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OUR REPORTER'S REPORT

Considering the none-too-gratifying overall results attending its vast bond and note offering early last month, when subscriptions exceeded the \$4,500,000,000 total by only \$100,000,000, the investment world is waiting with interest the Treasury's next similar undertaking.

Men whose business it is to know the condition of the market are available to the Treasury, in connection with its successive undertakings, but it is quite evident now that their counsel was not given much weight on the aforementioned occasion.

In view of the outcome, the interesting question now is whether or not Secretary Morgenthau and his aides will place a little more stress on the advice of this group in the future.

National City Bank of New York, in its current review, discusses the circumstances surrounding the October financing at considerable length and its findings are interesting in view of the fact that government market men are understood to have urged that more consideration be given the market situation then prevailing.

The bank noted that one of the things which militated against the usual heavy oversubscription was the fact that the books were closed too soon, being kept open only two days, to allow sufficient time for Victory Fund Committees to really do a job of distribution.

Moreover, the bank made a point of the fact that the bonds were placed in a range already somewhat congested with outstanding issues, while maturity of both bonds and notes was set beyond the range which the

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QUICK ACTION ON DESIGN AND CONSTRUCTION

also

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A Good Fight Won!

SEC Rejects NASD Minimum Capital Plan

By JOSEPH HAYNES

Congratulations are in order!

Last June, only four short months ago, the members of the NASD awoke one morning to find a strange sort of ballot upon their desks. They were asked to vote (among several other things) as to whether or not "the size of a man's pocketbook should be the determining factor for membership in their association."

Almost immediately the "Financial Chronicle" took up the battle against this proposal and cried out a resounding "No!" Others joined us with their protests. The pages of this publication were filled with the courageous letters of dissenting dealers throughout the country. The New York Security Dealers Association, and their able President, Frank Dunne, entered the fray, in line with the traditional policy of the association. A group of New Jersey dealers, headed by Russell V. Adams and Van Dyk MacBride, also joined in the battle to defeat this absurdity in regulation that posed as a reform, and opposed the scheme, as did Leslie B. d'Avigdor of this city at the SEC's public hearing on the minimum capital plan.

Who says the power of united action in Wall Street is dead? The fact that the SEC was impelled to stop—to pull up short in its tracks—to listen to the voices that counseled moderation and justice, shows what can be done if the people in the securities business will only get together and fight for their established rights.

While viewing with satisfaction the results of this battle we have won, let us also not fail to toss a few roses in the direction of the SEC. Has not the Commission shown the securities industry that it can be reached by fair arguments—that it is NOT a closed door through which the opinions and viewpoints of the industry can never pass? In its press release of last week, the Commission frankly admitted that, in the beginning of the discussions regarding minimum capital provision, it had originally been favorable toward the proposal, BUT LATER HAD CHANGED ITS MIND.

This is the sort of straight-from-the-shoulder talk that those engaged in the securities business like to hear. "Infallible? Of course not! We can change our minds." Words such as these and this sort of action from the SEC is like a breath of fresh air that comes wafted into a room which, for the past nine years, has been filled with nothing but the stuffy pomposity of directives and orders, legal diatribes and threats, and an aloofness that defied cooperation.

(Continued on page 1623)

IBA Opposes SEC Price Disclosure Rule As Not In Public Interest, Impractical, Unworkable

The Investment Bankers Association of America informed the Securities and Exchange Commission on Oct. 29 that it was opposed to the Commission's bid and asked disclosure rule, X-15C1-10, and in a comprehensive statement set forth the reasons and conclusions which prompted its decision.

In making available to members of the IBA the text of the report opposing the suggested

regulation, President Jay N. Whipple said that "Recognizing the serious effect promulgation of this rule would have on the securities business, the proposal has been given intensive study and consideration by your executive officers, other members of the board of governors, and the staff." The statement, he added, "reflects the combined opinions and reactions of a large proportion of our membership, . . . all of whom were provided with a copy of the proposed rule and asked for their comments concerning it."

Mr. Whipple, who just recently became President of the IBA, advised the SEC that in the opinion of the Association the proposed rule:

1. Is against the public interest.
2. Would be impractical and unworkable.
3. Would force many high-grade small dealers out of business.
4. Would restrict markets and tend to destroy the value of many securities in the hands of investors.
5. Is beyond the scope of the authority granted the Commission by Congress.

Mr. Whipple also observed that the rules of fair practice enacted by the National Association of Securities Dealers and approved by the SEC have the force of law and are "designed to correct the evils which we assume have given rise to this proposed rule." The IBA, Mr. Whipple continued, "suggests that the Commission, through appropriate sanctions, make the NASD's rules of fair practice applicable, except to transactions in 'exempted securities,' to all who are not members of the NASD but who are registered by the Commission."

We quote, in part, as follows from the text of the IBA statement to the SEC:

PART I

The Proposed Rule In Its General Application

The Investment Bankers Association of America, responding to the request of the Securities and Exchange Commission made on July 29 through Mr. Treanor, is glad to submit its comments on rule X-15C1-10, as proposed by the staff.

Due to its importance to all types and classes of dealers in securities, the Association sent a copy of the proposed rule to each member of the Association (approximately 600 in number) on Aug. 1. The chairmen of our 17 Groups in the United States were requested to

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Jay N. Whipple

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LOS ANGELES, CALIF.—Paul Royce, Vice-President of Bankamerica Company, has been appointed Southern Division Manager for the firm and will make his headquarters at their office at 650 South Spring Street, Los Angeles.

S. J. Small, Jr., formerly in charge of the Statistical Department with Revel Miller & Co., is now with Bankamerica Company in their Analytical Department.

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**Text Of SEC's Opinion Disapproving Proposed
 Minimum Capital By-Law Of NASD**

At a regular session of the Securities and Exchange Commission held at its office in the City of Philadelphia, Pa., on Oct. 28, 1942, the Commission disapproved of the so-called minimum capital amendment to the by-laws of the National Association of Securities Dealers. The complete text of the SEC's opinion on the subject, which also makes reference to the public hearing held on the subject, follows:

**Rules of National Securities
 Associations**

A national securities association registered under Section 15A of the Securities Exchange Act of 1934 as amended, having proposed to amend its by-laws to provide for minimum capital requirements as a condition of membership, held the proposed amendment is not in conformance with the requirements of that section, and disapproved.

Appearances

Baker, Hostetler & Patterson, by Paul Frum and John W. Lindsey, for National Association of Securities Dealers, Inc.

Wallace H. Fulton, Executive Director, National Association of Securities Dealers, Inc.

Leslie d'Avigdor, for Leslie d'Avigdor Co., New York, New York.

Frank Dunne, President, New York Security Dealers Association, New York City.

Russell V. Adams and Van Dyk MacBride, for a group of New Jersey security dealers, members of the National Association of Securities Dealers, Inc.

National Association of Securities Dealers, Inc. (NASD) is an organization of brokers and dealers in the over-the-counter markets. Its membership of 2,600 is composed of firms of all sizes, located in many parts of the coun-

try. The Association is registered with us as a national securities association under Section 15A of the Securities Exchange Act of 1934.¹

1. Relevant portions of Section 15A will be set forth in the course of this opinion. The section, often called the Maloney Act, because Senator Francis Maloney of Connecticut introduced it into the Senate, was enacted in 1933 and has been incorporated into the Securities Exchange Act as an amendment thereto.

NASD has brought before us a proposed amendment to its by-laws which would require as a condition of membership that all members and prospective members have a fixed minimum net capital of \$5,000, if they deal directly with customers, and a minimum of \$2,500 if they do not effect certain transactions directly with the public.

In order to consider the proposed rule we convened a public hearing before the Commission. It was attended by NASD's counsel and certain of its officers. Several members of the NASD appeared in opposition to the rule.

This amendment was proposed by the Board of Governors of the Association pursuant to the powers vested in the Governors by the Association's by-laws. According to the by-laws, proposals must be approved by a majority of those voting, provided that a majority of all members vote.

(Continued on page 1627)

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**Text Of SEC Rule Establishing Maximum
 Indebtedness Ratio For Brokers And Dealers**

Co-incident with its rejection of the proposed NASD minimum capital rule, the Securities and Exchange Commission on Oct. 29 announced the adoption of a rule prescribing for brokers and dealers within its jurisdiction a maximum ratio of aggregate indebtedness to net capital of 2,000%. The reasons which impelled its adoption of the regulation, the Commission said, are set forth in its decision in the NASD case, the full text of which is given in this issue of the Chronicle.

Text of the Commission's action in promulgating the maximum indebtedness rule, titled X-15c3-1, follows:

The Securities and Exchange Commission, deeming it necessary for the exercise of the functions vested in it and necessary and appropriate in the public interest and for the protection of investors so to do, pursuant to authority conferred upon it by the Securities Exchange Act of 1934, particularly Sections 15 (c) and 23 (a) thereof, hereby adopts the following Rule X-15c3-1:

(a) No broker or dealer shall permit his aggregate indebtedness to all other persons (exclusive of indebtedness secured by exempted securities) to exceed 2,000 per centum of his net capital (exclusive of fixed assets and value of exchange memberships).

(b) The provisions of this rule shall not apply to any broker or dealer who (1) does not extend credit to any person to whom he sells or for whom he purchases any securities, and (2) does not carry money or securities for the account of customers or owe money or securities to customers, except as an incident to transactions with or for customers which are promptly consummated by payment or delivery; Provided, That credit shall not be deemed to be extended by reason of a bona fide delayed delivery of any such security against full payment of the entire purchase price thereof upon such delivery within thirty-five (35) days after such purchase.

(c) This rule shall not become effective until further order of the Commission and, in any event, not earlier than Jan. 1, 1943.

Significance Of 1942 Tax Law To Investors

The new tax law is a highly encouraging step in the thawing of frozen capital and in the removal of inequities and hardships evident in previous legislation. This applies to both corporations and individuals. Of course, rates have been necessarily increased; and a complete exclusion of capital gains and losses from taxation would seem sounder as in Britain. However, we feel that the constructive features

of the new legislation are extremely important, and should be carefully studied by every investor. The large investor should study the changes which again make it worthwhile considering the use of his capital in new ventures. No longer can he say that the Government takes most of his profits and that there is practically no change of recouping losses. The small investor should know particularly about the deduction of capital losses up to \$1,000 from his ordinary income. And every investor should consider the sweeping effects new tax trends may have on future business and securities markets. Revived interest of the larger investor is likely to have a cumulative effect broadening markets and improving price levels. A more normal level of prices and marketability will facilitate the raising of postwar capital needs, enabling our system of private enterprise to continue with new vigor.

The outstanding improvements from the standpoint of the individual will be briefly explained. First, the holding period for a

long-term capital gain has been shortened to six months from 18 to 24 months previously. This removes a deterrent that was probably greater than many people realize. Many investors in high income tax brackets feel that only long-term capital gains (with reduced tax liability) are worth the risk, and yet they have hesitated to attempt a forecast that far into the future. The anticipated profit might occur in six to nine months and disappear before two years have expired. Second, there is a complete criss-crossing of short and long-term capital gains and losses. Long-term gains and losses are recognized to the extent of 50% for this purpose. This eliminates the predicament of having to pay tax on profits in one category (holding period) at the same time that losses were available in the other. Third, and even more helpful, unused capital losses can be carried over for five years, as short-term losses. This gives an investor an adequate time in which to register offsetting gains, either short or long-term. Fourth, (Continued on page 1631)

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In Denver during the month of October, investment dealers have been concentrating on two highly important matters—first, as members of the Victory Fund Committee they have worked persistently on the sale of War Bonds and Tax Notes; and second, they have been very active in the campaign for the Denver War Chest, which not only comprises the philanthropic agencies in the Community Chest, but about twenty worthwhile war appeals. The investment business has been more active than for several months past, with the principal interest in local securities. One or two new issues have met with favorable reception as well. There appears to be a more optimistic feeling among investment men here.—Arthur H. Bosworth, Bosworth, Chanute, Loughridge & Company

Lynchburg, Va.

The defeat of the Tax Program of the Administration as far as municipalities were concerned has given the local market a new impetus and the demand has been very good for tax-exempt securities. The diminishing supply has also been very instrumental in moving the yields of representative Southern municipals to unprecedented high levels. New underwritings have faded out of the picture entirely—some small refundings are coming along but they are few and far between. Local stocks have not moved up to any great extent, however, textiles have shown firmness, while bank stocks have been very inactive.—Ludwell A. Strader, Vice-President, Scott, Horner & Mason, Inc.

Winston-Salem, N. C.

North Carolina medium and better grade municipals continue to enjoy a good market locally, with a scarcity of offerings and with many of the medium grades bringing excellent prices. Low dollar bonds have been somewhat inactive although some improvement has been noted in recent weeks.—Vance, Young & Hardin, Inc.

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D. P. Newell Opens
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Maysville, Ky.—D. P. Newell will conduct a general securities business in Maysville. Mr. Newell was formerly cashier of the State National Bank, with which he had been associated since 1920.

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Lee Higginson Corporation, 40 Wall Street, New York City, announces the election of J. T. Foster as Vice-President and Director.



J. Taylor Foster

Mr. Foster has been a partner of Spencer Trask & Co. since Jan. 1, 1940, and for many years has been well known in investment banking circles. He began his career in the bond business with the firm of Montgomery, Clothier & Tyler. Mr. Foster has served as President of the Bond Club of New York and as Chairman of the New York Group of the Investment Bankers Association.

NY Security Dealers Prepare Election Slate

The New York Security Dealers Association announces that the Nominating Committee will hold a meeting at its offices on or about Tuesday, Nov. 17, 1942.

Members are invited to suggest nominees for Governors of the Association. The next annual election of the Association will take place Jan. 5, 1943, at which time four of the nominees will be elected for a period of three years.

The terms of the following Governors expire: John J. O'Kane, Jr., Clarence E. Unterberg, Frederick C. Kraehling; and there is one vacancy to be filled.

All suggestions should be mailed to Tracy E. Engle, c/o New York Security Dealers Association, 42 Broadway, New York City.

Members of the Nominating Committee are: Tracy R. Engle, Chairman, Engle, Abbott & Co.; Otto H. Steindecker, New York Hanseatic Corp.; George L. Collins, Huff, Geyer & Hecht, Inc.; Leo J. Goldwater, L. J. Goldwater & Co., and Vincent Fitzgerald, Fitzgerald & Co., Inc.

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SEC Enters Action To Get Court Decision On Rule Governing Over-Counter Profits

The Securities and Exchange Commission has filed a brief in a civil action entered against Stewart J. Lee Company, New York securities dealer, charging that the dealer had made excessive profits and asking that the deal be rescinded. The Commission is not a party to the action, having filed its brief as a "friend of the court," but the final decision will have a bearing on future SEC rulings in over-the-counter cases.

The Commission's action in seeking court determination of an interpretation of its rule (Section 15-C-1 of the Securities Act of 1934) used in revoking over-the-counter dealers' licenses is considered especially significant in view of the fact that the Commission is proposing a new rule making it obligatory for such firms to list the "bid and asked" price in every transaction.

The civil action was filed by Helene Hallgarten against Stewart J. Lee Co. charging that she paid \$5,000 for royalties of Phillips Petroleum which she claims had a value of \$3,600 and therefore seeking rescission of the purchase. The defendant denied all

charges of fraud, contending it had sold the royalties at a price bearing a reasonable relationship to the market price and that it had acted as principal, not as broker nor investment counsel.

In its brief in the case, the SEC quoted from the Act:

"The dealer's omission in disclosing the spread between the market and sale price, when that spread is unreasonable, renders misleading and fraudulent the representation, implied from his holding himself out as a dealer, that he will deal fairly with his customer and charge prices bearing some reasonable relationship to the prevailing market."

Stroud & Co. Tells How To Pick A Chariot Driver

Stroud & Co., 1429 Walnut Street, Philadelphia, in commenting on the Pittsburgh, Cincinnati, Chicago & St. Louis 4 1/2s, relate the following story:

"There once was an emperor, so the story goes, who was looking for a new man to drive his chariot. Three candidates showed up for the job. The emperor pointed out the course for the trials which ran along the edge of a mountain

with a drop of about 100 feet on one side. He told each driver to drive around the road as fast and as near the edge as he thought safe. The first candidate drove his horses furiously and came within a foot of the edge. The second galloped the horses even faster and came within six inches of the drop. The third walked the horses and stayed away from the edge as far as possible. 'That's the man for me,' said the emperor. The other candidates objected, pointing out how fast they had gone and how near the edge. 'Oh,

yeah,' said the emperor, 'well, I'm going to ride in that chariot and I'm staying as far away from that edge as I can.' Our bond this week is presented for those who, like the emperor, demand a reasonable amount of safety in their investment vehicles."

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Former Gatch Partners Join G. H. Walker Co.

ST. LOUIS, MO.—G. H. Walker & Co., Broadway & Locust Streets, members of the New York Stock Exchange and other leading national exchanges, announce that several of the former partners of Gatch & Co. have become affiliated with them.

Clifford P. McKinney will be Manager of the Sales Department for G. H. Walker & Co., and John H. Jordan, Roy W. Jordan, and Elmer L. Lacey, member of the St. Louis Stock Exchange, will be sales representatives. Other former Gatch employees now with G. H. Walker & Co. are Clarence J. Maender, who will manage the Bank Stock Department, and Albert Gruenewald, who will be a sales representative.

NASD Dist. 13 Names Nominating Committee

Henry G. Riter, 3rd, of Riter & Co., Chairman of District No. 13 of the National Association of Securities Dealers, Inc., announces the appointment of the following Nominating Committee:

Chairman William J. Minsch of Minsch, Monell & Co.; Joseph W. Dixon of Graham, Parsons & Co.; Pierpont V. Davis of Harriman Ripley & Co., Inc.; Frederick C. Kraehling of Frederic H. Hatch & Co., Inc.; J. Winner Parker of Parker & Weissenborn, Inc.

Positions to be filled for the terms expiring Jan. 15, 1943, of Laurence M. Marks of Laurence M. Marks & Co., Governor; Russell V. Adams, of Adams & Mueller, Harry W. Beebe of Harriman Ripley & Co., Inc., Richard C. Rice of J. K. Rice, Jr., & Co., and Henry G. Riter, 3rd, of Riter & Co., members of District No. 13 Committee.

Hotel Securities

Analysis on request

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REAL ESTATE SECURITIES

INCREASED HOTEL BUSINESS

This column has previously expounded upon hotel securities and the benefit that should accrue to them from a market standpoint from increased business but aside from giving a few specific instances such as Hotel Lexington and Hotel St. George it has not shown that the increase is general.

Figures compiled for over 30 hotels for the first nine months of 1942 show that the average occupancy exceeded the corresponding periods in 1941, 1940 and 1939 by 8.57%, 9.63% and 6.8%, respectively; in fact, it exceeded any corresponding period as far back as 1932.

Dollar value of room sales exceeded 1941 by about 17% and 1940 by about 12½%; in fact, with the exception of the 1939 World's Fair year, dollar value of room sales exceeded by a considerable margin any previous corresponding period as far back as 1932.

Food and beverage sales for the nine months through September, 1942 greatly exceed any previous corresponding periods since 1931, exceeding the 1941 period by about 17¾% and the next year by about 8%.

Brooks-Milburn Closes; Brooks Opens Office

WICHITA, KANS. — Brooks-Milburn, Inc., 305 East William, announces that their company will cease operations and liquidate as of Oct. 31st, this year.

Ralph W. Milburn, Vice-President, is now a Cadet Pilot, and R. Kenneth Milburn, formerly Secretary-Treasurer, is now a Lieutenant of Field Artillery.

Mr. Jos. B. Hesse, Vice-President, will after Nov. 1st, devote his time to carrying on his insurance business, and engaging in defense work.

War O. Brooks, President of the firm, will establish an office at 304 Fourth National Bank Building, to conduct a general investment business.

David R. Mitchell Is With Blair Claybaugh

David R. Mitchell is now associated with Blair F. Claybaugh & Co., 72 Wall St., New York City, in their trading department. Mr. Mitchell was formerly for many years head of his own investment firm, David R. Mitchell & Co.

Stock Market Comments

With the market in a more or less extended position as a result of its protracted rise during recent months, the possibility of a reaction should not be overlooked. The extent of any downward readjustment, however, will depend in very large measure upon the tenor of the war news released—after elections—and consequently due allowance should be made for a more extensive reaction than has developed thus far.

Looking at the picture in its broader aspects, we believe the market is in the early stages of a major recovery movement and that any worthwhile setback should be regarded as providing advantageous buying opportunities.

Tax Selling

Factor with which the market will have to contend during coming weeks will be year-end tax selling.

This year, because of changes in the treatment of capital gains and losses, such selling will be of much smaller proportions than last year, when capital losses could be offset against any kind of income without limitation.

Nevertheless the market will be called upon to absorb some amount of liquidation for tax purposes—all of which may tend to at least cause some irregularity. In short, we don't think that very much progress is likely to be made on the upside during the immediate future, except in the case of special situations.

Supporting Factor

Supporting market factor during coming months tending to offset seasonally adverse elements will be a series of favorable earnings releases and liberal dividend actions.

Corporation managements this year did not make the mistake of last year in underestimating taxes. This year the error has been in overestimating taxes. Hence most companies will be crediting back to the income account fairly sizable sums by reason of the 80% over-all tax ceiling. Moreover, the 10% post-war credit, while it may prove somewhat illusory, will certainly permit the adoption of a more liberal policy than would otherwise be the case.

In addition the bill contains a fairly large number of relief provisions, viz: (1) exemption from the 16% surtax on that part of an operating utility company's income used to pay preferred dividends; (2) exemption from the

(Continued on page 1629)

PERSONNEL ITEMS

If you contemplate making additions to your personnel, please send in particulars to the Editor of the Financial Chronicle for publication in this column.

NEW YORK, N. Y.—Homer F. Locke, for the last 10 years with the municipal bond firm of Stranahan, Harris & Co., has joined the municipal bond department of Shields & Company, 44 Wall St.

NEW YORK, N. Y.—Renwick B. Dimond has become affiliated with Wertheim & Co., 120 Broadway, New York City, it is announced.

NEW YORK, N. Y.—Martin G. Missir has become associated with J. R. Williston & Co., 115 Broadway.

(Special to The Financial Chronicle)
BOSTON, MASS.—James B. Boynton has joined the staff of J. H. Goddard & Co., 85 Devonshire Street.

(Special to The Financial Chronicle)
CHICAGO, ILL.—Thomas M. Barry, Sr., has become connected with Ryan-Nichols & Co., 105 So. La Salle Street. Mr. Barry was formerly with Thompson Ross Securities Company and in the past was with the Continental Illinois National Bank & Trust Co.

(Special to The Financial Chronicle)
FRESNO, CALIF.—Sydonia B. Chance is with H. R. Baker & Co., Mattei Building.

(Special to The Financial Chronicle)
KANSAS CITY, MO.—James Burton, Jr., previously with United Funds Management Corporation, has joined the staff of Harris, Upham & Co., 912 Baltimore Avenue.

(Special to The Financial Chronicle)
LONG BEACH, CALIF.—Herbert H. Vogetley, formerly with Bayly Brothers, has become affiliated with Halbert, Hargrove & Co., First National Bank Building.

(Special to The Financial Chronicle)
LONG BEACH, CALIF.—Everett I. Peckinpaugh has become associated with Dean Witter & Co., Security Building. Mr. Peckinpaugh was previously with Bayly Brothers in charge of their local office and served in a similar capacity with Edgerton, Riley & Walter. In the past he had his own firm in Long Beach.

(Special to The Financial Chronicle)
LOS ANGELES, CALIF.—R. J. Downing has been added to the staff of H. R. Baker & Co., Bank of America Building.

(Special to The Financial Chronicle)
LOS ANGELES, CALIF.—Clement J. Hogg is now connected with Morton Seidel & Co., 458 South Spring Street, as a salesman covering the Santa Monica territory. For the past 10 years Mr. Hogg was with E. H. Rollins & Sons, Inc., in Los Angeles.

(Special to The Financial Chronicle)
LOS ANGELES, CALIF.—Lloyd P. Helmick has been added to the staff of C. L. Wells & Co., 724 South Spring Street.

(Special to The Financial Chronicle)
MIAMI, FLA.—Herbert N. Crowder is now connected with Corrigan, Miller & Co., Inc., Security Building.

(Special to The Financial Chronicle)
MILWAUKEE, WIS.—George P. Hewitt has become associated with The Marshall Company, 762 North Water Street. Mr. Hewitt was formerly with Ryan-Nichols & Co. for a number of years.

(Special to The Financial Chronicle)
MINNEAPOLIS, MINN.—Chas. G. Woehler, previously with Couper-Eckenbeck & Co. and John J. Seerley & Co., has joined the staff of C. D. Mahoney & Co., Roanok Building.

(Special to The Financial Chronicle)
ORLANDO, FLA.—James M. Wilcox, Jr., has become affiliated with United Securities Corp., Florida Bank Building.

(Special to The Financial Chronicle)
PORTLAND, OREG.—Eugene Courtney is with Camp & Co., Inc., Porter Building.

(Special to The Financial Chronicle)
ST. PETERSBURG, FLA.—Ernest W. Bearse has become connected with Florida Securities Co., Florida National Bank Building. Mr. Bearse in the past was with Associated Gas and Electric Securities Co.

(Special to The Financial Chronicle)
SAN DIEGO, CALIF.—James D. Kent, formerly with Searl-Merrick Company and H. J. Kircher & Co., has become affiliated with Fewell, Marache & Co., San Diego Trust & Savings Building.

(Special to The Financial Chronicle)
SAN FRANCISCO, CALIF.—Francis A. Nagle, William P. Seabury, and Ellis P. Tavernetti have been added to the staff of H. R. Baker & Co., Russ Building.

(Special to The Financial Chronicle)
TOLEDO, OHIO—Thomas W. Lang has become affiliated with the First Cleveland Corporation, Home Bank Building. Mr. Lang was formerly with Bliss Bowman & Co. and Securities, Inc.

(Special to The Financial Chronicle)
YOUNGSTOWN, OHIO—Thos. W. Stroth has rejoined the staff of Otis & Co., Terminal Building, Cleveland, Ohio. Mr. Stroth was recently with Borton & Borton, Incorporated.

Dealers And Brokers

Must File Reports

The Securities and Exchange Commission is planning to extend its power over the investment community, it is learned by a rule to be effective Jan. 1 requiring brokers and dealers to file financial statements with the Commission at least once a year. In some cases certification by an independent accountant will be mandatory, according to a provision of the rule.

Reports under the rule will permit the SEC to study for the first time the financial condition of all registered dealers and brokers directly instead of through reports filed with various stock exchanges and State Securities Commissioners. Under the new rule the SEC will be provided with enough knowledge of dealers' set-up to prescribe changes in capital requirements. Indication that the SEC is moving into this phase of control is seen in its disapproval of the minimum capital requirement proposed by the National Association of Securities Dealers and the substitution of its own rule that dealers in the over-the-counter market are limited to an aggregate indebtedness of 2000% of net capital.

The report form to be used under the new rule will be the uniform one worked out by the Commission and the industry during the summer, with a few minor changes introduced by the SEC.

Neglected Opportunities

There are many opportunities in solvent rail bonds which have hitherto been overlooked according to the current bulletin issued by Strauss Bros., 32 Broadway, New York City. Copies of this interesting bulletin giving further information may be had from Strauss Bros. upon request.



TRADING MARKETS IN REAL ESTATE SECURITIES

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Tomorrow's Markets
Walter Whyte
Says

Post-Election rally gives rise to optimism. Market still finds recent highs tough obstacles. Suggest waiting for anticipated reaction before new buying.

By WALTER WHYTE

The beautiful smiles you see in Wall Street today are based on only one thing—the election results. Even the war seems, for the moment, to be far away. The big conversation pieces are the Republican victories and the things they promise. Unfortunately the market has a way of discounting such things. For late last week it rallied on what seemed incomprehensible news.

Well, the news is no longer news. The Republicans did manage to snag off some six Senate seats and about 22 House seats. Whether this will make a difference in the management of the war effort, or relieve taxes, remove business restrictions and make the market one of those nice skyrocketing affairs everybody secretly longs for, is too much to expect. Perhaps war efforts will be intensified. Perhaps taxes will come down. Perhaps business restrictions will be lightened, and perhaps the market may again become one of those affairs. But we all know these "perhapses" are just so much wishful thinking.

For so far as the war is concerned it is still in the hands of the military and the Cabinet and no minor change in the House or Senate line-up will change that. If you think taxes are coming down, brother, you'd better take another sniff. Taxes are here to stay and you might as well reconcile yourself to the fact that they'll be a lot bigger before they're any smaller—a whole lot bigger.

Business restrictions? We still have a war on our hands and business will find more ropes around its neck before long.

The market? Well, that's something else. The market has already shown its mettle. It is the one medium which has given a realistic appraisal of the new conditions it has to cope with. It is not concerned with politician's clamorings or patriotic breast-beatings. It reflects and anticipates conditions as they are,

not as some would like it to be.

Last week, after an early decline, prices rallied. In my opinion the rally was partly based on the headline news of today—the elections. But this effect has already worn off, or will wear off before the week is over, and the market will have to face realities again. Right now the big reality, the only important reality which really matters, is the war. If you can find an answer to that then you'll have an answer to the market. I can't, so I have to stick to the market and get what clues I can from its action.

A few weeks ago I said the Dow averages would get up to 115-116; meet trouble and then back down. You have already seen what happened when the market crossed 115. Volume jumped up and optimists began climbing out of their shells. But in spite of everything, it couldn't get through the 116 figure.

Last week I forecast a decline to under the 110 price. In the early part of last week prices did go down to about 113 but rallied back to about 115 again. Yet I see little in the current action to change my opinion.

Reasons given that "holders are reluctant to sell" don't impress me. Holders seldom sell on dullness or advances. They sell on weakness. I think such weakness is right around the corner. Until this occurs I have no intention of recommending new purchases.

I have been asked to give my long range market views. Even if I shrugged off the war, I still wouldn't know how to answer such a question. My definition of "long range" is probably different than the majority interpretation. I like the market so long its action satisfies me. Sometimes I like certain stocks for days, sometimes weeks, and sometimes months. In my last recommendations I included Harvester and Union Carbide. Readers are aware that I kept repeating my like for their market action for months. It wasn't until the market itself began showing top signs that I advised selling. Perhaps that means "long pull." I don't know.

A professional speculator prefers to go home each night without a single position. His arguments are: He avoids overnight accidents, and he can look at the market dispassionately if he's not carrying anything. On the following day, if he still likes his original position, he can reacquire it. For, he argues, if he were already long he could

(Continued on page 1623)

Defaulted Railroad Bonds

PFLUGFELDER, BAMPTON & RUST

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Telephone—DIgby 4-4933 Bell Teletype—NY 1-310
RAILROAD REORGANIZATION SECURITIES

RAILROAD SECURITIES

Quite obviously a large number of speculators are content to ignore the implications of the Wheeler tax proposal for a levy of 90% on profits realized on reorganization securities, and the accompanying letter from Interstate Commerce Commissioner Splawn, which were given such wide publicity a few weeks ago. They apparently are also content to ignore the well established attitude of the Interstate Commerce Commission towards railroad reorganizations in general.

The most active and strongest spots in the reorganization group last week were the junior bonds of Missouri Pacific, led by the General 4s, 1975 which sold at a new 1942 top of 10 3/4 compared with the year's low of 1 1/2.

There seems to be little question but that the interest in the Missouri Pacific General 4s is based almost entirely on hopes that the pending plan of reorganization (which has once been approved by the District Court) will be discarded, and that a revised plan will provide far more liberal treatment for the bonds. It is transactions of this nature that presumably touched off Senator Wheeler's absurd proposal, and while it is our belief that the tax itself may not be considered seriously, it does seem likely that if delays inspired by speculative enthusiasm for war earnings continue to threaten the reorganization progress made to date, some new legislation affecting reorganization procedure will be enacted. There is no question but that the Commission itself is thoroughly impatient over the slow reorganization progress.

There is nothing in the record that would appear to justify the expectation that if plans are rejected and sent back to the Commission that body will be inclined to give weight to war-swollen traffic in allowing a more liberal capitalization. In fact, the New Haven case, where reduction of some prior claims for interest was expected to release a larger allotment of new fixed interest bonds to junior claims, should effectively have stilled any such hopes. In the face of established facts, and particularly considering that the proposed capitalization of the new Missouri Pacific appeared too liberal in the first place, speculation in the old Missouri Pacific 4s, 1975 at recent levels is ill-advised.

Under the reorganization plan now in the courts, the Missouri Pacific General Mortgage 4s are allocated roundly 7.5 shares of common stock with respect to each \$1,000 face value of bonds. At this stage in the reorganization proceedings, the bonds should sell to provide an arbitrage profit of at least 25%. On such a basis the present price of the old bonds would give an indicated value of 18 to the new common stock, or some four points above recent "when issued" quotations. Even recent "when issued" prices may logically be considered as giving too high a valuation to war earnings, particularly when it is considered that under the most favorable circumstances completion of the reorganization and issuance of the new stock may not reasonably be expected for a period of about a year and a half.

By the time the reorganization is completed it may well be that

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the war boom will be over or the end at least in sight. Under such conditions dividends could certainly not be taken for granted. Also, railroads as a whole face a strong possibility of higher wages and taxes, and Missouri Pacific would certainly not be immune.

It is true that consolidated earnings of the constituent companies for the current year are estimated somewhat above \$25 a share on the new stock, compared with indicated earnings of approximately \$5.40 a share last year. A fact that is given less publicity, however, is that these estimates are arrived at with taxes accrued on the basis of the old capitalizations, where the heavy debt grants relative immunity from Federal income levies. When the reorganization is complete, and exemptions are based on the reduced debt and charges, the indicated earning power of the new stock will be reduced sharply.

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The weight that may be accorded the current level of earnings is also indicated by an examination of the system's past earnings record. Not in any year from 1932 to 1940, inclusive, would any earnings have been reported on even the prior preferred stock, to say nothing of the second preferred and the new common. Prior to that, indicated earnings would have amounted to \$2.38 a share of common in 1931, \$4.82 in 1930, and \$8.07 a share in 1929. Considering the definite and consistent deterioration that has taken place in the system's traffic position, high-lighted by the permanent loss of profitable petroleum tonnage, this record would hardly seem to support any great optimism towards the new stock. War activity in the area is largely of a purely temporary nature and not calculated to add permanently to the economy of the system. Construction of additional pipe lines to meet the shortages in the east may well mean additional competitive inroads when we return to a peace economy.

Certainly, where speculation in the new common stock is desired, the St. Paul Adjustment 5s, 2000 would seem a far more desirable vehicle. For one thing, the St. Paul reorganization should be consummated before that of Missouri Pacific, thus reducing the danger that the new securities may not be delivered until railroad earnings are on the downgrade. For another thing, the St. Paul Adjustment 5s receive a larger allocation of new stock (9.78 shares). At present prices of 4 1/2 for the Adjustment 5s, and allowing for an arbitrage profit of 25% as in the case of Missouri Pacific, the indicated appraisal of the St. Paul new common is less than \$6 a share.

To Be NYSE Members

Marble & Co., 14 Wall St., New York City, will acquire membership in the New York Stock Exchange, as of Nov. 12 with the transfer to Frank L. Hawkes of the Exchange membership of Nelson B. Gatch. Partners in Marble & Co., commodity brokers, are: Preston M. Marble, James F. Schwartz, Herbert H. Marble, Frank L. Hawkes, general partners, and Martin Curry, limited partner.

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—44; low—14 3/4; Nov. 4 price—42 3/4.

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Bank and Insurance Stocks

This Week — Bank Stocks

It takes at least a billion dollars to make the financial headlines in the present era of "funny money" and astronomical expenditures. General Motors, the world's premier manufacturing enterprise, accomplished that feat recently when it announced the completion of arrangements for a billion dollar revolving credit to finance its production of war supplies. This is the largest bank loan ever obtained by a private corporation in this

country and is one of the really outstanding events in the history both of General Motors and of the banking industry as a whole.

The General Motors credit agreement will run for three and a third years, expiring Feb. 28, 1946. The interest rate will be 2½% per annum on the amounts actually used and a commitment fee of 1/8th of 1% will be charged on any unused portion of the maximum credit. General Motors is not obligated to use all of the credit but will have it available on call when, as and if needed. The amount of credit is subject to reduction at any time by the corporation, on 90 days' notice, in multiples of \$100,000,000.

This loan, like all others made under Regulation V and Executive Order 9112, will be partially guaranteed by the War Department. The General Motors loan will be 50% guaranteed up to \$250,000,000; 75% guaranteed from \$250,000,000 to \$500,000,000; 85% guaranteed from \$500,000,000 to \$650,000,000, and 90% guaranteed from \$650,000,000 to the \$1,000,000,000 maximum.

Some 400 banks, from Maine to California, will participate in this huge financing. The credit and guarantee agreements are being handled through the Federal Reserve Bank of New York which will act as fiscal agent for the Government. A committee of five banks, all from New York City, participated in the preparation of these agreements. The five banks were Bankers Trust Company, Chase National Bank, First National Bank of New York, Guaranty Trust Company and J. P. Morgan & Co. Incorporated.

The need for additional working capital by General Motors, to finance inventories and receivables, has been brought about by the tremendous volume of armament work assigned to it. Normal capacity of the corporation is about \$2,500,000,000 gross per annum. By the end of 1942, it is expected that output will be at the rate of about \$4,000,000,000 annually and eventually a \$5,000,000,000 level may be reached. This would be double the company's normal peace-time production level. The General Motors situation is typical of our industrial plant as a whole and, in the case of hundreds of smaller corporations, their volume of production is being increased several hundred per cent. Therefore, from this point, it is obvious that borrowings under Regulation V will be greatly accelerated.

It is a rare armament producer indeed which has not, by now, exhausted its own working capital. Many manufacturers, furthermore, have hesitated to go into debt purely on their own responsibility and without some protection as regards the war business they

might get. The Regulation V loans will thus solve two important problems: (1) such credits will be tied up specifically with government assigned business; (2) original working capital of each borrower can be preserved intact for resumption of normal business when the emergency is over.

Proceeds of Regulation V borrowings may be used only for war purposes. This will serve to protect both the banks and the users and, in the opinion of most banking authorities, will eliminate the likelihood of chaotic conditions such as might be expected to develop if the war were to end suddenly. In the present situation, many companies have been virtually 100% converted to war production and, for a majority of these, several months may be required to get back to a peace-time basis. General Motors, for example, is said to be operating about 95% in the production of actual war materials and the balance on high priority items which are regarded as essential to the prosecution of the war.

In reporting to General Motors stockholders regarding the arrangements for this unprecedented line of credit, Chairman Alfred P. Sloan, Jr., commented in part as follows:

"An analysis of the trend of the corporation's financial position over the past 20 years indicates that during that period, notwithstanding the demands of the great expansion of the 'Twenties, the difficulties of the depression period of the 'Thirties and the substantial growth of General Motors, the corporation has been able to maintain cash balances sufficient to conduct its normal peacetime operations as well as to provide adequate protection against such uncertainties as can never be entirely foreseen. This has all been accomplished by General Motors Corporation without the use of bank loans or other borrowings and without the sale of additional common stock, except in one instance where stock was issued for the acquisition of Fisher Body. It has been accomplished almost entirely by the reinvestment of earnings and by the use of accumulated depreciation reserves. This, of course, does not take into consideration borrowings by General Motors Acceptance Corporation, a wholly-owned subsidiary, in order to finance sales to dealers and to retail buyers.

"With expanding war production, inventories of raw materials and of work in process will necessarily be increased. Furthermore, the time element involved in the necessary procedures for approval and payment of war products will increase the company's receivables beyond what was normal in peacetime operations. Thus, both

because of the special conditions surrounding the production of war materials and because of constantly expanding volume, the amount of working capital required will be far in excess of anything that the corporation has yet experienced."

One interesting angle to the General Motors loan is the fact that Regulation V was originally drawn up primarily to aid small and medium-sized businesses. However, the concentration of war orders in the hands of the major manufacturing concerns has had the inevitable effect of using up the working capital of such companies even before the sub-contractors and others have gone into full production. Furthermore, the allocation of materials and labor is obviously being made where the largest facilities are already available.

Therefore, it is logical to expect that other leading manufacturers will shortly follow the lead of General Motors and that Regulation V loans will expand, from this point, about as rapidly as the mechanical details of each one can be worked out. It is entirely conceivable and more than likely, if the war is much prolonged, that "V" loans will exceed in volume all other commercial loans outstanding in the United States. Thus the banking business, like all other essential industry, will be engaged primarily in the war effort. That this work will be handled by our banking system on an "all-out" basis, patriotically, energetically and economically, there has never been the faintest shadow of a doubt.

NY Finance Institute Has Military Courses

Jacob Bleibtreu, member of the New York Stock Exchange, who acted as interpreter and interrogator of prisoners of war with the General Staff of the Second Army during World War I, will give a six weeks course in "Military German" at the New York Institute of Finance, 20 Broad Street, New York City, beginning Nov. 12th. The class is open to any citizen of the United Nations who has a knowledge of German.

Burton Crane, financial writer of the New York "Times," who has spent 11 years in the Far East, will give a course in "Elementary Colloquial Japanese" at the Institute, commencing Nov. 17th.

A ten-week course in "Celestial Navigation" under Captain Theodore Nelson, U.S.N.R. Retired, will commence Nov. 16th. No previous knowledge of the subject or of higher mathematics is required. A supplementary course in aerial navigation will be open to those completing this course.

Other courses planned by the Military Training Division are "Signaling"; "Fundamentals of Radio"; "Army Paper Work"; "Map and Photo Reading" and instruction in "The New Infantry Drill." Captain Paul Brown, author of "The ABC's of the I. D. R.," is conducting the drill classes on the Floor of the New York Stock Exchange. All of these courses are open to the public.

Nelson Gatch Is With Reinholdt & Gardner

ST. LOUIS, MO.—Nelson B. Gatch, partner in Gatch & Co., which is being dissolved, and several employees of that firm, have become associated with Reinholdt & Gardner, 400 Locust St., members of the New York and St. Louis Stock Exchanges and other leading Exchanges.

Last spring Reinholdt & Gardner acquired the business of Francis, Bro. & Co. and some time ago it took over O. J. Anderson & Co. and the St. Louis branch of Otis & Co.

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£98,263,226

Associated Banks:
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BANK OF NEW SOUTH WALES

(ESTABLISHED 1817)

Paid-Up Capital £8,780,000
Reserve Fund 6,150,000
Reserve Liability of Prop. 8,780,000
£23,710,000

Aggregate Assets 30th Sept., 1941 £150,939,354

SIR ALFRED DAVIDSON, K.B.E.,
General Manager

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R. McLean Stewart Joins Pilot Training Program

R. McLean Stewart, Vice-President and Director of Harriman Ripley & Co., Inc., has been granted an indefinite leave of absence to accept an appointment with the Civil Aeronautics Administration, Department of Commerce, Washington, D. C.

Mr. Stewart's work will be chiefly in connection with the CAA's conduct of a pilot training program for the Army and the Navy.

DIVIDEND NOTICES

THE BUCKEYE PIPE LINE COMPANY

26 Broadway

New York, October 24, 1942.

A dividend of One (\$1.00) Dollar per share has been declared on the Capital Stock of this Company, payable December 15, 1942 to stockholders of record at the close of business November 20, 1942.

J. R. FAST, Secretary.

NORTHERN PIPE LINE COMPANY

26 Broadway

New York, October 28, 1942.

A dividend of Thirty (30) Cents per share has been declared on the Capital Stock (\$10.00 par value) of this Company, payable December 1, 1942 to stockholders of record at the close of business November 15, 1942.

J. R. FAST, Secretary.

DIVIDEND NOTICES

Atlas Corporation

Dividend No. 25
on 6% Preferred Stock

NOTICE IS HEREBY GIVEN that a dividend of 75¢ per share for the quarter ending November 30, 1942, has been declared on the 6% Preferred Stock of Atlas Corporation, payable December 1, 1942, to holders of such stock of record at the close of business November 13, 1942.

WALTER A. PETERSON, Treasurer
October 30, 1942.



YOU GET THE GOOD THINGS FIRST FROM CHRYSLER CORPORATION

DIVIDEND ON COMMON STOCK

The directors of Chrysler Corporation have declared a dividend of seventy-five cents (\$0.75) per share on the outstanding common stock, payable December 14, 1942, to stockholders of record at the close of business November 14, 1942.

B. E. HUTCHINSON
Chairman, Finance Committee

EATON MANUFACTURING COMPANY

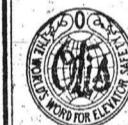
Cleveland, Ohio



DIVIDEND NO. 71

The Board of Directors of Eaton Manufacturing Company has declared a dividend of Seventy-five Cents (75¢) per share on the outstanding common stock of the Company, payable November 25, 1942, to shareholders of record at the close of business November 10, 1942.

H. C. STUESSY,
Secretary
October 30, 1942



OTIS ELEVATOR COMPANY

PREFERRED DIVIDEND No. 176
COMMON DIVIDEND No. 140

A quarterly dividend of \$1.50 per share on the Preferred Stock and a dividend of 35¢ per share on the no par value Common Stock have been declared, payable December 21, 1942, to stockholders of record at the close of business on November 24, 1942.

Checks will be mailed.
C. A. SANFORD, Treasurer
New York, October 28, 1942.



STANDARD OIL COMPANY

(Incorporated in New Jersey)

has this day declared the following dividends on the capital stock, payable on December 15, 1942, to stockholders of record at close of business, three o'clock, P. M., November 16, 1942:

Regular semi-annual cash dividend of 50¢ per share; and

Extra cash dividend of 50¢ per share.

Checks will be mailed.
A. C. MINTON, Secretary
November 2, 1942

Interesting For Retail

Common stock of Fort Pitt Bridge Works offers an interesting situation for retail distribution according to a memorandum by Schuller & Company, Inc., 111 Broadway, New York City. Copies of this memorandum may be had from the firm upon request.

The Securities Salesman's Corner

A PLAN TO BUILD UP YOUR BUSINESS

PART III

When it comes to picking out situations that will prove exceptionally profitable, there is no simple formula that automatically leads to success. Long experience is by far the best asset anyone can have. After some years, you acquire a "feel" for the right "buys." You learn to sift the occasional nugget from scores of run-of-the-mine opportunities.

You disdain to run with the crowd. You become wary of telephoned "good things," nevertheless you keep an open mind because sometimes one of those outside suggestions may have some merit—but you check and double check before you "ride." These are just a few of the things you do automatically if you have a better than average record of picking winners in the securities markets.

Here is a score card we have used and found very helpful in determining what we think of a security and its future possibilities from a statistical standpoint:

- 1. Future outlook of industry.**
Poor — Fair — Good — Improved — Exceptional.
- 2. Competitive position of company in its industry.**
Poor — Fair — Good — Improved — Exceptional.
- 3. Approximate recent net earnings.**
Lower — Steady — Improved — Good — Very good.
- 4. Financial position.**
Poor — Fair — Good — Excellent.
- 5. Outlook for future earnings.**
Poor — Fair — Improved — Good — Excellent.
- 6. Dividend or income prospects.**
None — Lower rate — Indefinite — Steady rate — Increased.
- 7. Opinion of price in relation to other securities.**
High — Reasonable — Attractive — Low.
- 8. Market action.**
Inactive — Moderately active — Volatile.
- 9. Management capacity.**
One-man company — Shifting — Seasoned and integrated.
- 10. Labor relations record.**
Poor — Fair — Good — Excellent.

Any situation that meets the requirements of "better than average" ratings on the above accounts should give a fair basis for an optimistic judgment if market conditions (timing) are favorable. You will, of course, depend upon the exactness of your research in answering the above questions if you wish to arrive at the correct diagnosis when using this "test tube" for determining security values.

In addition to intrinsic merit, every "special situation" must also be selected for purchase at the right time. Proper timing is the other half of the ingredients necessary to achieve success in picking the winning situations. We have always maintained a complete file of the daily over-the-counter quotation sheets. These sheets are kept on file for at least a year. The course of the market in a particular security is investigated by making a "run back" through the quotation sheets along the following lines:

- 1. Price fluctuations.**
- 2. Volume fluctuations as evidenced by the bid and offers which appear from day to day.**
- 3. The continuity with which certain firms appear and reappear in the market for said security.** This can oftentimes be a very important clue as to the reason for a decline in trading interest in a specific security, or a resurgence of that interest. Sponsorship or the lack of sponsorship is one of the most vital factors behind trading activity, especially in the Over-the-Counter Market.

Next week, we will take up in part four of this series, some ideas for selling our customers "special situations" after we have made their discovery.

A Good Fight Won!

(Continued from first page)

Therefore it is not only because we are pleased with the decision of the SEC that we say congratulations to them—it is also because they were big enough to listen, to get the other fellow's point of view—to change their minds—that's why we believe every one in the securities business should feel encouraged over the future of their relations with the Commission.

In the months ahead other decisions must be made by the SEC which will have an important effect upon the future of the investment business. Not the least of the decisions to be made is what is to be done about the proposed "Bid and Asked disclosure ruling." Let us hope that the SEC decision in this NASD minimum capital ruling will mark a milestone in fairness and breadth of judgment, and that from here on, MEN OF GOOD WILL MAY GET TOGETHER FOR THE GENERAL WELFARE OF ALL.

Again we say, well done SEC! Well done, all of you who have aided the SEC in reaching this decision!

Sidney Vigo Dies

Sidney G. Vigo, head of Sidney G. Vigo & Co., investment firm in Chicago, Ill., and investment counselor, died at his home on Oct. 28. In the past he was an officer of the National Bank of the Republic. Interment will be in New Orleans.

Securities & Revenue Act

Ira Haupt & Co., 111 Broadway, New York City, members of the New York Stock Exchange, have prepared a booklet on year-end security transactions in view of the Revenue Act of 1942. Copies may be had from the firm upon request.

Tax Law Change Shown in Booklet

The tax treatment of capital gains and losses is completely changed in the new 1942 Federal Income Tax Law, as compared with last year's law. Buckley Brothers, 1529 Walnut Street, Philadelphia, Pa., members of the Philadelphia Stock Exchange, point out in a brief study just prepared by the firm entitled "The 1942 Tax Law."

"Instead of the old basis which defined long-term gains or losses as those taken on securities held 18 months or more, the bill lowers the time to six months," they state. "Thus gains or losses taken on securities over six months will now be long-term. On long-term gains or losses 50% can be utilized, the same as in the 1941 law for securities held over 24 months."

Other important points of the new law and how they will affect the individual investor are set forth in the study. Shown also are comparisons of the new and old schedules of payments in various income brackets.

Copies of the booklet may be had from Buckley Brothers upon request.

New York Stock Exchange Weekly Firm Changes

The New York Stock Exchange has announced the following weekly firm changes:

Proposed transfer of the Exchange membership of Frank R. Hope to John F. Maynard, Jr., will be considered by the Exchange on Nov. 12.

Perry MacKay Sturges, special partner in Halladay & Co., New York City, retired from the firm on Oct. 31.

Interest of the late Ray W. Stephenson in Merrill Lynch, Pierce, Fenner & Beane, New York City, ceased on Oct. 30.

Travers & Taylor, New York City, was dissolved as of Oct. 31.

The Exchange firm of Spero & Klauber, New York City, was dissolved as of Oct. 26.

Schafer Bros., New York City, became inactive as of Oct. 23, during the period that all active general partners are engaged in war service.

Tomorrow's Markets Walter Whyte Says

(Continued from page 1621)

not be impartial. Today with dull markets and increased expenses such a practise is not feasible. If one expects to make money one must hold stocks for longer than a day. Of course if the position is bad one the the sooner one disposes of it the better but that is something else.

I don't think there is any such thing today as long range. This business of buying stocks and forgetting them went out when the New Deal came in. Every stock in a portfolio must be examined every week or at least every month and its action compared with the market as a whole if one is desirous of just keeping what he has without giving any thought to profits.

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.]

BOND SERIES
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INCOME SERIES

LOW-PRICED
BOND SERIES

SECURITIES SERIES

PREFERRED
STOCK SERIES

LOW-PRICED COMMON
STOCK SERIES

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Investment Trusts

REACTIONS TO THE NEW TAX LAW

Investment company sponsors generally were quick to recognize and acclaim the new Federal tax law for what it is—a surprisingly constructive measure, considering the difficult circumstances under which it was prepared.

The 25% maximum tax on capital gains on assets held six months or more appears to be a particularly welcome feature. For example, it is the subject of the current issue of "Keynotes", which makes the following point: "Since normal income taxes in the new bill start at 19%, many investors will find themselves in the position of paying taxes at more than the 25% rate. For many investors, long term capital gains thus assume a new importance under this bill."

On this feature, "Brevits", while emphasizing that important changes have been made in the provisions allowing capital losses as a deduction against ordinary income, points out that: "It is still possible for investors to effect substantial tax savings as a result of realizing both long-term and short-term losses."

"Under the new law such losses up to \$1,000 may be applied toward the reduction of taxable income. Any balance may be carried forward for five years to offset capital gains, and a maximum of \$1,000 of such balance may be deducted from ordinary income in each of these years. In spite of these limitations, a net loss of \$1,000 can effect a tax saving of over \$180 in even the lowest tax bracket because of the sharply increased individual tax rates. And of course the possible savings increase rapidly in the higher tax brackets."

Another notable improvement in the new law as it applies to investment companies is the provision allowing their shareholders to treat dividends paid out of capital gains as long-term capital gains rather than ordinary income. Thus, the maximum tax which investment company shareholders will be obliged to pay on "Capital Gains Dividend" will be 25%.

Investment Company Briefs

An interesting market "probability" is called attention to in the Oct. 29 issue of "Investment Timing." We quote from the service: "This column is concerned with the Intermediate Trend of Industrial Stock prices. But this Thursday we feel that the reader's attention should be drawn to a minor movement of considerable probability. As far back as daily

National Securities & Research Corp. in a recent memorandum suggests that a new trend is indicated—from defaulted rail bonds to junior issues of solvent roads. The memorandum states: "The Dow-Jones Index of 10 defaulted rail bonds rose from 15.73 on June 22 this year to 22.42 on Monday, Oct. 19, a rise of 43%; while the Dow-Jones Index of 10 second-grade rail bonds had a rise of only 12% in the same period. "The sharp rise of the defaulted issues during this period left them in a vulnerable position market-wise. The weak technical position of the reorganization rails was clearly disclosed by the sharp reaction when a suggestion was made in Congress on Tuesday by U. S. Senator Wheeler that a tax of 90% be levied on capital gains realized on reorganization rail securities. . . . "Recent market action of the defaulted bonds as compared with that of junior railroad bonds of (Continued on page 1625)

Recent market action of the defaulted bonds as compared with that of junior railroad bonds of (Continued on page 1625)



Keystone Custodian Funds

BONDS	
Business Men's Investment Bond Fund	B1
Medium Priced Bond Fund	B2
Low Priced Bond Fund	B3
Speculative Bond Fund	B4
PREFERRED STOCKS	
Income Preferred Stock Fund	K1
Appreciation Preferred Stock Fund	K2
COMMON STOCKS	
Quality Common Stock Fund	S1
Income Common Stock Fund	S2
Appreciation Common Stock Fund	S3
Low Priced Common Stock Fund	S4

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Municipal News & Notes

New rent schedules based on increased ability to pay are in force or in prospect for tenants of public housing projects in many municipalities, according to reports to the National Association of Housing Officials.

The higher rents, commensurate with increased tenant incomes resulting from wartime job opportunities, will enable the housing developments to go on a more nearly self supporting instead of the subsidy basis common to most of them since they were built. The rent rises make it unnecessary to evict tenants whose incomes have exceeded the limits set for continued occupancy under former rent policies.

Office of Price Administration rent regulations, freezing rents in privately owned dwellings, do not apply to the government-owned projects so long as their rents do not exceed those for comparable accommodations in the private market. Increased income and savings due to economies in operation are being used to reduce federal and local subsidies, and to establish reserves against possible post-war slumps.

More than 75% of the non-war public housing developed with federal aid has some system of graded rents by which charges are related to tenants' income rather than solely to the size or desirability of the accommodation, the Association said. Many of the recent changes in rent schedules consist of adding higher grades to graded systems already in existence.

In Louisville, for example, tenants whose incomes increased materially after they had been admitted to a public housing development have had \$1.00 a month added to their rent for each \$50 annual increase in their earnings, up to the highest grade which has been labeled "X". A tenant with \$1,293 annual income, paying \$20 a month for a three-room unit, for example, would pay up to \$32 a month if his income rose to \$2,150.

In Chicago housing projects, where rent has been based on the size of the dwelling, rents now will be scaled so that families with increased incomes will pay proportionately more, and those with less income, less—approximately one-fifth their total earnings in any case.

Tenants whose income has climbed to \$2,500 will be permitted to remain in the Chicago housing developments under present conditions of acute housing shortage. According to the new rent schedule a family whose income had been \$800, with a \$22.25 a month rent, now would pay \$30 rent if its income rose to \$1,600. On the other hand, if income of \$1,600 has dropped to \$800, the \$22.25 rent would be reduced to \$16 a month.

The Detroit Housing Commission is considering a sliding-scale rent schedule raising the limits of annual income for continued occupancy to \$2,160 for tenants not classed as war workers, and to \$3,140 for war workers. Nine grades of rent are contemplated, with units assigned to families on the basis of family size. Approximately 75% of the tenants in Detroit's four occupied housing developments now earn more than the permitted maximum incomes under the present rent scale, recent survey showed.

Bond Amortization Under The New Revenue Act

In discussing the above-mentioned topic in their circular letter dated Oct. 30, Kaiser & Co., San Francisco and New York, state as follows:

The Revenue Bill of 1942, just

passed by Congress, contains a provision permitting income taxpayers to deduct from their gross income an amount representing the annual amortization of the premiums on their bondholdings, the interest from which is wholly or partially taxable. This changes the basis of the tax on such interest from the coupon rate to the actual yield to maturity, which, of course, is the logical determinant. With respect to completely tax-exempt securities, the amortization of premiums is made mandatory, but no deduction, however, is permitted from gross income. This eliminates an inequitable advantage enjoyed in the past by holders of municipal obligations, whereby capital losses due to ordinary premium amortization could be taken for tax purposes, even though these losses had been offset by a portion of the tax-exempt coupons.

The most serious objection to the purchase of high premium municipal bonds in comparison with those bearing low coupons, has been that if municipal bonds became subject to the Federal Income Tax, the tax would be greater on the higher coupon bonds than on the lower, even if the actual yield bases before taxes were identical. Recognition by the Revenue Act of 1942 of this previously existing inequity removes a major hazard in the purchase of high coupon municipals, as well as proving of immediate benefit to the holders of those few outstanding high premium corporation bonds.

"A Timely Investment" Florida Municipals Discussed

Current conditions in Florida and their effect upon the security underlying Florida's municipal bonds are described in a leaflet prepared by B. J. Van Ingen & Co., Inc., New York City, entitled "A Timely Investment." Quotations from the report follow:

"The callable refunding bonds of many Florida cities (sometimes called 'Dollar Bonds') possess two characteristics which make them particularly attractive" at this time: (1) there is a periodic increase in the coupon rate at from two to ten year intervals over the life of the bonds, and (2) they are now selling at a substantial discount.

"This means that at present prices these bonds offer a comparatively high current yield which becomes even more attractive as the coupon rate increases. Each such increase in interest rate should be normally followed by a corresponding increase in the market value of the bonds."

Florida's thirty training camps and the threatened fuel shortage in the north are already drawing thousands of visitors to the State, thus offsetting the shrinkage in tourist automobile traffic, according to the leaflet. The unusual demand for Florida's fruits, vegetables, meats, and dairy products "is revealing more clearly than ever before the enormous and diversified natural resources of this richly endowed state. A significant result of the war economy is that Florida's activities and revenues are becoming year-round instead of being confined largely to four or five months of the winter season."

Oxnard Harbor District Facilities Purchased By U. S. Government

Kaiser & Co., San Francisco, are authority for the information that the United States Navy has purchased all of the facilities formerly owned by the above district,

FLORIDA

FLORIDA MUNICIPAL BONDS

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R. E. CRUMMER & COMPANY
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subject to the bonded debt of the unit. "It is not known," the bond house says, "whether the Federal government will make any offer for repurchase of the bonds, or will just pay interest and principal as it comes due."

Additional Topics

The bond house also notes that the Metropolitan Water District of Southern California was formally placed upon an operating basis on Aug. 1, 1941, and in this connection there appears an informative analysis of operating results for the first 12 months' period. In addition, the firm discusses the effect of gasoline rationing on revenues of the Pennsylvania Turnpike and state that the deficiency in income "does not appear serious in view of the Turnpike's cash reserves of about \$1,500,000 and demonstrated earning power of \$3,152,000 in the 12 months to March 31 1942."

Bill Would Permit Taxing Of Property In War Use

The Senate Committee on finance has before it a new bill offered by Senator Claude Pepper, of Florida, providing for the taxation of bonded indebtedness by States and their political subdivisions of real property acquired by or on behalf of the United States.

The gist of the proposal is that all real property, acquired by the Federal Government and its various agencies, such as the War and Navy Departments, shall remain subject to state and political subdivision taxation, for the purpose of "liquidation of any bonded indebtedness of such state or political subdivision in any case where such real property was privately owned at the time of the issuance of the bonds representing such bonded indebtedness, whether original or refunding bonds, to the same extent, according to its value to be ascertained under the laws of the state in which such property is located and in the same manner as other real property is taxed."

Another section provides that the Act "may be applied by the state or political subdivision in which such property is located, notwithstanding any exemption allowed by state law." Necessary funds would be appropriated to "pay the assessment of taxes permitted to be made against such real property."

Local Transit Systems Seen Aided By Gas Rationing

Nationwide gasoline rationing, coupled with rubber rationing which already has brought a 50% increase in bus and street car traffic during the last year, brings to cities today their greatest transportation problems. Most important of these involve providing additional facilities for riders and speeding up of traffic movement, according to a survey of 22 representative cities by the International City Managers' Association.

Passenger traffic in the cities increased from 15% in Cleveland to 275% in Amarillo, with greatest increases occurring in smaller "boom towns." The conductor's "step to the rear,"

please" fails to help in many cities, and new buses and streetcars, and even new lines, have been added. Detroit, which owns its own street railway system, put on 230 new vehicles and San Diego added 161. Old equipment—both buses and streetcars—was brought back into use in several cities; Detroit, for example, renovated 150 streetcars.

Despite rising costs of operating public transit systems, caused by increased wages and additional equipment, these utilities have entered a period of prosperity through greater paying loads, reduction in stops and faster operation. Wage increases of from three to 30 cents an hour were reported by some of the 22 cities, but no fare increases were reported as effected or in prospect.

Cities Set Up Cash Reserves For Post War Use

By gaining the right from the 1942 Legislature to set up cash reserve funds, Massachusetts cities, like local governments of eight other states, are permitted to lay aside current cash now for public improvements in the future. Municipalities in most of these states are taking advantage of such laws at this time to provide financing of public works projects for employing manpower released after the war, according to the American Municipal Association.

The Massachusetts law is an emergency measure allowing municipalities to invest up to one-tenth of one per cent of their total valuation each year in defense bonds for expenditure on capital outlays after the war. No bonds held under the act may be sold prior to the end of the war.

The other states with reserve fund laws on their statute books are New York, Michigan, Washington, Kentucky, New Jersey, California, Nebraska and Oregon.

N. Y. State Finances Assembled For Quick Reference

Data on New York State finances which previously could be obtained only by references to more than a score of official publications has been assembled on one summary sheet together with explanation of various steps in fiscal procedure. The figures on budgets in their various stages, expenditures, revenue and surplus are so arranged that they may be traced through any one year or compared from year to year. The summary reference sheet, entitled Trends in New York State Finance 1938-1943 was prepared and published by the Citizens Public Expenditure Survey.

"It is essential that citizens of a democracy understand governmental operations," said L. Richard Guylay, Executive Vice-President of the Survey. "As part of its public education program the Citizens Public Expenditure Survey has endeavored to prepare an outline of State financial operations so that a layman, unfamiliar with procedure, may trace these operations. From it he may also note the changes in budget totals, total appropriations, total expenditures, revenue receipts and major tax changes. For those who wish to pursue the study of State finances farther, official publications are cited as references."

Examination of the summary sheet shows that the total of budget bills as adopted and approved has dropped from \$386,460,903.55 for 1938-39 to \$375,992,201.11 for 1942-43. For the same years total appropriations (which include the budget bills, legislative supplemental budget and special appropriations) have dropped from \$393,462,381.84 to \$380,942,572.94. Total expenditures from the general fund have declined from \$396,096,832.57 for the year ending June 30, 1939, to

\$374,167,776.93 for the year ending June 30, 1942.

Revenue receipts, including transfers from trust funds, rose during the four completed fiscal years from \$360,765,106.94 to \$421,265,940.07 for the year ending June 30, 1942, but are estimated to drop to \$367,519,000 during the current fiscal year because of tax reduction measures put into effect this year and last and because of the falling off in revenue from motor fuel and motor vehicle taxes.

The summary also contains brief explanation of "other funds" and of "funded debt." The latter has declined from \$525,783,569.39 on June 30, 1939, to \$508,311,995.90 last June 30.

References cited include the Executive Budgets, Classification of Appropriations, known as the Black Book, published by the fiscal committees of the Legislature; Appropriations and Reappropriations, the Green Book, also published by the Senate Finance and Assembly Ways and Means Committee; the annual reports of the Comptroller and the Session Laws for the respective years.

North Carolina Reports New Industry

Establishment of a concentration plant to utilize North Carolina's lithium-bearing spodumene at King's Mountain was recently announced by Gov. J. M. Broughton, according to a report from Bill Sharpe of the State News Bureau, Raleigh. The flotation concentration plant will be built by the Solvay Process Co. of Syracuse, N. Y., largest producers of alkalis in the United States, and initially will cost several hundred thousand dollars, the Governor said. Production is expected to start in the early spring of 1943.

"We are very gratified to be able to announce this new industry for North Carolina," commented the Governor. "For years, the Department of Conservation and Development has been attempting to interest industry in spodumene as well as other North Carolina minerals. This is the first commercial exploitation of spodumene in North Carolina."

42 State Legislatures To Convene In January

Foresight by State Legislatures in setting up "between sessions" commissions to investigate current problems, especially those brought on by the war, will make the task easier in planning for solution when the lawmakers meet in 1943, the Council of State Governments announced after a survey of committee assignments made in a score of States. Most of the committees and commissions will report to their Legislatures in January, when 42 State lawmaking bodies go into session. The number of committees assigned to study and report on planning and use of industrial and other resources, interstate cooperation, juvenile delinquency and un-American activities indicates the extent to which the war has emphasized these problems, the Council said.

State And Local Fiscal Problems To Be Studied

The tax institute of the University of Pennsylvania is sponsoring eight regional round tables designed to gain information on the nature and extent of State and local fiscal problems created by the war.

The regional centers selected for the holding of the round tables are Seattle, Denver, Detroit, Dallas, Jacksonville, Knoxville, Philadelphia and Boston.

Administration of the round tables is being carried out entirely by local leadership appointed by the tax institute. Outstanding civic leaders have been secured as chairmen, reporters, and steering committees in each region.

The series of round tables will

serve as a forerunner to the national symposium on "Wartime Problems of State and Local Finance," to be conducted by the tax institute at the Hotel Pennsylvania, New York City, November 27-28.

Frank C. Moore Elected N. Y. State Comptroller

Among the more fortunate results of Tuesday's general elections must be included the election of Frank C. Moore, to the office of Comptroller of the State of New York. Mr. Moore, of course, is no stranger to the municipal bond fraternity in this State, being a member of the municipal law firm of Dillon, Vandewater & Moore, New York City. In view of his long experience in matters pertaining to public finance, Mr. Moore's elevation to the extremely important post of chief fiscal officer of the State is decidedly in the best interests of both taxpayers and holders of the State's bonds. In addition, the creditors of the State's local taxing units are equally fortunate in view of the new Comptroller's intimate knowledge of local fiscal affairs. As the New York "Herald Tribune" said editorially in speaking of Mr. Moore's candidacy, "few men are better fitted by training and character for the important post of State Comptroller."

Major Sales Scheduled

We list herewith the more important municipal offerings (\$500,000 or over—short term issues excluded), which are to come up in the near future. The names of the successful bidder and the runner-up for the last previous issue sold are also appended.

(Ed. Note—Very few municipal bond issues of major size are scheduled for award in the near future. With expenditures for local improvements held to bare necessities by the demands of war-time policies, the prospect naturally is that for some time to come the amount of new issues coming to market will be small.)

November 10

\$1,000,000 State of West Virginia.
Last sale occurred on Aug. 11, the successful bidder being a syndicate headed by Halsey, Stuart & Co., Inc., New York. A group headed by Lazard Freres & Co. submitted the second best bid.

November 17

\$4,258,000 Detroit, Mich.
Previous bond offering on July 14, issue sold to syndicate managed by First National Bank of New York, Halsey, Stuart & Co., Inc., and Lazard Freres & Co. Runner up in the bidding was the Bankers Trust Co. of New York group.

November 23

\$2,500,000 Chicago Sanitary District, Ill.
In November, 1941, award was made to Northern Trust Co. of Chicago, and associates. A group formed by John Nuveen & Co., Chicago, was second high bidder.

Investment Trusts

(Continued from page 1623)

solvent companies suggests that there is some fear that a levy of some sort on reorganization rail bonds may be devised by Congress in its search for increase sources of revenue, and also indicates that there is some transfer of funds from reorganization securities to junior issues of solvent roads.

"Another factor in favor of this move is the new Tax Law permitting solvent railroads to repurchase their bonds at a discount without being subject to taxes on the differences between face value and the lower repurchase price."

The Automotive Industry is the subject of a new folder by Distributors Group, Inc. It has the dual virtue of being both attractive and full of "meat."

"Symbol of America's productive capacity, and symbol of America's peace-time greatness, the automotive industry has been conscripted into the military service of the nation." With this in-

roduction, the folder discusses the position and prospects of the industry. Here are some excerpts from the text:

"In December, 1941, deliveries totaled \$120 million plus, equivalent to a yearly output of almost \$2 billion. By the end of May, 1942, production had jumped to an annual rate of \$3.7 billion and in September, 1942 was at the annual rate of over \$6 billion, far above the previous high ever reached by the industry.

"As fast as the industry's 986 plants have stepped up production, however, output could not keep pace with orders assigned. Steadily the total accumulated until it reached about \$14 billion, according to latest figures. In all probability, the industry will, in 1943, be shipping at double its mid-1942 rate. Volume of orders, however, assures producers of capacity operations for a long time to come. Thus, as far as can be reasonably seen into the future, the industry will be running on a high plateau of work, probably around a \$12 billion annual basis. This is comparable to producing 15 million passenger cars and commercial vehicles, or nearly three times the industry's previous and peace-time peak output."

The current portfolio of the Automobile Shares of Group Securities is listed and the following conclusion drawn: "At these levels selected automotive stocks appear to offer attractive opportunities for profit in view of the strong position of the industry in war and peace."

In a folder titled "Today's Tests for Investment Selection" Calvin Bullock establishes eight tests which that sponsor believes should be applied to securities selected for a diversified portfolio under current conditions. The tests—in terms of a common stock—are summarized as follows:

1. Does it provide a reasonable probability of protection against longer term inflationary manifestations?
2. Has the company relatively favorable prospects for well sustained net income during the war period?
3. Has the company relatively favorable post-war prospects?
4. Has the industry or company a well defined growth trend?
5. Has the stock established investment characteristics?
6. Is the stock selling at a low price in relation to current earnings?
7. Is the stock selling at a low price in relation to "normal" or average earnings?
8. Does the stock provide a generous yield?

The folder contains a table listing the 100 stocks currently held in the portfolio of Dividend Shares and grades them according to the tests set up. The largest number, 71 stocks representing 79.7% of the market value of the portfolio, pass test No. 1—that of being a reasonable inflation hedge. The smallest number, 48 stocks representing 54.3% of the market value of the portfolio, pass test No. 5—that of having established investment characteristics. On the whole, the 100 stocks pass the eight tests with a high average.

"New York City Banks: They Helped to Build and to Defend America" is the title of a well prepared folder by Hare's, Ltd. "American Veterans" these 15 banks are called with their average age of 95 years. Dividends have been paid without interruption over an average period of 73 years.

Dividends

New York Stocks, Inc., Board of Directors has declared the following dividends on the Special Stock of the Company, payable Nov. 25, 1942, to stockholders of

record as of the close of business

Nov. 5.	New York Stocks, Inc.—Special Stock	Amt. of Dividend Per Share
	Agricultural Industry Series.....	\$1.19
	Alcohol & Dist. Industry Series.....	.17
	Automobile Industry Series.....	.11
	Aviation Industry Series.....	.30
	Bank Stock Series.....	.14
	Building Supply Industry Series.....	.10
	Business Equip. Industry Series.....	.21
	Chemical Industry Series.....	.11
	Electrical Equip. Industry Series.....	.15
	Food Industry Series.....	.13
	Government Bonds Series.....	.00
	Insurance Stock Series.....	.14
	Machinery Industry Series.....	.22
	Merchandising Series.....	.15
	Metals Series.....	.21
	Oil Industry Series.....	.13
	Public Utility Industry Series.....	.10
	Railroad Series.....	.15
	Railroad Equip. Industry Series.....	.12
	Steel Industry Series.....	.15
	Tobacco Industry Series.....	.14

Our Reporter's Report

(Continued from first page) market expected and considered relatively fair.

Renewal of "Taps" Next

It may be that the answer to the question will go over for a spell, since opinion leans to the view that the next Treasury financing will involve a reopening of subscription books for its "tap" bonds.

This particular type of war financing does not involve the commercial banks since they are barred from subscribing to such offerings. Secretary Morgenthau is expected to announce such an offering within the next week or ten days.

The Victory committees which had little opportunity to work on the October bonds and notes are standing by for the call in connection with the next anticipated operation.

Reorganization Rails Hold

Notwithstanding the expectation that Senator Wheeler may be expected to go through with his projected plan to legislate the speculative profits out of reorganization securities, railroad bonds in that category have been holding firm.

They suffered a temporary setback coincident with the news that an amendment to the new tax bill, sponsored by the Senator, had that aim in mind,

but failed of consideration because of the time element.

While activity has tapered off somewhat in the interval the bonds, nevertheless, have gradually worked back to within striking distance of the high levels prevailing before that disclosure, as measured by the averages.

Philadelphia Refinancing

Decision of the Philadelphia City Council on the plan put forward by bankers for refinancing the municipality's debt structure, should be along any day now.

As a matter of fact it would not be surprising to some of those who have been following the situation here since the plan was presented a fortnight ago, if the Council's decision were made known before the end of the week.

The plan as put forward by Drexel & Co., of Philadelphia, and Lehman Bros., of New York, provides for refunding a maximum of \$162,296,000 of outstanding obligations.

Bankers propose to offer holders an exchange which would involve new securities with extended call dates. The same bankers managed a previous exchange offering in June, 1941, under which some \$83,000,000 bonds were exchanged.

Real Estate Bond Price Average Continues Up

The Amott-Baker Real Estate Bond Price Average, covering 200 real estate issues, continued its upward trend in October for the fourth consecutive month. The increase for October was 1.5% compared with gains of 0.9% during September, 1.6% during August and 0.7% during July. The average price per \$1,000 bond increased to \$322 on Oct. 31, compared to \$317 on Sept. 30, \$314 on Aug. 31 and \$302 at the close of 1941. The year to date gain for the averages was 6.6%.

Of the 200 issues used in the survey a total of 93 increased in price, 35 declined and 72 remained unchanged, during October.

Results by cities for the month showed that the New York issues (this group comprises the largest subdivision) had the sharpest

gain with a rise of 2.1%. Boston and Philadelphia issues each gained 0.6%, Pittsburgh issues increased 0.4% and a group of miscellaneous issues showed no change.

Year to date results by cities showed the following gains: Boston issues 4.9%, New York issues, 5.8%, Philadelphia issues 12.9%, Pittsburgh issues 12.2% and a group of miscellaneous issues 3.4%. In the classification by type of building, hotel issues continue to show the largest year to date gain with an increase of 10.2%. The October gain for this group was 0.8%. Apartment hotel issues which were weak during the early part of 1942, have done well in recent months. This group gained 2% during October and has now cut its year to date decline from a high of 8.4% in June to 4.1%. Apartment issues enjoyed a substantial spurt in October, gaining 2.1% which increased their gain for the year to 5.9%. Office building issues were also in good favor, gaining 1.6% in October and improving their year to date gain to 8.9%. Theatre issues declined 1.1% (the only group to show a decline during the month) and reduced their year to date gain to 5.5%. A group of miscellaneous issues registered a sharp increase of 2.9% during October and improved their year to date gain to 7.4%.

The bond average is prepared by Amott, Baker & Co., Inc., 150 Broadway, New York City.

Lt. Kenneth Beall Killed

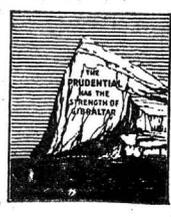
Lieut. Kenneth S. Beall, Chicago Naval Officer, who was killed in a plane crash near Norfolk, Va., Oct. 30, is to be buried in Arlington National Cemetery, in Washington, D. C. He was a partner in the firm of Cruttenden & Co., Chicago, and was on a leave of absence. He had graduated from A. V. S. at Quonset, R. I., on Oct. 15, and had reported at Norfolk on Oct. 26.

Lieut. Beall was born in Lovington, Ill., and was educated at Kentucky Military Institute and the University of Illinois. He was 39 years old. Surviving are his widow and a son, Kenneth, Jr., age 4.

Memorial services will be held in Chicago.

KEEP THEM SAFE

All too often, when a man dies, his loved ones face a threat to their financial welfare. When you are well insured your family will never know that fear.



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UP-TOWN AFTER 3

MOVIES

If you want escape-ism with a capital "E" then don't overlook "The Black Swan" (20th-Fox). Based on Sabatini's novel, it's a swashbuckling yarn of pirates with patches over their eyes and cutlasses between their teeth roaming the Spanish Main, looting, burning, not to mention grabbing themselves off armfuls of pretty girls with whom to celebrate their victories over the effete Spanish and the decadent English. As an exciting movie it has enough action to fill a dozen pictures. As a romantic story it will bring sighs to the lips of modern ladies who secretly long (I'm told on excellent authority—the switchboard operator) for days when Derringo in sword and satins prevailed. Tyrone Power, a pirate chief, goes gaga over the British Governor's daughter, Maureen O'Hara. And when Laird Cregar, as the redoubtable Captain Henry Morgan, gets a King's pardon and becomes the Governor of Jamaica, deposing Maureen's father, he makes Power his Lieutenant. Power, now a gentleman, sets off to woo her hand but she will have none of him or his riff-raff friends. She prefers a wishy-washy member of the nobility, who is secretly a spy for the pirates who still sail the Spanish Main, refusing to follow Morgan's lead into respectability. The new Governor, in danger of impeachment unless he clears the seas of pirates, sends Power off to do the job. Power sets off, kidnapping Maureen for company. But pirates, led by George Saunders, outsmart and capture him. At this point, the Hays office looks the other way. For Power, trying to get out of the mess, pretends he's married to Maureen and overlooks the Hays office dictum of the twin-bed-must. The technicolor scenes are vivid. The fight scenes, and there are plenty, will keep you on the edge of your seat. In its way, "The Black Swan" is every bit as heroic as was "Mutiny on the Bounty." . . . All Nazi spies are low-grade morons, particularly when they run up against that sterling American newspaperman and foreign correspondent for the Cavity Rock "Times-Ledger," Robert Young. If you don't believe it, see "Cairo," MGM's latest epic which shows how our hero breaks up the Secret Six, saves an American troopship and, last but not least, wins Jeanette MacDonald. It all comes about when Young, an ardent Jeanette MacDonald movie fan, is appointed his paper's overseas correspondent. Torpedoed on his trip over, he floats on a raft, running into Reginald Owen, holding on to a log. Owen, posing as British Intelligence, is actually a Nazi spy, but Young doesn't know this. Floating to the Liberian Coast, Young agrees to look up and deliver a message to a mysterious lady in Cairo if he gets there first. The next thing we know we find him at the Viceroy Hotel in Cairo looking for a Mrs. Morrison, who favors cocktails with two cherries. And guess who is also there? That's right, his movie idol, Jeanette MacDonald, singing in the hotel. Well, sir, he thinks she is the head of the spy ring and hires himself out to her as a butler to better to spy on her. She thinks he is a poverty-stricken American and later is equally sure he is a Nazi. Their Great Awakening comes under the piano. (Never mind how they got there. It's too involved). He confesses he is an American newspaperman. She assures him she couldn't be a spy if, for no other reason than the Screen Actor's Guild wouldn't like it. In the end everything works out beautifully. They catch the real spies. They get each other. Even Ethel Waters, cast as a lady's maid of all things, gets herself an Ay-rab who isn't an Arab at all. He's just a homesick cullud boy who's yearning for Ha-a-h-lem. Oh, yes, there is some singing. Miss MacDonald does a few numbers and Ethel Waters, who deserves better, sings something about Buds De-Bud and Dew Does Dew.

AROUND THE TOWN

If you've heard "Duffy's Tavern" on the radio, don't confuse it with the actual restaurant of the same name at 153 W. 48th. The only thing they have in common is the name. As the site of Billy La Hiff's Tavern, it is still one of Broadway's nicest eating places. It has the same smoky-bricked interior and the ancient rafters plus the fine food. Service, however, is not the best. But if you can spend an hour or so and like charcoaled steaks, then Duffy's is worth a try. . . . Benito Collada's El Chico, down in the Village, opened its new show last night headed by Belen Ortega, the Mexican soprano who parlayed a stenographer's beauty contest into an El Chico engagement, followed by a Rainbow Room success, a concert tour, and now back to El Chico. Miss Ortega sings simple Mexican folk songs beautifully. A small, dark-haired, black-eyed girl, she makes no attempt to theatricalize her efforts. She doesn't need too. Her voice is too good. Others on the program are Tercita Osta, a classical Spanish dancer; Juan Jose Saro, Mexican singer; Dorita and Valero, flamenco dancers, and the Inca Indian Trio. Juanito Sanabria and his orchestra, who do impossible things with rumba rhythms, provide the music. Incidentally, there is hardly a Spanish or Latin American entertainer who didn't start at El Chico before going on to broader fields.

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A most unique restaurant in a beautiful location, overlooking Central Park to the north.

Serving best food, skillfully prepared.

Entertainment after 11 P. M.

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Situation Attractive

The common stock of Long-Bell Lumber Co. offers attractive possibilities, in view of the company's improvement during the past few years, with the outlook for earnings for 1942 on the common stock definitely optimistic, according to Ward & Co., 120 Broadway, New York City. Copies of memorandum No. 260, descriptive of Long-Bell Lumber Co., will be mailed by Ward & Co. upon request (ask for it by number).

Mayer In New Location

Robert C. Mayer & Co., Inc., announce the removal of their offices to new quarters at 30 Pine Street, New York City.

Fleek Named Head Of Cleve. Victory Fund

John S. Fleek, who closed his term as President of the Investment Bankers Association of America with a national conference of the Association on war finance in New York on Oct. 20, has become executive manager of the United States Treasury's Victory Fund Committee of the Fourth, or Cleveland District of the Federal Reserve System. Approval of his appointment by Secretary Morgenthau was made known in an announcement released for publication Nov. 5 by M. J. Fleming, President of the Federal Reserve Bank of Cleveland, who is Chairman of the Fourth District Committee and who pointed out that Mr. Fleek was carrying out the policy of the whole securities industry of full cooperation with the Treasury on the nation's war financing in assuming this position to direct the sales effort of investment and commercial bankers of his own community on Government securities.



John S. Fleek

At the same time it was announced that Hugh D. MacBain, who has been serving as executive manager of the committee on leave of absence from his firm, the Mellon Securities Corp. of Pittsburgh, has been required for business reasons to relinquish the position and return to the firm. Mr. Fleek has been in the securities business in Cleveland with the firm of Hayden, Miller & Co. since 1921 and a partner of the firm since 1927. During the last war he attended the first officers training camp at Fort Benjamin Harrison, Indiana, served as munitions officer of the 158th Field Artillery Brigade, AEF, in the Meuse-Argonne offensive and the Army of Occupation, attaining the rank of Captain. He was awarded the Croix de Guerre by the 17th French Army Corps.

As President of the IBA during the first year of this war, Mr. Fleek has taken a leading part in setting up the machinery for the banking interests of the country to cooperate with the Treasury. He was a member of the National Committee of the Securities Industry for War Financing. He was also a member of the group that worked with the Presidents of the Federal Reserve Banks and Treasury officials in drawing up plans for the organization of the Victory Fund Committees. It was explained in connection with the announcement that the Victory Fund Committees are the organization created by the Treasury in each of the 12 Federal Reserve Districts to coordinate the work of the financial men in both the commercial and investment banking fields on the Government's new securities offerings. The magnitude of their job has been made clear by official figures just issued indicating that the Treasury would have to raise money at the rate of one and a half billion dollars a week to finance the war. It is also pointed out:

"Out of a total of \$85,000,000,000 expenditures budgeted by the Government for the fiscal year ending Next June 30, \$78,000,000,000, or exactly \$1,500,000,000 a week, is the estimated cost of the war. The excess of expenditures over receipts is estimated at \$63,000,000,000, of which \$3,000,000,000 will be raised through special issues to Government funds, leaving \$60,000,000,000 that must

be raised through borrowing from the public during the present fiscal year. Sales of War Savings Bonds are expected to provide approximately \$12,000,000,000, but it will be the job of the Victory Fund Committees to help raise

the remaining \$48,000,000,000 through the sale of all types of Government bonds to individual and institutional investors, particularly to non-banking bond buyers."

Sees Greater Interest In Securities

Return Of The Native

As old and as real as its spirit of '76 is America's Spirit of Speculation. It was in the veins of the Colonists and the veins of the westbound Emigrants and they were unashamed of it. "I took a chance" is an American phrase that has never needed an apology. "I had a good run for my money" is an explanation that needs no explaining. Counting on this inherent spirit there is a growing expectation that some of the huge purchasing power now building will flow into stocks.* And last week there was another indication that the Spirit of Speculation, drummed temporarily out of existence by apathy on the part of the public and the tax strangulation of the rich, may soon return to its native habitat.

"New Deal Sponsors Stock Speculation" would make a startling newspaper headline. But the headline that proclaimed the \$25,000 ceiling on salaries might well have contained that statement. For, coupled with the change in the capital gains provisions of the Revenue Act, the salary restriction may literally force many substantial men into speculation.

The chief deterrent to speculation on the part of the rich has, of course, been the peculiar provisions of the old law which penalized short-term speculation. Few persons would essay a speculation that had to last a year and a half to permit a decent retainable profit. Now that the period is shortened to six months, speculation is more inviting despite the 25% tax on capital gains. To Stock Exchange President Emil Schram and public-spirited Elisha M. Friedman for their efforts towards effecting this remedial change in the tax law, all investors owe thanks (together with a hope that it may be the first crumbling of the entire capital gains concept).

To many corporation executives and film stars who have been living well on their earned incomes and have been content to let their capital rest, the above and other changes in the tax law will increase the temptation to let speculative profits provide the income that the \$25,000 ceiling will take away—income that personal standards of living make appear very vital to those involved.

No bull market will be created by these factors of themselves. But the general market may well broaden, and near-term "special situations" will find ready takers. And if we are right in our assumption that the Spirit of Speculation is not dead but merely languors in an economic concentration camp, even so slight a change in the securities markets may start the wheels rolling once again.

Global Earnings

Feeling a little like a man coughing during a violin recital, we venture to say that the broad, basic concept set forth by Wendell Willkie have certain commercial implications. "There are no distant places in the world anymore . . . our thinking and planning in the future must be global." If this comes to pass, a few industrial nations cannot maintain their standards of living at the expense of the rest of the world. We must be buyers as well as sellers. Our capital must be used as a weapon of peace as well as of war. And the sales managers of the mass-consumed, trademarked, low-priced goods in the manufacture of which this country has specialized will have world markets that mean more than a case or two to Bombay or Shanghai. For example, Pepsi-Cola . . . but perhaps our coughing can be con-

NSTA Service Flag

The following are members of the Security Traders Association of New York who are now serving in the armed forces. STANY is an affiliate of the National Security Traders Association.

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William A. Titus, Jr., F. J. Young & Co., Inc.
Belmont Towbin, C. E. Unterberg & Co.

Horn Elected Officer Of Customers Brokers

Richard G. Horn, Peter P. McDermott & Co., New York City, has been elected a Vice-President of the Association of Customers Brokers.

trolled.—Washington Dodge, Arthur Wiesenberger & Co.

*Some persons will feel this thought unfortunate since it suggests that the public will come into the market only to speculate and not to "buy sound blue chips as part of an organized savings program," etc. Our defense is that we are economic purists and believing that purchase for appreciation is not true investment and that the public buys primarily for appreciation and not income, we see nothing wrong in this when markets are regulated to prevent "inside profits" at the expense of the uninformed and unwary.

Text Of SEC's Opinion Disapproving Proposed Minimum Capital By-Law Of NASD

Continued from page 1618)

A total of 1,933 votes was cast with respect to the proposal. Approximately 700 members did not vote. Of the 1,933 votes cast, 1,197, a clear majority of those voting, and approximately 45% of the total membership, voted in favor of the rule and 738 voted against it.²

2. Of the 738 who voted against the rule, 691 represented firms whose personnel consisted of from 1 to 15 persons. Of the 700 who did not vote, approximately 530 represented firms whose membership consisted of between 1 and 6 persons. Thus it appears that a large number of those not voting represented small firms.

In submitting the proposal to its membership, NASD distributed an open ballot which required a statement of the voter's firm name and the signature of its executive representative. This type of ballot was criticized by some of those who appeared before us in opposition to the rule. It has been charged that but for the open ballot the proposal would not have been approved by a majority, and it is suggested that the necessity of signing the ballot may have influenced some of the small dealers to vote in favor of the proposal or to refrain from voting at all, in order to avoid possible discrimination.

The by-laws of NASD do not expressly require a secret ballot for this type of proposal, and the Association has in the past, in submitting amendments to its membership, used the signed, open type of ballot.

Upon consideration of all the circumstances, it is our view that charges of unworthy motives in the selection of the type of ballot are unwarranted. However, we are constrained to add that it now seems, largely as a matter of hindsight, that the use of a secret ballot would have been preferable.

There has been some discussion as to what section of the Act is applicable to this case. It has been suggested that Section 15A (b) is exclusively applicable. That section permits rules which restrict membership on certain specified basis not here relevant, and on such other specified and appropriate basis as appear to the Commission "to be necessary or appropriate in the public interest or for the protection of investors and to carry out the purpose" of Section 15A. The opposing view is that Section 15A (j) applies. Under that section an amendment to the rules of a national securities association takes effect 30 days after filing, or earlier, if the Commission so directs, unless the Commission enters an order disapproving the amendment. The Commission is expressly directed to enter an order of disapproval unless the amendment appears to the Commission to be consistent with the requirements of subsection (b) and (d). Since Section 15A (j) refers us back to Section 15A (b), it is clear that whichever of the two views is sound, the standards controlling our decision on the rule are the public interest, the protection of investors, and the carrying out of the purposes of the Maloney Act. Since the substantive tests applicable are the same in any event, and since counsel for NASD has stipulated that the proposed amendment will not be incorporated into the by-laws until the Commission has had adequate opportunity to consider the proposal, it is unnecessary to determine which section is applicable.

The question for decision then, is this: Is the proposed restriction of membership in the public interest or for the protection of investors, and will it carry out the purposes of the Maloney Act?

We are completely convinced that in proposing the rule and urging us and its membership to approve it, the Governors of the

NASD were actuated by no improper or hidden motives; that their only purpose was to safeguard the industry and the investor—a desirable end to which the NASD has already made notable contributions. We think also that fairness to the NASD requires us to say that when the rule was first discussed the Commission was inclined to view it favorably. This, however, was a purely tentative view; and a close study of the proposal and of the problems associated with it, and careful consideration of all the facts and all the arguments which have been presented for and against the rule have forced the conclusion that the proposed rule does not conform to the statutory standards. Therefore, we must disapprove it.

In our opinion permitting the registration of NASD, we called attention to the lack of provisions designed to insure the safe capital position of its members. National Association of Securities Dealers, Inc., 5 SEC 627 (1939). We then said:

"The Commission hopes that the applicant will undertake within the not too distant future the task of insuring itself of its members' solvency. Of course, it must be borne in mind that the Commission may find it necessary to promulgate its own rules as to the financial condition of all registered brokers and dealers, whether or not members of the Association."

Since this opinion was promulgated, the Association has been assiduous in ascertaining the financial condition of its members and has acted in a number of cases where insolvency was discovered, and it may very well be that our statement prompted the Association in some degree to propose the pending amendment. But, it will be noted, we have at all times foreseen the necessity of general rules applicable to the over-the-counter industry. We believe that such rules are necessary now and we have, therefore, adopted a rule applicable to all registered brokers and dealers in the over-the-counter market, forbidding them to permit their aggregate indebtedness to all persons, including credit balances owed customers, to exceed 2,000 per centum of their net capital. Before discussing our rule further we shall set out the reasons which lead us to the conclusions just expressed.

The proposed amendment is inconsistent with the general purpose of the Act. The associations covered by the Act were intended to be thoroughly democratic. The Act very pointedly requires the rules of an association to provide that any broker or dealer who uses the mails or instrumentalities of interstate commerce to buy and sell securities may become a member. (Section 15A (b) (3)). It affords to brokers and dealers refused admission, suspended, expelled or otherwise disciplined, the right to appeal to us. (Section 15A (g)).

Chief Justice Eicher, formerly Chairman of this Commission, while a member of the Committee on Interstate and Foreign Commerce of the House of Representatives, and Chairman of the subcommittee charged with the consideration of the Maloney Bill, stated for the Committee in its report on the bill:

"The broad purpose of this paragraph (Section 15A (b) (3)) is to make sure that all brokers and dealers who conduct an honest and responsible business shall be eligible for membership in some association."³

3. H.R. Rep. No. 2307, 75th Cong., 3rd Sess., May 6, 1938, at p. 7.

Former Commissioner Mathews stressed to the Senate Committee

charged with the bill the importance of "open membership" in associations. He pointed out that membership:

"... is a valuable business right, and if it is to be given to members of these associations and to the associations as such, for the guidance of members, it is important that we do not have a monopolistic association. The association must be open to the fellow who is willing to conduct his business decently."⁴

4. Hearings before the Senate Committee on Banking and Currency, on S. 3255, 1938, at page 20.

According to the NASD's own estimate, adoption of the rule may result in the expulsion of over one-fourth of its membership. To permit that result we should find clear authority for the rule in the statute. The Maloney Act provides no express basis for rules prescribing capital requirements as a condition of membership and its legislative history makes it quite clear that Congress specifically rejected minimum capital requirements as inappropriate for national associations. The Senate Committee on Banking and Currency, while considering the Maloney Bill, was presented with an express proposal to prescribe capital requirements⁵. No such re-

5. Hearings before the Senate Committee on Banking and Currency on S. 3255, 75th Cong., 3rd Sess., p. 85, statement of James J. Minot, Jr.

quirement was incorporated into the Act. The failure to do so was, without doubt, deliberate. The necessity of broad membership basis had been specifically brought to the attention of Congress. That Congress regarded such requirements as appropriate for general application is indicated by the fact that, contemporaneously with the passage of the Maloney Act, Congress enacted Section 15 (c) of the Securities Exchange Act. That section authorizes the Commission to prescribe capital requirements of general application in the over-the-counter securities industry.

Further, Sections 15A (b) (1) and (2), applicable to this case, require that an association have a sufficient "number of members" and that it be "so organized" and "of such a character" as to comply with the provisions and carry out the purposes of the Act. The expulsion of small firms and the limitation of the NASD to representation of larger firms is an inevitable result of the proposed rule, and the loss of so large a segment of its membership, merely because the firms are small, vitally and adversely affects the organization and character of the NASD as representative of the over-the-counter industry. No matter what state jurisdictions and exchanges may require, the legislation to which a national securities association must conform clearly intends that size shall not be a criterion of selection of membership or a basis of distinction in bringing to investors the advantage of cooperative regulation.

The Commission's Rule

The need for general rules to achieve customer protection against financially unsafe brokers and dealers has been apparent to us for some time and we believe this an appropriate occasion to announce our rule under Section 15 (c) (3). That section provides:

"No broker or dealer shall make use of the mails or of any means or instrumentality of interstate commerce to effect any transaction in, or to induce or attempt to induce the purchase or sale of, any security (other than an exempted security⁶ or com-

6. The term "exempted security" is defined in Section 3 (a) (12) to include (among others) certain obligations of the United States and— "securities which are direct obligations of or obligations guaranteed as to principal or interest by a state or any political subdivision thereof or any agency or instrumentality of a state or any political sub-

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AMERICA'S FINEST WHISKEY*



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SCHENLEY ROYAL RESERVE, 60% Grain Neutral Spirits.
BLENDED WHISKEY, 86 Proof. Schenley Distillers Corporation, N. Y. C.

division thereof or any municipal corporate instrumentality of one or more states."

mercial paper, bankers' acceptances, or commercial bills) otherwise than on a national securities exchange, in contravention of such rules and regulations as the Commission may prescribe as necessary or appropriate in the public interest or for the protection of investors to provide safeguards with respect to the financial responsibility of brokers and dealers."

Under this section the Commission may choose between various methods of providing for financial responsibility. It can, as the NASD has proposed to do, require brokers and dealers to maintain a fixed minimum net capital. On the other hand, it can, as it proposes to do, require the maintenance of a ratio of 1 to 20 between net capital and aggregate indebtedness. In making its choice of methods the Commission is motivated by a number of factors.

First, in dealing with the problem of financial responsibility as it relates to members of national securities exchanges and brokers and dealers who do business through such members, Congress has used the ratio method and it has prescribed a ratio between net capital and aggregate indebtedness similar to that provided in our rule. Section 8 (b) of the Securities Exchange Act of 1934 provides that:

"It shall be unlawful for any member of a national securities exchange, or any broker or dealer who transacts a business in securities through the medium of any such member, directly or indirectly to permit in the ordinary course of business as a broker his aggregate indebtedness to all other persons, including customers' credit balances (but excluding indebtedness secured by exempted securities), to exceed such percentage of the net capital (exclusive of fixed assets and value of exchange membership) employed in the business, but not exceeding in any case 2,000 per centum, as the Commission may by rules and regulations prescribe as necessary or appropriate in the public interest or for the protection of investors."

Secondly, whatever might be said for the benefits of the minimum capital rule as a safeguard against insolvency, any standard of net capital so adjusted as to permit small, honest brokers and dealers to remain in business might be totally inadequate in many cases.⁷ For example, a net

7. It has been noted that a requirement of \$5,000 net capital might cause cancellations of the membership of more than 1/4 of the present membership of the NASD. Capital of \$5,000 means little in the case of a dealer whose liabilities run into millions.⁸

8. It should be noted that no insolvent broker or dealer can comply with a re-

quirement that he maintain a ratio of net capital to indebtedness. Guy D. Marianne, 11 SEC—(1942), Securities Exchange Act Release No. 3281.

The argument has been made that some minimum capital requirement should exist which will be applicable to all brokers and dealers who do business with the public and which will, in effect, place a floor under financial responsibility. We do not need to decide the merits of this argument. The Commission is not now in a position to determine what fixed minimum capital should be prescribed without running a grave risk of needlessly penalizing certain brokers and dealers who could not meet the standard. A fixed minimum capital requirement which is adequate for a firm whose business is conducted entirely on a cash basis and in small volume might be inadequate for a firm which does a general type of business, including the carrying of customers' margin accounts and the holding in safe-keeping of customers' cash and securities. An appropriate fixed minimum capital for dealers who do business in one of the large industrial communities might be entirely inappropriate for those whose population is largely rural.

The problem of a proper minimum capital for brokers and dealers has been met in part by the laws of the various States, some of which impose such requirements on persons doing business within their jurisdiction. This approach to the problem by regulatory bodies familiar with local needs, combined with a ratio requirement by the Commission, may be shown by experience to be the best method of handling a troublesome question. In this manner local necessity for a minimum capital provision may be met by local requirements supplemented by an over-all rule of the Commission which would vary the need for additional capital with the type of business conducted and the amount of commitments and other liabilities of brokers and dealers.

Moreover, the Commission, in collaboration with various State commissioners and representatives of the securities industry, has prepared, and is about to promulgate, Rule X-17A-5 which will require that all registered brokers and dealers file with the Commission at least once a year a financial statement which in some cases must be certified by an independent accountant. The reports received under this rule will, for the first time, afford us an opportunity to study the financial condition of all registered brokers and dealers and the knowledge thus obtained should be extremely helpful if, at some future date, the Commission determines that the public interest requires change in

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IBA Opposes SEC Price Disclosure Rule As Not In Public Interest, Impractical, Unworkable

(Continued from first page)

call meetings of members to discuss the proposal and to send to the office of the Association "any expression of attitude or opinion coming out of such meetings." Request was also made of individuals in member firms to send their reactions to the Association.

In reply, the Association has received reports and letters from every part of the country and from every type of securities dealer represented in our membership. Included are underwriters, distributors and traders, large and small, members of national stock exchanges, including approximately 60 members of the New York Stock Exchange. Reports were received from each of the Groups. Approximately 350 letters of comment have been received from individuals. Through reports and letters, comments have been received from better than 90% of our members. Every one of their communications has been carefully read and the attitudes expressed are taken into account in framing our reply to the proposal.

Most of our members assume that the proposed rule is directed at the problem of so-called excessive spreads or unconscionable profits. Quite a few refer to "riskless transactions." They are unanimous in their willingness and desire to help eliminate excessive spreads or unconscionable profits in a reasonable and practical way. There appears not the slightest disposition to contend that there is no occasion to examine the problem. They are also unanimous, however, in the opinion that the proposed rule would be:

- (a) Against the public interest.
- (b) Impractical and unworkable.

The Proposed Rule

"Disclosure of Market Price"

(a) General Provisions.—The term "manipulative, deceptive, or other fraudulent device or contrivance" and the term "fraudulent, deceptive, or manipulative act or practice" as used in Sections 15 (c)(1) and 15(c)(2), respectively, of the Act are hereby defined to include any act of a dealer designed to effect a sale to or a purchase from a customer, by such dealer, of any security unless such dealer, at or before the completion of each such transaction, discloses to such customer in writing—

"(1) (A) the best independent bid and asked prices for the security at the time of the sale or purchase which the dealer is able to ascertain upon the exercise of reasonable diligence; or

"(B) the best independent bid or asked price at such time, if the dealer, after the exercise of reasonable diligence, is unable to ascertain both a bid and an asked price; or

"(C) if neither such a bid nor such an asked price can be obtained after the exercise of reasonable diligence, the price at which the dealer was able to acquire the security in that bona fide transaction which is closest in point of time to the proposed sale to or purchase from the customer, but which is not more remote than 60 days prior to such proposed sale or purchase, provided, however, that if the dealer has had no such transaction he shall make the disclosure required by Paragraph (2) hereof; and

"(2) if the disclosure is made pursuant to (B) or (C) of paragraph (1) hereof, the fact that after the exercise of reasonable diligence he was unable to ascertain a current independent bid or asked price, or both, as the case may be.

"(b) Nothing in this rule shall be understood as preventing any dealer from stating in the written notice required by paragraph (a)

hereof (1) that the bid and asked prices so disclosed apply to an amount of the security less than that sold to or purchased from the customer, if such be the fact; (2) that the information pertaining to the bid and asked prices disclosed to the customer has been obtained from sources believed to be reliable, if such be the fact, but that he is not able to state that a transaction could be effected at the disclosed price or could not be effected at a better price; and (3) any other fact, not inconsistent with the purposes of this rule, which the dealer may wish to disclose.

"(c) Records to Be Kept.—Every dealer who make a disclosure pursuant to paragraph (a) (1) of this rule shall make and preserve a record of (1) the information so disclosed; (2) the date and time as of which such bid and asked prices were current; (3) the sources of the information disclosed; and (4) the date and time such information was obtained.

"(d) Exemptions.—This rule shall not apply to the following:

"(1) any transaction in a security during the 30-day period following the date on which the security is first publicly offered, provided that a registration statement is in effect as to such security under the Securities Act of 1933, as amended, and provided further that the dealer, in connection with such transaction, gives to the customer the prospectus required by that Act;

"(2) any transaction effected on a national securities exchange;

"(3) any transaction which is a part of a secondary distribution approved by a national securities exchange and which is effected during the course of such distribution; and

"(4) any transaction in an exempted security, provided, however, that no transaction in an exempted security which is a direct obligation of or an obligation guaranteed as to principal or interest by a State or any political subdivision thereof or any agency or instrumentality of a State or any political subdivision thereof or any municipal corporate instrumentality of one or more States shall be exempt from the provisions of this rule unless such transaction occurs in the course of a public offering of such security by the issuer thereof."

Text of Subsections (c) (1) and (c) (2)

Subsections (c) (1) and (c) (2), cited as the basis for the proposed rule, are as follows:

"(c) (1) No broker or dealer shall make use of the mails or of any means or instrumentality of interstate commerce to effect any transaction in, or to induce the purchase or sale of, any security (other than commercial paper, bankers' acceptances, or commercial bills) otherwise than on a national securities exchange, by means of any manipulative, deceptive, or other fraudulent device or contrivance. The Commission shall, for the purposes of this subsection, by rules and regulations define such devices or contrivances as are manipulative, deceptive, or otherwise fraudulent.

"(2) No broker or dealer shall make use of the mails or of any means or instrumentality of interstate commerce to effect any transaction in, or to induce or attempt to induce the purchase or sale of, any security (other than an exempted security or commercial paper, bankers' acceptances, or commercial bills) otherwise than on a national securities exchange, in connection with which such broker or dealer engages in any fraudulent, deceptive, or manipulative act or practice, or

makes any fictitious quotation. The Commission shall, for the purposes of this paragraph, by rules and regulations define and prescribe means reasonably designed to prevent such acts and practices as are fraudulent, deceptive, or manipulative, and such quotations as are fictitious."

We have been told this proposed rule is a proposal of the Commission staff and not of the Commission itself. We assume, therefore, that the purpose of inviting this Association to submit comments and suggestions was to get the considered opinion of those experienced in the business on the effect the proposed rule would have upon the securities business and the public interest.

Accordingly we submit our comments in the light of the combined many years of experience of the membership of the Associations, with our analysis and conclusions.

The Rule Would Be Against the Public Interest

In view of the effect the proposed rule would have on investors, securities markets and securities dealers, it is against the public interest.

1. Bid and Asked Price or Market Price Not Indicative of Value

A "disclosure of market price," as commonly known to the trade, is little and, in many instances, no index to the actual value of the security. Bid and asked prices and even the so-called market price of any security are subject to many factors which vary greatly with events, time and place. Even rumors, at times unfounded and unjustified, affect the bid and asked price, as well as the market price. These are nothing more than a single factor in judging the value of the security and then only when in the hands of those definitely experienced in such matters. Even the so-called market value of a security frequently has no more than a remote relationship to the actual value. To illustrate, it rather frequently happens that a given bond selling over-the-counter or on a stock exchange market, with an occasional transaction of one, two or three bonds in the usual course of business, sells off five to ten points when a large block of the same bonds is thrown on the market suddenly and without a program of orderly absorption of the entire block. To disclose the latter quoted low price or sales price in a subsequent transaction in the same security, although it may be the best bid or market price ascertainable at that time, may be deceptive and to the extent that it is deceptive, tends to work a fraud.

The interest of the holders of other of the same issue of securities must not be forgotten if the public interest is to be considered. To compel the disclosure of such an unusual and, not infrequently, abnormal, bid price or, perchance, actual sale price, under official sanction that such disclosure is to have, might be taken as evidence of value and so may be against the interest of other holders, a reflection on the credit of the issuer and definitely against the public interest.

There are other kinds of isolated transactions in which the price paid reflects wholly transient influences. In such instances the dealer would be required by the rule to take steps which in reality might be conducive to deception and fraud.

2. The Rule Would Be Expensive.

That the proposed rule would entail great additional expense is apparent.

The best bid and asked price must be given without regard to location or section of the country in which the best bid or asked price is to be found. It would entail many additional telephone calls, a great many of them at long distances, sometimes across the

continent, to assure a dealer that the bid or asked price disclosed is the best. Inquiries may not be made of any one firm for the reason that such would be no evidence of having canvassed the field to ascertain whether there is a better bid or asked price. Something more than that is necessary to meet the reasonable diligence requirement. The extra use of communication facilities would, of course, be particularly undesirable at this time.

The proposed rule would require a dealer "at or before the completion of each such transaction" to disclose to such customer in writing—

"(1) (a) The best independent bid and asked prices . . . the dealer is able to ascertain upon the exercise of reasonable diligence; or (b) the best independent bid or asked price . . . after the exercise of reasonable diligence."

The dealer would need to make a record of the information disclosed, the date and time as of which such bid and asked prices were current, the sources of the information and the date and time such information was obtained. And that is not sufficient. The dealer is required to use reasonable diligence to ascertain the best independent bid and asked price wherever that independent bid and asked price might be. These requirements all are integral parts of the rule. Violation of any one of such parts would constitute a violation of the rule, having the force of law, and thereby render the dealer amenable to the civil and criminal penalties of the act itself.

Being required to disclose the best bid and asked price, and being required to keep a record of the facts so disclosed, and being required to assure himself that the bid and asked price disclosed is independent, the dealer as a practical matter, would also be obliged to keep a similar record of all other bid and asked prices consulted, the extent of his research efforts and the information thereby ascertained, in order to be able to prove at any later date that the price so disclosed was in fact independent, and was the best bid and asked price.

In many instances the cost of such research and of making necessary records would be greater than the normal and presently customary spreads or profits. Such costs would be prohibitive to many dealers, particularly so in smaller communities and for smaller dealers at a distance from the major markets and with limited facilities for obtaining the required information.

3. Markets Would Be Restricted and in Some Instances Destroyed.

A large number of the dealers who responded to our request for opinions and reactions indicated that the additional cost of operating under the proposed rule would render continued conduct of the business definitely unprofitable, requiring their retirement from business. According to the statements made, many small and middle sized firms would feel obliged to close shop. This is particularly true in smaller communities where the number of dealers is limited and where a liquid security market depends upon a comparatively small number of dealers. The resulting restricting of such markets would be detrimental to the interests of local holders of securities, to smaller commercial banks and insurance companies, and possibly to the credit standing of numerous small industrial enterprises or municipalities.

4. Bank and Insurance Stocks Would Be Injured.

The fear is expressed in many quarters that in operation the proposed rule would have an injurious effect upon the market for the stocks of insurance companies and of commercial banks. Bank stocks are "exempt securities" under the provisions of Section 3 of the 1933 Act. Neither the banks nor the in-

urance companies appear to have believed it advisable to list their shares on national securities exchanges. These two classes of securities, therefore, constitute one of the important segments of the over-the-counter market.

The difficulties which would have to be faced in attempting to operate the proposed rule might cause trading facilities for these two big and important classes of unlisted securities to diminish, resulting in substantially lower price levels for these stocks. We question the wisdom of any action at this time which might drastically lower market values of ownership in the two industries which must bear the brunt of financing the war. If bank stockholders and insurance stock owners find their market values crumbling and bombard their managements with anxious questions, such managements will not be so inclined to stretch their resources to buy as many government bonds as possible. This aspect of the matter should receive the careful consideration of the Commission.

5. The Rule Would Tend to Destroy the Value of Certain Securities.

The realizable value of securities frequently depends upon the existence of a ready market. In those instances and those communities where, by reason of the additional cost, the dealer would find it unprofitable and impractical to remain in business, the ready market of securities local to that community would be adversely affected and in some instances destroyed. The market on many small local issues of securities is made and maintained by a dealer local to that community who is familiar with all the facts and circumstances which go to make up the value of local issues and who thereby is able to find buyers for securities which otherwise would have little or no access to ready markets at all. Whatever destroys the marketability of a security in part destroys its value. If this rule is adopted, it will make a mockery of the "decentralization" of markets. The small dealers throughout the country would be the first casualties. That would not be in the public interest.

The Rule Would Be Impractical and Unworkable

1. A Number of the Provisions Are Conducive to Confusion.

The rule is uncertain and indefinite in many particulars. It crease contingent liabilities impossible of determination. This is particularly true as to such terms as "independent", "bid and asked price", "reasonable diligence", "best bid and asked price", etc.

(a) What is meant by independent bid or asked price? Does it mean independent of the particular dealer involved, independent of the issuer, independent of anyone interested in the market of such securities? How must a dealer or broker determine the quality of independence and what degree of proof must the dealer or broker have to meet the obligations imposed? If independence of anyone interested in the markets is the standard of test, no quotations could be regarded as reliable and no proof of independence could be had.

The dealer being required to quote "independent" bid or asked prices, he must necessarily have evidence that such quoted prices are in fact independent. This makes it necessary for the dealer in making inquiries as to bid or asked prices, also to inquire as to the "independent" character of the bid and asked prices he may be given. He cannot rely upon a quotation published in the newspaper unless he knows the source from which the quotation is obtained and the independent character thereof. To be able to prove the independent character of markets he quotes, the dealer would be obliged to maintain a record of

the nature of his inquiries as to such independence. A dealer could not under any circumstances in duty to his own protection and that of his firm, assume that any quoted price was an "independent" price.

(b) What bid and what asked price is required? Is it the wholesale bid and asked price; that is, is it the so-called inside bid and asked or the outside? If one or the other, must the dealer so designate to avoid confusion and, more particularly, to avoid a charge of misrepresentation or deception, an element far more pertinent to actual fraud than any absence of price disclosure whether it be market price or bid and asked price.

If a dealer is required to quote the best bid and asked price, he must know what bid and asked price is to be regarded as the best. He cannot assume that either the inside or outside price is and will be the best price so to be quoted. Can the dealer assume that all or either of such bid and asked prices are bona fide? At least he would be required to use reasonable diligence such as would induce the belief that they were bona fide and being so required and having done so, it would be necessary to make and preserve a sufficient record to prove his good faith efforts.

(c) What constitutes "reasonable diligence" as applied to the requirements here proposed? Although there are many court decisions which, for the purpose of the facts and the issues then involved, define "reasonable diligence", here the term is to be applied to a set of facts and a breadth of situations never yet authoritatively determined. Reasons for this query are so numerous as to preclude any necessity to enumerate them.

(d) What is the full import of the requirements for the "best" bid or asked price? In the language of the business the best available bid or offer in the immediate vicinity of the dealer is not difficult to ascertain. But a better bid or asked price might be had in some distant part of the country. One of the difficulties of the proposed rule revolves around the fact that market conditions differ widely in various parts of the country. The four corners of the country, alone, are the limits to the possible extent of the inquiry. Unless it is possible for a dealer to determine with some degree of exactness what is required by the rule, he cannot carry on his business except at the hazard of incurring liabilities far too great to warrant engaging in business at all.

(e) Is the disclosure of the "price at which the dealer was able to acquire the security in that bona fide transaction" not more than sixty days prior thereto, an element for determining fraud, deception or manipulation? The price paid for a block of securities frequently does not include the total cost to the dealer. There may be and frequently are other items of total cost which must first be absorbed before there is any profit. Frequently to quote the "price paid" without explaining other items and elements of total cost would be most misleading. After all, is not a fair price for the security based upon the accepted standards for determining its investment value, the measure of fair dealing? If the dealer acquired a security under honest circumstances which netted him a bargain price, is the dealer duty bound to pass the bargain on to the customer? If an investor acquired a security for investment at an investment price, without actual deception, manipulation or other fraudulent practices, are there any misdeeds to be condemned or bad practices to be regulated?

To illustrate this point, an actual circumstance has been related substantially as follows: a small rural bank had in its portfolio a

considerable block of securities of a rural municipality which temporarily had defaulted on the interest payments. The bank was required to remove the bonds from its portfolio. To do this the bank applied to a local dealer known to be familiar with the securities of that part of the country. The dealer satisfied himself that the default would be cured in due course and that the bonds would be paid on maturity, in other words, that the credit of the municipality was entirely sound. It was found, however, that when the bonds in question were issued no merchantable attorney's opinion had been obtained and that in order to redistribute the block of securities, it would be necessary to cure that deficiency. The dealer got an acceptable opinion at his own expense so that the block of securities could be taken out of the bank portfolio and resold to the best interest of all. The investigation and the curing of defects required different trips to the municipality, considerable research to determine the ultimate sound status of the security and, in addition, the expense of the necessary attorney's opinion. The bank then made a price to the dealer at a discount which enabled the dealer to sell the securities at a fair price to investors, absorb the incidental expenses and earn a fair profit for himself.

In this case, to have quoted the purchase price of the security would have indicated an excessive spread and inferred an unconscionable profit. To have made detailed explanation of all the steps necessary to cure the deficiency would have been confusing to the purchaser.

As to the practicability and workability of this rule, we quote from a prominent eastern firm which is a member of the IBA, the NASD, the New York and other stock exchanges, as follows:

"This Rule is apparently based on a fundamental fallacy—that bid and asked prices, as ordinarily given in the business, are actual prices upon which transactions are based. This is not so because the majority of such quotations are given over the telephone by traders and the one seeking the quotation accepts it as a guide rather than an actual bid, the result being that transactions are frequently effected between the quoted prices or even outside the limit of the bid and asked quote. The result of such quotations is usually to incite a firm offer to buy or sell and is usually accepted or rejected as a trading matter. When both parties agree on a price the transaction is, therefore, effected at a price which is not either the original bid or asked price. This may be due to the size of the market quoted but it is not necessarily so and is generally merely an exposition of the trading principle between buyer and seller. Hence a rule which purports to advise the customer of the best independent bid and asked prices could not be effective under the present custom of the trade.

"The foregoing comments refer to the effect upon dealers and are not conclusive as to the merits or demerits of the Rule from the standpoint of the public. It appears, however, that because of the effect on dealers as described above, there would be definite reactions upon the public in the following ways:

"(a) Thousands of securities now traded over-the-counter would suffer in marketability and therefore in collateral value.

"(b) Securities of small companies unable to register on a national securities exchange would still be distributed originally through registration with the Securities and Exchange Commission and thereafter there would be little or no incentive for trading in them and the purchaser would have great difficulty in

their disposition if it is desired to raise cash.

"(c) The general market for over-the-counter securities would be disrupted by the elimination of many dealers from the business and the market in specialty securities, such as bank and insurance stocks, would be controlled by relatively few large houses able to carry an inventory.

"(d) The information required is practically impossible to obtain in municipal issues and the market therein would have to be reorganized.

"Generally speaking, it is believed that present holders of unlisted securities would suffer materially during the readjustment of markets and thereafter spreads would be even larger than they are today as the auction principle would be largely abandoned by the consolidation of the business in fewer hands. Many houses not financially able to risk carrying inventories would go out of business irrespective of the standards they maintain.

"The main result of such a Rule would seem to be—

"1. Elimination of many dealers who trade principally in inactive securities of small companies.

"2. Disruption and stagnation of markets in securities and consequent loss to investors in case they are forced to sell."

And again from a middle western firm, also a member of the IBA, the NASD, New York, and other stock exchanges, we quote:

"In reply to your letter of July 29, 1942, regarding proposed Rule X-15-C1-10, our experience has been that it is not always possible to supply bid and asked prices on time limit of 60 days prior to sale or purchase on over-the-counter business and in addition might be very difficult to prove the source over this period of time. Many times quotations are merely nominal and others for very small amounts which do not indicate a real market. Quotations may originate from some source which can not be substantiated at a subsequent date in over-the-counter transactions and it might be impossible for the broker effecting the trade to prove to the satisfaction of all that these were the best quotations in the market at that time."

And again, from another mid-western firm with like memberships, we quote:

"The apparent reason for the above rule is to protect the customer against the payment of excessive prices for over-the-counter securities by advising him of the current street market. This purpose may be accomplished in a minority of instances, but in the great majority of over-the-counter investment transactions it will have the effect of leading the customer to believe that he is overcharged on his purchase and create dissatisfaction.

"There is no service which is thoroughly dependable in this respect, and the National Quotation Sheets can not be pointed to as authoritative markets as we have them today. Many quotations in this service are nominal, while many others are merely put in there by trading houses to attract bids and offerings. The investment dealer in a small city who does not have access to wire services and who very often is not a subscriber to some national service would only at excessive cost be able to determine what was the bid and asked of all transactions at the time of execution. If it were stated, as it should be in many instances, that the market was nominal and only a negotiated market, as is true in so many cases today, it would have a tendency to discourage the buyer, while, on the other hand, the market might be nominal one day and very actual the next.

"The effect of this rule on the general unlisted market would be

to widen the spreads so that the buyer or seller would not have as active a market as heretofore, to create less interest in outstanding securities, and make it more difficult to float new capital issues for smaller companies on account of the fear of not being able to maintain a satisfactory secondary market interest. Those dealers who are able to stay in business would be driven to the exclusive sale of whatever new issues existed, investment trusts, secondary distributions, etc., which may not by any means meet the best needs of their customers."

A fourth firm which is also a member of the IBA, the NASD and the New York and other stock exchanges and from the west coast, writes in part as follows:

"Out of a total of something over 65,000 to 70,000 securities in existence throughout the country, we understand only about 6,200 issues are actually listed on one or more national security exchanges. It is vital that the tremendous volume of unlisted issues have sponsorship both as regards to the preparation and dissemination of information to the public and with regard to the making of markets thereon. Dealers must be compensated for efforts in this direction. The only way such compensation can be proper and adequate is through a just merchandising profit represented by the spread between the wholesale and retail market. In our opinion, the proposed new rule would destroy the market for over-the-counter securities to the great detriment of the public.

"Without an adequate profit motive, sponsorship of over-the-counter issues will disappear and markets disintegrate. With the destruction of these markets, the approximately 65,000 companies represented by these issues then lose all access to any responsible capital market and their primary means of development and growth."

Stock Market Comments

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surtax for domestic companies operating in the Western Hemisphere; (3) substitution of 75% of the average of the three other base years for a year of poor earnings or of no earnings in determining the excess profits tax credit; (4) exemption from excess profits tax for earnings from mining strategic metals, such as vanadium, nickel, tin, etc.; (5) an artificial and more favorable average earnings base for companies with a poor earnings record in the 1936-39 base years; (6) use of the post-war credit to retire debt—and other similar provisions.

That Skip Year

Whether it is advisable to establish a taxable profit this year rather than next year depends upon the particular circumstances involved.

It might be well to point out, however, that next year's treatment of capital gains can hardly be any more favorable than this year—and if the war should go badly so that far greater sacrifices would be required from everyone, then obviously tax rates not only on capital gains but upon all kinds of income would be higher.

However, there is another point to consider—namely, the so-called Ruml plan. Under this plan income tax payments by individuals would be placed on a current basis by having the 1943 payments apply to the taxes due on income in that year. The payments made in 1942 would apply to the 1942 income rather than the 1941 income. According to the original proposal, the tax due on the 1941 income would be skipped, although the same result could be accomplished by skipping the taxes on 1942 income, a procedure which

apparently the Treasury would prefer if it accepted the plan at all.

Of course, if 1942 income is skipped, it would be a windfall for all those taking profits this year. Needless to say, any such action by Congress, if taken, would not come until next year and could be made retroactive to 1942.

And as for the treatment of capital gains and losses in the 1942 bill, the fact that should not be overlooked is that it is about the most favorable on record when judged in relation to the levies on ordinary income.

What You Get for Your Money

With the 1942 tax bill finally out of the way, corporate earning power for the year can be estimated with a fair degree of accuracy.

Many stocks are selling at fairly high levels in relation to indicated war-time earning power, while many others appear to be very low. For instance, take some similarly situated companies in the auto parts group, viz: Briggs (selling around 20), 1942 earning power is estimated at around \$2.30 per share, has paid \$1.50 in dividends thus far this year, and has an indicated post-war credit of about 25 cents, whereas Doehler Die Casting (selling around 23) will earn about \$4.00 this year, has paid \$1.50 in dividends, and has an indicated post-war credit of \$1.50; also consider Timken Roller Bearing (40) with 1942 earnings of around \$3.30, and dividends paid thus far this year of \$1.25 and a post-war credit of \$1.20, contrasted with Spicer (3) with earnings this year of around \$9.00 and dividends paid thus far of \$3.00 and a post-war credit of nearly \$3.75; also note Electric Auto Lite (29) with 1942 earning power estimated at around \$3.00 and dividends paid of \$1.75 and a post-war credit of 65 cents, contrasted with Timken Detroit Axle (28) with indicated earnings of around \$8.00 and dividends paid thus far this year of \$2.50 and a post-war credit of about \$3.10.

In the aircraft group note Sperry (26) with earnings of around \$2.90 and dividends paid thus far this year of 75 cents and a post-war credit of \$1.10, as against United Aircraft (28) with 1942 earnings of around \$4.25 and dividends paid of \$1.00 and a post-war credit of \$2.60. And in electrical equipment field note General Electric (29) with 1942 estimated net of around \$1.80 and dividends paid thus far of \$1.40 and a post-war credit of 60 cents, contrasted with Square "D" (34) with 1942 earnings of around \$5.80 and dividends paid of \$1.50 and a post-war credit of \$2.50. And in the beverage field note Coca-Cola (80) with 1942 earning power at around \$4.60 and dividends paid thus far this year of \$2.25 and a post-war credit of 25 cents, against Pepsi-Cola (24) with this year's earnings of around \$2.70 and dividends paid thus far of \$1.50 and a post-war credit of about 20 cents.

Numerous other illustrations could be cited, such as Phelps Dodge (26), earning around \$2.65, and Anaconda (26), earning around \$4.70; International Harvester (52), earning around \$3.25, and Deere (23), earning around \$3.15; Parke Davis (24), earning around \$1.50, and McKesson & Robbins (12), earning around \$1.50; Superheater (12), earning around \$1.20, and Continental Roll & Steel (11), earning \$9.00, and so forth.

Of course there are other considerations to take into account besides earning power. However, it is obvious that there are many advantageous exchanges which can be made in the present market. The thing to do is to look around a bit and get the most that there is for your money.—G. Y. Billard, J. R. Williston & Co.

Calendar of New Security Flotations

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.

MONDAY, NOV. 9

JEFFERY BOULEVARD BUILDING CORP.

Jeffery Boulevard Building Corp. through voting trustees has filed a registration statement with the SEC for voting trust certificates covering 1,471 shares of preferred stock, par value \$100 per share, and 163 shares of common, no par value.

Address—10 South La Salle St., Chicago
 Business—Apartment building
 Offering—To be issued in connection with the extension of a voting trust agreement for a period of seven years from Aug. 15, 1942, to August 15, 1949, unless continued for a longer period by the affirmative vote of holders of 51% in amount of the outstanding voting trust certificates outstanding, representing the preferred stock. The stock was originally issued at the time of the reorganization of the property and placed in a voting trust for a period of five years. Trustees deem it advantageous to continue the voting trust for a further period.
 Registration Statement No. 2-5052. Form F-1. (10-21-42)

OAKDALE INCORPORATED

Oakdale Incorporated through voting trustees has filed a registration statement with the SEC for voting trust certificates covering 1,056 shares of preferred stock, par value \$100, and 117 shares of common stock, no par value.

Address—10 South La Salle St., Chicago
 Business—Apartment building
 Offering—To be issued in connection with the extension of a voting trust agreement for a period of seven years from Aug. 15, 1942, to Aug. 15, 1949, unless continued for longer period by vote of 51% of class A certificates which represent preferred stock
 Registration Statement No. 2-5053. Form F-1. (10-21-42)

AVALON COURT APARTMENTS, INC.

Avalon Court Apartments has filed a registration statement with the SEC for voting trust certificates covering 1,025 shares of preferred stock, par \$100 per share, and 113 shares of common, no par value.

Address—10 South La Salle St., Chicago
 Business—Apartment building
 Offering—To be issued in connection with the extension of a voting trust agreement for a period of seven years from Aug. 15, 1942, to Aug. 15, 1949, unless continued for a longer period by affirmative vote of holders of 51% of class A certificates representing the preferred stock
 Registration Statement No. 5054. Form F-1. (10-21-42)

SATURDAY, NOV. 14

KEYSTONE CUSTODIAN FUNDS, INC.

Keystone Custodian Funds, Inc., has filed a registration statement with the SEC covering 200,000 shares, investment trust—full certificates of participation, series "B-3"

Address—50 Congress St., Boston, Mass.
 Business—Investment trust
 Underwriting—Keystone Corporation, of Boston, under control with Keystone Custodian Funds, Inc., is principal underwriter
 Offering—At market
 Proceeds—For investment
 Registration Statement No. 2-5055. Form C-1. (10-26-42)

KEYSTONE CUSTODIAN FUNDS, INC.

Keystone Custodian Funds, Inc., has filed a registration statement with SEC covering 150,000 shares, investment trust—full certificates of participation, series "K-1"

Address—50 Congress St., Boston, Mass.
 Business—Investment trust
 Underwriting—Keystone Corporation, of Boston, under control with Keystone Custodian Funds, Inc., is principal underwriter
 Offering—At market
 Proceeds—For investment
 Registration Statement No. 2-5056. Form C-1. (10-26-42)

KEYSTONE CUSTODIAN FUNDS, INC.

Keystone Custodian Funds, Inc., has filed a registration statement with SEC covering 150,000 shares, investment trust—full certificates of participation, series "S-2"

Address—50 Congress St., Boston, Mass.
 Business—Investment trust
 Underwriting—Keystone Corporation, of Boston, under control with Keystone Custodian Funds, Inc., is principal underwriter of certificates of participation in the Keystone Funds
 Offering—At market
 Proceeds—For investment
 Registration Statement No. 2-5057. Form C-1. (10-26-42)

MONDAY, NOV. 16

P. L. ANDREWS CORP.

P. L. Andrews Corp. has filed a registration statement with the SEC for \$360,000 first mortgage convertible 5½% bonds, series A, maturing serially from 1943 to 1957.

Address—7800 Cooper Ave., Glendale, New York, N. Y.
 Business—General character of the busi-

ness done by the corporation is the design, development, manufacture and sale of paper packaging and wrapping materials in a variety of forms of envelopes, folders, wrappers, folding boxes and containers. Primarily because of the nature of the plant and products of the corporation, it is anticipated that the war or conditions arising therefrom will not alter substantially the general character of the business or products of the corporation

Underwriting—No firm commitment has been made to take any of the securities registered, but P. W. Brooks & Co., Inc., New York City, is the principal underwriter, as defined in the Securities Act of 1933

Offering—The securities will be offered at prices ranging from 99½ to 102¼ depending upon maturity date
 Proceeds—Net proceeds will be used to discharge a proposed demand bank loan, to reimburse the corporation for machinery acquired and balance for such additional production facilities as are needed.

Registration Statement No. 2-5058. Form A-2 (10-28-42)

DATES OF OFFERING UNDETERMINED

We present below a list of issues whose registration statements were filed twenty days or more ago, but whose offering dates have not been determined or are unknown to us.

CENTRAL MAINE POWER CO.

Central Maine Power Co. filed a registration statement with SEC for \$14,500,000 first and general mortgage bonds, Series M, maturing July 1, 1972; \$5,000,000 ten-year serial notes, maturing serially on July 1 from 1943 to 1952, and 261,910 shares of common stock, par value \$10 per share.

Address—9 Green Street, Augusta, Maine
 Business—Company is an operating public utility and engages in the electric, gas and water business, entirely within the State of Maine

Underwriting—The bonds and the notes will be sold under the competitive bidding rule of the Commission. Names of underwriters and amounts and offering price to public will be supplied by amendment

Offering—Public offering price of the bonds and notes will be supplied by amendment. The 261,910 shares of common are first to be offered to the holders of the company's outstanding common stock and 6% preferred stock for subscription at \$10 per share in accordance with their preemptive rights. New England Public Service Co. has subscribed for and agreed to take the 261,910 shares, less any shares as may be subscribed for by stockholders, and to pay therefor in cash at \$10 per share provided the proposed merger be completed

Proceeds—Statement says that prior to the issue of the securities now registered, Cumberland County Power & Light Co., a public utility incorporated in Maine in 1909, will be merged into the company and Central Maine will thereupon acquire, pursuant to an agreement of merger, the business and all the rights, powers, etc., of Cumberland. After the merger has become effective, the business of the company will include also the business, franchises and properties of Cumberland, the separate existence of which will have ceased

Net proceeds from the financing in accordance with the merger plan recently filed with the commission will be used as follows:

Net proceeds of the series M bonds will be used to pay principal and premium in the redemption at 105% on Oct. 1, 1942, of \$1,494,000 face amount of 1st mortgage, 4% series, due 1960, of Cumberland Power, \$1,538,060; to pay principal and premium in the redemption at 105½% on a date in 1942 to be announced of \$9,275,000 face amount first mortgage bonds, 3½% series, due 1966 of Cumberland County \$9,784,348 and to pay bank loans made by the company which were incurred for the purchase and construction of facilities \$2,650,000.

Net proceeds of the serial notes and the common stock will be used to pay par and premium in the redemption on a date to be fixed in 1942 of an unspecified number of shares of 6% preferred stock and an unspecified number of shares of 5½% preferred stock of Cumberland County at 130% and 110%, respectively, all of which shares are to be called for redemption by Cumberland County prior to the proposed merger and converted under the agreement of merger into an obligation of the company to deposit the redemption price thereof in trust for the holders of such shares. The amount to be utilized in such redemption will be supplied by amendment.

Additional net proceeds from the sale of serial notes and common stock will be used to acquire 300 shares of the common stock and \$6,000 face amount of 5% debentures of Aug. 1, 1936, due Aug. 1, 1956, of Nepco Services, Inc., and 10 shares of common of Nepco Appliance Finance Corp. \$9,100 and to acquire all of the 650 outstanding shares

of the no par capital stock of New England Pole & Treating Co. \$110,000.

Balance of net proceeds of the series M bonds, the serial notes and common stock will be used to redeem at \$120 per share or otherwise retire on or before Oct. 1, 1942, an unspecified number of shares of 7% preferred stock of the company and for the purchase and construction of facilities for the carrying out of the company's business.

Registration Statement No. 2-5024. Form A-2. (6-29-42)

Central Maine Power Co. on Aug. 5, 1942, filed a request with the SEC to withdraw last indenture data in view of decision to sell the proposed issue of \$5,000,000 10-year serial notes at private sale. On July 16, 1942, company filed an amendment with the SEC to withdraw the proposed notes from registration and such withdrawal was approved Aug. 19, 1942

Amendment filed Oct. 16, 1942, to defer effective date

DENVER CHICAGO TRUCKING CO., INC.

Denver Chicago Trucking Co., Inc., has filed a registration statement with the SEC for \$400,000 debentures, 5%, maturing serially from 1944 to 1952, inclusive

Address—2501 Blake Street, Denver, Col.
 Business—Operation of motor truck transport lines

Underwriting—Brown, Schlessman, Owen & Co., Denver, Col., is the principal underwriter

Offering—The issuer, a new corporation, upon the exercise of its option, will take over and carry on the present business of a partnership as an interstate carrier of merchandise by motor vehicle. The new corporation will acquire from the partnership all accounts receivable, motor vehicle equipment, rolling stock, real estate, franchises, etc. In consideration thereof corporation will deliver to partnership 4,000 shares of its capital stock; \$1 par value, \$250,000 of its debenture 5s and is also to deliver to the underwriter, on the order of the partnership, \$150,000 of the debentures of the par value of \$1,000 each, for the sum of \$150,000 plus accrued interest to date of delivery. Corporation in normal course also assumes liabilities of partnership. The underwriter will purchase the partnership and the debentures from the partnership and the corporation and offer them to the public at prices ranging from 103.28% for the March 1, 1944, maturity to 100 for maturities 1948 to 1952, inclusive, plus accrued interest

Proceeds—The net amount to be received by the corporation will be used as working capital. Net amount received by partnership will be partnership funds distributable among the partners or usable for such purposes as the partners may decide
 Registration Statement No. 2-5044. Form A-1. (9-22-42)

Registration statement withdrawn Oct. 29, 1942

ELLCOTT DRUG CO.

Ellicott Drug Co. filed a registration statement with the SEC for \$350,000 6% debentures, due June 30, 1957.

Address—120 Cherry Street, Buffalo, New York

Business—Company is a cooperative wholesale drug company, selling to its members only, all of whom are retail druggists.
 Proceeds—\$250,000 of the debentures will be presently issued. Approximately \$120,000 of this amount will be issued to replace the outstanding 6% preferred stock which is being eliminated. Approximately \$48,000 additional will be issued to retire buying privilege deposits with the company. The balance, approximately \$78,500 after expenses, will become additional working capital

Offering—The new debentures will be priced at 100 and accrued interest
 Registration Statement No. 2-5026. Form A-2. (7-7-42)

Amendment filed July 23, 1942 giving to members of the company only the privilege of exchanging the 6% cumulative preferred stock, par \$50, for the debentures on a dollar for dollar basis and or exchange for deposits made by non stockholder members.

Registration effective 11:30 a. m. ESWT on Oct. 24 as of 5:30 p. m. ESWT on Sept. 14, 1942

FIREMAN'S FUND INSURANCE CO.

Fireman's Fund Insurance Co. has filed registration statement with SEC for 64,086 shares of \$10 par value common stock

Address—San Francisco, Calif.

Business—Fire, motor and marine insurance, etc.

Offering—After reclassification of securities to offer 33,738 shares of Fireman's \$10 par common and scrip for fractional shares in exchange for 44,984 shares of \$10 par common of Home Fire & Marine Insurance Co. of California on basis of 75/100ths share of Fireman's Fund for one share of Home; and 30,348 shares of Fireman's in exchange for 67,440 shares of \$10 par common of Occidental Insurance Co. on basis of 45/100ths share of Fireman's Fund for one share of Occidental

Underwriting—There are no underwriters

Proceeds—To be issued under plan of exchange
 Statement filed in San Francisco
 Registration Statement No. 2-5051. Form A-2. (10-15-42)

Amendment to defer effective date filed Oct. 28, 1942

FLORIDA POWER & LIGHT CO.

Florida Power & Light Co. registered with SEC \$45,000,000 First Mortgage bonds, due Oct. 1, 1971; \$10,000,000 Sinking Fund Debentures, due Oct. 1, 1956; and 140,000 shares Cumulative Preferred Stock, \$100 Par. Interest rates on the Bonds and Debentures, and the dividend rate on the preferred stock, will be supplied by amendment

Address—25 S. E. Second Ave., Miami, Fla.

Business—This subsidiary of American Power & Light (Electric Bond & Share

System) is an operating public utility engaged principally in generating, transmitting, distributing and selling electric energy (also manufacture and sale of gas), serving most of the territory along the east coast of Florida (with exception of the Jacksonville area), and other portions of Florida

Underwriting and Offering—The securities registered are to be sold by company under the competitive bidding Rule U-56 of the SEC's Public Utility Holding Company Act. Names of underwriters and price to public, will be supplied by post-effective amendment to registration statement

Proceeds will be applied as follows: \$53,170,000 to redeem at 102¼, the \$52,000,000 of company's First Mortgage 5s of 1954; \$15,693,370 to redeem at \$110 per share, the 142,687 shares of company's \$7 preferred stock, no par. Further details to be supplied by post-effective amendment

Registration Statement No. 2-4845. Form A2. (9-17-41)

Amendment filed Oct. 27, 1942, to defer effective date

GRAND FORKS HERALD, INCORPORATED

Grand Forks Herald, Incorporated, has filed a registration statement with the SEC for \$170,000 4½% first mortgage serial maturity bonds, dated Sept. 1, 1942. Bonds will mature as follows: \$12,000 on each Sept. 1 from Sept. 1, 1943 to and including Sept. 1, 1951; \$62,000 on Sept. 1, 1952

Address—118 North Fourth Street, Grand Forks, N. D.

Business—Newspaper publication

Offering—Bonds are to be offered at prices ranging from 101.57 for the 1943 maturity to 100.50 for the 1952 maturity. The average offering price per unit is 102.1073 plus accrued interest

Underwriting—Kaiman & Co., Inc., St. Paul, is the sole underwriter

Proceeds—The net proceeds, together with other funds of the corporation, are to be used to retire as of Jan. 1, 1943, the corporation's 6½% 15-year sinking fund debenture bonds due Sept. 1, 1944

Registration Statement No. 2-5049. Form A-2. (10-12-42)

Amendment filed Oct. 28, 1942, to defer effective date

HOUSTON NATURAL GAS CORPORATION

Houston Natural Gas Corp. has filed a registration statement with SEC for 40,000 shares of preferred stock, 5% cumulative, par value \$50 per share

Address—Petroleum Building, Houston, Texas

Business—Company produces, purchases and distributes natural gas in a large number of cities, towns and communities in Texas

Offering—The stock, after reclassification of securities, is to be offered at \$50 per share. The holders of common stock (approximately 80,000 out of 158,289) who have not previously waived their preemptive rights to subscribe for the new issue of preferred will be afforded a 10-day period after the effective date of the registration statement within which to exercise such preemptive rights by subscribing for one share of preferred for each four shares of common stock held. If in the opinion of the company a sufficient number of shares is not subscribed for the company reserves the right to refund all payments and cancel the subscriptions, but if a sufficient number of shares of preferred is subscribed for by the public and by the holders of common, company will offer to exchange 11,000 shares of preferred, \$50 par, for the 10,000 shares of preferred stock, 7% cumulative, par value \$50 per share, callable at \$55 per share, presently outstanding

Underwriting—The preferred stock is not being underwritten. Names of principal brokers soliciting subscriptions are Moroney, Bellinger & Co., Houston, Texas, and Mackubin, Legg & Co., Baltimore, Md. The first will receive fees and commissions for transactions occurring in the State of Texas and the second will receive fees and commissions as managers of the selling group offering the preferred stock outside of State of Texas

Proceeds—No specific allocation of the net proceeds has been made, but will be added to and become a part of the general funds of the company

Registration Statement No. 2-5050. Form A-2. (10-12-42)

Registration effective 5:30 p. m. ESWT on Oct. 28, 1942

INTERIM FINANCE CORP.

Interim Finance Corp. filed a registration statement with the SEC for 39,912 shares class A stock; \$25 par; and 25,232 shares common stock, \$1 par

Address—33 N. La Salle St., Chicago, Ill.
 Business—Primary function of company is to loan money to enterprises whose debt and/or capital structures are being adjusted or reorganized by its wholly-owned subsidiary, H. M. Preston & Co. A secondary function is to loan money, with funds not used in its primary function, to provide "interim" or intermediate financing to enterprises until the financial positions of the borrower or a change in general capital markets open avenues for longer-term borrowing from customary sources

Underwriting—H. M. Preston & Co., Chicago, Ill., is the sole underwriter. The underwriting commission is \$8 per unit

Amendment filed, July 30, 1942 to defer effective date

Offering—The class A stock is to be sold in units of 4 shares, at a price of \$110 per unit. With at least the first 900 units, there will be included with each unit 4 shares of common stock; thereafter company reserves the right to reduce the number of common shares to be included in each unit of class A stock

Proceeds will be used for working capital
 Registration Statement No. 2-4968. Form A-1. (3-18-42)

Amendment filed Oct. 15, 1942, to defer effective date

SOUTHERN UNION GAS CO.

Texas Southwestern Gas Co. has filed a registration statement with the SEC for Southern Union Gas Co. (the latter to be the surviving corporation in a proposed merger plan) covering 240,584 shares of Southern Union Gas Co. common stock, par value \$1 per share. The name of the registrant will be changed in consummation of the merger plan from Texas Southwestern Gas Co. to Southern Union Gas Co.

Address—1104 Burt Building, Dallas, Texas

Business—Primarily engaged as an operating utility company

Underwriting—E. H. Rollins & Sons, Inc., is the principal underwriter

Offering—Agreement of merger provides, among other things, that the survivor corporation shall offer approximately 240,584 shares of its common stock, par \$1 per share, for subscription by holders of the presently outstanding common stock of Southern Union Gas Co., New Mexico Gas Co., and New Mexico Eastern Gas Co. at the price of \$1.50 per share

In addition to the securities to be issued in exchange for outstanding securities of the constituent companies involved in the merger plan, the details of which have previously been filed with the Commission and made public, the company will issue and sell for cash \$3,650,000 of first mortgage sinking fund bonds, 3¾% series due Oct. 1, 1962

Registration statement reveals that E. H. Rollins & Sons, Inc., has advised the company that it has agreed to sell the bonds for the survivor corporation at a price equal to not less than 103¾% plus accrued interest, in such manner that there will not be involved any public offering of the bonds requiring their registration under the Securities Act of 1933. As compensation for its services in finding a purchaser, the banking firm is to be paid a commission of one-half of one per cent of the aggregate principal amount of the bonds

Proceeds—The proceeds to be received by the survivor company from the sale of its bonds in the face amount of \$3,650,000 and from the sale of common stock for cash and \$250,000 of the proceeds from the Southern Union Production Co. loan will be used towards redemption or payment of debt of Southern Union Gas Co. (old Co.), Texas Southwestern Gas Co., New Mexico Gas Co., New Mexico Eastern Gas Co., reorganization expenses and working capital

Registration Statement No. 2-5046. Form A-2. (9-28-42)

Southern Union Gas Co., in an amendment filed with the SEC on Oct. 20 discloses that in connection with the proposed offering of 240,584 shares of common stock (par \$1) to holders of common stock of constituent companies at \$1.50 per share, certain dealers will be compensated at the rate of 15 cents per share for each share of common stock agreed to be purchased by such stockholders through the efforts of the dealers. Dealers selected to render such services are E. H. Rollins & Sons, Inc., New York; W. C. Gibson & Co., Chicago, and Rauscher, Pierce & Co., Dallas, Texas. Such underwriters will select subunderwriters.

By agreement E. H. Rollins & Sons, Inc., as underwriter, will purchase from the company at \$1.50 per share such portion of the common stock not subscribed for by stockholders. As compensation for commitment the underwriter will receive \$12,000 plus an additional amount per share to be determined by the percentage of stock which the underwriter purchases, the amounts ranging from 5 cents to 20 cents per share

The underwriter intends to make a public offering at \$1.50 per share

Registration effective 5 p. m. ESWT on Oct. 22 as of 5:30 p. m. ESWT on Oct. 17, 1942

Offering—Holders of common stock (of the constituent companies to be merged) of record Oct. 14 are given the right to subscribe for one share of common stock of the surviving corporation for each share of common stock of the constituent companies owned by such holder. Subscription rights expire Nov. 12, 1942

Horton & Keenan With

J. A. Hogle, Los Angeles

(Special to The Financial Chronicle)

LOS ANGELES, CALIF.—Samuel W. Horton, John J. Keenan and G. Howard Wilson, formerly with Davies & Co., have become associated with J. A. Hogle & Co., 532 West Sixth Street. In the past Mr. Keenan was manager of the trading department for Fox, Castera & Co.; Mr. Horton was with Merrill Lynch, Pierce, Fenner & Beane, and Mr. Wilson was with Wm. Cavalier & Co.

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Text Of SEC's Opinion Disapproving Proposed Minimum Capital By-Law Of NASD

(Continued from page 1627)

the method of prescribing capital requirements.

The rule now adopted by the Commission provides that no broker or dealer shall permit his aggregate indebtedness to all other persons (exclusive of indebtedness secured by exempted securities) to exceed 2,000 per centum of his net capital (exclusive of fixed assets and value of exchange memberships). After this rule becomes effective there will be placed upon every person engaged in the securities business a limitation upon his power to obligate himself which will vary with the nature and volume of business transacted. Thus there will be extended to all brokers and dealers who extend credit to customers or carry money or securities for the account of customers or owe money or securities to customers substantially the same requirements now imposed upon members of national securities exchanges and brokers and dealers who do business through such members by Section 8 (b) of the Securities Exchange Act. In all cases, the requirement that borrowings and other indebtedness shall not exceed 2,000 per centum of net capital will provide a minimum cushion of 5% of the aggregate indebtedness of the broker or dealer as a margin of safety to his customers. The value of exchange memberships and fixed assets will be available to customers and other creditors as an added protection.⁹ If experience

⁹ Since there will be included in the computation of aggregate indebtedness, free credit balances of customers, the carrying of such balances will demand an increase in the amount of minimum net capital required to be maintained by the broker-dealer.

Although securities carried in safekeeping are not reflected in aggregate indebtedness, the protection of customers owning such securities will be increased by the requirements of our proposed Rule 17a-5 plus an exercise of the visitatorial powers of the SEC, the NASD and other public utilities similar powers.

Under Rule X-17A-5 any broker or dealer who makes a practice of extending credit to customers or holds customers' free securities or carries free credit balances of customers must file with the Commission an annual financial statement certified by an independent public accountant.

indicates that the ratio is wrong—that the minimum cushion should be increased—it can be changed.

On the principle of the rule requiring the maintenance of a ratio between net capital and aggregate indebtedness the Commission has frequently received the views of brokers and dealers. Most recently this subject was completely discussed in connection with a proposed amendment to Section 8 (b) of the Securities Exchange Act of 1934 which is now pending before the Committee of the House of Representatives on Interstate and Foreign Commerce. In the near future the Commission will publish for comment a proposed rule defining the terms "net capital" and "aggregate indebtedness" as used in the new rule. The Commission has not yet had the benefit of the criticisms of brokers and dealers of its definitions of those terms. Following its usual policy of soliciting the views of persons affected by proposed rules, the Commission will refrain from adopting the defining rules until the industry has had an opportunity to express itself and to point out such changes as may be needed to bring about a workable rule.

In order to provide a sufficient time for brokers and dealers subject to our rule to make such adjustments as may be necessary to meet its requirements, we have determined to delay fixing an effective date for the rule. We shall, after soliciting the views of the NASD, whose careful study of this problem has so materially aided us, and after consulting with other interested persons, fix such a date.

However, in any event the effective date will not be set earlier than Jan. 1, 1943.

By the Commission (Chairman Purcell, and Commissioners Healy, Pike and O'Brien), Commissioner Burke not participating.

Bache Co. Questions WLB's Intervention

J. S. Bache & Co., members of the New York Stock Exchange, questioned on Oct. 30 the right of the War Labor Board to intervene in a strike of their employees, after receipt of a telegram from the WLB stating that it had taken over jurisdiction in this dispute, according to the New York "Times" of Oct. 30, which added:

"The firm contends that the strike, which began on Oct. 2, involves only a minority of its employees represented by Local 20,940 of the American Federation of Office Employees and cannot be construed as affecting the war effort.

"William J. Walker, attorney for the firm, said a telegram had been sent to William H. Davis, Chairman of the WLB, asking for a public hearing to determine whether or not the WLB has any jurisdiction over a 'strictly private controversy with a minority of our employees which in no way affects the war effort.'"

"Mr. Walker said that any strikers returning on Monday will receive applications for re-employment on the same terms as those that existed when they left their desks a month ago.

"Inasmuch as the firm had been advised that the WLB had no jurisdiction in the controversy, Mr. Walker said the following telegram had been sent to Mr. Davis:

"We acknowledge receipt of the Board's wire of Oct. 29 signed by Elaine Wright, senior mediation officer. Do not understand how the War Labor Board has any jurisdiction over this firm, which is solely engaged in the brokerage business, which has not been recognized as essential to the war effort.

"Before acceding to your request to appear before your panel, we would appreciate an opportunity for a preliminary public hearing before your full Board to determine whether or not the War Labor Board has any jurisdiction over the strictly private controversy with a minority of our employees, which in no way affects the war effort."

Nov. 12 has been set as the date for a hearing on the right of the Board to assume jurisdiction in the strike. The hearing will be held in the Department of Labor Building in Washington.

Previous items on the strike of employees of J. S. Bache & Co. appeared in the Oct. 22 issue, page 1439, and the Oct. 8 issue, page 1250.

On Nov. 2 announcement was made by J. S. Bache & Co. that 88 of the 127 employees who had been on strike had returned for work. The announcement as given in the New York "Herald Tribune" follows:

"J. S. Bache & Co. announced that this morning 88 of its former employees who were on strike voluntarily returned for work. Originally 127 employees went out on strike and of this number some previously had returned to work and the balance found other employment.

"The returning ones were called together and addressed in a group by representatives of the firm, who told them that they were glad to have them come back of their own volition. It was carefully pointed out to them that the firm

Significance Of 1942 Tax Law To Investors

(Continued from page 1618)

net capital loss can be deducted from ordinary income to the extent of \$1,000, not only in the year incurred, but also in each of the five succeeding years if an unused loss remains. As stated before, we believe these improvements in the treatment of capital gains and losses give the investor a renewed incentive to make new commitments and changes in his present holdings. Investment considerations should again displace taxes as the primary factor in making decisions.

The selection of securities may well be affected by the sharp rise in tax rates on ordinary income and by possible flat limitations on salaries and investment income. When the Victory Tax goes into effect next January, the first dollar of income above exemptions will be taxed at the rate of 21% (before postwar refund), and net income (after exemptions) of only \$14,000 will reach the 51% bracket. Obviously, current income decreases in value. Future worth of the principal becomes increasingly important, particularly because of the favorable tax rates for long-term capital gains (25% maximum tax). "War" stocks lose in attractiveness, while "peace" stocks gain. The idea of considering a "war" stock as a liquidating proposition becomes untenable for persons in higher tax brackets, because of the small part of dividends escaping the tax collector. Assured postwar outlook appears to be a much more vital consideration. "Growth" companies should regain popularity (chemicals, etc.), and, in general, greater attention should be paid to companies retaining all or a large proportion of net income for the retirement of debt, for increasing working capital and for expanding plant facilities. Reinvestment of corporation earnings will probably appear increasingly attractive (barring a new tax on undistributed profits). The individual investor can obtain a return of perhaps 3% to 5% on the reinvestment of that part of the dividend remaining after taxes, while many companies can earn 10% to 20% on their investment, which earnings may in turn be capitalized as high as 20 times by the price of the stock. Of course, such increases in earnings are largely hidden by the excess profits tax at present. To give a specific example, Dow Chemical may rise relative to duPont, which has previously had the advantage of a much more liberal dividend.

Investors in high brackets may be willing to pay a premium for stocks paying dividends which are partially or entirely non-taxable. While accurate predictions cannot be made as to the status of 1942 dividends, the approximate amount that was non-taxable of 1941 dividends is given for the better known issues in this class last year: Adams Express, 60¢; American General preferreds (35% of regular rates); Atlas \$3

had made no promises or commitments of any kind to the various governmental agencies that had interested themselves in the strike, and that likewise none of those agencies ordered the strikers to return. They were also told that the firm was going to contest the jurisdiction of the War Labor Board, the latest agency which is considering the strike. The strikers signed application for re-employment.

"The firm stated that its business had been conducted on a normal basis during the month that the strike was on. Since the firm had no previous knowledge of how many or which people were returning, it told the group that they would be re-employed on a stagger system beginning Wednesday, Nov. 4, with pay starting from the time they were called back."

preferred, \$3; Blue Ridge \$3 preferred, \$1.75; Equity preferred, \$1.25; Great Northern Iron Ore, 13¢; Kennecott, 70¢; N. Y. City Omnibus, \$1.65; Petroleum Corp., \$1.64; Transamerica, 50¢; Tri-Continental \$6 preferred, \$1.84. Interest on defaulted bonds is considered to be non-taxable in most cases. This is an attractive feature of a number of defaulted railroad bonds.

Certain beneficial changes in corporation taxes will also be briefly discussed because of their effect on the securities of particular groups of companies. The two-year carry-back and carry-forward of unused excess profits exemption should be very important for companies likely to experience unfavorable earnings during the war but with a high rate of earnings before or after this period. Companies of this type might be Libbey-Owens-Ford, Sears, Ward, Western Auto Supply, Jewel Tea, etc. The two-year carry-back and carry-forward of operating losses for purposes of the normal tax and surtax will aid companies likely to show losses as a result of the war (Homestake), and also companies which may experience losses when war orders end and the changeover to civilian business occurs (aircraft manufacturers, machinery, possibly steels and rails). The losses can be used to readjust past earnings (two preceding years except 1940) with resulting tax rebates, and can be carried forward two years if not used as a carry-back. This feature is likely to be useful only to highly cyclical companies.

Companies with one abnormally low earnings year in the 1936-39 base period will benefit from a new alternative method of computation, provided, of course, that the invested capital option is not more favorable for the excess profits tax. It is now permitted to substitute for the low year 75% of the average of the other three years. The following companies should be aided to a considerable degree by this provision. Armstrong Cork, Bohn Aluminum, Borg Warner, Briggs, Bullard, Caterpillar, Chrysler, Collins & Aikman, Crown Cork & Seal, du Pont, Electric Auto-Lite, Fairbanks Morse, General Electric, General Motors, Houdaille Hershey "B", Johns-Manville, Libbey-Owens-Ford, Glenn L. Martin, Minneapolis-Honeywell, Monsanto, North American Aviation, Pepsi-Cola, Pittsburgh Plate Glass, Remington Rand, Schenley Distillers, Square D, Timken Detroit Axle, Twentieth Century Fox, and Westinghouse Electric.

Numerous companies overaccrued income taxes in the first half of 1942, and adjusted earnings are now likely to be better than expected. Companies doing a very large volume of war business will be the largest beneficiaries of the postwar refund of 10% of the excess profits tax paid in 1942. The 80% ceiling on corporation income taxes will also be helpful to a few in this same group of companies. Most manufacturers of aircraft, ships and machinery are strongly aided by both features. Other companies that will receive substantial refunds are: Bendix, Bethlehem, Bohn, Bridgeport Brass, Campbell Wyant, Clark Equipment, Crucible, Cutler Hammer, Doehler, Eaton, General Electric, Greyhound, Johns-Manville, M a c k, Minneapolis-Honeywell, National Cash Register, Spicer, Square D, Timken Axle, White, Worthington Pump.

Public utilities are favored by a specific exemption from the surtax of earnings paid in dividends on operating company preferred stocks. This should bolster medium grade operating company preferreds, which have seemingly declined primarily as a result of the fear of rising income taxes.

It now appears that a ceiling of 24% (normal tax) may exist for the duration on taxes affecting operating company preferreds. Most holding companies benefit indirectly from this tax saving. Outstanding examples are the preferred stocks of Electric Power & Light and Commonwealth & Southern. A more modest benefit will be enjoyed by the common stocks of Southern California Edison and Pacific Gas. Some public utilities will also be aided by the allowing of consolidated returns for purposes of the normal tax and surtax, with a rate increase of 2%. Losses from certain subsidiaries, such as street railways, can be used as an offset to other profits.

Railroads also enjoy some special benefits under the new tax law. Bonds can be repurchased by all corporations without including the discount from par as income, and this provision aids railroads particularly. Some issues have already moved up substantially, reflecting actual or prospective purchasing by the railroad company. In many cases these bonds are rather speculative, and purchase now by an individual investor would be largely a gamble in the length of the war. However, the rise in some bonds appears rather moderate to date, and purchase may involve smaller risks. In this class might be considered: New York Central 3 1/4s, 1952; Nashville, Chattanooga & St. Louis 4s, 1978; Southern Railway 4s, 1956; and Reading (Jersey Central) 4s, 1951. The tax outlook for reorganized roads has been clarified by the provision that the invested capital base is not diminished by reorganization — E. F. Hutton & Co.

Asks Dealers To Clarify Transactions Near Holiday

The National Uniform Practice Committee of the National Association of Securities Dealers, Inc., announces:

Because certain holidays are not observed in every State, the determination of "ex" dates, with respect to dividends or payments, on unspecified trades, in accordance with the provisions of Sections 5, 6 and 7 of the National Uniform Practice Code, might involve an unexpected loss to one of the parties to the contract.

The Committee, therefore, strongly recommends to every member effecting an inter-State transaction on or immediately prior to any holiday that, at the time of trade, specific designation be made on this point to avoid any misunderstandings.

Turkish And Bolivian Newspapermen At NYSE

Four Turkish newspapermen, Bey Hussein Yalcin, Bey Sukru Esmer, Bey Abidin Daver and Bey Zakaria Sertel, and three Bolivian newspapermen, Arturo Otero, Frederico Gutierrez and Luis Zavala, were guests of the New York Stock Exchange on Nov. 2 and were welcomed by Robert L. Stott, Chairman of the Board, and Robert DeF. Boomer, Chairman of the Exchange's Inter-American Hospitality Committee. The Turkish journalists were accompanied by Joseph S. Rogers, of the Office of War Information, and the Bolivian newspapermen were escorted by Walter Walters, Chairman of the Catholic Committee for Inter-American Affairs.

The Turkish group is visiting the United States at the invitation of the State Department, and the Bolivian visitors are here under the auspices of the National Press Club, Department of State and the Office of the Coordinator of Inter-American Affairs.

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**WHEN THE BROKER ARRESTS
THE CUSTOMER**

"Here's my check on the Popular Bank to pay for that stock you bought for me," the customer announces.

"And here's your certificates," the broker replies, and presents the check for payment. The customer has a deposit large enough to pay the check and buy a sedan with the balance, but the paying teller looks up the wrong account.

"Not sufficient funds," the teller explains, and the broker seeks his lawyer's office.

"We've got a State law making it a crime to give a check when the drawer hasn't sufficient funds to pay it," the attorney declares.

"Well, go ahead and arrest that fellow without delay," the broker orders. The customer is "pulled up," the bank's mistake is discovered, and the customer consults his attorney.

"Of course, you can't sue the broker for damages, for he acted in good faith," the lawyer explains.

"No, but why can't I collect damages from that bank?" the customer demands.

"Why not?" the reader may agree, but the Supreme Court of California in the case of Hartford vs. Bank, 170 Cal. Reports, 538, ruled that the customer had no case.

"There was no direct causal connection between the two things. There was an interruption and the intervention of an entirely separate cause, which caused was an independent human agency acting with an independent mind," said the Court.

To carry the parable a little further, suppose that the broker presents the check a second time and meets with a second refusal.

"I'm going to arrest that fellow for giving a worthless check," the broker declares.

"That's your business," the bank tells him.

"Does this give the customer any better case against the bank?"

In another and later California case, Bearden vs. Bank, 207 Pacific Reporter, 270, the Court again ruled in favor of the bank.

"The only difference in the two cases is that in the one under consideration, a threat of arrest was communicated to the bank, thus bringing pointedly to its attention

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Our Reporter On "Governments"

Latest financing story (November is the one we're talking about now) indicates the "tap" issue is going to be reopened maybe by announcement today, and subscriptions from insurance companies, corporations, trust funds, etc., are going to be requested. . . . Makes sense. . . . Suggests the "taps" are on a three-month-spacing basis and offerings will be made every quarter. . . . If your institution is a bank, there's no point in your reading the next few paragraphs, for chances are the restrictions on bank buying of these long-term 2½s will be continued. . . . But if your interest lies in a non-banking institution, it's about time you considered the virtues of this registered loan.

The "taps" or "on sale" bonds as they are now called, are attractive. . . . In comparison with other bonds on the market, they have definite, distinct advantages in yield and in maturity limitations. . . . They're protected by a real bottom at par—notice, for instance, that they've never been permitted to go below par. . . . They're among the best-placed issues in the market even though they have been outstanding only a short time, because they're held by so-called permanent investors. . . . Their yield at 100¼, the price at this writing, is 2.48% to maturity, the best in the long-term market. . . .

These bonds, in short, are worth buying—if you can. . . . Incidentally, there's little point in buying these on any except a permanent basis. . . . Registered form of issue militates against that to start with. . . . And then there's the fact that the issue does and must recede every time a new offering is rumored about. . . . High price to date has been 100.22. . . . Low, of course, has been 100. . . . At the moment, there are \$2,118,000,000 of them out and there should be \$3,000,000,000 out by the end of November. . . .

Banks will be able to buy these starting May 5, 1952. . . . On that date too—which is ten years from issue date—the bonds move out of their registered form. . . . On that date, therefore, the attractiveness, marketability and value of the bonds should take a strong turn upward. . . . Not that there's much point in forecasting for 1952 just now! But among bond dealers, there's sufficient consideration of the changing character of the bonds as months and years go by to indicate this may become an increasingly important market factor. . . .

THE TOP RATE

And one more point deserves mention. . . . The "taps" are tops as far as interest coupons go. . . . Commercial banks? They get the 10-year 2s and that's the top return for them. . . . Individual little fellows? They get the Series E war bonds carrying 2.9% yield and that's the top return for them. . . . Wealthy individuals with several thousands to invest? They get the Series F and G war bonds and 2.5% is the top return for them. . . . The thousands of corporate and insurance company investors outside of commercial banks? They can have the tap 2½s, due in 1967, callable in 1962, and that's the top return for them. . . .

Considering the present rigidity of the interest rate scale and the division established in the investment market, the taps are the best buy for any institution that can afford this maturity and that is eligible to subscribe. . . .

The market tells us that. . . . Here is one bond that has been holding well during all periods of unsettlement. . . .

THE ½% RATE

All but one Federal Reserve district bank (Minneapolis) have now cut their rates on advances to member banks secured by Governments due or callable in a year or less to ½%. . . . Move designed to carry out Reserve's policy of making financing of war by banks as easy as possible. . . . Uniformity of rates is important, suggests national scope of policy. . . . New York's step last Thursday indicates big cities are in on this thing as much as ever. . . . Back in the old days, regional banks changed their discount rates to meet regional conditions, acted on circumstances that were peculiar to a certain part of the country at a certain time. . . . But no longer. . . . The change in rates this time is directed at a national purpose—the biggest, widest sale of Government securities. . . . And the change, therefore, must be uniform for the nation. . . .

In one sense, this is a deeply inflationary move, but there's little to be gained from emphasizing that now. . . . Here's the situation: a bank holding the one-year ¾% certificates and caught short for funds can borrow at the Federal to the tune of millions. It doesn't have to sell its shorts to get cash. It doesn't have to worry about loss of interest following sales. It can take its ¾% certificates, rediscount them, get enough profit to pay the FDIC's assessment on any approximately equal amount of deposits, keep its reserve position comfortable and place itself in a position to buy Governments to the hilt.

Lots of banks have gotten out of the habit of using the rediscount privilege. . . . It might be a good idea to try it out—even though you don't need it just now. . . . Get your institution back into the psychological habit. . . .

INSIDE THE MARKET

New certificates selling at a slight premium, ranging between 1/64 and 1/32. . . . Reception was excellent, indicating increasing acceptance of this type of Government loan. . . . Also rate was good and fact that Treasury sidestepped the "odd decimal" suggestion on these was appreciated by investors. . . . (There had been talk of an 0.82 or 0.85% c.i.)

a probable consequence of its refusal to pay the check. That such a consequence might follow the refusal, however, was known to the bank official in the case of Hartford vs. Bank, since the issuance of a check upon a bank without funds or credit to meet it is a public offense which notoriously frequently results in the arrest and imprisonment of the drawer of the check," was the reasoning of the Court.

**Gordon Russell Now With
Goldman, Sachs & Co.**

BOSTON, MASS.—Gordon B. Russell has become associated with Goldman, Sachs & Co., 75 Federal Street. Mr. Russell was recently with F. Britain Kennedy & Co. and prior thereto was an officer of Webster, Kennedy & Co., Inc., and Kennedy, Spence & Co.

**Savs.-Loan Conference
In Chicago Nov. 16-18**

War housing, war bond, manpower, and rent-control key men will confer with savings, building and loan association managers holding a war conference on housing and savings in Chicago, Nov. 16-18, in place of their annual convention. Fernor S. Cannon, Indianapolis, President of the United States Savings and Loan League, announces that a program combining discussion of management problems in wartime with major emphasis on what these associations can do to help win the war has been arranged. A feature of the meeting will be a patriotic luncheon in honor of the 3,000 officers, directors and employees of the savings and loan institutions now in the armed forces, to be addressed by James G. Stewart, Mayor of Cincinnati.

Speakers, as listed on the program, made public this week are:

Representative Fritz G. Latham, Chairman, Public Building and Grounds Committee; John B. Blandford, Jr., Administrator, National Housing Agency; Abner H. Ferguson, Commissioner, Federal Housing Administration; John H. Fahey, Commissioner, Federal Home Loan Bank Administration; Paul Porter, Deputy Administrator, Office of Price Administration; Ted R. Gamble, Assistant to the Secretary of the Treasury; Eric A. Johnston, Spokane, President, Chamber of Commerce of the United States; Montfort Jones, Professor of Finance, University of Pittsburgh; Carroll Binder, Foreign Correspondent, and Mayor Stewart.

The annual address of the President of the Savings and Loan League will be given by Mr. Cannon at the first day's meeting, with the report of Secretary-Treasurer Herman F. Cellarius of Cincinnati, and an address by Morton Bodfish, Executive Vice-President of the League, on the national and international scene as it affects the thrift and home lending business. There will be panel discussions, chairmaned by Fred T. Greene, President of the Federal Home Loan Bank of Indianapolis, and Carl F. Distelhorst,

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Chicago, Assistant Vice-President, United States Savings and Loan League.

**Henry E. McMillin Is
With Ball, Coons Co.**

(Special to The Financial Chronicle)
CLEVELAND, OHIO—Henry E. McMillin has become associated with Ball, Coons & Co., Union Commerce Building, members of the Cleveland Stock Exchange. Mr. McMillin has conducted his own investment business in Cleveland, H. E. McMillin & Co., for many years and in the past was with the Union Trust Company.

Also joining the staff of Ball, Coons & Co. is Homer E. Metzger, who was with H. E. McMillin & Co.

**Harry A. Bruce With
Blyth In Los Angeles**

LOS ANGELES, CALIF.—Harry A. Bruce, formerly Vice-President of Heller, Bruce & Co., in charge of their New York office, has become associated with Blyth & Co., Inc., in their Sales Department. Mr. Bruce will make his headquarters in Blyth & Co.'s Los Angeles office, 215 West Sixth Street.

Briggs, Schaedle Elect

Walter E. Suttmeier has been elected Assistant Treasurer of Briggs, Schaedle & Co., dealers in Government securities, 44 Wall St., New York City.

Big orders came in from corporations with idle reserves in their treasuries. . . . Also from individuals and trust funds. . . . Commercial banks were the main buyers, naturally, but broadening market was discernible right down the line. . . .

Canada's new Victory Loan is going well. . . . Up to eighth day of 18-day campaign, total subscriptions were \$414,583,900 for the \$750,000,000 issue. . . . Daily average of orders running around \$47,000,000, well above \$41,700,000 required to meet goal by November 7. . . .

Canada has its war financing down to the fine art stage now. . . . Its continuing sales drives plus these periodic blitz campaigns are keeping up interest in Dominion issues. . . . United States authorities studying Canada's methods, copying some and may copy more. . . .

On declining capital ratio situation, statement of Undersecretary Bell at Investment Bankers Association's Convention is significant. . . . Ties in with increasing issues of certificates of indebtedness. . . . Bell remarked that c. i. issues plus discount bill offerings gave banking system considerable liquidity, then added:

"This liquidity is going to be a very welcome offset to declining capital ratios, and will make it easier for banks to adjust themselves to the need of shifting deposits from area to area, a process that seems likely to continue." . . .

One intriguing angle about c. i.'s is that they're bound to become attractive as their maturity date nears. . . . Consider the 7/8s, for instance, due Aug. 1, 1943. . . . Compare them with discount bills which have a set rate at ¾ of 1%. . . . When the maturity date of the c. i. issues compares with the 90-day due date of the bills, the difference in coupon will become clearly apparent. . . . And the price of the 7/8s must advance. . . .

RESERVE SUPPORT

The shock of the \$632,000,000 purchases of Governments by the Reserve System in the weeks surrounding the recent \$4,000,000,000 financing has been eased by the success of the certificate issue. . . . People are forgetting now that this support was the largest in history, dwarfed the buying of the Reserve Banks during the weeks following the outbreak of war in September, 1939. . . . Which is just as well. . . . That issue, so close to being a failure, is over. . . . Lessons have been learned by the Treasury and by investors. . . . They won't be forgotten too quickly. . . .

But there's one point worth repeating. . . . And that is we had another indication of the extent to which the Reserve will go and is prepared to go to keep the market stable and help put over the war financing program. . . . If the Reserve has to buy hundreds of millions in the open market, shift discount rates, buy bonds directly from the Treasury, cut reserve requirements or call on any of its remaining control devices to hold the market—it will do so. . . . And that's that. . . .