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P. B. McGinnis At NSTA Meeting Declares Reorganized Rails Have Favorable Outlook

Speaking at the election meeting of the National Security Traders Association in Chicago, Patrick B. McGinnis, railroad securities analyst, of Pflugfelder, Bampton & Rust, New York City, declared that holders of securities of railroads in reorganization or which have recently emerged from receivership will be in a better long-term position with respect to earnings than holders of issues of many other roads which currently have high revenues.

"Some of you who have heard me before," Mr. McGinnis said,

Patrick B. McGinnis

"know that I try to talk on railroad securities as distinct from the railroad problem. You won't hear much about the railroad problem from me, because it is being discussed by almost everyone and has been for the last ten years, and it is of little benefit, in my opinion.

"If you have some stocks selling at 5 or 15 of railroads, or if you have bonds selling at 50 or 20 or even at 80, and you ask your fiduciary or your broker, 'what shall I do with those bonds and stocks?' and he then goes into a long discussion about the railroad industry as such, or its peculiar advantages or disadvantages, or what will happen to the railroads after the war, you aren't satisfied with that; you want a more direct answer. What you want, I believe, particularly if you have customers, is to hear somebody say, 'sell them for these reasons' or 'buy more for these reasons' or some other constructive suggestion, such as 'sell those and buy something else.' Therefore, practically all I have to say is an attempt to answer that question, 'What shall I do with railroad securities, and why?' rather than to go into a discussion of the railroad industry, as to what it has been or what it will be.

"We have had railroad securities with us for a long time—almost 100 years; almost 80 years longer than we have had utility securities; and, so far as bonds are concerned, almost 90 years more than we have had industrial securities. Therfore, 90% of all your research and corporate securities up to, say 1920 was in railroad securities, because it was the only corporate security we had. As a result, of course, 90% of all your corporate houses had to be in railroad securities; otherwise they were not a corporate house.

"In the '20's you had the introduction of utility bonds and industrial bonds. So that at the end of the '20's, in 1930, you had a somewhat diversified business if you were in the corporate business and, likewise, if you were a corporate customer. Nevertheless, the large proportion of corporate experts and the large proportion of corporate trade and the large proportion of corporate holdings was in railroad bonds as distinct from utility bonds and industrial bonds.

"It is easy enough to condemn us for studying railroad bonds as we did in the '20's. In retrospect, however, most of us rail men were students not of railroad credit but of maturities and yields. Just think back to 1928 and 1929, when we allowed bonds like Rock Island 4's of 1988 to sell on the same basis to maturity as the Norfolk & Western 4's of '98. And yet if we had taken the trouble to look

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Our Reporter On "Governments"

One thing that the Treasury's announcement of redemption rather than refunding of the maturing 2s and RFC ⅞s does mean is that we'll have an even larger borrowing in September than experts had anticipated. . . . The tax collections are coming in, of course, and war bond sales should pick up; but, even so, the financing this month should be tremendous. . . . One thing that the Treasury's announcement of redemption of these securities does not mean is that a policy of eliminating "rights" has been definitely established and we cannot look forward from this day on to any value to maturing securities or refunding of outstanding notes and guaranteed issues. . . . Even though that rumor is around, logic suggests it is ill-founded. . . .

There's no point in denying that most financiers were surprised by Secretary Morgenthau's decision to pay off the $662,000,000 Treasury 2s and RFC ⅞s, due Sept. 15 and Oct. 15, respectively. . . . We expected a refunding, despite the near-par price at which the issues were selling. . . . But we didn't get one because of these factors: (1) the size of the issues, indicating a refunding would be more trouble than the total was worth; (2) the apparent decision of most holders of the securities to transfer their funds into other tax-exempts, thus indicating a redistribution of the refunding issue immediately after sale; (3) the feeling on the part of the Treasury that a small intermediary deal now would confuse the major September borrowing picture. . . .

Now that the move has been made, it makes sense. . . . The holders of the RFCs and Treasury 2s, although they didn't gain the few 32nds we hoped for, didn't lose anything either. . . . Buying these for refunding was a riskless wager—a rare enough thing and worth a gamble at any time. . . .

What this writer hears is that the program now is as follows:

(1) The small-total notes and the guaranteeds coming due over the next 12 months or so will not be refunded but will be paid off in cash in order to keep the financing calendar as clean as possible. . . .

(2) The big maturities will be refunded and "rights" will have their values as always—always admitting, of course, that premiums these days are smaller than in recent years. . . .

Thus, the policy you, who own or want to own maturing issues, should follow is:

(1) Do your own refunding in the open market and buy whatever tax-exempt issue or close-to-par security you want sometime between now and a maturity date if you own one of the smaller loans. . . .

(2) Gamble again on a refunding of the larger maturities and pick up these securities for short-term holding whenever your portfolio position and the market dictate. . . .

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National Security Traders Association Election Meeting At Chicago, Ill., Aug. 28-29

Featured in this Issue, beginning on page 800.

IBA Plans To Hold War Finance Meeting

A day-and-a-half "war finance conference" in New York City on Oct. 19 and 20 will take the place this year of the usual five-day annual convention of the Investment Bankers Association of America, it was announced Aug. 28 by John S. Fleek of Hayden, Miller & Co. of Cleveland, President of the Association, through its office in Chicago. The announcement states that Treasury officials are scheduled to participate in the conference together with representatives of the 12 Federal Reserve District Victory Fund Committees through which the securities dealers and commercial bankers are working to promote the nation-wide sale of government bonds. Forums such as in other years dealt with problems of financing industry will this year center attention on the task of raising billions for war and on ways of combating inflation, Mr. Fleek indicated.

New York was chosen as the place of the meeting in order to hold travel of those attending to an absolute minimum, it was explained. A substantial majority of Association members are located in the large financial centers on the Eastern seaboard, it was stated, and delegates from other sections of the country will be urged to combine the trip with one of their regular periodical business visits to the East.

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W. Gilbreath Named NASD Dist. 8 Board

CHICAGO, ILL.—Members of the National Association of Securities Dealers, Inc., in Illinois, Indiana, Iowa, Michigan, Nebraska and Wisconsin (District No. 8), have approved election to the Board of Governors of W. S. Gilbreath, Jr., Detroit. Mr. Gilbreath, who is Vice President of First of Michigan Corporation, succeeds to the unexpired term on the Board of Francis F. Patton, Chicago, who retired as a NASD Governor upon appointment as Executive Manager of the Victory Fund Committee of the Seventh Federal Reserve District. Mr. Patton is on a leave of absence from A. G. Becker & Company, Incorporated. William A. Fuller, William A. Fuller & Co., Chicago, and Robert W. Baird, The Wisconsin Company, Milwaukee, are the other Governors of NASD District No. 8. Edward B. Hall, Harris, Hall & Company, Chicago, was Chairman of the Nominating Committee which nominated Mr. Gilbreath.

William W. Miller, President, Gavin L. Payne & Company, Inc., Indianapolis, has been approved as a member of NASD District Committee No. 8. He succeeds G. William Raffensperger, Raffensperger, Hughes & Co., Inc.

Gay, Field, Wixted With Gude Winmill

Charles R. Gay, member of the New York Stock Exchange, Edward P. Field and Joseph F. Wixted will become partners in Gude, Winmill & Co., 1 Wall Street, members of the New York Stock Exchange, on Oct. 1. All were partners in Winthrop, Whitehouse & Co., which is dissolving on Sept. 30. It is not yet known whether other partners of Winthrop, Whitehouse & Co. will form a new partnership to continue the firm's investment business.

Glas & Crane Formed In New Orleans

NEW ORLEANS, LA.—It is announced that on Aug. 31 the partnership of Hyams, Glas & Carothers was terminated and on Sept. 1 the new partnership of Glas & Crane was formed. Partners of the new firm are R. Jeremy Glas formerly a partner in the dissolved firm and G. Price Crane, who has represented Hyams, Glas & Carothers in Southern Louisiana for the past six years. Connected with the new organization will be all the remaining personnel of Hyams, Glas & Carothers. The firm will have new offices at 333 Whitney Building; the teletypewriter number will remain No. 298.

Chapman H. Hyams 3rd is preparing to enter the armed services and Stanley S. Carothers has become associated with B. S. D'Antoni & Co.

Wolf Transferred To Harris Bank In Chicago

Paul W. Wolf, for the past seven years with the New York office of Harris Trust & Savings Bank, is returning to the bank's main office in Chicago. Mr. Wolf, who has specialized in municipal bonds in the bank's New York office, will enter the banking department in Chicago.

Wm. R. Stuart V.-P. Of Mason, Moran & Co.

CHICAGO, ILL.—Mason, Moran & Co., 135 South La Salle Street announce that William R. Stuart has been elected a Vice-President of their firm in charge of their Municipal Bond Department. Mr. Stuart has been President of Wm. R. Stuart & Co. since 1932 and prior thereto was Vice-President of Folds, Buck & Co.

Mason, Moran & Co. also announce that John C. Culbertson and Franklin G. Emrick have joined their organization. Both had been associated with Wm. R. Stuart & Co. which is discontinuing its investment business.

Stanley Carothers Is With B. S. D'Antoni

NEW ORLEANS, LA. — B. S. D'Antoni & Co., American Bank Building, members of the New Orleans Stock Exchange, announce that Stanley S. Carothers has become associated with their firm. Mr. Carothers, who has been in the investment business for the past twenty-seven years, was formerly a partner in Hyams, Glas & Carothers. He is President of the Louisiana Investment Dealers' Association and for the past six years has been Chairman of the group's legislative committee.

Potomac Electric Issue Of $5,000,000 Offered

Three leading investment banking firms, Kuhn, Loeb & Co., Smith, Barney & Co. and Blyth & Co., Inc., comprised the syndicate which offered Sept. 2 the new issue of $5,000,000 of Potomac Electric Power Company 1st mortgage bonds 3¼% series due 1977. Priced at 113 to yield about 2.67% if held to maturity, the bonds constitute the company's fourth issue of 3¼s which will total $40,000,000, with maturities in 1966, 1974 1975 and 1977. This first mortgage debt of $40,000,000 compares with a property and plant account alone of $96,839,972 on June 30, 1942, according to the prospectus and it is the only funded debt of the company.

Potomac Electric Power serves the District of Columbia and operates under the so-called "Washington Plan." This plan provides a sliding scale arrangement under which the increases or decreases in rates charged by the company are made as annual earnings exceed or fall short of a 6% return on the rate base. Under the plan, the company has been able to adjust rates in favor of consumers and at the same time show a satisfactory margin of earnings for interest and dividends. In the year ended June 30, 1942, for example, after giving effect to the issuance of the $5,000,000 of new bonds now offered publicly, interest charges were earned 6.72 times before taxes and 4.41 times after taxes.

Since 1937 the average annual rate per kilowatt hour to residential customers has been reduced from 2.96 cents to 2.43 cents this year, which is said to be among the lowest residential average rates charged by any electric company in the country. The latest adjustment was a reduction amounting to $338,000, effective Feb. 1, 1941. Meanwhile, net property additions have amounted since 1936 to $32,746,039.

Net proceeds to be received by the company from the sale of this additional issue of 3¼s will amount to $5,567,870, exclusive of accrued interest and after deducting underwriting discounts or commissions and estimated expenses. They are initially to become part of the company's general funds and are to be used to meet its normal working capital requirements and for plant expansion. The latter is estimated at $8,691,000 for 1942. In June of this year the company received $3,000,000 from the sale of 30,000 shares of its common stock.

The bonds of the 1977 series will be redeemable on or before July 31, 1943 at 116, and thereafter on a graduated scale downward, together with accrued interest.

Incorporated in 1896 in the District of Columbia, the company serves an area of about 628 square miles, comprising the District of Columbia and approximately 51% and 63%, respectively, of Prince George's and Montgomery Counties in Maryland. Electric energy is also interchanged with the hydro-electric and steam generating system of Consolidated Gas Electric Light and Power Company of Baltimore over a 230,000-volt transmission line in Maryland, and over 132,000-volt and 110,000-volt interconnecting transmission lines extending in large part along the right-of-way of the Pennsylvania RR.

Brady To Be Partner

Thomas J. Brady will shortly become a partner in Vernon C. Brown & Co., 71 Broadway, New York City, members of the New York and Philadelphia Stock Exchanges. Mr. Brady will act as alternate on the floor of the New York Exchange for Vernon H. Brown.

Eustis In Air Corps: Firm Will Continue

CINCINNATI, OHIO — George Eustis has been commissioned a Second-Lieutenant in the U. S. Army Air Corps and will report in Miami, Florida, on September 5th for training. The investment business of Geo. Eustis & Co. will continue under the management of Lee R. Staib, Mr. Eustis' partner.

Cgo. Exchange Members

CHICAGO, ILL.—Newton P. Frye, President of the Central Republic Company of Chicago, and Marcy T. Weeks, of Chicago, were elected to membership in the Chicago Stock Exchange by the Board of Governors, it was announced.

Concurrent with Mr. Frye's election, the Central Republic Company is the second member corporation to be admitted to membership in the Exchange since adoption of the new rules last month. Mr. Frye, formerly an advisor to the Board of Governors of the Exchange, has been in the securities business for almost a quarter of a century.

Two other memberships have been purchased by officers of corporations and are pending formal approval.

Mayer With N. Douglass

(Special to The Financial Chronicle)

LOS ANGELES, CALIF.—Ralph E. Mayer has become connected with Nelson Douglass & Co., 510 South Spring Street. Mr. Mayer was recently with Laurence Boothe & Co. and prior thereto with Banks, Huntley & Co. In the past he was an officer of Laswell & Co.

F. B. Badgley Joins Dean Witter & Co.

(Special to The Financial Chronicle)

LOS ANGELES, CALIF.—Frank B. Badgley has joined the Los Angeles office of Dean Witter & Co., 634 South Spring Street. Mr. Badgley was previously with Blyth & Co., Inc. and in the past was an officer of E. H. Rollins & Sons, Inc.

In The WAAC

Edna M. Fishman, formerly a partner of William I. Fishman & Co., New York City, and more recently with the New York office of Wyeth & Co., has joined the WAAC.

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Baker Watts To Admit Fisher And Warren

BALTIMORE, MD. — Baker, Watts & Co., Calvert and Redwood Streets, members of the New York and Baltimore Stock Exchanges, will on October 1st admit W. Lloyd Fisher and Robert A. Warren to partnership in their firm. Mr. Warren has been with the firm for some years as Manager of the Municipal Trading Department.

Victor T. Cranston Is Now With Weeden & Company

(Special to The Financial Chronicle)

SAN FRANCISCO, CALIF.—Victor T. Cranston, recently with R. H. Moulton & Company and in the past a partner in Howell, Douglas & Co., has become affiliated with Weeden & Co., 315 Montgomery Street.

Boggs Marine Captain; White Heads Trading

BALTIMORE, MD.—William H. Boggs, Manager of the Trading Department of Frank B. Cahn & Co., Equitable Building, has been granted a leave of absence from the firm for the duration. He has been commissioned a Captain in the Marine Corps and will report for duty on September 22nd. The Trading Department during his absence will be under the management of George M. White.

F. Wessel, Jr., Partner In Stirling Morris Co.

BALTIMORE, MD. — Stirling, Morris & Martin, Keyser Building, members of the Baltimore Stock Exchange, announce that Frederick C. H. Wessel, Jr., has been admitted as a general partner in their firm. Mr. Wessel, who has been in the investment banking business for the past twelve years, was formerly with Baumgartner & Co.

Lehman Appoints Cann; Ratcliffe In Army

CHICAGO, ILL.—Jules F. Cann, who has been associated with Lehman Brothers in Chicago for several years, has been appointed resident manager of that office. He succeeds Myron F. Ratcliffe, who resigned to accept a commission as Major in the United States Army.

Day V.-P. of Cgo. Exchange

CHICAGO, ILL.—Raymond M. Day has been appointed Vice-President of the Chicago Stock Exchange to succeed O. R. Bergherm who recently resigned to accept a position with the Alien Property Custodian, it was announced by Kenneth L. Smith, President of the Exchange.

Mr. Day has been in the Auditing Department of the Exchange since 1932.

To Form M. F. Sachs Co.

Melville F. Sachs, member of the New York Stock Exchange, and Harry L. Toplitt, Jr., will form the partnership of Melville F. Sachs & Co. with offices at the Savoy-Plaza Hotel, effective Sept. 10. Mr. Sachs has recently been active as an individual floor broker and in the past was a partner in Neuhut, Plohn & Co. and its predecessor. Mr. Toplitt in the past was with D. M. Minton & Co. and Schatzkin, Loewi & Co.

Deadline Approaches For Filing Comments With SEC Regarding Bid And Asked Disclosure Rule

Dealers and dealer organizations are hereby reminded that only a few days remain before the Sept. 15 deadline set by the Securities and Exchange Commission for the submission of views regarding the Commission's proposed new rule, X-15-c 1-10. The over-the-counter industry is by now fully aware of the intent and purposes of this proposed measure and undoubtedly is prepared to impress upon the Commission the many reasons why such an inflexible regulation cannot be equitably or successfully applied and in no sense can be construed as in the public interest.

However, it is unfortunately true that many dealers throughout the country, not affiliated with any organization, are inclined to sit back and await developments, instead of taking an active part in combating measures directly inimical to their own welfare. Still others adopt an uncalled for defeatist attitude with regard to measures originating in the SEC, the impression being that the "Commission can do no wrong and what the hell's the use of opposing them."

Nothing can be further from the truth, in our opinion, as we refuse to subscribe to the theory that Congress, in creating the SEC, at the same time suspended the constitutional rights of all those whose activities are subject to the Commission's jurisdiction. True, the Commission is cloaked with extremely wide powers, but these certainly do not include the authority or the right to impose rules and regulations, no matter how destructive and harmful to the nation's financial economy, solely because they seem desirable in the Commission's viewpoint.

It would be silly, of course, to say that the Commission has not been instrumental in making all those connected with the securities industry additionally conscious of their obligations to the investing public. However, there is overwhelming evidence to support the conclusion that its proposed bid and asked rule and its attendant relevant provisions is not in any sense constructive and it is the duty of the entire industry to impress this fact on the Commission on or before Sept. 15.

NYSE Govs. To Study Block Merchandising

Emil Schram, President of the New York Stock Exchange, has requested a group of Governors to consult with him in a study of the merchandising of blocks of securities.

The group will comprise Emil Schram, Albert H. Gordon, Robert J. Hamershlag, George R. Kantzler and Joseph Klingenstein.

Wall With Fusz-Schmelzle

(Special to The Financial Chronicle)

ST. LOUIS, MO.—Chesley Wall has become associated with Fusz-Schmelzle & Company, Boatmen's Bank Building, members of the St. Louis and Chicago Stock Exchanges. In the past Mr. Wall was in the wholesale department of Detjen & Co. and was with Bankers Bond & Securities Company.

Vanderbeck Goes Farming

James Vanderbeck announces that he is discontinuing his investment business at 11 Broadway, New York City, for the duration, and is entering the farming business.

Dealer Quotation Service

An interesting booklet describing the national daily and monthly quotation services issued by the National Quotation Bureau, Inc., 46 Front Street, New York City, will be sent to dealers and brokers upon request. Ask for Booklet No. C-1.

DIVIDEND NOTICES

AMERICAN BANK NOTE COMPANY

Preferred Dividend No. 146
Common Dividend No. 130

A quarterly dividend of 75¢ per share (1½%) on the Preferred Stock for the quarter ending September 30, 1942, and a dividend of 10¢ per share on the Common Stock have been declared. Both dividends are payable October 1, 1942, to holders of record September 10, 1942. The stock transfer books will remain open.

J. P. TREADWELL, JR.,
July 22, 1942 *Secretary*

COMMERCIAL INVESTMENT TRUST CORPORATION

Convertible Preference Stock, $4.25 Series of 1935, Dividend

A quarterly dividend of $1.06¼ on the Convertible Preference Stock, $4.25 Series of 1935, of COMMERCIAL INVESTMENT TRUST CORPORATION has been declared payable October 1, 1942, to stockholders of record at the close of business September 10, 1942. The transfer books will not close. Checks will be mailed.

Common Stock, Dividend

A quarterly dividend of 75 cents per share in cash has been declared on the Common Stock of COMMERCIAL INVESTMENT TRUST CORPORATION, payable October 1, 1942, to stockholders of record at the close of business September 10, 1942. The transfer books will not close. Checks will be mailed.

JOHN I. SNYDER, *Treasurer.*
August 27, 1942.

DUPONT E. I. DU PONT DE NEMOURS & COMPANY

WILMINGTON, DELAWARE: *August 17, 1942*

The Board of Directors has declared this day a dividend of $1.12½ a share on the outstanding Preferred Stock, payable October 24, 1942, to stockholders of record at the close of business on October 9, 1942; also $1.00 a share, as the third "interim" dividend for 1942, on the outstanding Common Stock, payable September 14, 1942, to stockholders of record at the close of business on August 24, 1942.

W. F. RASKOB, *Secretary*

EATON & HOWARD
BALANCED FUND

The Trustees have declared a dividend of 20 cents per share payable September 25, 1942, to shareholders of record at the close of business September 15, 1942.

September 3, 1942. 24 Federal St., Boston

Our Reporter On "Governments"

(Continued from first page)

WHAT ISSUES?

A glance at the Government list suggests that these coming maturities may be redeemed instead of refunded:

The $232,000,000 December 1¾s;
The $66,000,000 March 15, 1943, ¾s;
The $279,000,000 Sept. 15, 1943, 1s;
The $289,000,000 CCC ¾s of May 1, 1943;
The $324,000,000 RFC 1⅛s of July 15, 1943.

Other nearby maturities such as the Treasury 1⅛s of June 15, 1943, outstanding in the amount of $629,000,000, and the Treasury 1⅛s of Dec. 15, 1943, outstanding in the amount of $421,000,000, seem too large to admit of redemption in place of refunding. . . . Certainly the June 1⅛s seem a logical candidate for refunding. . . . But, anyway, the sensible policy is to place your bets for refunding on the larger issues, your bets for redemption on issues outstanding in amounts less than $400,000,000. . . . And then figure out your "own refunding" policy accordingly. . . .

THE SEPTEMBER DEAL

Morgenthau has announced that first disclosures on the September borrowing will come after Labor Day, Sept. 7. . . . He has said nothing so far on amounts or terms, but we can predict with considerable confidence that the financing this month will range between $2,000,000,000 and $3,000,000,000. . . . And this is despite the income tax collections total due on the 15th. . . .

What possibilities? Perhaps another certificate of indebtedness issue will be tried, for these securities are popular and the latest issue out—the ⅞s of Aug. 1, 1943—are now selling at a 2/32 premium. . . . Since the reduction in reserve requirements of Chicago and New York banks, demand for this issue has increased noticeably. . . . And then there's a good chance the discount bill issues, sold weekly, will be expanded. . . . Guess is, the total offering may be raised to $400,000,000. . . .

Incidentally, the Treasury has benefited directly from the reduction in reserve requirements through the better demand and better price paid for the last issue of discount bills. . . . Rate went down from 0.372 to 0.369%. . . .

Willard Daggett With Stifel, Nicolaus Co.

CHICAGO, ILL.—Stifel, Nicolaus & Co., Inc., 105 West Adams Street, announce that Willard Daggett is now associated with them in their sales department in Chicago. Mr. Daggett was formerly with Holley, Dayton & Gernon as Manager of their Madison, Wis., office.

Robt. W. Duff Now With Link, Gorman & Co.

(Special to The Financial Chronicle)

CHICAGO, ILL. — Robert W. Duff has joined the staff of Link, Gorman & Co., Inc., 208 South La Salle Street. Mr. Duff was formerly Vice-President of Traction Securities, Inc. Prior thereto he was trading manager for Robert J. Phillips & Co. and was with Moore, McLean & McDermott.

DIVIDEND NOTICES

Beneficial Industrial Loan Corporation

DIVIDEND NOTICE

Dividends have been declared by the Board of Directors, as follows:

PRIOR PREFERENCE STOCK
$2.50 Dividend Series of 1938
62½c per share
(for quarterly period ending Sept. 30, 1942)

COMMON STOCK
37½c per share

Both dividends are payable Sept. 30, 1942 to stockholders of record at close of business Sept. 15, 1942.

E. A. BAILEY
September 1, 1942 Treasurer

American Locomotive Company
30 CHURCH STREET
NEW YORK, N. Y.

Preferred Dividend No. 137

A dividend on the Preferred Capital Stock of this Company of $1.75 per share on account of accumulated dividends has been declared payable September 24, 1942, to the holders of record of said stock at the close of business on September 9, 1942.

Transfer books will not be closed. Checks will be mailed by the Bankers Trust Company on September 23, 1942.

JOHN D. FINN
August 27, 1942 *Secretary*

GUARANTY TRUST COMPANY OF NEW YORK

New York, September 2, 1942.

The Board of Directors has declared a quarterly dividend of Three Per Cent. on the Capital Stock of this Company for the quarter ending September 30, 1942, payable on October 1, 1942 to stockholders of record September 9, 1942.

MATTHEW T. MURRAY Jr., Secretary.

KANSAS CITY POWER & LIGHT COMPANY
First Preferred, Series B Dividend No. 63
Kansas City, Missouri. August 31, 1942

The regular quarterly dividend of $1.50 per share on the First Preferred, Series "B," Stock of the Kansas City Power & Light Company has been declared payable October 1, 1942, to stockholders of record at the close of business September 14, 1942.

All persons holding stock of the company are requested to transfer on or before September 14, 1942, such stock to the persons who are entitled to receive the dividends.

H. C. DAVIS, *Assistant Secretary.*

JERSEY CENTRAL POWER & LIGHT CO.
PREFERRED STOCK DIVIDENDS

The Board of Directors has declared the following regular quarterly dividends: The 70th qtly. div. of $1.75 on the 7% Preferred Stock; the 61st qtly. div. of $1.50 on the 6% Preferred Stock; and the 45th qtly. div. of $1.37½ on the 5½% Preferred Stock. Payable on Oct. 1st, 1942, to stockholders of record at the close of business Sept. 10th.

R. R. BOLLINGER, *Treasurer.*

THE CHESAPEAKE AND OHIO RY. CO.

A dividend for the third quarter of 1942 of one dollar per share on Preference Stock, Series A, and of seventy-five cents per share on $25 par common stock will be paid October 1, 1942, to stockholders of record at close of business September 8, 1942. Transfer books will not close.

H. F. LOHMEYER, *Secretary.*

NATIONAL DAIRY PRODUCTS CORPORATION

A dividend of 20¢ per share on the Common stock has been declared, payable October 1, 1942, to holders of record September 8, 1942.

GEORGE H. RUTHERFORD
August 27, 1942 Treasurer

MARGAY OIL CORPORATION
DIVIDEND NO. 49

The Board of Directors of the MARGAY OIL CORPORATION has this day declared a dividend of twenty-five cents a share on the outstanding stock of the corporation of the issue of 160,000 shares provided by amendment to the certificate of incorporation of April 27, 1926, payable October 10, 1942, to stockholders of record at the close of business September 19, 1942.

E. D. OLDENBURG, Treasurer
Tulsa, Oklahoma, September 1, 1942.

NEW YORK TRANSIT COMPANY
26 Broadway
New York, August 20, 1942.

A dividend of Thirty (30) Cents per share has been declared on the Capital Stock ($5.00 par value) of this Company, payable October 15, 1942 to stockholders of record at the close of business September 25, 1942.

J. R. FAST, Secretary.

Municipal News & Notes

San Antonio Bonds On Market

The $33,950,000 San Antonio, Texas, electric and gas revenue bonds, bearing 2½, 2¾ and 3% interest, due serially on Aug. 1 in 1944 to 1972, were offered Tuesday for general subscription by a large underwriting group headed by Dillon, Read & Co., A. C. Allyn & Co., Inc., The Union Securities Corp., and E. H. Rollins & Sons, Inc. The 1944 through 1971 maturities were priced to yield from 1 to 2.90% according to maturity, while the 1972 2½% coupon bonds are priced at 104% for public investment.

This offering is part of a transaction representing the largest acquisition of a privately owned utility property for public ownership since 1937. The purpose of the financing is to effect the purchase by the city of San Antonio of the electric generating and transmission facilities, electric and gas distribution systems in the city, and certain electric and gas distribution facilities in surrounding areas now owned by San Antonio Public Service Company.

Upon completion of the financing, the city of San Antonio will own and operate the properties described, which are to be mortgaged under the indenture under which these San Antonio Electric and Gas revenue bonds are issued. The bonds will be part of an issue of $35,000,000 bonds authorized under the indenture, and will be special obligations of the city of San Antonio payable from the net revenues derived from operations of the electric system and gas distribution system of the city.

The nation-wide selling group reported early that active investor interest in the bonds had been manifest for all maturities. It was said that an avalanche of advance orders had come into the market prior to the formal offering. Banks are understood to have bid for most of the earlier maturities, with like companies and other institutions competing for the longer-term due dates.

Municipal Men Adopt Wood's Opinion Against SEC Proposal

New York municipal bond dealers, through the medium of their Municipal Bond Club, voted last week complete opposition to the proposed rule of the Securities and Exchange Commission, X-15 C1-10, demanding in the field of exempted securities disclosure to customers of the best independent bid and asked prices.

The club adopted an opinion written by David M. Wood, of the law firm of Thomson, Wood & Hoffman, and President of the club, in which the proposed SEC rule was condemned as invalid under the Securities Exchange Act and as an attempt of the Commission to seize powers which had been specifically denied to the Commission by action of Congress.

The report also held that the proposal tends to make an unsupportable distinction between securities issued by the Government and those issued by States and municipalities, a subdivision of exempted issues not detailed in the law.

It was voted to send the Wood report at once to the SEC as the expression of members in reply to the Commission's request for such expression before Sept. 15.

Summing up his views of the rule, Mr. Wood told the club that there can be little doubt that the rule, "in so far as it purports to be applicable to exempted securities, is invalid."

"It is not a definition of deceptive, manipulative or other fraudulent devices or contrivances, but rather, is an attempt, in the guise of definition to regulate the business in certain exempted securities and not in others," Mr. Wood declared.

"It is an attempt on the part of the Commission to usurp powers which were denied to it by Congress in 1936, and which its then chairman stated it did not desire, and which were again denied to it by it by Congress, after a thorough consideration of the Commission's point of view, in 1938."

Chicago Meeting Also Raps Proposal

Sentiment of municipal men as a whole was further disclosed last Saturday at a meeting of the National Security Traders Association in Chicago. Its municipal committee approved a recommendation that it was the position of the Association that the rule is invalid, as applied to State and municipal securities.

The recommendation on the proposed SEC rule was presented by James F. Musson, of B. J. Van Ingen & Co., Inc., New York, chairman of the association's municipal committee. Mr. Musson declared that the position taken in the recommendation represented the feeling of the entire municipal fraternity. The recommendation adopted said in part:

"After due consideration and study the municipal committee of the National Security Traders Association believes that the proposed rule is invalid as it applies to exempted securities, and concurs with the conclusions of the brief written by David M. Wood, attorney of Thomson, Wood & Hoffman, New York, and President of the Municipal Bond Club of New York."

New Orleans Cancels Offering

The above city has cancelled its proposed offering Sept. 15 of $12,000,000 refunding bonds.

Major Sales Scheduled

September 11

$799,444.73 Minneapolis, Minn.

Last April the city awarded bonds to a syndicate headed by Halsey, Stuart & Co., Inc. The Northern Trust Co. of Chicago, and associates, were the runners-up in the bidding.

September 18

$1,140,000 Cuyahoga Co., Ohio

Last July 17, the county awarded an issue to a syndicate headed by the Ohio Co. of Columbus, whose bid topped that submitted by Blyth & Co., Inc., and associates.

September 22

$500,000 Honolulu, Hawaii

In June, 1941, the above city and county awarded an issue to Dean Witter & Co. of San Francisco. The only other bid for the bonds was submitted by the Bank of Hawaii, Honolulu.

Tomorrow's Markets Walter Whyte Says—

Technical indications, lack of good news, added to seasonal trends, make for down market. If market to advance technical picture must change by Monday.

By WALTER WHYTE

The market has stayed long enough in this range (106-107 D. J.) and if it's to do anything on the upside it had better do it before we are a week older. For the longer it stays under the July tops (about 110) the more serious these tops will begin to appear. As it is, prices have made almost a straight line move from about the middle of August until the present date.

* * *

Now a straight line market, particularly if it follows a rally and a minor decline, is nothing to be disturbed about. On the contrary when a decline is indicated and the market moves across the tape in a lethargic pattern with no visible trend indicated, the end result is quite likely to be bullish rather than bearish. Ordinarily such would be the outlook today if it weren't for the very obvious fact that all present market action (and recent too) is under two tops —July and August. If you have any doubts about these so-called tops take a look at the markets of July and mid-August. These were tested at least four times in the last four weeks. And each time something came along and prevented prices from going through.

* * *

In the usual course of events a market finding overhanging stock too much to take at one gulp may back off to get another shot at it. This backing off is simply another word for reaction. Or it may just lie still, gathering strength until it has absorbed enough to try it again. Of the two, the latter seems in evidence today.

* * *

Last week I discussed what I called the 10-day theory. I tried to show how a single stock or the market as a whole may indicate a move and then for some reason back off and not attempt to live up to its indications for another 10 days. I further said that for some unknown reason the market did move in such 10-day cycles. Sometimes this cycle was reduced to less than 10 but it always worked in units of twos, seldom in odd figures. Well, the 10 days are about over. If the theory has any value it must either take effect within the next three days (that will bring you into Monday of next week) or you can look for a decline of say anywhere from three to six points.

* * *

When one considers present market action, present news, both domestic and foreign, the total hardly adds up to anything which might be called a bullish outlook.

* * *

Taking all this into consideration I think it's about time to begin cleaning up stale accounts. Of course if you're satisfied with what your stocks are doing then there is little to say, except this: if you have what you think is a good stock and the market goes off you can buy it back cheaper. If you hold a stock which is neither good or bad —just one of those things— the same thing applies. If you have a bad stock then you don't want it at any price. In any case you don't have to be married to it.

Readers of this column are now committed to six stocks: Air Reduction, Allis Chalmers, Crane, International Harvester, Pittston and Union Carbide.

* * *

I advise as follows: Air Reduction—stop at 31. If it rallies take part profits at 35 or better. Allis Chalmers— stop at 23. Half profits at 27 or better. Crane—stop at 11. Full profits at 15 or better. International Harvester—half profits were taken at about 50. Stop the rest at 44½. Pittston—because of its price it's a difficult one to figure. If you can get about 3 for it, take it. Union Carbide—was another stock in which half profits were taken when it hit 70. Stop the rest at 66.

* * *

More next Thursday.

—Walter Whyte

[The views expressed in this article do not necessarily at any time coincide with those of the Chronicle. They are presented as those of the author only.]

RAILROAD SECURITIES

Railroad observers are beginning to look forward to the possible blossoming of a second crop of icicles in hell in the near future. About two and a half months ago the management of the new Erie startled the financial community by declaration of an initial dividend of $0.50 a share on the new common and the certificates of beneficial interest. It is expected that the regular monthly meeting of the Board of Directors will be held on Sept. 18, and if a regular quarterly dividend policy is to be established action will naturally be taken at that time.

To provide holders of the old refunding 5s with the full $50 annual income to which they were entitled on their old bonds, it would be necessary to pay dividends of $1.67 a year on the new common stock. Of this amount, $0.50 was provided in the June declaration and it is generally expected that another $1.00 will be paid, or at least declared, before the year-end. The main difference of opinion in financial circles is as to whether the expected $1.00 additional will be paid in two installments or in one year-end distribution.

The complete optimism that the full amount will be paid in one way or another has been further bolstered by recent approval by the Senate Finance Committee of a proposal that reorganized railroads shall be allowed to maintain their old property investment bases in figuring excess profits tax liabilities and for depreciation. While it was claimed that the Erie proceedings represented a recapitalization and not a reorganization, and that the road could use its old investment base even without the remedial legislation, there had remained in many minds some uncertainty as to the validity and efficacy of such reasoning. These doubts have now been quieted, bringing about a marked strengthening in the market status of the Erie junior equity.

Even when a wave of uneasiness has hit the general markets in recent weeks Erie common and the certificates of beneficial interest have continued to sell in heavy volume in new high ground for the year. This market position should be further strengthened if the directors give an indication of their purpose of putting the shares on a regular dividend basis. A regular rate of $1.50 a year would certainly appear conservative under present conditions and foreseeable circumstances.

Erie has been enjoying a highly successful year despite the impact of substantially heavier maintenance work, increased wages and inevitably higher tax rates. Gross for the first seven months of 1942 showed a rise of some 27% over a year ago and net operating income increased more than $700,000. The gain in net was equivalent to approximately $0.43 a share of common. Without any further improvement during the balance of the year this would allow earnings of $3.42 a share for the full year 1942. From the standpoint of a feasible and conservative dividend policy it should also be noted that a large share of reported earnings should readily be available for distribution, as these earnings are after allowance for sinking funds and for the additions and betterment fund. Earnings statements of non-reorganized roads are normally before such deductions.

Actually it is estimated that Erie's earnings will show further substantial year-to-year improvement in coming months, and that final results will be well in excess of $3.42 a share. The best estimate at the present writing would appear to be in the neighborhood of $4.25 to $4.50, compared with just about $3.00 last year. Traffic will certainly hold to high levels, it seems likely that the rate of maintenance may be reduced in coming months, and in the last third of the year the wage level will be comparable with that of a year ago. In some quarters it is also believed possible that tax accruals so far may have been on the conservative side, and that the final bill of Erie will be less burdensome. In the meantime, dividend prospects are further bolstered by the company's strong financial position. Cash items as of the end of June were in excess of $25,000,000 and equivalent to almost four years' fixed charges. In addition, miscellaneous accounts receivable were more than double those of a year ago, aggregating $5,913,000, and inventories of materials and supplies had been bolstered heavily.

On the basis of the sound debt structure set up in reorganization as well as on the prospects of more liberal and regular income return, many rail men are still pressing for an exchange into Erie from such marginal equities as Central, Northern Pacific, Southern Pacific, etc.

Cleveland Traders Elect New Officers

CLEVELAND, OHIO — The Cleveland Security Traders Association announces the election of J. N. Russell, Gillis, Russell & Co., as President of the Association, succeeding Edward E. Parsons, Jr., of Wm. J. Mericka & Co. Harry Gawne, Merrill-Turben & Co., was named Vice-President; Everett A. King, Maynard H. Murch & Co., Secretary, and Thomas A. Melody, First Boston Corporation, Treasurer.

Correction

In the "Financial Chronicle" of August 27th in reporting that Andrew R. Butler would become a partner in Butler, Herrick & Marshall, 30 Broad Street, New York City, members of the New York Stock Exchange, it was stated that Andrew R. Butler had formerly been a limited partner in the firm. This was in error; we are informed that Andrew R. Butler, a son of George P. Butler, one of the original founders of the firm, has been associated with the firm since October, 1939, but was not previously a partner.

RR. Mortgage Table Ready

The 1942 edition of "Brooks Railroad Mortgage Table" and "The Reorganization Supplement" are now ready for distribution. The Mortgage Table contains tabular analyses of leading railroad debt structures while The Reorganization Supplement interprets the complex reorganizations as promulgated by the ICC or other parties in interest.

Defaulted RR Bond Index

The defaulted railroad bond index of Pflugfelder, Bampton & Rust, 61 Broadway, New York City, shows the following range for Jan. 1, 1939, to date: high—40⅜; low—14¾; Sept. 2 price—39⅝.

Bank and Insurance Stocks

This Week—Insurance Stocks

With two-thirds of the year now gone, and with the pattern of things to come beginning to take shape, it is perhaps possible to arrive at a fairly accurate preview of underwriting results for the Fire Insurance Industry in 1942. Premium income will, of course, reach a new all-time peak reflecting higher property values, new construction and the unprecedented movement of goods for armament purposes. Most representative companies will apparently write 10% to 20% more business in 1942 than in 1941. This trend is particularly noteworthy because writings last year were the largest in history, exceeding by a slight margin those in the boom year of 1929.

Despite this substantial step-up in volume, fire losses for the first seven months are only slightly above the corresponding period of 1941. As a matter of fact, were it not for the poor experience in January and February, losses would actually be below last year. Since March, i.e. for five consecutive months, estimated losses have been lower than in the same months of 1941. A monthly comparison of losses, as estimated by the National Board of Fire Underwriters, is a sfollows:

—In Millions—	1941	1942
January	$26.5	$35.6
February	26.1	30.8
March	31.5	30.5
April	29.3	28.0
May	25.6	23.2
June	24.9	22.4
July	23.7	21.0
Totals	$187.6	$191.5

On the face of things, the straight fire business should be producing very satisfactory profits. However, due to the greatly enlarged premium volume and certain other extraordinary developments, underwriting results for the industry as a whole—and particularly for some individual companies—will be considerably distorted this year. For example, even though loss and expense ratios drop, underwriting profits of an insurance company may also drop if its premium volume rises substantially. This is one of the peculiarities of insurance company accounting which is often confusing to the lay investor or analyst who has not had occasion to study the matter in detail. What happens, of course, is that new business must be reserved for 100% as it is put on the books and, if the old business "runs off" more slowly than new business is added, there is a corresponding drain on the Surplus Account. As a result, there may be a superficial and temporary underwriting "loss" on a so-called statutory basis even when the actual experience is highly favorable.

Another element that will make for unusual divergence in the results to be reported this year by individual companies is the Ocean Marine situation which developed last winter and spring. This was the nearest thing to a "catastrophe" that has been suffered by the fire insurance business during the past decade; as usual, however, the companies were in a position to take these losses "in stride" and to work out a satisfactory modus operandi for the future. There has been a tendency in some quarters to criticize the industry for having underestimated the dangers inherent in the Ocean Marine business. In certain cases, also, where companies had not been accepting such business regularly, executives have been taken severely to task for becoming involved in it. But the matter was not quite as simple as that.

After all, we came into the War very suddenly and the machinery had not been set up by the Government to assume responsibility for administering the necessary maritime and war risk insurance. This has now been done but, during the transition period, shippers obviously required coverage—and they got it. They got it because the insurance industry could and did cooperate, on a syndicate basis, to handle the situation. When risks became too great for the few companies that normally handle most of the ocean marine business, other leading companies were invited to participate—and most of them did. Whether patriotism or hope of profit was the motivating force in each case was, perhaps, immaterial. The job was a big one—and it was done as only a strong self-reliant industry could do it.

Of course, second-guessing is a relatively easy and popular pastime. Unfortunately, neither our military experts nor our insurance underwriters can go back and play their hands over. If they do not produce, they do not last, and that is known as the survival of the fittest. In the insurance field, however, losses are not always an unmixed calamity. Frequently a bad loss is the best possible advertisement the insurance business can have because it emphasizes the need for insurance and also publicizes the ability of the companies to meet such obligations when they arise.

Obviously few people, either in or out of the underwriting field, anticipated that shipping losses would be as severe as they were. No one could foresee that our naval defenses would be so weak and our convoy methods so inadequate. These shortcomings are already being rectified. Meanwhile the Insurance Industry can be proud of its initial contribution to the war effort. But it will neither ask, nor receive, any particular thanks. The insurance business is not operated as a relief project. In order to achieve the greatest good for the greatest number, an insurance company must remain solvent—and to remain solvent, it must make profits. That is the essence of the private enterprise system—and the insurance business is one of the most virile and efficient examples of such a system.

Had it not been for these abnormal losses on Ocean Marine business, ordinarily a relatively minor line, the fire insurance industry would be enjoying a very profitable year. Even the automobile fire and theft business, which has been rather unsatisfactory in recent years, is expected to produce a good profit. People are exercising much greater care in the operation and preservation of their automobiles. Furthermore, most policyholders will retain their fire and theft coverage, which costs very little, even when their cars are placed in storage. Therefore, until sufficient cars are actually worn out and scrapped to reduce the existing supply, no serious reduction in premium income from fire and theft coverage is to be expected.

Because of the special conditions discussed herein, the overall loss ratio for most fire companies in 1942, will be the poorest in many years. In each case it will be necessary to look behind the superficial figures to arrive at an understanding of the actual situation. What is most important, on a longer term basis, is that there has apparently been no fundamental change in the character of the fire insurance business. One interesting, and significant, development of the year has been the training of our civilian population in fire prevention and control. Never before have our people been so "fire conscious" as they are today, and never before have they been drilled and equipped to fight conflagrations of all types as they now are. This experience, now being undertaken as an integral part of the war emergency, should have definite long term value in reducing property losses after the war is over.

In The Armed Forces

Kenneth S. Beall, a partner in the firm of Cruttenden & Co., Chicago, Ill., has been commissioned a Lieutenant AV (P) and has reported to the U. S. N. Air Station at Quonset, Rhode Island.

Ben W. Boas, who was actively identified in Wall Street for over 25 years and more recently with Ernst & Co., members New York Stock Exchange, has been commissioned a Lieutenant in the United States Naval Reserve.

Ford T. Hardy, manager of the investment division of Merrill Lynch, Pierce, Fenner & Beane, New Orleans, La., has been commissioned a First Lieutenant in the U. S. Army Air Corps and will report on Sept. 4 in Miami, Fla., for duty.

J. Kirk Milnor, formerly of Van Deventer Brothers, Inc., New York City, has been commissioned a Captain in the U. S. Army Air Corps and will be stationed at Miami Beach, Fla.

Sidney L. Parry, Vice-President of the Chicago Stock Exchange, has been commissioned a Lieutenant in the U. S. Naval Reserve. He is taking a leave of absence from the Exchange to serve on the Naval Aviation Cadet Selection Board until Oct. 21 when he will report to Quonset Point, R. I. Lieutenant Parry has been with the Exchange since 1928 and became Vice-President in 1939.

Robert M. Pearce, President of Pearce & Co., Inc., Camden, N. J., has been appointed a Captain in the U. S. Army Air Corps and announces that his firm will discontinue business for the duration.

Lawrence Stiver, formerly with J. S. Bache & Co., Cleveland, Ohio, is entering the U. S. Navy.

Warner M. Washburn, a partner in Lamson Bros. & Co., Chicago, has been commissioned a Lieutenant in the U. S. Naval Reserve. Lieutenant Washburn has taken leave of absence from his firm and will report to the naval training station at Newport, R. I., for indoctrination.

T. Courtenay Jenkins Dies

T. Courtenay Jenkins, partner in Jenkins, Whedbee & Poe, Baltimore, Md., died at his home at the age of 61. He had been ill for about a year.

UP-TOWN AFTER 3

ABOUT THE TOWN

For months I have heard about the doings at **Mother Kelly's (B'way & 50th)** but being naturally lazy I just didn't get around to seeing it. Well, the other night I did. I expected to meet a motherly sort of person, the kind who would carry the name Mother Kelly with proper maternal dignity. How was I to know that "Mother" Kelly was a big Irishman, short sleeves and a shirt open at the throat displaying a hairy chest which seemed anything but motherly. Understand that even his son calls him "mother" though his name is Bob. That is, Mother Kelly's name is Bob—not his son. Say, before I get all confused, I'd better tell you about the show. It consists of **Cully Richards, Sid Tomak**, the **Reise Brothers, Danny Rogers, Jack Oakie, Lolita Cordoba** and **Renee Rochelle**. The whole thing is geared for laughs, referred to in less dignified circles as "belly." Done in a series of blackouts, the comics keep things roaring. Custard pies, seltzer squirters and general bedlam is the order of the day here. The comedy lines are equally broad. No subtlety at "Mother" Kelly's, but does the crowd love it! They just roll with laughter. . . . **It Happened in Radio**—What with the war the radio people are unusually careful about admitting anyone to the studios. Everybody must have a pass. **Cliff Nazarro**, the double talk expert and movie actor, was signed for a guest appearance and showed up for rehearsal. Unaware of the pass restrictions, he tried to walk in and was stopped by the guard who demanded his pass. "Surely, you don't framis the dramforth on the creeve from Mr. Royal," said Nazarro. "I beg your pardon?" said the puzzled guard. "I still have the portisan framis that Mr. Sarnoff delvied for the trismass drill," Nazarro replied. "Uh huh," answered the guard with a dazed look. "I guess it's okay. You can go in." Another one is told about the rules applying to musicians using any but the regular "stage" elevators, a kind of glorified freight car. All musicians if carrying their instruments must use this elevator at NBC. One man, well dressed, carrying a violin case tried to enter the passenger elevator. He was stopped and told to use the "stage" elevator. "But I have a broadcast in ten minutes," protested the man. "I suppose you have," replied the operator impatiently, "and that's why you'll use the other elevator." "But I'm Jascha Heifetz," protested the musician. "I wouldnt care if you're Rubinoff," said the operator. "You'll still use the 'stage' car."

Investment Trusts

NOTES ON INFLATION

The latest publications of three leading investment company sponsors point clearly to the dangers of inflation. Moreover, their words of warning are supported with statistics showing the extent to which inflation has already progressed in this country.

National Securities & Research Corporation devotes the main discussion in its Aug. 27 *Investment Timing* to inflation under the thought-provoking title, "Cash Is An Investment." The bulletin points out that "cash is merely another type of investment, with potential advantages and disadvantages." The investor today, it concludes, "cannot really keep from being fully-invested by holding cash."

(In commenting on the intermediate trend of stock prices, this sponsor confirms the upward trend forecast in its bulletin of Aug. 13.)

The Keystone Corporation of Boston takes an interesting viewpoint in its Aug. 21 issue of *Keynotes*. The bulletin asks, "How Safe Is Cash?" By means of a chart it is shown that the purchasing power of the dollar has declined 24% since 1939. In other words, the dollar, in terms of what it would buy in 1939, is worth only 76c today.

The Aug. 29 issue of *Brevits* discusses certain aspects of inflation under the title, "Yields And Living Costs." Taking the period from June 1941 to last June, the bulletin points out that last June the cost of living index stood at 97.3, up from 88.5 for June 1941 and from 93.2 at the end of last year. It goes on to state that, "As indexes go, that's not a very radical change, but it's nearly 10% and expressed in terms of money it means that last year's ten dollar bill is worth only nine dollars today."

Good Reading

A steadfast purpose of this column is to aid in dispelling the prejudices which isolated past mistakes, faulty information, and bad publicity have created toward the investment company field. In this endeavor we have found that the most constructive thing we could do was to let the individual companies tell their own straightforward story. It is with this thought in mind that we are reprinting the following letter:

"Aug. 21, 1942

"To Our Shareholders:

"You will find on subsequent pages of this report detailed statements covering the operations of your corporation for the six months ended July 31, 1942, and its condition as of that date. . . .

We suggest a careful reading of the figures by all shareholders.

"We believe that shareholders will be gratified by the fact that net assets of the fund have now crossed the $9,000,000 mark. The exact figure was $9,000,728.28 on July 31, and both that figure and shares outstanding of 1,354,216 represent the largest totals in the life of the Fund up to that date. As this letter is written, net asset value has increased to $9,452,182.18.

"Bond interest earned during the six months amounted to $318,973.39. All bonds held paid their full interest in the period under review and, in fact, all have done so without interruption since their original dates of issuance. Net operating expenses were $43,426.98. . . . Distributions to shareholders from the 'ordinary distribution account' during the period totaled $282,366.81 leaving a net balance in the account on July 31, 1942 of $6,366.69. These distributions took the form of two quarterly payments of 11c per share each on April 15 and July 15, 1942. In addition an 'extra-ordinary distribution' from net realized profits on sales of securities was paid on April 15, 1942 in the amount of 3c per share. Thus, total distributions for the period were 25c per share as against 22c per share in the corresponding period of the previous fiscal year. There follows a tabulation, on a per share basis, of the distributions paid since the inception of the Fund.

"The cost of investments held on July 31, 1942 was $199,955.50 greater than market value on that date. The earlier portion of the semi-annual period under review was characterized by a declining trend in securities prices which reached its low point in late April and apparently was based largely on public expectations of a short war which, unfortunately, seem to have been not at all well founded. The subsequent recovery which appears still in progress has not yet erased the earlier decline. However, as of the date of this letter, this unrealized loss has been replaced by an unrealized profit of $15,152.00, or a total improvement of $215,107.50.

HISTORICAL RECORD OF DISTRIBUTIONS

Date	Ordinary Distributions	Extra-Ordinary Distributions	Total Distributions
10-15-38	$0.12		$0.12
1-16-39	0.12		0.12
4-15-39	0.12	$0.05	0.17
7-15-39	0.11	0.02	0.13
10-15-39	0.11		0.11
1-15-40	0.11	0.07	0.18
4-15-40	0.10	0.02	0.12
7-15-40	0.10		0.10
10-15-40	0.10		0.10
1-15-41	0.11	0.02	0.13
4-15-41	0.11		0.11
7-15-41	0.11		0.11
10-15-41	0.11	0.05	0.16
1-15-42	0.11	0.02	0.13
4-15-42	0.11	0.03	0.14
7-15 42	0.11		0.11
	$1.76	$0.28	$2.04

Ordinary distributions are derived from bond interest but after the deduction of the normal operating expenses of the Fund. *These distributions represent true net investment income.* Extra-ordinary distributions are derived entirely from realized net profits on bond transactions. There is no regular expectancy of such extra-ordinary distributions as they are paid only when net earnings from realized security profits are available for such purpose.

"Since more than 70% of the portfolio of the Fund is currently devoted to railroad bonds, some comment on the position of the railroads seems appropriate. An increase of approximately 70% in net income for the first half of 1942 over the corresponding period of 1941 was achieved by the carriers, whereas industrial companies generally are estimated to have suffered a decline of 30 to 35% in the same period. The railroads have large invested capital positions and most of them will be largely or entirely immune to excess profits taxes. Thus, they should be able to increase substantially their cash holdings which already stand at an all time record figure—in excess of $1,000,000,000.00. It is expected that a number of roads will devote substantial portions of their reserves to the purchase of their own bonds at discounts, thus strengthening the position of the bonds remaining outstanding.

"One significant recent development has emphasized the great improvement in railroad earnings. Most states prescribe by law those bonds which are legal investments for Savings Banks and Trust Funds, and earnings are one of the most important factors in the qualification of 'legals.' New York State is looked upon as a leader in this respect and bonds legal in New York are frequently given legal status in a number of other states. Due to the improvement in railroad earnings, nearly $2,500,000,000.00 of rail bonds were recently added to the New York legal list. Fifteen of these issues are held in the portfolio of the Fund and New York legals represented 39% of its investment holdings on July 31, 1942.

"Over the past two or three years the management has increased the percentage of railroad bonds in the portfolio from approximately 35% to its present figure of slightly over 70% in recognition of the steadily improving position of the carriers. It should be kept in mind, however, that (your Corporation) is a *general* bond fund and that it is free to alter the composition of its holdings at any time to reflect the judgment of the management on changing conditions.

"Your management will welcome comments or questions from the shareholders on this report or on the affairs of your corporation at any time."—From the semi-annual report of *Manhattan Bond Fund.*

Edwin P. Schneider With J. S. Bache In Columbus

(Special to The Financial Chronicle)

COLUMBUS, OHIO—Edwin P. Schneider has become associated with J. S. Bache & Co., 16 East Broad Street. Mr. Schneider was formerly Manager of the Trading Department for W. M. Zuber & Co. and prior thereto was with Stevenson, Vercoe & Lorenz.

The Securities Salesman's Corner

DON'T THINK IN CIRCLES

The other day we noticed an advertisement for one of those courses in mental training. Although this department makes no brief for any of these so-called short cuts to self mastery, we were impressed by the wording of the advertisement. It went something like this, "Do you ask yourself, how shall I begin, what shall I do next? Have you a confusion of ideas, etc., etc.?" There is no doubt that nearly everyone could improve in respect to learning how to marshall our thoughts and concentrate them upon a given objective. There is no better way to increase self efficiency than to learn how to unite your mental processes and use them to the best advantage.

Here are a few rules that apply particularly to the profession of salesmanship. Some of them are "old timers" but they are worth repeating because they are the foundation stones upon which successful effort in every walk of life can be constructed.

1.—Plan tomorrow's work today. Know what you are going to do with your day. Make some appointments if possible. Set aside the time you are going to be in the office so that the rest of the day can be spent in the field. If you think it will help you, have the office stenographer type out your schedule and have it on your desk so that it will be there to greet you in the morning.

2.—Plan your interviews. If you are going to see certain accounts with whom you are acquainted, have something specific to talk about. If one of them holds some securities that should be exchanged or traded, have the reasons why you think so ready. Go into the interview with your facts at hand, make them brief and to the point. A straight line will always be the shortest distance between your sales talk and the order.

3.—If you have a new issue to sell, or something special to recommend, it sometimes helps to put the highlights down on a piece of paper. Go over the situation yourself and pick out what you believe to be the most attractive features of the offering. Set them down in the INVERSE order of their importance. For example, if there are five main selling points that are outstanding, place the one which seems to you to be the least important at the head of the list. Make it number one, the next in importance should be number two, and so on until your best feature is last. This is where the sales clincher SHOULD come in. This is your "ace in the hole." Oftentimes we shoot our heaviest guns at the beginning of our sales talk and then become progressively weaker as we go along. This is just what we should not do if we wish to place the most emphasis at the point where we ask for the order. Again it sometimes is helpful to have these highlights typewritten on a handy card that can be carried in a coat pocket. Just before making a call it can be referred to as a reminder.

4.—Do one thing at a time. Don't start one job until the one you are on has been finished.

Anyone who becomes a successful salesman has to learn how to concentrate, how to do the hard jobs first, how to think things through, how to meet disappointments and cast them aside, and how to stand on one's own feet and make your own way in the give and take of life. It's a tall order, mates, and the pay isn't any too good, especially in times like these, but there are some of us who wouldn't trade our jobs for all the gilded desks, fancy offices and regular pay checks in existence. We'll take it the hard way—on commission—the only way we know how to make our living—by working for it.

P.S.—SEC please take notice; there is a lot more to selling securities than you see when you look over the books and inspect the orders in our files. If you insist that we salesmen have to tell our customers the inside bid and ask price every time we do business with them you are going to force us out of business. No salesman can afford to destroy his customer's confidence by dishonest dealing. Only crooks take unfair advantage and strive for unconscionable profits. Rule X-15C1-10 will not stop the small number of crooks who infest our business *(the same as any other) but if you put it into effect, it will stop* ALL THE REST OF US WHO MAKE SECURITY SALESMANSHIP AN HONORABLE PROFESSION.

Rail Bond Letter

This week's issue of Leroy A. Strasburger & Co.'s Railroad Bond letter will include easily comparable earnings figures for most major railroad systems for July and seven months of 1942, together with some suggestions which, the firm believes, offer better than average attraction. Copies are available to dealers only and may be had upon request from Leroy A. Strasburger & Co., 1 Wall Street, New York City.

National Security Traders Association

OFFICERS 1942-1943

Chosen at the NSTA Election Meeting in Chicago August 28th and 29th

Secretary

Edward H. Welch

1st Vice President

John C. Hecht

President

Wm. Perry Brown

2nd Vice President

Benj. H. Van Keegan

Treasurer

Earl M. Scanlan

EXECUTIVE COUNCIL

Joseph W. Sener

Thomas A. Akin

Henry J. Arnold

R. V. Mosley

National Security Traders Association BOOSTERS

Baltimore, Md.

BAKER, WATTS & CO.
Calvert & Redwood Streets
BA 395 Calvert 6200
J. Wilmer Butler
Charles H. Pinkerton
John G. Chenoweth
Robert A. Warren
Herbert H. Strawbridge

BROWN (ALEX.) & SONS
135 E. Baltimore Street
BA 383 Calvert 1700
John T. Baldwin
Charles A. Becker
Howard L. Kellerman
J. Creighton Riepe
Harryman G. Bosley
William J. Herr

CAHN (FRANK B.) & CO.
Equitable Bldg.
BA 390 Mulberry 3200
William H. Boggs

LANAHAN (W. W.) & CO.
Calvert Building
BA 480 Saratoga 2600
Gustav Klein

MACKUBIN, LEGG & CO.
22 Light Street
BA 288 Lexington 3400
R. Emmet Bradley
Jack C. Creech, Jr.
C. William W. Herzog
M. David Jones
C. Gerard Morgan, Jr.
Joseph W. Sener

STEIN BROS. & BOYCE
6 S. Calvert Street
BA 393 Plaza 8400
Wm. T. Childs
E. E. McClure
John M. O'Neill
G. Hudson Quarles
Edgar R. Stein

(Continued on page 802)

Greetings From Present And Past Officers

WM. PERRY BROWN

Notwithstanding the patriotic cancellation of the Ninth Annual Convention of the National Security Traders Association, the members who attended the meet-

Wm. Perry Brown

ings of the Association in Chicago on Aug. 28-29 realized as never before the importance of their membership in the National Security Traders Association and the contribution that the Association is making to the industry.

At these meetings, I realized fully the confidence that the membership placed in me when I was nominated to the office of President of the National Security Traders Association and the responsibilities undertaken by all of the officers and members of the Executive Council. I am pleased to speak for these men and to deliver a message to you that we expect to meaure up to the expectations and trust placed in us.

The foremost job ahead for our industry is to perform as patriotically as possible in the war effort. Our industry is just as much a part of this effort as any other industry. We have been doing our part since Dec. 7, 1941, in a most unselfish manner. Our membership has augmented the armed forces of our country materially and we likewise have, without profit, been behind the sale of war bonds 100%. We stand ready and willing to be called upon at any time by the Commander-in-Chief or our great country for future patriotic duty.

Each and every member of this Association is willing to assume his share of the responsibilities entrusted to him for the benefit of our business as a whole. We have much serious business confronting us during these trying times and the united efforts of all will bring about a most happy result.

Cordially yours,
Wm. Perry Brown

EDWARD H. WELCH

Organized in Chicago in 1934 the National Security Traders Association, Inc., has done much to maintain the high Standards of Trading in the Over-the-

Edward H. Welch

Counter markets. An organization of individuals rather than of firms, it has worked consistently for the general welfare of the business and its members.

Today we are faced with many uncertainties and must be ready to meet any adversities with full courage. Many have left our midst for the armed forces, some of whom have already made the Supreme Sacrifice.

We at home are not going to be found wanting, but stand ready to aid in whatever way we are best fitted. Let us renew our pledge to work together for the common good and surmount all difficulties that may confront us in our daily work. I fully realize the responsiblity placed upon me as Secretary for the coming year and pledge my full efforts to the best interests of the Association and its members.

Sincerely yours,
Edward H. Welch

BENJAMIN VAN KEEGAN

It was with a great deal of pleasure that I learned of my selection as an officer of the N. S. T. A. for the coming year.

During the past few years we have had very trying times in our industry and your Association has fully cooperated in every way with the Securities and Exchange Commission, National Association of Securities Dealers and the United States Treasury. Each and everyone of you have a part in this war, either by becoming part of the armed forces (as a great number of our membership are already seeing service), or by devoting time and effort in civilian defense work and lending every effort in the sale of war bonds. Under the able leadership of Perry Brown I cannot help but feel a great deal can be accomplished if each and everyone of you will give him your wholehearted support and cooperation for the coming year.

I hereby pledge myself to do all

B. Van Keegan

in my power to help my fellow officers in this undertaking.

Cordially yours,
Benjamin Van Keegan

EARL M. SCANLAN

I feel that it is indeed an honor to have been selected Treasurer of the National Security Traders Association. It is my earnest desire to fill the position as well

Earl M. Scanlan

as my predecessors have done.

It will be a pleasure to work with our new President, William Perry Brown, and I intend to give my full support to him in his effort to maintain the high ideals for which our organization has always stood.

Sincerely,
Earl M. Scanlan

BERT F. LUDINGTON

There has been a new seriousness about these meetings in Chicago the past two days—an atmosphere we have not seen before. That seriousness comes from an ever-growing realization of the complete disruption of the whole world under the impact of total war. The problems we are encountering in the securities business are infinitesimal by comparison.

Bert F. Ludington

As Secretary of the Association I have the opportunity to see from day to day the inroads made by the Armed Forces and War Industry in our membership. To those who have been called to such service, from those of us who have not yet been so fortunate for one reason or another, I want to say we are doing our best to preserve the concept of the business as you knew it.

The best of luck to all of you.

Sincerely yours,
Bert F. Ludington

JOHN C. HECHT

The problems confronting our Association today are a continuation of what we have had for the past several years, except that we have the full impact of a total war effort.

I am hopeful that the incoming

John C. Hecht

administration, of which I am very proud to be a part, will be able to serve the membership as well as the administration of the past year.

Very truly yours,
John C. Hecht

JOSEPH W. SENER

Eight years ago a small group of enthusiastic men known as "Traders" met in the Palmer House in Chicago, and in that meeting the National Security Traders

Joseph W. Sener

Association was born. Since that time the Association has grown steadily until at the present time it boasts of a membership of approximately 2,200. Today we are back at the birthplace. The fine representation at these Committee Meetings is indicative of the spirit of our organization. While our membership comes largely through affiliated groups in all sections of the country, it is nevertheless strongly united. Each affiliated group and each individual member contributes to the strength of the National Association and, through this unity, we will go far.

Another year has passed in the history of the National Security Traders Association, and it has indeed been an eventful one. For nearly nine months our country has been at war. *The honor roll of the Association*, composed of our members who have joined the various branches of the Service, is lengthening every day. Many more are serving their country in various other ways. Consequently, many familiar faces are missing at these meetings. We are fortunate, however, in having such an excellent representation to discuss the problems before us today and these will be met with the same fortitude and spirit which is characteristic of the members of our Association.

It has been an honor and a pleasure to serve the Association during the past year. To the incoming officers, "heartiest congratulations and best wishes!"

Joseph W. Sener

(Continued on page 805)

National Security Traders Association BOOSTERS

(Continued from page 800)

MEAD, IRVINE & CO.
First National Bank Bldg.
Lexington 0210
Preston A. Taylor

WILLIAMS (C. T.) & CO., INC.
Fidelity Bldg.
BA 499 Plaza 2484
Alex S. Porter
F. Osborne Wilhelm

Boston, Mass.

BOND & GOODWIN, INCORPORATED
30 Federal Street
Hancock 4250
Edward P. Mone
Arthur C. Murphy
Willard S. Putnam

CARR (RALPH F.) & CO.
10 Post Office Square
BS 328 Hubbard 6442
Ralph F. Carr
William S. Thompson

COFFIN & BURR, INCORPORATED
60 State Street
BS 545 Hubbard 4400
Edward S. Amazeen
John H. Dawson
Harry W. Crockett
Sumner R. Wolley
Robert S. Weeks, Jr.

ELWELL & CO., INC.
24 Federal Street
BS 200 Liberty 2990
Edward J. Opper
James E. Moynihan
James B. Maguire

HAIGNEY (DAYTON) & CO.
75 Federal Street
BS 596 Liberty 6190
Dayton P. Haigney
P. Warren Donovan

HUNNEWELL & CO.
49 Federal St.
BS 553 Hubbard 2332
Frank E. Lynch
Paul B. Monroe
Robert R. Blair
Walter F. Eagan

PUTNAM (F. L.) & CO., INC.
77 Franklin Street
BS 497 Liberty 2340
John E. Sullivan, Jr.
James J. Galvin

ROLLINS (E. H.) & SONS INCORPORATED
75 Federal Street
BS 142 Liberty 6080
Rodney Darling
John L. Daley

Chicago, Ill.

ADAMS & CO.
231 S. La Salle Street
CG 361 State 0101
Edward P. Renier
Jefferson K. Hoshor
Erling J. Hansen

ALLYN (A. C.) & CO., INC.
100 W. Monroe Street
CG 940 Franklin 8400
Thompson M. Wakeley
Dominic C. Cronin
Edward V. Vallely

BEAR, STEARNS & CO.
9 S. La Salle St.
CG 1279 State 0933
Patrick J. Cummings

BRAILSFORD & CO.
208 S. La Salle Street
CG 95 State 9868
Edward M. Burke
Carl B. Ross
Cecil O. Condit
Martin Lazar

BYLLESBY (H. M.) & CO.
135 S. La Salle Street
CG 273 State 8711
Arthur E. Farrell

CASWELL & CO.
120 S. La Salle Street
CG 1122 Central 5690
Paul J. Bax
Harold Barclay

CLEMENT, CURTIS & CO.
134 S. La Salle Street
CG 214 Randolph 6800
Paul Yarrow
William J. Sennott, Jr.
Frederick J. Cook

CRUMMER (R. E.) & CO., INC.
1st National Bank Bldg.
CG 163 Randolph 6317

CRUTTENDEN & CO.
209 S. La Salle Street
CG 35 Dearborn 0500
Walter W. Cruttenden
Lieut. Kenneth S. Beall, U. S. N.
Fred R. Tuerk
James H. Murphy
Murray C. Mathews

DAVIS (PAUL H.) & CO.
10 S. La Salle Street
CG 405 Franklin 8622
T. Leo Reynolds

DOYLE, O'CONNOR & CO., INC.
135 S. La Salle Street
CG 1200 Dearborn 9600
Leo J. Doyle
James J. O'Connor
Fred J. Casey
Hugh T. Kearns
Joseph F. Hammel
Thomas D. Walsh
Raymond C. Wauchop

ENYART, VAN CAMP & CO., INC.
100 W. Monroe Street
CG 965 Andover 2424
Charles E. Enyart
Paul M. Ohnemus
Jean A. Horacek

ERNST & CO.
231 S. La Salle Street
Franklin 7667
Ray Hofer

FAIRMAN (FRED W.) & CO.
208 S. La Salle Street
CG 1294 Randolph 4068
John W. Eustice

FAROLL BROTHERS
208 S. La Salle Street
CG 156 Andover 1430
Paul W. Spink
R. F. Ferguson

FULLER (WILLIAM A.) & CO.
209 S. La Salle Street
CG 146 Dearborn 9200
William A. Fuller
Wallace T. Combiths
Jerome F. Marquardt
Audran J. Cavanaugh
Joseph T. Fuller

GIBSON (W. C.) & CO.
231 S. La Salle Street
State 1790
Edgar A. Peck

GLORE, FORGAN & CO.
135 S. La Salle Street
CG 115 Andover 3000
Loren A. Cochran
Thomas R. Montgomery
Harold C. Nelson

GOODBODY & CO.
105 W. Adams Street
CG 321 Central 8900
Henri P. Pulver
James E. Hitchcock

GREENEBAUM INVESTMENT CO.
39 S. La Salle Street
CG 1368 Randolph 5360
James J. Blake

HARMET (A. A.) & CO. (Not INC.)
208 S. La Salle Street
Central 9744
Alfred J. Harmet
John J. Colnitis

HICKEY & CO., INC.
135 S. La Salle Street
CG 1234 Randolph 8800
Matthew J. Hickey, Jr.
William J. Lawlor, Jr.
John C. Rogers

HIXON, STEWART & KING
120 S. La Salle Street
CG 972 Randolph 5686
Thomas E. King
William J. Candrian

HULBURD, WARREN & CHANDLER
208 S. La Salle Street
CG 709 State 9760
Larry A. Higgins

HUMMER (WAYNE) & CO.
105 W. Adams Street
CG 1251 Andover 1700
F. Girard Schoettler

KNEELAND & CO., INC.
Board of Trade Bldg.
CG 640 Wabash 8686
J. Patrick Lannan
Edward L. Kent
Francis C. Woolard
Frank G. Burch
Henry T. Mathews
William S. Hunter
Norman J. Powers
Thomas J. Cline

LEASON & CO., INC.
39 S. La Salle Street
State 6001
Harvey G. Leason

MARKS (CARL) & CO., INC.
208 S. La Salle Street
CG 1124 State 6693
Israel Zippin
William P. Springer

PAINE, WEBBER, JACKSON & CURTIS
209 S. La Salle Street
CG 1247 State 0860
William E. McDonough
Evar L. Linder

ROGERS & TRACY, INC.
120 S. La Salle Street
CG 917 State 4151
Ralph S. Longstaff
Herbert J. Burke
Paul J. Skepnek, Jr.
Fred E. Ungeher

RYAN-NICHOLS & CO.
105 S. La Salle Street
CG 1399 Franklin 7466
George W. Smith
Donald B. Stephens
Vincent T. Kane
Arthur H. Bothen

DISCOUNT HOUSE OF SALOMON BROS. & HUTZLER
231 S. La Salle Street
CG 840 Central 9020
Harry Brown
Richard J. Aldworth (on war duty)

SCOTT & WYANDT, INC.
135 S. La Salle Street
Andover 4421
Mortimer W. Scott
Owen H. Wyandt

SILLS, TROXELL & MINTON, INC.
209 S. La Salle Street
CG 864 Dearborn 1421
Arthur W. Parker

SINCERE AND COMPANY
231 S. La Salle Street
CG 252 State 2400
Edward H. Welch
Edwin P. O'Brien
Albert Leritz

SMITH, BURRIS & CO.
120 S. La Salle Street
CG 878 Andover 1200
Elmer W. Erzberger
R. Donald Jacobson

STIFEL, NICOLAUS & CO., INC.
105 W. Adams Street
CG 697 State 5770
Donald B. Sherwood
John T. Boylan

STRAUSS BROS.
Board of Trade Bldg.
CG 129 Harrison 2075
Robert Strauss
Bernard J. Cunningham

THOMAS (E. W.) & CO.
135 S. La Salle Street
CG 1795 Franklin 2434
Carl X. Blomberg

THOMSON & McKINNON
231 S. La Salle Street
CG 1660 Central 5775
Earl C. Glosser
Richard Cooley

UNION SECURITY CO.
29 S. La Salle Street
Randolph 2977
Arthur A. Green

VALIQUET & CO.
135 S. La Salle St.
CG 81 Central 4402
Charles G. Scheuer

Denver, Colo.

SCANLAN (EARL M.) & CO.
Colorado National Bank Bldg.
DN 90 Main 3211
Earl M. Scanlan

Detroit, Mich.

ALLMAN, EVERHAM & CO.
Penobscot Bldg.
DE 75 Randolph 3855
Edwin M. Everham
Paul I. Moreland
George A. Reuter
Richard W. Pender

FIRST OF MICHIGAN CORP.
Buhl Building
DE 292 Randolph 2055
Frank P. Meyer
Douglas H. Campbell
Clarence A. Horn

Milwaukee, Wis.

LOEWI & CO.
225 E. Mason Street
MI 488 Daly 5392

Nashville, Tenn.

COMMERCE UNION BANK
400 Union Street
NV 93 5-6261
Paul O. Frederick

New York, N. Y.

ALBERTS (C. A.) & CO.
70 Wall Street
NY 1-2310 Hanover 2-7025
Chester A. Alberts

BACHE (J. S.) & CO.
36 Wall Street
NY 1-167 Digby 4-3600
Alfred B. Averell
Arthur E. Schwartz

National Security Traders Association BOOSTERS

BONN (W. T.) & CO.
120 Broadway
NY 1-886 Cortlandt 7-0744
Wesley T. Bonn

BONNER & GREGORY
30 Pine Street
NY 1-865 Whitehall 3-9030
William H. Gregory, Jr.
Arthur J. Burian
Joseph D. Krasowich

CLAYBAUGH (BLAIR F.) & CO.
72 Wall Street
NY 1-2178 Whitehall 3-0550
Edwin A. Jacobs
George Dedrick

COLLIN, NORTON & CO.
14 Wall Street
Worth 2-7023
Howard E. St. John

CRAIGMYLE, ROGERS & CO.
1 Wall Street
NY 1-1788 Whitehall 4-5290
N. Irving Maxfield
Joseph F. Guiton
O. R. Stoll

CROWLEY (JOHN B.) & CO.
60 Wall Street
Bowling Green 9-9135
John B. Crowley

D'ASSERN & CO.
49 Wall Street
NY 1-983 Hanover 2-4562
H. Walter Mewing

ENGLE, ABBOT & CO., INC.
63 Wall Street
Whitehall 3-7253
Tracy R. Engle

FREEMAN & COMPANY
30 Pine Street
NY 1-2288 Whitehall 4-3340
Philip H. Ackert
James F. Colthup
Joseph S. Nye
Joseph Janareli
Frederick R. Eisele
Howard G. Patterson

GERTLER, STEARNS & CO.
49 Wall Street
NY 1-926 Hanover 2-8333
John H. Gertler

HARDY & CO.
30 Broad Street
NY 1-733 Digby 4-8400
Kenneth A. Roome
Hugh Kilmer
Thomas J. Heffernan
Walter F. Webster
Robert W. Allison

HATCH (FREDERIC H.) & CO., INC.
63 Wall Street
NY 1-897 Whitehall 4-2400
John Butler
Frank L. Elliott

HAUPT (IRA) & CO.
39 Broadway
NY 1-1920 Digby 4-3000
Harry J. Peiser
Irving H. Isaac

HELBIG (BARON G.) & CO.
60 Broad Street
Hanover 2-8457
Baron G. Helbig

HOIT, ROSE & TROSTER
74 Trinity Place
NY 1-375 Whitehall 4-3700
Oliver J. Troster (on war duty)
Willis M. Summers
James Currie, Jr.
Edwin Tatro

HUFF, GEYER & HECHT, INC.
67 Wall Street
NY 1-2875 Whitehall 3-0782
George L. Collins
Wilbur Krisam

HUNTER & CO.
42 Broadway
NY 1-110 Whitehall 4-2968
Gerard F. Hulsebosch
Wellington Hunter

JOSEPHTHAL & CO.
120 Broadway
NY 1-319 Rector 2-5000
Lewis H. Serlen
Benjamin Grody

KEIPER AND ZIMM
30 Broad Street
NY 1-656 Whitehall 4-4950
Henry J. Keiper
Rudolph W. Zimm

KNOX (H. D.) & CO.
11 Broadway
NY 1-86 Digby 4-1389
Herbert D. Knox

KOBBÉ, GEARHART & CO., INC.
45 Nassau Street
NY 1-576 Rector 2-3600
Frederick D. Gearhart, Jr.

LEBENTHAL & CO.
135 Broadway
NY 1-2272 Rector 2-1737
Louis S. Lebenthal

MASTERSON (FRANK C.) & CO.
64 Wall Street
NY 1-1140 Hanover 2-9470
Frank C. Masterson
Benjamin H. Van Keegan
Joseph C. Eagan
George Leone
Harold J. Pollack

MAY (HERBERT M.) & CO.
11 Broadway
NY 1-662 Whitehall 4-4396
Herbert M. May

MAYER (ROBT. C.) & CO., INC.
50 Broadway
NY 1-1790 Digby 4-7900
Otto A. Berwald
Charles Kaiser

MITCHELL & COMPANY
120 Broadway
NY 1-1227 Worth 2-4230
C. Benjamin Mitchell, Jr.
Irving L. Feltman
Alfred I. Abelow
Kenneth V. Leibert
Cornelius B. Sheridan

NATIONAL QUOTATION BUREAU, INC.
46 Front Street
NY 1-1900 Whitehall 3-8330
Louis Walker
Graham Walker

PAINE, WEBBER, JACKSON & CURTIS
25 Broad Street
NY 1-1600 Hanover 2-5540
Ernest A. Dahlgren
David J. Lewis

PFLUGFELDER, BAMPTON & RUST
61 Broadway
NY 1-310 Digby 4-4933
William H. Pflugfelder

PITFIELD (W. C.) & CO., INC.
30 Broad Street
NY 1-1979 Hanover 2-8770
Irving P. Grace

RANDOLPH & CO.
2 Rector Street
NY 1-158 Digby 4-2960
Peyton Armistead Randolph

RICE, JR. (J. K.) & CO.
120 Broadway
NY 1-714 Rector 2-4500
Oliver A. Kimberly

ROGGENBURG & CO.
29 Broadway
NY 1-1928 Whitehall 3-3840

SAXTON (G. A.) & CO., INC.
70 Pine Street
NY 1-609 Whitehall 4-4970
Wm. C. Orton, Jr.
Carl Stolle
Arthur W. Bertsch
Frank E. Mulligan
Frank W. Warner
Milton F. Lewis

SCHOONOVER, de WILLERS & CO., INC.
120 Broadway
NY 1-2361 Rector 2-7634
Wm. G. Schoonover
Chester E. de Willers
Frank V. McKenna
Howard V. Williams

STRAUSS BROS.
32 Broadway
NY 1-832 Digby 4-8640
Abraham Strauss
Robert Strauss
William Frankel
Joe Donadio (with armed forces)

SWEETSER & CO.
65 Broadway
NY 1-1702 Whitehall 4-0488
Harold B. Smith

TRUST COMPANY OF NORTH AMERICA
115 Broadway
Barclay 7-1300
Charles D. Runyan, Pres.

VAN TUYL & ABBE
72 Wall Street
NY 1-1499 Hanover 2-6627
E. Everett Van Tuyl
Richard F. Abbe, Jr.

WOOD, GUNDY & CO., INC.
14 Wall Street
NY 1-920 Cortlandt 7-6080
Allison W. Marsland

Philadelphia, Pa.

BARNES & LOFLAND
1420 Chestnut Street
PH 347 Rittenhouse 0730
Walter K. Barnes

BLIZZARD (HERBERT H.) & CO.
123 S. Broad Street
PH 160 Pennypacker 6161
H. H. Blizzard (on war duty)
Henry B. Gurney, Jr.
Arthur C. Richards
Thomas J. Joyce

BOENNING & CO.
1606 Walnut Street
PH 30 Pennypacker 8200
Harold F. Scattergood
Richard W. Heward

BUCKLEY BROTHERS
1529 Walnut Street
PH 265 Rittenhouse 4488
J. Gentry Daggy
A. L. Hutchinson
Robert McCook
Walter D. Fixter

CLARK (CHARLES) & CO.
123 S. Broad Street
PH 577 Kingsley 2400
E. Walton Lightcap

DOLPHIN & CO., INC.
Fidelity-Phila. Trust Bldg.
PH 299 Pennypacker 4646
Leo M. Dolphin
Walter H. Schumann
Freeman G. Grant

DOUGHERTY (A. WEBSTER) & CO.
1421 Chestnut Street
PH 70 Rittenhouse 2580
Ellwood S. Robinson
George H. Wyckoff

FOGARTY, FRANK J.
Commercial Trust Bldg.
PH 426 Rittenhouse 0172

GERSTLEY, SUNSTEIN & CO.
213 S. Broad Street
PH 591 Pennypacker 0534
William Gerstley, 2nd
Bernard H. Tobias

GREENWOOD (H. T.) & CO.
123 S. Broad Street
PH 188 Rittenhouse 9555
Alfred W. Tryder

HALL, TATTERSALL & CO.
225 S. 15th Street
PH 428 Pennypacker 5360
Bernard V. Tattersall

KENNEDY AND CO.
Land Title Bldg.
PH 380 Rittenhouse 3940
Geo. H. Williams

LAIRD, BISSELL & MEEDS
1431 Chestnut Street
Locust 6226
Norman A. Lafferty
Cornelius Kelley

MILLER (E. W. & R. C.) & CO.
123 S. Broad Street
PH 84 Pennypacker 1570
Elwood W. Miller
R. Conover Miller
George S. Compton

NEWBURGER & HANO
1419 Walnut Street
PH 306 Locust 6200
William McC. Schreiner
Clifford Keif
Elmer E. Turner
Samuel Blaustein
Joseph B. Smith

SMITH (ALEXANDER) & CO.
1420 Walnut Street
Pennypacker 6754
Alexander Smith

SMITH (E. W.) CO.
Lewis Tower
PH 25 Pennypacker 8383
Joseph Markman
John G. Preller

STROUD & COMPANY, INCORPORATED
123 S. Broad Street
PH 296 Pennypacker 7330
R. Victor Mosley
John K. Ruckdeschel
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Favorable Outlook Seen For Reorganized Rails

(Continued from first page)

at some of the credit factors, we would have found out that for the ten-year period ending in 1929 Rock Island covered its fixed charges 1½ times and the Norfolk & Western 7 times.

"Likewise in that period, being students of yields, we allowed a bond like Nickel Plate 4½s at 8 to sell at a higher dollar price by $50 or $60 than the Norfolk & Western 4s of 1944, simply because of yield.

"No one that I know of in that period took the fundamental factors into consideration: No. 1—and when I say No. 1, I mean the diduciaries of the largest type as well as of the smallest type, and all of your so-called expert rail houses in Wall Street and in Chicago. But more important, so far as railroad securities are concerned, none of them was able to forecast the effect of competition when they entered the transportation business after the war—the last war. We knew there were trucks on the road; we knew there were barge lines; we knew there were pipelines, and so forth; but no one foresaw the effect of that competation which was absolutely unregulated, until 1931, when the cumulative effect of this unregulated competition started to deteriorate the railroad rates. That is the thing that killed railroad credit. It wasn't so much the lack of business, but it was the complete collapse of the rate structure of the railroads caused by the unregulated competition that forced the railroads to become no longer a good risk, because they could no longer support the capitalization based upon monoply when this competition came in unregulated for the first 15 years and broke the rate structure. They were no longer in a position to cover their fixed charges with sufficient margin to make them good risks.

"As an indication of what happened to the railroad industry, if you compare the years '29 and '30 with the years '36 and '37 and '39 and '40, '36, '37, '39 and '40 are what we might call the normal railroad years in the period of the '30's. And combining 1930 with 1929 gave us somewhat of a normal year average in the '20's. And yet if the rate structure which prevailed in '29 and '30 had continued, despite the loss in business, then there would have been no financial difficulties for the railroads. It was the deterioration in the rate structure because of unregulated competition that caused the compete collapse of railroad credit.

"For example, rather than earning, as they did, in 1936 and '37 and '39 and '40, about $650,000,000, which covers fixed charges about 1¼ times, they would have earned with the old rate structure over a billion or two, and therefore covered the fixed charges almost twice. So the fundamental difficulty of the railroads has been the deterioration of the rate structure caused by unregulated competition.

"Now, we can't necessarily blame the analysts of that period and the banks and the insurance companies, because Congress told us in 1920, in the Transportation Act, that the railroads must have rates which will guarantee them a 5¾% return on their capitalization, a capitalization based upon ICC figures. But, of course, the ICC was just as fast asleep as the experts, because as late as 1933 and 1934 the ICC stated in their annual report, 'It may be true that the passenger busses are getting to the point where we should regulate, but as yet there is no danger to the railroads from the trucking industry.' And yet we know that the deterioration of the rate structure was caused primarily by the trucking industry running absolutely hog-wild so far as rates and regulations were concerned for the period 1922 to 1938, inclusive.

"At any rate, the old capitalizations of the Class 1 railroads in the United States, built upon monopoly, built upon a constant rate structure, were able to support that capitalization. However, 10 or 15 years later, after you had in this country 27,000,000 automobiles, 4,000,000 trucks, 225,000 miles of pipeline, a $1,000,000,000 spent on the Mississippi and Ohio Rivers to create lower rates, whether they used them or not; the very existence of such facilities lowers rates—then in my opinion, in normal times, none of the borderline carriers can support the old capitalization; and, generally speaking, the public has recognized that condition.

"As a result, whereas in the '30's we had a $6,000,000,000 industry on the average, in the '30's we had a $4,000,000,000 industry. And I want to emphasize the fact that that doesn't mean that they lost $2,000,000,000 worth of business. That is caused primarily by the deterioration, the lowering of the rate structure by about 35% over that period. In other words, last year they did the same business in terms of miles that they did in 1929, and yet they did a $1,000,000,000 less business. So the fact that they became a $4,000,000,000 industry rather than a $6,000,000,000 industry doesn't mean that they lost $2,000,000,000 worth of business. The business to some extent was about the same; it was the rate structure that caused it.

"But in any event, the railroads built up fixed charges of about a half-billion dollars, and with lease lines thrown in, it was close to $600,000,000. They could cover those fixed charges about twice with a $6,000,000,000 gross, but with a $4,000,000,000 gross they could not cover them. Perhaps the average is about once. Then, of course, when you have years like '32 and '38, they went down to where they covered the fixed charges on the average of only about 51/100's.

"In analyzing railroads, however, don't overlook the fact that, while they became a poor financial risk as a result of this competition, nevertheless, by comparison, even in the worst year of the depression, they were a good business risk. In other words, if they had no debt, they would compete with most of your firms listed in Dun and Bradstreet. If you look over that thing to find out why people go broke, you will find that 90% of them go broke because they can't make their operating expenses. Now in no year have the railroads been in that position. So the problem is: If they are still good business risks, how can you once more make them good financial risks?

"We have in this country about 137 Class 1 railroads. A Class 1 railroad is a railroad which does a $1,000,000 worth of business a year. Now, obviously, we are not interested in a great many of those. Twenty railroads in the United States do 85% of all the business. The Pennsylvania Railroad alone does 14% of all the business; New York Central does 7%; Southern Pacific does 6%. So in analyzing the railroad problem, to boil it down so you can look at it and analyze it in trying to develop an answer to my original question, I eliminated all of these Class 1 railroads under $10,000,000 gross business. Because in the first place, well-reasoned executives and fiduciaries won't buy that type of security anyhow, so they shouldn't have that problem in their portfolio. Likewise, except locally, there is no reason why individuals should do that either. If you do that, you eliminate about 45 of those Class 1 railroads. So who cares? We are not interested in that problem; we wouldn't buy those securities even if they were good. So in breaking down this pile of 137 railroads, I eliminate those 30 or 40 or 45 railroads under $10,000,000 gross business a year.

"Next, in trying to boil this problem down so you can see it clearly, I eliminated the industrially-owned carriers, such as the Bessemer and Lake Erie, the Duluth, Missabe and Iron Range, the Chicago & Illinois Midland, and about five others. Why? Because they are not part of the railroad problem, because their credit is the credit of their parent —the Steel company or the Commonwealth Edison Company rather than the credit of the railroad.

"I likewise eliminated the Canadian subsidiaries, because that is not our problem; it is a problem tied up with Canada and sterling and various other things.

"And the last group I eliminated in order to boil this down so you could see it clearly was the Pocahontas carriers—the Norfolk & Western, the Virginian, and the Chesapeake & Ohio. Why? They are our only successful railroads in the United States—the only ones. They are the only railroads in the United States whose bonds, lease-secured, sell on a money basis. For their prosperity—their fundamental prosperity—is based upon the poverty of the other roads. You have had five increases in bituminous rates in the last 15 years. Those Pocahontas carriers didn't need it, but they had to give it to the other railroads because they needed it. And, of course, they picked on bituminous coal because you don't ship it by truck. Therefore, the Pocahontas carriers are prosperous today because of the fundamental poverty of the other railroads.

"If you make those eliminations, you end up with about 70 Class 1 railroads, of which 35 are in bankruptcy or have been reorganized. First, let's look at the other 35, the 35 which are still solvent. Only one in that class has high-grade credit, and that is the Union Pacific. The Union Pacific has high-grade credit because it is primarily an oil company rather than a railroad. On the basis of its railroad operations last year, its credit would be about the same as the Southern Railroad, only not as good. Therefore, there was an excuse for that one. Outside of that, among these 35 railroads, there are none with high-grade credit.

"You certainly can't call the next group, which I call the 'bank quality' group, because their securities are still bank rated by the various services—and they are Atchinson, Pennsylvania, Great Northern and L & N, just to use a few examples. If you look at the junior price or rather at the price of the junior securities, you will find that they are selling at a discount of 10 to 20 points from par; and certainly in this money market you can't call Pennsylvania a high-grade credit when you can buy the 4½% bonds at 88. Credit is judged by where your junior bond sells in proportion to your money market—not where your highest security bond is selling in proportion to the money market.

"Well, what is our first problem, then? What to do with the securities of Pennsylvania, Great Northern, L & N, and Atchison? If you study the market record of those roads, you will find that the securities fluctuated up and down at least three times in the last ten years by anywhere from 30 to 60 points. Pennsylvania debentures, which now sell at 88, were selling at 48 in 1938; at 23 in 1933; they subsequently sold at par; now they are selling around 88. Great Northern bonds have fluctuated similarly; so have those of L & N; and so have those of Atchison—Atchison perhaps to a lesser extent, but on the junior bonds to almost as great an extent.

"Without combining this problem, as I will later with the problem of the borderlines, if you have no problem and yet you have these securities, my suggestion is: that if you can call your loan to the Pennsylvania at close to par during this period, or the Great Northern, whose bonds are selling

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Favorable Outlook Seen For Reorganized Rails

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close to par, then that is the time to close out your loan to those companies. Because if history means anything, you will be able to reloan that money at a discount of 30, 40, 50, or 60 points. I think that a better solution, however, is one that I shall mention a little bit later.

"The big problem in this country is not the ones we have just mentioned. It is the 25 borderline railroads whose securities at par value, exceed $5,000,000,000 in bonds alone, to say nothing of the stocks. New York Central, Illinois Central, Southern Pacific, Southern Railway, Northern Pacific, to mention only a few—they are the problems. If you have an Illinois Central debenture selling at 44, or a Southern Pacific debenture selling at 52, or N. Y. Central debenture selling at 55, you want to know what to do with it. You are not interested, as I said a while ago, in listening to a long harangue about the railroad problem; what you want is an answer to your question.

"Now, we think we have an answer to that problem. We think if you have those securities, that the new securities created by the reorganization of the 35 railroads are an excellent substitution for any of the borderline bonds or stocks. In other words, the first mortgage bonds of the reorganized railroads such as Erie and Wabash, to use those two as illustrations, are better bonds than the first mortgage bonds of the Northern Pacific, the Illinois Central, the Southern Pacific, and so forth, for the very obvious reason that the reorganized companies have been reorganized; their fixed charges have been reduced to meet the conditions as they exist; and the others have yet to shave their capitalization down to meet the conditions as they exist.

"Likewise, the new income bonds of the reorganized companies are better investments than any of the junior bonds of the borderline companies. In other words, the income bonds of the Erie selling at 50 are far better to hold than the Southern Pacific debentures selling at 52, or the Illinois Central debentures and junior bonds selling at about the same price. I shall give you the reasons why subsequently.

"Going now to the 35 railroads that have been reorganized or are being reorganized, we first had to study the law to find out what it was all about. Prior to this depression all railroad reorganizations were carried out through equity proceedings; equity proceedings of what we call non-statutory law. There is nothing to tell you exactly what to do. You sort of follow the footsteps of what they did 100 years ago. As a result, there were various abuses, and so forth, and 90% of the capitalizations were not much better after they reorganized than they were before.

"But with the depression a new law was introduced called Section 77. It was introduced in 1933 and was passed in 1933, for the reorganization of the railroads; and for the first time in the history of railroads in this country—for the first time since the ICC was organized 59 years ago—the ICC now has complete charge of railroad reorganizations. They write the final plan and nobody can change it. The courts can disapprove it, but no court can change it. They can disapprove it and send it back with suggestions, but the ICC in the last analysis writes the plan. That, of course, is a big change. In the olden days the bankers reorganized the company. If we use the St. Paul, for example, it came out of bankruptcy in 1928, and I believe everybody will admit that it was worse off when it came out than it was when it went in. The ICC now has charge of all competitions. They regulate rates for trucks, barge lines, pipelines, and so forth. They know the existing conditions and they are dressing up these new capitalizations to meet those conditions, and they have complete charge of the reorganization. Therefore, you are protected, because a judicial, neutral body, the district court, and an administrative neutral body, have charge of the plans. Of course, they listen to suggestions from various parties, but they in the end write the plan.

"In the olden days, when we had equity reorganizations, let's say that you had a lot of underlying bonds. Take the Wabash reorganization in 1918. They said, 'This thing has got to be reorganized.' So they assumed all the underlying bonds without any question, foreclosed the junior mortgage, and came out just as badly as they were before. But not so this time with the ICC in control. To use that same example: not a single bond on the Wabash came out undisturbed, and they have to prove exactly what they get. They did that in each case by introducing what they call a formula for determining just how good each mortgage division is. In other words, they analyzed the particular mortgage district to prove that it has the earnings—the amount of earnings to justify getting what they get in new securities. They have a severance formula to show how valuable the line is. If it were no longer part of the system, they have a contributive study to show that it contributes in the way of originations or terminations to the system as a whole.

"I will give you one example because it is a little bid dry, this formula stuff. Out here in the North Western reorganization you have a line from Chicago to Milwaukee called the Milwaukee State Line—a divisional bond, double track, main line from Chicago to Milwaukee. Under a straight traffic density study in the old days, that was the best bond in the North Western system, and there are about 16 bonds in the North Western system. And yet, when they got through analyzing the traffic that goes over it—they don't originate any; they don't terminate any—under a separate study they could use the old main line of the North Western or they could get trackage rights over the St. Paul. So that instead of being the best bond in the system, it was just another bond. And instead of getting, as they ought to get if reorganization ever comes, 100% in first mortgage bonds, they get something like 25%.

"Without going any further into that—and I could give you numerous illustrations—the thing to remember is this: You don't know what you have got in a railroad underlying bond until you have gone into bankruptcy. There have been numerous cases time and time again. Take the Lackawanna, for instance. They tell me that Morris & Essex will come through anything. How do you know? By the time you get through the Morris & Essex and get it on its own feet, you may have an old colony on your hands, and you may have a bond that under the operation of trustee after trustee might become absolutely worthless, to say nothing of the stock.

"So, there are exceptions to everything. But, generally speaking, Section 77 has taught us that you don't know what you have got in reorganization in an underlying bond until you have gone through this formula; and there is no way of doing it in advance. And the corollary to that is that railroad bonds sell on earnings, and should sell on earnings, like other things do. Take your industrial debentures. You never look up the lien, because there is no lien; you buy them because of their earnings. And that is the way railroad bonds have got to sell. The mortgage may mean something, but the earnings must mean everything. Because in reorganization, the mortgage position may mean something or it may mean absolutely nothing.

"Another point in that connection is that you can learn from the application of this formula. If you don't like the worst bond on the Pennsylvania, don't buy the best one, because you are only fooling yourself. Likewise on the Southern Pacific or the New York Central. For we have learned that overall earnings are everything. While in reorganization you may get a little bit better treatment because of your mortgage position, it is not reflected ordinarily in the price of bonds. In other words, if I believe in the Pennsylvania, I will buy the highest yielding bond I can buy; if I don't believe in the Pennsylvania, I don't want the 4s of '48 which are selling on a 280 basis.

"The ICC introduced in every reorganization income bonds. We have had income bonds now on some railroads for a long time. We have had Atchison income bonds since 1895. Some people make me laugh when they tell me that Erie income bonds can never sell higher than 52, when I see the Atchison income bonds constantly selling at 85 or 90 every year, as they have been doing for the last 20 years; and if Atchison earned the interest on income bonds, so did Erie. And yet you can walk into some banks and they will tell you that they can't buy any Erie bonds, although they have a bagful on hand of Atchison income bonds.

"The interest on income bonds is payable, if earned, to the nearest 1/4 of 1%. If they earned 4 1/2, they get 4 1/2, if they earn 3, they get 3; and if they earn 1/4 of 1%, they get 1/4 of 1%.

"The third and next big element of change that the ICC has made is that they have reduced the fixed charges of 20 of these 35 reorganizations, because 20 is all they have passed upon; they reduced the fixed charges 72%. They have also eliminated about

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Greetings From NSTA Officials

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HAROLD B. SMITH

For the past few years, we have had our national and local treasuries improved by the assistance and sincere cooperation of Mr. Herbert D. Seibert, publisher of "The Commercial and Financial Chronicle." (Mr. Seibert is an honorary member of the Security Traders Association of New York.)

Harold B. Smith

In lieu of the Convention of 1942, the National Security Traders Association held meetings in Chicago August 28th and 29th and your national officers requested me to proceed with the "Chronicle" to solicit from our members advertising to appear in this "News Issue" of September 3rd, 1942. With limited time, our industry having gone through perhaps, the most depressed condition of business any of us have ever experienced, both Mr. Seibert and myself have endeavored to uphold the continuity of the N. S. T. A. Yearbook.

May I thank most graciously all the committees and members of the "Chronicle" staff who have made this "News Issue" possible and profitable to our organization.

I am confident in years to come that this venture will prove to be an outstanding part of the N. S. T. A.

Sincerely yours,
Harold B. Smith,
Chairman 1942 Yearbook Committee.

OLIVER GOSHIA

I wish to thank all of you for having given me the honor and the privilege of serving as a member of your Executive Council for the past year.

Oliver Goshia

This has been a troubled year for our Association, and the members of the Council have endeavored to take those actions which would best serve to further the interests of the Association and which would benefit the majority of the members.

It is my firm belief that our Association has a definite place in the securities business and that the new officers which are being chosen at this National Committee Meeting have the vigor and the vision to carry on through these times and into the brighter future which lies ahead.

Oliver Goshia

EDWARD D. JONES

Conditions in the Middle West, agriculturally speaking, were never better. Banks, insurance companies and individuals' accounts are full of money. They are only waiting for assurance from the U. S. Treasury, i.e., taxes, for the go sign. We look for a good security business for investment and speculation this Fall.

Edward D. Jones

With kind regards, I am,

Yours very truly,
Edward D. Jones

Favorable Outlook Seen For Reorganized Rails

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$4,000,000,000 worth of stocks as having no value under existing conditions. Of course, when I say 'existing conditions,' I don't mean the war earnings which are prevalent at this time; I mean the existing conditions that we can expect in the postwar era as we had in the prewar era.

"Another thing they have definitely established, which emphasizes perhaps the importance of buying security bonds, if you have to buy into a borderline system, is that the lien of the interest is the same as the lien of the principal. Take the Monon that runs into this city—they have no plan of reorganization as yet; that is, the ICC has not approved one. So that the interest will have accumulated for about 10 years on the first mortgage bonds before reorganization. Now what does that mean? It means that they couldn't support the old debt and yet, so far as the junior bondholders are concerned, the senior debt has increased 50% before the junior bonds can get anything. Junior bonds of the borderline systems, particularly if the reorganization drags out for any length of time, suffer drastically because of this capitalization of interest. Of course, the effect on the stock of the borderline companies would be the same, only more so.

"As for Section 77 itself, how does it work? I will go over it as briefly as I can. Several interested parties prepare plans and present them to the ICC. If a formula is necessary, a formula is prepared. Then you have hearings. Now this thing which I have briefly mentioned may take anywhere from 18 months to 7 years. Along the line eventually, however, one of the examiners for the ICC presents a proposed report, following which the ICC itself hands down a plan of reorganization. This may be modified or amended, and eventually they hand down a final plan of reorganization. This plan is certified to the courts; and at that particular moment it is time to become interested in the securities of that reorganized carrier, for this reason: because no one can change that plan. And if litigation does not upset the plan, that plan is going through. Therefore, as soon as the ICC plan is certified to the courts, you know what you are going to get, if the plan goes through.

"About two years, when Erie generals were selling, for example, at 20, the ICC plan was certified to the district court in Cleveland. You knew that if that plan went through, you were going to get $50's worth of first mortgage bonds, $500's worth of income bonds, and 3½ shares of preferred. Therefore, that was the time to buy the older Erie securities, because obviously, without doing it on the blackboard, those new securities are going to add up to a lot more than $200. As a matter of fact, that bond is today selling at the equivalent of 80. Why? Because the new securities do not sell for the equivalent of $200; they sell much higher.

"Eight of the 20 plans of reorganization of the ICC have gone through and have been approved. The ICC has been upheld in every case in the lower courts, with the exception of the St. Louis-San Francisco where, because the RFC got preferential treatment and under the law, as distinct from the facts, the judge could not approve it, he sent it back. It is true that in the New Haven case it went back, but it went back for a different reason, as I shall explain later.

"In my opinion, these circuit court decisions out here upsetting the St. Paul plan, will be completely reversed by the Supreme Court in the St. Paul case. I am 100% convinced that every plan of reorganization—the St. Paul, the North Western, and so forth—is going through as is; because I can't conceive of the Supreme Court overruling an administrative body on some technical point of findings which it is impossible to make. And I believe that the circuit courts, if they had the experience of the ICC and of the district courts, would agree that those findings could never be made.

"Now once a case goes to the district court, hearings are held. If they approve the plan, at that time trading with those securities starts. In other words, a market is made for the new first mortgage bonds and the new income bonds and the preferred and the common. And, of course, the final part of Section 77 is when all the appeals are over and have been decided and the case is consummated.

"Between those three steps, when the ICC plan is certified to the court, and the court approves it, and it is then consummated, in every case of the nine plans that have gone through there has been at least 100% depreciation in principal; in several cases as much as 200, 300, or 400%. And in my opinion, the same thing will be true in the other 12, including the St. Paul, North Western, Missouri-Pacific, New Haven, Rock Island, Frisco, Cotton Belt, and so forth, because there is that mathematical mechanical profit which you cannot escape. Because you create these new securities virtually for nothing by buying the old securities at the price you can now buy them for. They are not going to sell for nothing. They are going to sell for value. The average price of income bonds today is about 35. The average price of new first mortgage bonds is around 77.

"Therefore, the old securities, as these steps are accomplished, must go up, regardless of invasions of Low Countries or Pearl Harbors or what have you, which affect them temporarily but they come right back to follow that course through. You can chart every single one of them, from the original time that the plan has been certified—the Erie, the Wabash, the Great Western, the Gulf, Mobile and Ohio, the Boston & Maine, and so forth. So you see, as each of those steps are accomplished, regardless of the stock market, regardless of extraneous wars, and so forth, there has been a mathematical mechanical depreciation of the securities because of the possibility of new markets being created; then the actual new markets in which the securities are issued; and finally, with the appeals out of the way, the actual delivery of the new securities. If I had time, I would trace for you the steps and dates in Erie as this thing happened. It wasn't the new earnings, and so on. I will explain that in a minute—the fact that these new earnings put these securities up. They added to their value but they didn't put them up.

"What kind of securities are they? How good are they? So far, as I have stated, they have approved 20 plans of reorganization. They have reduced the debt 72%—from about $3,000,400,000 to about $1,000,100,000. Those are not the little railroads. They include the St. Paul, the Erie, the North Western, the Rock Island, the 'Frisco, and some of our larger railroads. They have cut the debt about the same percentage—about 76%.

"As a model of the new capitalization, generally speaking, they cut the capitalization about 30%. Then they say, 'Here is your new capitalization. 50% must be in stocks, a combination of preferred and common; 25% at least must be in income bonds. Of the balance, 12½% must be reserved for your equipment and for your rent on leased roads, and the remainder can be put in new first mortgage bonds.' That is, generally speaking, the model.

"The easiest way, I think, of comparing the new capitalizations with the old is to give you this illustration. In the last ten years, from '30 to '40, the Class 1 railroads on the average needed about 17 cents out of each dollar to pay the fixed charges. In those days an operating ratio of 75%—that is, the ratio of operating expenses to operating revenues, was a pretty good ratio. Now you put 10 cents' worth of taxes on top of that and you are up to 85%. Your joint facilities—that is, the right to use other people's tracks—amounts to another 3 cents and you are up to 88 cents. As a result, Class 1 railroads as a whole did not earn that 17 cents.

"While it is true that in '41 and '42 the whole complexion of that thing will change, we don't know how long '41 and '42 are going to last. We can't go out and argue that the railroad business after the war is going to be sufficient to carry these old monopoly capitalizations. But I do think we can go out and argue that they will carry these new capitalizations, because they are built upon the pre-war conditions of unregulated rates, whereas now we have regulated rates—and, of course, we anticipate having them after the war.

"On the basis of the reorganizations, those 20 roads would only have to save 4 cents out of each dollar to pay their fixed charges as against 17 cents for the Class 1 railroads as a whole. So in my opinion, they are no different than 70 hotels or 70 drug stores: the amount of rent you pay out of each dollar is important. And I think it convinces me—and I have also convinced a lot of people—that no matter what happens, you are better off in the new first mortgage bonds of reorganized companies than you are in the borderline first mortgage underlying bonds or even the bank quality bonds of a junior grade, such as Pennsylvania and Great Northern. Likewise, you are better off in the income bonds of the reorganized carriers than you are in the junior bonds of the borderline carriers. And, of course, if we believe that for bonds, we believe it for stocks.

'Without going into too much detail, that briefly is our answer to what to do with these railroad securities. Now you can prove to me that the Southern Pacific are making more money than they have ever made in their entire history; and the chances are that the Illinois Central will also do the same thing. The same is true of the St. Paul,, the North Western, and so forth. They show me where the Southern Pacific will cover their fixed charges three times this year. Admittedly, but the St. Paul will cover their new fixed charges almost 10 times this year.

"Let us assume that the war does last two or three more years and we have a two-year period of filling in the void of heavy industries, and this thing lasts for five years, nevertheless the leverage is in the new securities of Erie, Wabash, and the rest of them. Now what will happen? If you do get that turned down that so many people thing you are going to get, you will still be better protected by almost a ratio of three-to-one than you will be with the borderline securities.

"To get down now to what to do about some of these things, I shall try to illustrate, if I can. For there is one thing that I hate to do, and that is, to talk to anybody and then have them go away and say, 'Well, so what?' I realize that my audience today is composed primarily, as far as the Association is concerned, of men interested in unlisted securities. I know that we have some municipal men here. And I know it is easy enough to say, 'Well, all the railroads that he is talking about are listed. How am I going to make a dime out of it?' Frankly, I have no answer to it. I wish I did have. It is my great regret that the three or four thousand dealers in corporate securities—that the Stock Exchange, of which we are members, can't find some way of getting those three or four thousand dealers to distribute railroad securities, once they are convinced that they should be distributed to their customers, and a method is not found whereby they could receive a return in order to employ salesmen and support their overhead, etc. Goodness knows I've got enough to do to talk about rails without solving that problem. Although frankly, when I think of these securities, most of which sell anywhere from 15 to 35 and 40, there are tremendous possibilities, as I believe, in them. (1) They should interest you as individuals. Therefore, I hope you get something out of it from that angle. (2) They should influence you on behalf of those individuals for whom you do a good business and for whom you can afford to do some business at a smaller profit. And then, too, I think—and I have found this to be true with a great many unlisted dealers—that if you go out and convince them of some of these railroad situations and if the last sale on the board is 17, you can charge them 18 without too much trouble, or at least 17½. I am not trying to answer this problem, but I am simply trying to anticipate a question that I might get later, 'So what? How am I going to make any money out of it?'

"Let me illustrate now with one bond, the New York, New Haven and Hartford at 4½—refunding 4½ at 67—one bond of about 10 of the same mortgage—a blanket mortgage on the New Haven. Now two or three years ago, when we were recommending this type of security, all we could tell you was that in reorganization you get so many first mortgage bonds; so many income bonds; so many shares of preferred; and, using low prices, those new securities would be worth thus and so. It is true that since that time these old securities have advanced in price. Why? Not particularly because of reorganization progress but because the earnings of 1940 and 1941, and, of course, '42 and assuming '43, have increased the cash position of every one of these reorganized companies so that most of them have paid out large sums in interest; and we assume, of course, that they will continue to do so. In the case of the New Haven road, they have now paid up all the underlying bond interests. As a result, if the New Haven pays out in cash only what they have been paying out every six months, then over the next 18 months they should pay back 6% interest on these 4½% bonds.

"Now what assumptions am I making? I am only making one assumption: that the war or conditions as they now are continue for 18 months. Because the judge has set the precedent in this case and in a good many others that if he earns the interest, he will pay it; and the reason which forces him to do this is that, being in somewhat of a fiduciary capacity himself, the Treasury Department has ruled (and the case has gone to the circuit court on appeal) that if any corporation, railroad, or otherwise in bankruptcy earns its interest and does not pay it, then the amount they earn is taxable, both from normal and otherwise. So it is academic, in a way. If he doesn't pay it to the bondholders, he will have to pay it to the government—only more so.

"Anyhow, in my opinion, in the next 18 months these 4½% bonds—I am only basing it on one assumption, because I am simply saying that if he pays out as much as he has been paying out every six months, they will get back 6% interest. Those bonds are selling today around 40. Six per cent interest would be about $270. Now what features does that $270 have? The Treasury Department has ruled that that payment of interest is in return of capital. Therefore, it is exempt from the normal tax. Of course, eventually it will be subject to your capital gains tax, and so forth. But there are darn few things that you can think of over the next 18 months in situations like this that are completely exempt from your normal tax. It is the return of capital.

"Therefore, although I do not raise the value of that $270, it is more than $270. That reduces your cost down to $130. And for the $130 you own a $1,000 bond in New York, New Haven and Hartford at 4½. What do you get for that reorganization? The New Haven plan has been approved by the Commission, and with the exemption. It has been rejected by the judge because of a political situation in Boston which has to be compromised and settled. But the structure and general premise and theory of the New Haven plan have been well settled and agreed to by everyone.

"In the first place, all the underlying bonds are virtually undisturbed, except the New England railroads, who will get 100% first. So this treatment of approximately $250 in new first mortgage bonds, and $550 in income bonds, and the balance in preferred (two shares of preferred), has been established.

"As I said, the average price of the new first mortgage bonds is 75. They range — the lowest price bond is the Chicago & Great Western—the new first 4's, which sell around 67. The highest price new first mortgage bond on a one issue basis are the new bonds of the St. Paul, which are trading when issued around 95. The next best is the Erie, judged by price, which is selling around 92. Then the Wabash, which is around 81, and so forth. In my opinion, the New Haven first mortgage bonds would sell above those of Wabash and a little bit below those of Erie.

"But assuming a price of only $170 on these and assuming the average price of your income bonds is 35, and they range from a price of 53 or 54 from the Gulf incomes, 51 on the Erie incomes, down to 28½ on the East Illinois incomes, in my opinion these New Haven bonds will sell at 40. But assuming a price of 30—that is $165—and cutting this down to $10 a share or $20 —$355 for the value of the new securities is to be received.

"Now, if you raise this up from 70 to 90 and this from 30 to 50, where some people claim the New Haven securities would sell, and this from $10 a share up to $35 a share, this price comes up to close to $55, for which you are paying $130. These, I claim, are postwar prices. This is the price it would be as designated here, let us say, if it were consummated during this particular period. I don't know of any other securities that have those advantages. I could illustrate that for the Missouri Pacific, St. Louis-San Francisco, Cotton Belt, St. Paul, North Western, and so forth, but I think that that example suffices.

"You might say in the case of North Western and St. Paul, 'Well, you may be right on your assumption that the Supreme Court will uphold the ICC plan, but supposing you are wrong?' All right, supposing I am wrong and the Supreme Court decides that the rules of this game are all wrong; that it has to be done all over again. That is virtually what the circuit court said. It is my opinion—a 1,000-to-1 chance—that the Supreme Court will uphold the ICC ruling in the St. Paul case, the North Western case, and all other cases. But let us assume

(Continued on page 807)

Calendar of New Security Flotations

OFFERINGS

POTOMAC ELECTRIC POWER CO.

Potomac Electric Power Co. filed a registration statement with SEC for $5,000,000 first mortgage bonds, 3¼% series, due Aug. 1, 1977

Address—Potomac Electric Power Company Building, 929 E Street, N.W., Washington, D. C.

Business—The company is part of the North American Co. holding company system. The company is, and intends to continue to be, principally engaged in the generation, transmission, distribution, and sale of electric energy in the District of Columbia and in a limited contiguous territory, largely suburban and rural, in Maryland, and interchanges electric energy with a neighboring utility system

Underwriting—No firm commitment to purchase the $5,000,000 face amount of these bonds has been made. As soon as practicable after the registration statement has become effective, the company, pursuant to Rule U-50 of the SEC proposes publicly to invite sealed written proposals for the purchase of such securities

Offering—The names of the underwriters and the offering price to the public will be supplied by post-effective amendment.

Proceeds—Net proceeds will become part of the company's general funds and will be used to increase company's generating capacity and other fixed capital expenditures. In June 1942 company received $3,000,000 toward such purposes from the sale of 30,000 shares of its common stock. The company's fixed capital expenditures for 1942 are estimated at $8,691,000. Substantial further expenditures for such purposes will be incurred in 1943. The more important include installation of turbo-generator units and related equipment

Registration Statement No. 2-5032. Form A-2. (8-5-42)

Awarded—Bonds awarded Aug. 31, 1942, to Kuhn, Loeb & Co. and associates on bid of 112.2679, equivalent to an int. cost to company of 2.705%

Registration—Effective 5:30 p.m. EWT on Aug. 26, 1942

Offered—Sept. 2, 1942 by Kuhn, Loeb & Co., Smith Barney & Co. and Blyth & Co., Inc. at 113 to yield about 2.67% if held to maturity

RHEEM MANUFACTURING CO.

Rheem Manufacturing Co. has filed a registration statement with the SEC for 85,326 shares of common stock, par value $1 per share. Statement notes that the 85,326 shares is plus such additional shares, not heretofore registered as the company may be required at any time to issue by virtue of the anti-dilution provisions of its articles of incorporation upon the conversion of shares of its cumulative preferred stock, 5% series. In addition to the 130,000 shares of common stock, par value $1 per share, heretofore registered for this purpose, the company estimates that—shares of such stock will be required to be reserved for this purpose by reason of the issuance of up to 40,000 shares of its cumulative preferred stock, 6% series, and the issuance and sale of the 85,326 shares of common stock, par value $1 per share, registered hereunder. This statement is to be completed by amendment

Address—Normandy Building, Washington, D. C.

Business—Company is normally engaged principally in the manufacture and sale of various metal products made from sheet steel. It presently is engaged to a large extent in the manufacture and sale of certain military products made from sheet steel and in the rough and finish machining of certain other metal products for military use

Underwriting—Blyth & Co., Inc., New York, is named as sole underwriter

Offering—Public offering price will be supplied by amendment

Proceeds—To be used to discharge notes payable to Tennessee Coal, Iron & Railroad Co. in amount of $126,096; to discharge deferred indebtedness of $100,000; and the balance to reduce short-term bank loans. Short-term bank loans now outstanding, with other funds of the company, were used to increase inventories by approximately $2,700,000, and for capital expenditures totaling $1,400,000

Registration Statement No. 2-5039. Form A-2. (8-24-42)

Registration—Effective 5 p.m., EWT on Aug. 31, 1942

Offered—Sept. 1, 1942 at $11 per share by Blyth & Co., Inc.

SCUDDER, STEVENS & CLARK FUND INC.

Scudder, Stevens & Clark Fund Inc., filed a registration statement with the SEC for 40,000 shares of capital stock of a proposed maximum aggregate offering price of $2,999,200

Address—10 Post Office Square, Boston, Mass.

Business—Investment trust

Underwriting—No firm commitment to take the issue has been made

Proceeds—For investment

Registration Statement No. 2-5027. Form A-2. (7-21-42)

Registration effective 5:30 p.m. EWT on Aug. 19, 1942

Offering—Shares are issued at the then net asset value, plus 1%. The quoted price as at July 10, 1942, as calculated in the price make-up sheet was $74.98 per share which price was used in estimating the proposed maximum aggregate offering price

Following is a list of issues whose registration statements were filed less than twenty days ago. These issues are grouped according to the dates on which the registration statements will in normal course become effective, that is twenty days after filing except in the case of the securities of certain foreign public authorities which normally become effective in seven days.

These dates, unless otherwise specified, are as of 4:30 P.M. Eastern Standard Time as per rule 930(b).

Offerings will rarely be made before the day following.

TUESDAY, SEPT. 1

THE TRION COMPANY

The Trion Company has filed a registration statement with the SEC for 6,000 shares of 7% cumulative preferred stock, par value $100 per share.

Address—Trion, Georgia.

Business—Company manufactures, finishes and fabricates cotton goods in its plant at Trion, Ga.

Underwriting—Courts & Co., Atlanta, Ga., is named principal underwriter. Other underwriters will be named by amendment.

Offering—The 6,000 shares registered are issued and outstanding and are being offered for the account of a corporation and individual stockholders. The price to be paid for the stock by the underwriters and the offering price to the public will be supplied by amendment.

Proceeds—The registrant is not to receive any of the net proceeds which will go to the selling stockholder.

Registration Statement No. 2-5035. Form S-2. (8-13-42)

Amendment filed Aug. 31, 1942, to defer effective date

TUESDAY, SEPT. 8

WASHINGTON NATIONAL INSURANCE CO.

Washington National Insurance Co. has filed a registration statement with the SEC covering $1,000,000 being estimated amount of employee contributions during first ten years of employee's retirement plan

Address—610 Church Street, Evanston, Ill.

Business—Employees retirement plan

Offering—The savings and profit sharing pension fund of the Washington National Insurance Co. employees, is a trust, and is referred to as the plan of the fund. The plan is a voluntary contributory employees retirement plan under which, after it becomes effective, those eligible employees, who elect to become participants and depositors under the plan, will deposit in the fund 5% of their compensation, but, in no case, more than 5% or more than $250 a year

Registration Statement No. 2-5036. Form C-1. (8-20-42)

WEDNESDAY, SEPT. 9

BOND INVESTMENT TRUST OF AMERICA

Bond Investment Trust of America has filed a registration statement with the SEC for 41,544 units of beneficial interest. Total includes 1,544 units of beneficial interest now issued and outstanding to the extent that the same may be repurchased and thereafter reoffered, together with 40,000 units authorized but not heretofore issued

Address—49 Federal Street, Boston, Mass.

Business—Investment trust

Underwriting—Whiting, Weeks & Stubbs, Inc., Boston, principal underwriter

Offering — At market with aggregate amount of proposed cash offering totaling $4,097,900, with certain discounts allowed on large single transactions

Proceeds—For investment.

Registration Statement No. 2-5037. Form A-1. (8-21-42)

THURSDAY, SEPT. 10

PARK AVENUE & 91ST STREET, INC.

Park Avenue & 91st Street, Inc., through trustees has filed a registration statement with the SEC for voting trust certificates for 5,475 shares of capital stock, $1 par value

Address—Address of trustees 18 East 48th Street, New York City

Business—Apartment building

Offering—Registration is in connection with the extension of a voting trust agreement from Sept. 30, 1942, to Sept. 30, 1947. The voting trustees have consented to act under the voting trust agreement, as amended, after Sept. 30, 1942, the present termination date

Registration Statement No. 2-5038. Form F-1. (8-22-42)

MONDAY, SEPT. 14

MASSACHUSETTS INVESTORS TRUST

Massachusetts Investors Trust has filed a registration statement with the SEC for 1,160,706 shares of beneficial interest with aggregate amount of proposed cash offering of $18,896,294

Address—19 Congress Street, Boston, Mass.

Business—Investment trust

Underwriting—Massachusetts Distributors, Inc., is named principal underwriter

Offering—Shares offered to the general public under this registration statement will be offered at net asset value plus 7% of the offering price. In a transaction involving $100,000 or more, the offering price will be net asset value plus 4% of such offering price

Proceeds—For investment

Registration Statement No. 2-5040. Form A-1. (8-26-42)

WEDNESDAY, SEPT. 16

STILLWELL WORSTED MILLS, INC.

Stillwell Worsted Mills, Inc., a newly organized company, has filed a registration statement with the SEC covering 30,000 shares of preferred stock, $10 par value; 30,000 shares producers common stock, $10 par value and 60,000 shares of common stock, $10 par value

Address—East Avenue, Harrisville, Rhode Island

Business—Plans to engage in business of worsted yarn and cloth manufacture, including dyeing and finishing

Offering—The 30,000 shares of producers common and the 60,000 shares of common stock are to be offered for sale at $10 a share. The 60,000 shares of common will be offered to a group of approximately 30 executives and key employees of the old Stillwell Worsted Mills and the 30,000 shares of producers common stock to other persons than above now employed by Stillwell Worsted Mills and its subsidiaries. Stillwell Worsted Mills, Inc., the new company will acquire properties of Stillwell Worsted Mills, the old company, located in Rhode Island, Virginia and Connecticut and certain stocks of finished cloth located in New York and Illinois. The statement says the new company does not intend to engage in the business of top manufacture in which the old company has engaged and intends to continue to engage.

The new company also plans to issue and have outstanding $2,910,000 of first mortgage serial bonds, maturing from 1944 to 1967, which will carry an interest rate varying from 2 to 5%

The statement says that the new company has no present intention of issuing the preferred shares, planning to hold them for ultimate conversion of the producers common shares.

Registration Statement No. 2-5041. Form A-1 (8-28-42)

(This list is incomplete this week)

Favorable Outlook Seen For Reorganized Rails

(Continued from page 806)

that they do not. That automatically opens the door for tremendous interest payments.

"Here is the St. Paul at the end of this year with $45,000,000 cash. They don't need over $20,000,000 certainly to run that railroad, so that they will have some free cash to the extent of about $25,000,000. Instead of paying at the rate under the plan, the plan having been upset, they will be free to pay in coupons as the New Haven is paying, and they might pay three or four or five years' interest on those St. Paul, Missouri Pacific and North Western bonds if the plan were upset.

"Why do these securities after they are issued sell at such low prices if they are so good? You ask me that question. For various reasons, and the most important reason is the system thrown upon the fiduciaries by the administrative bodies in Washington as to what they can invest in and what they can't invest in. The rating agencies do not rate these bonds bank quality, with the exception of Erie. Why? Because ratings follow prices. To my mind, ratings are absolutely of no value, because the premium on an investment service is forecasting. And if anything has been 100% wrong in forecasting, it has been the rating on bonds—not only on railroad bonds but on municipals, revenue bonds, utilities, and everything else. Because the whole system is based upon the idea of where does the bond sell. If a bond sells at par, it has to be rated B-1 plus or better; otherwise the rating system doesn't work. If a bond sells at 70, it has to be rated B; otherwise the rating system doesn't work. And if it sells at 80, it has to be B-1.

"I spoke to a fellow a while ago and said, 'Don't you know that the Wabash bonds are now out of the B-1 category?' He said, 'That's right. They are in B-1 plus, which is bank rating.' Well, take your utilities of 1935. Your fiduciaries couldn't buy them with a ten-foot pole when they were selling at 55 and 60. Remember when the utilities of Public Service of Northern Illinois, of West Texas, and of Kentucky couldn't be sold to the banks with a ten-foot pole. Yet they were no different then than they are today. They have all been refunded, they are all selling above par, and the rating is up to where it should be or should have been in the beginning.

"Take your revenue bonds. At the end of the year every revenue bond worthy of the name—Triborough Bridge, Henry Hudson Bridge, Delaware River Bridge—was rated A. A couple of weeks ago they withdrew the ratings. Now they have no rating. What do ratings mean? They don't mean anything. Yet do you realize that 5,000 or more banks are ruled by those ratings; they are ruled by them and satisfied with them. I certainly am not going to waste my time trying to change the system.

"As to income bonds, of course, they couldn't possibly rate income bonds anything. There are six ratings difference between Atchison income bonds and those of Erie. Therefore, who can take advantage of that? If the fiduciaries can't take advantage of it, then the individuals are being offered an opportunity never before offered to them: and that is, to participate on the inside of a reorganization deal. A lot of you fellows are unlisted. You know the money that is made. If you time a reorganization right—in other words over an 18 months' pull—you buy the old securities when they are kicking around for nothing almost, and if you know the timing right, that is the biggest killing that you can make for your customers and for yourselves—in timing railroad reorganizations or any other reorganizations right. And yet how few times in the history of this country have the public and fellows like yourselves been allowed to participate in a thing like that!

"In the olden days we did get St. Paul 'adjures' in the 1925 reorganization, when the National City companies sold them to us at 88. That is when we were allowed to get in. Now we are able to buy the St. Paul first mortgage bonds at the equivalent of about 20 cents on the dollar by buying the old securities and selling the incomes and the commons and the preferred. I have never been offered that opportunity before to participate in the profit. And you might say that the New Haven bonds are up, but they are only up enough to partially discount the fact that tremendous cash payments are coming and that there are tremendous possibilities of depreciation. I could illustrate that with the 'Frisco bonds, where the leverage is far greater, but I think that one illustration is sufficient to give you some idea of the leverage.

"I have run up against this, too, in the new first mortgage bonds, where I suggest, for example, the sale of Southern Railway 5s at 97 and the purchase of the new Erie first mortgage bonds at 85. Incidentally, they have crossed each other since. Southern Railway 5s are selling below 90 and Erie's at 92. But the attorney (this was in Philadelphia, the largest trust company down there) came in and said, 'My young man, it is prima facie evidence in a surcharge suit if you buy a bond at 72 or 75, that I wouldn't be able to defend it at all. It would be all right if the bond were selling at par.' Oh yes, that's all right. In other words, fiduciaries are penalized. It is perfectly all right to buy that same bond under exactly the same conditions, as long as it is selling at par.

"Now, if they are penalized because of their restrictions, you are not penalized; and if you can analyze these things so that you know what you are doing yourself, you can give other individuals and yourselves the benefit of it. I rebutted him by saying, 'You have over three million Southern Railway 5s in here. They are selling at 97. They are up from 35. If they go back to 35, then I will come down and sue you for not selling them. What is your defense there? He didn't have any defense. He couldn't have any defense. All I was suggesting is that he sell one and buy the other. Well, the law is such that he couldn't do that. But I would hate to defend any institution on surcharge — not selling a borderline bond at 97 when it may go down to 35—because you just can't sit there and do nothing, for somebody is going to wake you up some day.

"I will go into some of the things that we hear so much about. In other words, once you convince an audience that you've got something, somebody gets up and says, 'Well, it's all very nice to hear what you have to say, but railroad labor gets the benefit of all these things, and they are just running away from the thing.' Let's look at the thing realistically and see what that particular situation is. I think I have some current statistics on it here somewhere (looking through papers). Well, I'll give you the statistics for the previous year. I have some figures here which are true for '41 as they are true for '40, only more so, which will help to overcome the labor argument that labor gets everything out of the railroads. In 1940, the railroads did 97½% of the business that they did in 1930. However, the wage bill for the same period was down $600,000,000. In other words, in the former period they employed close to two million men; in 1940 they only employed about one million men.

"Another thing is that over the last 23 years the ratio of wages to gross business—the percentage of wages to gross business has never varied over 1% away from 47%, and it hasn't taken two or three years to do that. In other words, that is true of '30 and '31, and when they had that tremendous drop in '32 the wage bill was still 46 or 47 or 48% of the gross business. The railroads have absolute control of their wage bill, more so than any industrial corporation. But you don't hear about it. For the railroads are constantly telling us the other side of the story, but we, being capitalists (at least we were!), are not interested in the other side of the story. But it is a fact that the gross controls the wage bill; the gross business of the railroads controls the wage bill, more so now than ever.

"For example, in 1939, for each dollar of wages you got about 145 ton-miles. Now ton-miles is a unit of business of a railroad. The first six months this year you got 380 ton-miles for each dollar of wages. Wages have gone up 14% since then. (I hope Mr. Whitney isn't here now or he will knock me down!)

"In come cases, before we saw the performance of the railroads, they asked me if I thought that the Government would take over the railroads during the war. Well, the Government has taken over the railroads. They have taken over the railroads, every bit of every part of the railroads, except financial; and they are not going to do it financially because they are not interested in finance. Mr. Eastman has more power than McAdoo ever had. Eastman has every power that McAdoo had and the Government has taken over the railroads. So you don't have to worry about them taking them over. Eastman has complete power over every railroad. Not only that, but he has taken over every truck used in interstate commerce and every barge line. The Army has taken over the airlines. So that except financially, the Government has taken over all your transportation agencies.

(Continued on page 808)

This announcement is under no circumstances to be construed as an offer of these securities for sale or as a solicitation of an offer to buy any of such securities.

New Issue September 1, 1942

$33,950,000

City of San Antonio, Texas

Electric and Gas Revenue Bonds

Dated August 1, 1942 **Due as shown below**

Prices as shown below

plus accrued interest from August 1, 1942 to date of delivery

Principal amount	Interest rate	Due August 1	Price to yield to maturity	Principal amount	Interest rate	Due August 1	Price to yield to maturity
$ 750,000	3%	1944	1.00%	$1,170,000	2½%	1959	2.65%
775,000	3	1945	1.20	1,205,000	2½	1960	2.65
800,000	3	1946	1.40	1,240,000	2¾	1961	2.70
825,000	3	1947	1.60	1,275,000	2¾	1962	2.70
850,000	3	1948	1.80	1,315,000	2¾	1963	2.75
875,000	3	1949	2.00	1,355,000	2¾	1964	2.75
900,000	3	1950	2.10	1,395,000	3	1965	2.85
925,000	3	1951	2.20	1,435,000	3	1966	2.85
955,000	3	1952	2.30	1,480,000	3	1967	2.85
980,000	3	1953	2.40	1,525,000	3	1968	2.90
1,010,000	3	1954	2.50	1,570,000	3	1969	2.90
1,040,000	2¾	1955	2.50	1,615,000	3	1970	2.90
1,070,000	2¾	1956	2.55	1,665,000	3	1971	2.90
1,100,000	2¾	1957	2.60				Price
1,135,000	2¾	1958	2.65	1,715,000	2½%	1972	104%

For further information relating to these securities, reference is made to the circular dated August 31, 1942, which should be read prior to any purchase of these securities and which contains information furnished by the Mayor of the City of San Antonio, Texas. Copies of the circular may be obtained from such of the undersigned (who are among the underwriters referred to in such circular) as may legally offer these securities under applicable securities laws.

Dillon, Read & Co.

A. C. Allyn and Company Incorporated — Union Securities Corporation — E. H. Rollins & Sons Incorporated

Stone & Webster and Blodget Incorporated — Goldman, Sachs & Co. — Hornblower & Weeks — W. C. Langley & Co.

Blair & Co., Inc. — Equitable Securities Corporation — Shields & Company — Lee Higginson Corporation

White, Weld & Co. — Hemphill, Noyes & Co. — Tucker, Anthony & Co. — Riter & Co.

Stranahan, Harris & Co. Incorporated — B. J. Van Ingen & Co. Inc. — Eldredge & Co. Incorporated — Paine, Webber, Jackson & Curtis

Dewar, Robertson & Pancoast — Mahan, Dittmar & Company — Russ & Company — Pitman & Company, Inc.

Favorable Outlook Seen For Reorganized Rails

(Continued from page 807)

"Eastman can do anything that he wants to. He can stop the North Western from running trains to Milwaukee and Twin Cities and let the St. Paul handle it. He hasn't gotten around to that yet, but he can do it. He has issued his orders, and they will obey them, and they are going to obey them too. So you have no government bugaboo because Eastman has taken over the railroads—every function of the railroads except financial; and he is not going to do that. Why should he?

"As you know, Allegheny spent thousands of dollars all over the United States in opposing the Missouri Pacific plan on the basis that the tax base for the excess of the new companies would be the par value of bonds plus the market value of stocks. Yesterday the Senate Finance Committee received a joint recommendation from the Treasury, and the Joint Committee stated the rule under which they will use the old base for new corporation, which just kills the argument. We expected it right along, and it is going to be in the tax bill.

"Another thing which might possibly help railroads of the borderline type is the part of the tax bill which, I believe, will be in there to authorize and allow railroads to buy bonds at a discount and not to pay a tax on the discount. But how much of an effect it will have, I don't know, because I think all your borderline railroads will be buying the short-term maturities rather than the long-term ones.

"Well, to close the general discussion, I shall simply try to leave with this audience, whether you are listed or unlisted or anything else, the fact that we either have to merchandise ideas in something that somebody else hasn't got or we have to merchandise something with a spread in it. Otherwise it is virtually impossible for us to make a living. We have found out that these special offerings can be sold. Why? Because in effect they are giving you a commission so that you make a living out of it. That is why these offerings go over. It is merchandising, but you get paid for your merchandising.

"If you take ideas to the public, you will, in my opinion, be merchandising something. You are merchandising those ideas. Despite the fact that you can't stabilize the market and all that sort of thing, I think your idea will be worth its hire from anybody with any reasonable judgment. For the competition in ideas is not too keen these days. How many ideas can you develop? There aren't too many. Outside of your special offerings, it sometimes amazes me why people will buy steel with a 45 cent commission when they won't buy it when the commission is 6 cents. But I think that we in the financial business must either merchandise our ideas or we won't be in it very long.

"One more thing. The spread in railroad securities is not too wide; but the spread in proportion to the money invested is not bad. You can go out and buy 2½ New Havens for $1,000, and you can go out and buy almost 7 St. Louis-San Francisco's for $1,000. The commission is $2.50 a bond straight. A lot of you fellows are members. I'm sure that if you go out and sell ideas like this to a customer, he is going to give you a reasonable commission on top of it. My greatest difficulty has been to get unlisted boys and unlisted departments of the listed houses to go out and try it. But those who have tried it have been very successful—and they didn't know a rail from a bale of hay before they started. So don't think it is complicated. It is a specialty. But once you know one, you know them all."

The railroad forum, conducted by Mr. McGinnis was well attended, several railroad officials being present in addition to the traders and their guests from various organizations outside the securities field.

George Nelson Joins Robertson & Co. Staff

George Nelson has become associated with Robertson & Company, 40 Wall Street, New York City, members of the New York Stock Exchange. Mr. Nelson formerly was a partner in George Nelson & Co. for many years.

Selected Inv. Sales Staff With Rollins

CHICAGO, ILL. — Announcement is made that effective September 8th, the retail sales organization of Selected Investments Company will become associated with E. H. Rollins & Sons Incorporated, in the Middle West. The cities in which Selected Investments maintains offices are: Chicago, Detroit and St. Louis. Alvin H. Baum, J. Milton Coulter, Drury Sheehan and other men who have been identified with Selected Investments since that company was founded will be among those to be included in the expanded operation with the Rollins firm. In Detroit, Ray E. Davis will become resident manager, the same position he held with Selected Investments, while in St. Louis, Walter C. Rawls will continue as Rollins' resident manager, and Harold H. Giger has been appointed sales manager.

Perry Dryden

E. H. Rollins & Sons Incorporated will move into new quarters next week in the Field Building, 135 South La Salle Street, Chicago, and will continue in their present St. Louis quarters in the Boatmen's National Bank Building, while in Detroit they will occupy offices in the Penobscot Building.

Selected Investments Company will continue as sponsor and wholesaler of Selected American Shares, Inc., whose portfolio will remain under the management of Security Supervisors, Inc., investment advisors.

E. H. Rollins & Sons Incorporated maintain major offices in New York, Boston, Philadelphia and San Francisco, as well as Chicago, and out of these major offices operates more than thirty branch offices. The operation of Rollins in the Middle West will continue under the direction of Perry Dryden, a Vice-President and Director of the corporation.

T. H. Sherman With Newburger & Hano

Newburger & Hano announce the removal of their Baltimore office to the Keyser Building, and the association with their Baltimore investment department of Thomas H. Sherman, formerly with Mackubin, Legg & Co.

The Harrisburg, Pa., office of Newburger & Hano has been removed to the Blackstone Building and will be under the management of Ray E. Taylor. Associated with him in this office will be John L. Costello.

Charles Euler has become associated with the firm's main office in Philadelphia, Pa., 1419 Walnut Street.