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The Passing of Frenzied Finance

Recent Important Financial Failures, Although Serious, Are But the Weeding Out of the Weak and the Doubtful—Financial Position Strengthened After the Public Have Regained Confidence.

The three important financial failures which have occurred in British Columbia since the outbreak of the war constitute one of the results of abuses which almost invariably arise in periods of rapid expansion. It is idle to say that the present war has been the direct cause of these suspensions; it has merely hastened the end. The concerns in question have failed because they overlooked the fact that fever, in finance as in physiology, is always followed by weakness. They apparently anticipated no period of reaction. To put the case very simply, they did not provide for the proverbial rainy day.

During the era bringing a great rise in the value of real estate, a large number of persons made money in this speculation, and laid more or less claims to being financiers. Becoming proficient in handling situations during a frenzied period, and having luck, many of these men acquired and maintained a reputation for success and ability, and were thus able to mould to their own uses the desire for "quick money" felt by investors here, in the East, and in Great Britain. The old adage that nothing succeeds like success was a little too much for the calm judgment of many investors.

The majority of those who aspired to be financial brokers, real estate experts, or pure realty speculators, have faded from the scene. They have gone back East, returned to Great Britain, recrossed the border, or have gone into other business in Vancouver and British Columbia. Some have undertaken more ambitious and permanent lines, and have engaged in general financial business, such as realty mortgages, acting as agents for investors, and otherwise engaging in the usual lines open to houses in this Province.

The operators and financial concerns which have remained have been confronted within the last two years with conditions much more difficult than those which, in the boom days, gave them their start. They have had to face the period of readjustment. Their ability and the structure

of their finances have been put to real test, and in the three cases which have recently come very conspicuously to public attention, these tests have brought collapse.

The first of the institutions to pass away died, speaking generally, of too much optimism, combined with weak and inexperienced management. The German concern failed because of buccaneering and piratical methods, which, however, brought no revenues commensurate with obligations incurred. With the cutting off of the foreign funds

which kept this company artificially alive, it died naturally of starvation. The third and largest of these corporations to meet disaster closed its doors because, primarily, of comparatively inexperienced and irresponsible one man management.

In this connection we believe it should be pointed out that the deplorable state of affairs shown to exist in this corporation would never have developed if the responsible gentlemen of this city who lent their names to the directorate had exercised their right and responsibility to properly supervise the activities of which they were believed by the investors and depositors to be fully conversant. Attention is called to this specific case because it is a conspicuous manifestation of a looseness of administration which has been altogether too common among newer financial and industrial concerns in this section. The disasters which have resulted from this slackness of method have already, we believe, taught salutary lessons. It is our opinion that directors are rapidly awakening to their responsibilities of their posi-

tion, and that we have virtually seen the last of financial breakdowns due to lack of scrutiny by men of high standing who give the weight of their names to corporate activities.

Another outstanding factor in the failures mentioned above seems to have been too great a proneness to undertake the guaranteeing of mortgages. While many strong financial institutions guarantee mortgages, it must be remembered that this practice involves the pledging of assets of unquestioned value to support securities which, particularly in a new country, may not have the worth which it was believed they possessed. We therefore think that one of the lessons to be learned from the recent developments

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