

# The "Minimum" Prices of Bank Stocks

*Although Disregarded in Many Cases, the Present Position of Canadian Banks Places the Stocks on a Greatly Improved Basis, thereby Permitting the Revision*

By H. M. P. ECKARDT.

In the recent revision of the list of minimum prices, the Montreal Exchange decided, in regard to the bank stocks, that the minima prices are to be reduced to an amount equivalent in each case to the dividend for two dividend periods. So far as a considerable number of the banks are concerned, this concession should suffice to make their stocks once more saleable on the Stock Exchange. It is understood that sales can be made from time to time outside at prices from one to eight points below the minimum prices as originally fixed. A "Toronto firm which deals in bank and other stocks regardless of the arbitrary figures fixed by the Exchange committee, publishes under date of 1st May, 1916, a list of the prices at which they offer the stocks of 17 of the banks — the lots ranging in size from 15 shares up to 25. One of these stocks is offered at the minimum price as fixed for stock exchange dealers; four are offered at 1 point below minimum; four at 2 points below; two at 5 points under; one at 7; one at 8; and one at 17 points. It is to be remembered that the prices quoted are "asked" prices; probably in some cases a further drop of a point or so would be necessary to effect sale.

The larger declines may be said to have resulted from special circumstances such as the reduction of regular dividend rate on the omission of bonus. Taking it broadly the rule permitting deduction of the dividend for two periods from the minimum quotation, will be equivalent to lowering the arbitrary quotation by say 5 points; and this will apparently create a "regular" market on the exchange for all but three of the stocks referred to above — providing, of course, that no unfavorable circumstances develop meantime to cause purchasers to lower their bids. The course of events at present appears to be such as to strengthen the market for bank stocks generally, but one or more particular institutions might meet misfortunes that would cause weakness in the quotations for the respective stocks. In discussing the prospects of Canadian bank stocks it will be worth while to note several of the more important factors working for and against improvement in market value.

#### Increased Taxation of Banks.

Of late, the impression has been spreading that the bank stocks are becoming too much of a target for legislative attacks in the way of taxation, etc. Even before the war the various provincial governments had shown a general disposition to heavily increase the taxation of banks. Thus, just prior to August, 1914, Ontario, British Columbia and Alberta had more than doubled the rates applying to banks, and others put into effect smaller increases. Since the war Manitoba has raised the rates considerably; and the Dominion Government's 1 per cent tax on bank note circulation came into effect — the circulation tax affects bank profits to the extent of at least \$1,000,000 per year. Apparently the tax on excess profits will not touch the banks to any great extent in 1916, but it may have a more important effect in 1917 when applied to the profits of the current year. As a result of these and other imposts serving to increase bank expenses materially, and as a result of the poor statements of earnings in 1915, investors generally appear to have gathered the impression that dividends are more likely to be lowered than raised in the immediate future, and the circumstance necessarily has had a depressing influence on quotations.

#### The Shrinkage of Earnings.

Next there is the matter of the shrinkage of earning power arising out of the business depression and aggravated by the dislocation consequent upon the war. In 1914 and 1915 the banks found their commercial discount lines contracting, and their stocks of idle money, cash reserves, etc., increasing to large proportions. At the same time it was necessary to appropriate freely from the current earnings to provide for the numerous losses from bad debts and for the depreciation in securities held for in-

vestment. Then also to be considered are the many uncertainties connected with the war.

#### Adverse Factors Exaggerated.

However, notwithstanding the depressing factors enumerated and suggested, it is quite possible that the pessimism re bank stocks has been overdue. With reference to the taxation problem, the provincial authorities are discovering in some cases that too onerous taxes have a tendency to cause withdrawal of facilities from the province; and it may be the case that the rates recently established will be allowed to remain unchanged for some time. If so the banks would probably be satisfied as it is the fear of continued increases that have troubled them and their stockholders. And if rates are further raised it will probably be the occasion for raising of bank charges in the province immediately affected. So far as the depression in business is concerned, the various trade barometers during the past six or seven months have evidenced that it has for the time being largely passed away. Of course, much of the activity now prevailing is of a transient nature, but while it lasts business has a good complexion and large profits are being made in certain directions. One of the bankers remarked, apropos of the revival, that the process of writing off bad debts and eliminating unsoundness had not been completed when the new activity descended upon us; so possibly we shall find it necessary to resume the process later and carry it through to completion. Nevertheless, very substantial progress was made in 1914 and 1915 in getting the bank loans and assets down to a sound basis. The appropriations for that purpose were of healthy dimensions and the banks are feeling the benefit in 1916 of their conservative policy in this respect.

#### Increased Profits Now Apparent.

There are various indications that the banking institutions are making better profits than in 1915. The commercial loans and discounts — the main source of banking profits — were on the downward trend in 1915 until July and August. This year on the contrary they have tended strongly upwards. At the end of March, 1916, the aggregate of loans stood at practically the same level as in March, 1915, but the loans are moving up instead of down. April is practically certain to show a good increase, as the loan of \$50,000,000 to the Munition Board was made in that month. Again these special transactions undertaken by the banks — the munition loan, the domestic war loan, special loans to manufacturers working on war contracts — would yield their measure of profits. For example some of the individual banks announced that their customers had subscribed to from \$6,000,000 to \$9,000,000 in war loan bonds. The banks were allowed  $\frac{1}{4}$  per cent commission on subscriptions effected by them. At this rate the commission on \$6,000,000 subscriptions would be \$15,000. Such items help the profit and loss account quite noticeably; and the chances are that before the war is ended there will be other transactions of the same nature.

#### Foreign Exchange More Favorable.

Another point is that the banks are this year doing rather better in foreign exchange. For a full year after the war began, the foreign exchange market was too much upset and too erratic to permit of consistently profitable dealings. During that period some of the banks may have made one or more "killings" (as sterling for example would make a sweep of 5 or more full points in a day), but they also encountered severe losses, and the wild fluctuations prevented them from doing business with the accustomed regularity. Since August or September, 1915, conditions have been more stable and the risk of severe losses not so pronounced. Fluctuations are still wider than usual, and this has necessitated a wider margin of profit in buying and selling bills. In American exchange, too, good profits have been made.

A further point to be noted is that the year has

seen a great increase in the aggregate resources of the banks. On January 31st, 1916, the total assets were \$1,710,000,000, as against \$1,521,000,000 on the same date in 1915 — an increase of nearly \$190,000,000. In other words the banks have a considerably larger fund with which to operate. Even on allowing for the fact that much of the money is only temporarily in their possession, they should derive a certain amount of benefit therefrom.

These considerations show that the prospect for the bank stocks in 1916 appears to be somewhat better than that confronting them a year ago. It would not be surprising if the reports issued by the banks later in the year turned out to be considerably better than those put out in 1915.

#### STATIST'S INDEX FIGURE ADVANCED.

The Statist's index figure of commodities for the end of April, a continuation of Sauerbeck's figures, is 134.2. This compares with 130.4 for March and 127.6 for February. The number was 105.9 at the end of April, 1915.

During April "foodstuffs" showed an advance of 7.1, reaching 130.8. Materials increased 1.4 to 136.7. Comparison of the prices of the various classes concerned show that vegetable food, corn, etc., advanced 10.7 points to 133.3. Canned food, largely meat and butter, increased 5.9 to 153.1. Coffee and tea went up 2.3 to 87.1. Minerals gained 1.6, reaching 159.5. Textiles rose .9 to 119, and sundries declined .1 to 135.2.

Silver prices showed a large advance of 6 3-16d, with the average prices for April at 35 $\frac{1}{2}$ . The silver index number, which is 57.7, compares with 47.6 a month ago.

#### LIQUID FIRE—PAST AND PRESENT.

Use by the Germans of fire-throwing machines at Verdun has been hailed as something new in military operation. As a matter of fact, liquid fire is a product of the Middle Ages. The Germans have gone several steps further. All the accessories that the knights of old brought into play were a bucket, its contents, and a good strong pair of arms. The modern Teutonic fiery fluid can be distributed much more deftly and with greater force by a simple little device, known as a "fire projector." Petrol is poured into a tank under pressure of several hundred pounds per square inch. The tank is equipped with a long nozzle, and the petrol is inflamed as it leaves the nozzle by an electric spark. Thus the German soldier is able to sit safely behind his own lines, and spray the enemy with fire over a distance of more than 100 feet, much in the manner of a suburbanite watering his lawn with an oversized garden hose. — Watt Street Journal.

#### C. M. A. CONVENTION AT HAMILTON, JUNE 13-15.

The annual general meeting of the Canadian Manufacturers' Association will be held in the new Connaught Hotel, Hamilton, commencing Tuesday, June 13, and concluding Thursday, June 15. President J. H. Sherrard, in inviting all Canadian manufacturers to be present and take part, states that "the termination of the war will see Canada confronted with extraordinary conditions. As far as possible, those conditions should be anticipated and provided for, otherwise she will emerge triumphant from the military struggle only to succumb in the commercial and industrial struggle which is certain to ensue. The Canadian Manufacturers' Association could not conceivably render this country any greater service than by drawing upon the knowledge and experience of its membership in an effort not simply to forecast the problems that arise but to point the way to their most effective solution."

#### PERSONALS.

H. D. Scully, who has been secretary of the Canadian Manufacturers' Association and of the Munitions Section of the Canadian Manufacturers' Association, has resigned his position with these organizations in order to accept an important position with the Russell Motor Car Company, Limited. Mr. Scully will become secretary of the Russell Motor Car Company and also secretary and a director of its subsidiary company, Canada Cycle and Motor Car Company, Limited.