure and simple. It is none too sane, but nothing else will satisfy us. It is the spirit of the age.

If I knew of a sane investment and I offered it to you you would order me out of the office. A few years ago it seemed as though British Consols were a sane investment. Unquestionably the rate of interest will be met promptly and the principal is absolutely safe. But the question is, was British Consols a safe or sane investment? It doesn't look like it. If they go on a little longer as they have been going on, your wife will get them as premiums with a packet of Good Cheer Tea.

Do you wonder why this is?

Well, I can offer some reasons for it. The principal reason is that our whole system of economics is at fault. It is at fault and unsound, and, being so, gives undue importance to the temporary aspect. "After us the deluge," we say, and so bound up are we with the idea of temporary advantage that the deluge is upon us before the plans of our ark have even been given due consideration.

If the broker were to tell his client that the greater bulk of the stocks issued in the United States and Canada this century are based upon nothing more permanent than a majority vote, I

venture if he would sell many stocks. Majority votes, as we have seen lately, are exceedingly fickle and are one way to-day and another way to-morrow. An anti-high-tariff party may be elected in Canada a few years hence, just as it has been elected in the United States. What, then, of the millions of common stocks which have been issued because of the extra earnings hoped for by the promoters?

The answer is at hand. Take up the Wall Street stock exchange quotations of a year or so ago and compare them with those of to-day. Read the Wall Street reports from day to day from now till the tariff revision is completed next spring, and after the gas has been let out of the bag figure up how many millions of dollars the decline in price represents. Apply the reasoning to what is taking place in Canada and then recommend to me a "sane



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Who has come fast in the financial field. He is vice-president of the Dominion Securities Corporation, a director of Central Canada Loan, Imperial Life, Canada Steel and several other large Corporations.

investment." I think you will begin to appreciate the after-us-the-deluge spirit which is responsible for the lack of permanency in our economic system.

Then consider the trend of matters in other directions. The public sentiment towards the limitation of freight rates, the lowering of electric lighting and public service rates generally, and the disposition towards a constant increase in the proportion of the earnings from public utility corporations due to the public and the corresponding reduction in the portion remaining for the company, and I think you must agree that the "watered stock" is in danger all the way round. By watered stock I of course mean the stock which was created on the basis of the earnings, actual or prospective, arising out of the special privileges of one nature and another which were created by vote and which, when the evil is understood, will die by the vote.

WHEN looking for a sane investment, the question becomes whether you should pass the common stock, as a class, by. The answer is that if

you do you will pass by the stock which has made all the big fortunes. On the other hand, it has lost all the big fortunes. Now, what are you going to do about it?

Suppose, now, considering the changeability of the basis of the great bulk of common stocks, you turn to bonds as representing actuality, as being the basis of the investment and a substantial element in the way of buildings and machinery, and which alone are requisite for the operation of the business. How would it do to call bonds a sane investment?

The answer to that is to take up a list of quotations of bonds for the year 1900 and see how this would compare with values of to-day. Would your sane investment have been a sane investment? I am of the opinion that you will find most of the bonds would show the purchaser of 1900 a loss if sold to-day. I have not made the comparison, but I think this would be the case; and the reason it would be the case is largely that common stock has shown such a big advance. That is, the reward to the speculative issues has been so great that the actual basis, though ever associated with the more permanent industrial element, has been forced to a discount.

I would argue from this that the situation will later be reversed again, and that stocks will decline and bonds advance as soon as the vote is changed and the public really awakes to a realization of what they are contributing through special privileges of all kinds. In fact, the change may not even have to wait on the vote; because once the future of the great bulk of the common stocks gives evidence of having been discounted and the high-point of earnings under even the false situation have been reached, the common stock will fall back because of its dangerous position, buyers' money will again go into bonds, and this will again force up the price.

Meantime, it seems to me that the best and most satisfactory class of security is the preferred stock. This gives a better return than the bond, and under rising interest is rather more secure from this standpoint. On the other hand, it frequently has an actual basis in investment in plant and, being a preferred stock, is not subjected to such an extent as the common to the vagaries of the vote.

Well, if the discussion has done nothing else, it should have assisted to a grasp of the factors underlying the three different classes of securities.

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This Financial Review of 1912 is The Canadian Courier's first attempt to supply its readers with complete financial information. Heretofore, this kind of news was given only in the financial papers to which the general public has not access.

It is proposed to issue a quarterly review similar to this one. These quarterly financial supplements will appear about April 1, July 1 and October 1. But these will not in any way lessen the amount of financial news to be given each week under the heading, "Money and Magnates."