

THE INVESTMENT FIELD

Specially Written for the Illustrated Canadian Forestry Magazine

In line with our policy of broadening the scope of The Illustrated Canadian Forestry Magazine, we publish regularly a Financial Section in which various phases of the Investment field are reviewed. This Section is written by a thoroughly competent and entirely reliable financial authority who will each month prepare an article of special interest to our readers. Needless to say, the department will be conducted along purely informative and educative lines, without any attempt to influence our readers unduly in their financial undertakings.—EDITOR.

THE EASTERN war cloud that brought a sharp reaction in the security market carried with it fairly obvious lessons to investors. Some of these have been impressed in recent articles in this Department and no more impressive "horrible example" need be conjured up for the moment. Hundreds of thousands of dollars were lost through failure to observe what must be regarded as basic principles in investment. In a word; thousands of "marginal" buyers of perfectly legitimate securities were caught when the market dropped 5, 8, 10, 12 or more points; had no reserve fund with which to "cover" marginal calls, and their stocks were sold for heavy losses. Or, where they had money to protect their purchases, they had not sufficient faith in a recovery in market prices or in the merits of the security they held, to feel warranted in investing more money as a protection, and let their stocks go. So much for "marginal" buying of securities on an inadequate reserve, and on a basis of some one's "tip" without an intelligent comprehension of the real merits of the security.

"Instalment" buying once more was justified over "marginal". Bonds, as a favorite objective of "instalment" investment, held their own during the reaction with only a slight shading off, a fraction of a point in many instances. Preferred stocks also held their own well; it was the "common" stocks, the more speculative element, that were influenced in the downward movement, thrown overboard in a temporary panic or reflecting immediately the more transient character of their dividend protection, or prospective earnings in the event of an outbreak of war. But in even the more severe declines the instalment buyer had nothing to worry over. His investment house carried the security for him according to agreement.

The "slump"—which in most cases was in part, quickly regained—was also due on the New York market to a great extent and in Canada to some extent, to a natural reaction after a prolonged upward movement, known generally as a "bull" market. The return of better conditions in business is proving more slow of accomplishment than had been anticipated, and the stock market, probably, had been over-optimistic of the speed of recovery.

Two big events, however, have interfered with the orderly deflation in industrial costs which had been progressing fairly regularly since the peak of 1920 was attained. One was the settlement of the coal strike; the other, the shopmen's agreements that have been and are being signed. Both of these were directly, United States problems; both, indirectly, but to an important extent, control conditions in Canada, and influence the trend of investment. The coal miners have gone back at the peak of wages, for two years more, and the railways are patching up contracts with the shopmen, out of line with the progress of deflation in wages of industry in general. These two events of more than national significance are certain to prove a set back in the return to normal, and may well be a signal—with the advance in

wages by the steel mills—for a period of secondary inflation. This latter condition might well be welcomed in agricultural prices where the heavy slump carried them far below a proportionate level with most other commodities, but industrial commodity prices called for no such remedy. Such a secondary inflation might easily arrest for a time the drop in interest rates that has been progressing steadily, and conceivably arrest, also, for a time, the upward march of prices of bonds and other securities.

Beware! The German Mark

The warning arising out of the recent break rests, then, against buying on small margins and immensely in favor of buying in instalments or outright.

Present circumstances call for another: against gambling in German marks. Thousands, perhaps, tens of thousands of Canadians have been lured on to squander their money on what was held up to them as an absolutely "sure thing", buying German marks at their depreciated current price on the theory that sometime or other they would return to their old par value and net a tremendous profit to the patient holder.

If this theory were anywhere near correct, not millions but billions of dollars of easy money would be dangling within convenient reach of the "investor". The easiest money, and the biggest return, probably, in the history of investment, original Standard Oil or Ford shares, would fade away into contemptuous neglect.

Think of it! you "put up" one thousand dollars now, and it becomes \$500,000. If you can spare \$2,000;—presto! and you are a millionaire; while if \$4,000 can be scraped together, a double millionaire is created. Take hundreds in Canada who could muster \$100,000, and "when the mark comes back to normal" they would be rated at \$50,000,000! German mark buying would expand into regular industry, the fashioning of millionaires.

This is the basis of the theory: the mark in normal times was worth 23.8 cents, or roughly four for one dollar.

When the mark slipped away to 3 cents, the same bait was held out: "it is now down to one-eighth; buy it now, and you will get **eight times** your money,"—when the mark returns to normal.

The flood of printing kept on—marks were turned out by the billions, and every extra billion of inflated currency drove down the price. It was like an acid solution; the more water that is poured in it, the weaker it becomes.

The mark fell to 1 cent: "Buy now! It is 1-24 of normal; you will get 24 times—\$2,400 from \$100,"—when the mark returns to normal.

This was in the Spring of 1921—a couple of months later the mark slipped down to 7-10 of 1 cent; this spring to 4-10, to 3-10 to 1-10 and at the time of writing