ESTABLISHED 1839

In 2 Sections – Section

The COMMERCIAL and FINANCIAL CHRONICLE

Reg. U. S. Pat. Office

Convention Number | New York, N. Y., Thursday, June 22, 1950 | Price 30 Cents a Co

I·D·A· of CANADA

34th Annual Convention

Montebello
Province of
Quebec

Seigniory Club

J.C.PEHL

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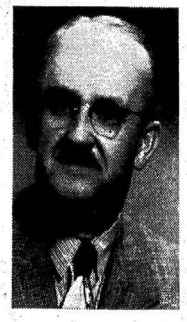

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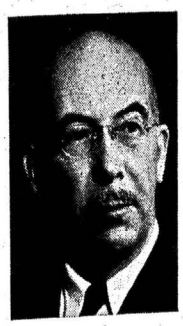

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Canadian Economy in Sound Shape!

By JOHN B. RIDLEY*

President, The Investment Dealers' Association of Canada
Vice-President, A. E. Ames & Co. Limited, Toronto

Canadian investment banker, in reviewing recent economic and financial developments in Canada, points out factors in health and strength in Canadian economy. Sees high government expenditures causing some concern, and taxation dangerously close to dampening incentives, but calls attention to some tax relief in 10% credit on dividends applied against personal income taxes. Notes some decline in Canadian corporations' financing, offset by rise in expenditures on capital account. Stresses Canada's stake in preserving democracy and free enterprise throughout world.

I don't propose to give you an extensive financial statistical analysis at this time but a few figures will indicate the health and strength of the Canadian economy and our industry's contribution in this regard.

John B. Ridley

The Government of Canada again had a budgetary surplus — for the calendar year 1949 — $284 million against $640 million in 1948. The surplus with funds from other sources permitted a reduction of over $600 million in the outstanding domestic funded debt. The only public borrowings during the year by the Canadian Government were $100 million in the United States for refunding and the sale of $293 million Canada Savings Bonds, of which $140 million were through Payroll Savings. The payroll Savings organization was again supervised by Investment Dealers whose efforts were in no small measure responsible for the outstanding success. Some 950,000 individuals purchased Canada Savings Bonds during the year.

High Government expenditures continue to cause some concern. The Minister of Finance forecasts a budget surplus for the current year of only $20 million and expenditures of the colossal sum of $2,410 million, almost equal to those of the previous year. Further relief from the severe levels of taxation it appears must come from reduced expenditures. Every effort to bring this about should be encouraged. Taxation has been dangerously close to the point of dampening incentives so essential to further development of our great resources. Some expenditure on so-called social services is undoubtedly justified but a demand for increased burdens in this direction seems particularly inopportune. A "robbing Peter to pay Paul" attitude is sometimes all too prevalent. The heavily burdened taxpayer should not be called upon to provide funds for further experiments in social security. Overdone social security is not only a waste but breeds an attitude that the State owes everyone a living. The State can only properly serve the citizens if the individual is willing and desirous of shouldering citizenship responsibilities. We should constantly be reminded that it is the people, not Governments, that pay the costs of baby bonuses, non-contributory pensions without means test, social medicine, etc.

Dividend Tax Reductions

The only tax relief of note since our last Annual Meeting was the sensible extension to all dividends on shares of Canadian taxpaying corporations of the 10% credit against personal income taxes. Your Executive Committee promptly and forcefully drew to the attention of the Minister of Finance the unfairness of the original suggestion that this apply only to dividends on common shares. Our submission in this regard, I think, was an important factor in bringing about the change. Senior shares have played and are playing a substantial part in providing needed capital for Canada's further development. Dividends on all shares are paid out of profits that have already felt the weight of corporation income taxes. Only confusion could have resulted from any differentiation. Presumably, this is just a start on the elimination of the iniquitous double taxation on corporate profits.

We should continue strenuously to press for further relief in this field. The risks and responsibilities involved in enterprising investment are sometimes great. It is only common sense that an offsetting profit possibility should be available as an incentive. Our country has become great through the combined efforts of those stalwart, venturesome Canadians who, through hard work, intelligence, imagination and thrift have converted idle natural resources to important use and thereby raised the living standards of all. As the savings of the people are more widely dispersed than ever before, profit possibilities must be preserved as incentives to encourage the many new savers to follow the lead of their courageous and enterprising forebearers.

Provincial and municipal governments continue to have substantial borrowing requirements for capital account which resulted in a net increase in Provincial and Provincial-guaranteed bonds during 1949 of $140 million and in municipal debentures of $18 million. These and refunding needs were cared for in an orderly manner. Municipalities particularly should scrutinize their capital expenditures carefully. High construction costs result in an increase in debt in some instances out of proportion to the value of new services and facilities.

Corporation bond and stock financing, on the other hand, showed a net decrease of $49 million, resulting no doubt from plant rehabilitation and extension expenditures so necessary in the postwar period passing their peak. The outstanding exception to this was the petroleum industry where development in Canada is in relatively early stages and a substantial capital expansion program is in prospect.

As these borrowing figures suggest, there was again an increase in expenditures on capital account by business establishments, agriculture and governments. This was $3,400 million in 1949 as against $3,150 million in 1948. Official government sources estimate for 1950 a further increase to $3,600 million. These truly remarkable figures are exclusive of repair and maintenance expenditures. Pessimism has very little place in such an atmosphere.

A year ago, some were fearful of business conditions then prevailing in the United States. The fast recession which commenced late in 1948 appears largely to have been of an inventory adjustment character. The position has reversed itself. Since the middle of 1949 production has risen as has national income. This recession in the United States was not reflected similarly in economic activity in Canada. One of the main reasons for this unusual divergence was undoubtedly the important influence of discovery and development of new resources such as petroleum, tianium and iron ore.

The most important event in international finance was the new international exchange rate structure in which the United Kingdom and many other countries reduced the value of their currencies in terms of U. S. dollars —the U. K. by 30.5% on Sept. 19, 1949 and Canada by 9.1% on Sept. 20. This change was expected owing to existing price discrepancies between "soft" currency and "hard" currency countries. The extent of the devaluation, however, was much more substantial than prognostications suggested. In that it assists "soft" currency exports to North America, it should be constructive, at least temporarily. It should tend to replace some of our excessive U. S. dollar purchases with increased ones from the sterling area and Western Europe and thereby might improve our technical foreign payment problem. However, only if it leads to ultimate free convertibility of currencies will it be of lasting benefit to Canada.

Western Europe and the United Kingdom have shown some signs of material improvement. The European Recovery Programme — that magnificently conceived pump-primer—has and is playing its vital part. Improvement in European production and exports is gratifying, but that area still has a complicated and difficult road ahead. Patience and perseverance will be required for the restoration of a sound balance of world trade in which Western Europe plays an essential part.

"Canada's economic activity is heavily influenced by conditions throughout the world." This is quoted from the last Budget Speech of the Minister of Finance. It is now only 45 hours from Montreal to Bombay; 15 hours from Toronto to London; 36 hours from Vancouver to Australia. Under such conditions isolationism is a thing of the past. In one respect world conditions appear to have retrogressed. The gap between Russia and her satellites and the Western Democracies has widened to dangerous proportions. During the year it became obvious that a dangerous death struggle between two ideologies was developing. The English-speaking world has struggled for, fought for and preserved freedom for over 800 years. The Russian has never had it, cannot recognize it and refuses to countenance it. The English-speaking world's philosophy is God fearing. It permits and encourages worship by every man in accordance with his own religious beliefs. Communism is a form of ugly atheistic materialism. Democracy is based on the sacredness of the individual's God-given right of self-determination. Its strength is its respect for the necessity of reasonable compromise arrived at through sensible negotiations. The hateful thing about Communism is it brooks no opposition; it has no regard for compromise and no comprehension of honest negotiations.

It would be ill enough if the rotten philosophy of Communism could be kept behind the Iron Curtain. How tragic that some senseless souls are traitors in our midst and use the very freedoms we cherish to sabotage our treasured heritage. The known Communist can be handled. Their insidious influence on others is harder to cope with.

Gentlemen, we should recognize that our free enterprise system is on trial. Its material accomplishments are apparent to us all. Its spiritual tenets—freedom of speech and of the press, religious freedom, preservation of the sanctity of the home and of individual rights—are vastly more important. All these are worth working and fighting for. I believe that sometimes an appreciation of sensible compromise and reasonable negotiation essential for the preservation of free enterprise is sadly lacking. Competition in a democracy is the "spice of life," but it can and should be friendly. Those who set class against class should be despised. Cantankerous bureaucratic controls should be eliminated. Unenlightened and unfortunately subversive leadership too frequently unbalances that great productive partnership, Capital, Management and Labor. Neither one of these three should be guilty of vilifying utterances concerning the other. Reasonable compromise and successful negotiations should persist toward a peaceful solution of natural differences of opinion. Otherwise, comfort is given to the Communists and there occurs a small break in the dyke protecting freedom which, if not promptly repaired, can become dangerous.

A real appreciation of the other fellow's problems is the best way to assure that attitude of good neighborliness so necessary in working out peacefully and satisfactorily the many problems facing a sensitive democratic system. Business for many years was too prone to hide its light under a bushel. The other fellow's problem can't be appreciated without accurate information being readily available.

It is gratifying that business is now showing a keen awareness of this and good work is being done in spreading this awareness through educational and public relations efforts. Many business and professional associations are to be commended for the intelligent attention given to educational and public relations programmes. The investment industry's efforts in this direction started in real earnest five years ago, I am glad to report are bearing fruit.

There should be nothing hush-hush about the profit system. If we spend more than our income, if we don't make a profit, we ultimately go broke and become a charge on the other fellow—the State. Ignorance breeds suspicion and distrust which are the best tools of the "fellow travellers." In fostering knowledge through intelligent educational and public relations efforts, business can make a splendid contribution toward the preservation of our way of life, including our free enterprise system.

*Address by Mr. Ridley at 34th Annual Meeting of The Investment Dealers' Association of Canada, Seigniory Club, Montebello, Can., June 7, 1950.

In Attendance at I.D.A.C. Convention

ALLMAN, E. J.
Gairdner & Co., Ltd., Toronto

ANDERSON, P. J.
A. E. Ames & Co., Ltd., Toronto

ARMITAGE, A. T.
Investment Bankers Association of America, Boston

BABBITT, G. M.
Biggar & Crawford, Toronto

BAGNALL, E. M.
F. J. Brennan & Co., Ltd., Charlottetown

BAKER, R. D.
James Richardson & Sons, Winnipeg

BAKER, T. H.
Milner, Ross & Co., Toronto

BARRY, G. A.
Wood, Gundy & Co., Ltd., Montreal

BAWDEN, H. N.
Dominion Securities Corp., Ltd. Toronto

BEAUBIEN, A. S.
L. J. Beaubien & Co., Ltd., Montreal

BEAUBIEN, J.
L. J. Beaubien & Co., Ltd., Montreal

BELANGER, R.
Belanger, Inc., Montreal

BELL, N. B.
Bell, Gouinlock & Co., Ltd., Toronto

BENHAM, H. A.
Royal Securities Corp., Ltd., Winnipeg

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Calvin Bullock Limited, Montreal

BIRD, H. J.
H. J. Bird & Co., Vancouver

BLACKMORE, R.
"Globe & Mail," Toronto

BOOTHE, A. E.
Bell, Gouinlock & Co., Ltd., Toronto

BORRIE, W. J.
Pemberton & Son Vancouver Ltd., Vancouver

BOYER, J. U.
Canadian Bankers Association, Montreal

BRENNAN, F. J.
F. J. Brennan & Co., Ltd., Saint John

BRODERICK, W.
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Gairdner & Co., Ltd., Toronto

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Guildhall Securities Ltd., Montreal

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R. A. Daly & Co., Ltd., Toronto

CANNING, W. A.
Bell Telephone Co., Toronto

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Casgrain & Co., Ltd., Montreal

CASSIDY, F. C.
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V. S. Castledine & Co., Ltd., Ottawa

CASTELDINE, V. S.
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Bartlett, Cayley & Co., Ltd., Toronto

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Calvin Bullock Limited, New York

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Wood, Gundy & Co., Ltd., Montreal

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Collier, Norris & Quinlan, Ltd., Montreal

COLVEY, D.
Canadian Dow Jones & Co., Montreal

COPLAND, R. A.
Oldfield Kirby & Gardner, Winnipeg

COX, M. D.
Greenshields & Co., Inc., Toronto

COX, Stanley
Bankers Bond Corp., Ltd., Toronto

COYNE, B. L.
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CRAIG, R. H.
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Dattels & Co., Ltd., Kitchener

DAVY, J.
Dominion Securities Corp., Ltd., Toronto

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DINGLE, H. H.
Wood, Gundy & Co., Ltd., Vancouver

DINNICK, J. S.
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DOANE, H. R.
Dominion Association of Chartered Accountants, Halifax

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Kippen & Co., Inc., Montreal

DRURY, D. K.
R. D. Steers & Co., Ottawa

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Belanger, Inc., Montreal

DYMENT, W. A.
Burns Bros & Denton Ltd., Toronto

EDMONDS, O. R.
Walwyn Fisher & Co., Ltd., Toronto

ERTL, E. C.
"Financial Times," Montreal

EVANS, F. O.
McLeod, Young, Weir & Co., Montreal

EVANS, W. J. S.
Guildhall Securities Ltd., Montreal

FARNSWORTH, H. R.
Royal Securities Corp., Ltd., Calgary

FAVREAU, V.
Credit Interprovincial Ltd., Montreal

FINDLEY, J. R.
Deacon Findley Coyne & Co., Ltd., Toronto

FISHER, A. P.
Walwyn, Fisher & Co., Ltd., Toronto

FISHER, PAUL
A. E. Ames & Co., Ltd., Montreal

FITZPATRICK, F. M.
A. M. Kidder & Co., Montreal

FRANCIS, FRANK
"Montreal Gazette," Montreal

FRASER, G. LYALL
Western City Co., Ltd., Vancouver

FULLERTON, C. G.
A. E. Ames & Co., Ltd., Toronto

GAMMELL, H. G.
Bank of Canada, Ottawa

GAIRDNER, J. A.
Gairdner & Co., Ltd., Toronto

GAIRDNER, J. S.
Gairdner & Co., Ltd., Toronto

GARDINER, G. R.
George R. Gardiner Ltd., Toronto

GASSARD, H. L.
Investment Dealers' Association of Canada, Montreal

GEE, H. W.
Canadian Alliance Corp., Ltd., Montreal

GELINAS, L.
Geoffrion, Robert & Gelinas, Montreal

GENDRON, J.
J. T. Gendron Inc., Quebec

GILL, W. B.
Canadian Dow Jones & Co., Toronto

GILMORE, J. D.
Dominion Securities Corp., Ltd., Toronto

GINGRAS, G.
Rene T. Leclerc Inc., Montreal

GLASGOW, E. E.
Peter D. Curry & Co., Winnipeg

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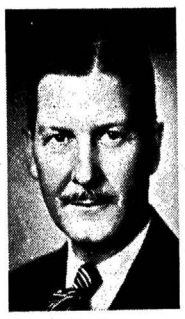
Canadian Banking as Related to Investments

By J. U. BOYER*
President, The Canadian Bankers' Association

In revealing that Canadian banks now have more than one-half of their assets invested in securities, prominent Canadian banker points out these investments must be of short-term and liquid character, under Canadian banking laws. Stresses need of stimulating investment-mindedness among all Canadians, but points out banks refrain from recommending investments to clients, though they now may maintain security trading departments. Notes advent of Canadian banks into underwriting syndicates and lauds cooperation between banks and investment dealers.

I have been asked to speak about banking as related to investment—about the bearing of the investment business on ours, and vice-versa. I am asked to touch on the "problem" of present and future in the investment field. As I see it, the number one problem challenging all thoughtful men, is that of stimulating investment-mindedness among all Canadians; getting them seized of the opportunities to participate in sound ventures, so that Canadians themselves will share more widely in the dividends and rewards from development of Canada's resources.



J. U. Boyer

To overcome the seeming lethargy of money-savers in respect of these opportunities for gain which await the bold is a challenge which warrants serious study.

I shall limit myself to speaking only as a banker. First, let me appeal for a clear understanding of the differing relationships. The relationship between the issuer and the buyer of a share, a bond or a debenture is the relationship of vendor and purchaser; and the contractual finality of the investor parting with his money in return for a security is clearly understood.

Bankers' Responsibilities

Upon the other hand, the relationship between a depositor and his bank, is that of creditor and debtor. We owe him his money. He looks to his bank—not to a market. We must—and do—keep ourselves ready to pay him his money when he wants it. And, of cardinal importance, he must know that he can get his money when he wants it. This confidence is the very foundation of our financial structure. Just try to imagine a Canada without it!

In practice, banks do invest heavily in securities. Our holdings have to be predominantly short-term, to maintain the liquidity that enables us to meet any ordinary—or even extraordinary—demands of depositors.

The grand total of investments in securities by all chartered banks added together, stood at $4,453 million at March 31 this year. That is equal to 50.4% of the total assets of all the chartered banks.

While bank investments must be governed by prudence, these figures prove that banks are not reluctant to invest with prudence.

Banking is a business calling for intelligent and calculated risk-taking—but the scope is not absolute. It is subject to considered legislative limitations, enacted with the aim of making sure that a depositor can get his money when he needs it, whether to feed his family, plant a crop, or buy a bond or a share.

Restrictions upon a bank's investment outlook are, by and large, embedded generally in common and civil law and particularly in the Bank Act. Canada's legislators, over the years, in different parliaments, and in seven different decennial revisions of the Bank Act, have sought to embody in it every safeguard that sensible men could devise to protect the depositor.

Thus, no institution but a chartered bank (with a few exceptions provided in other specific legislation) may legally call itself a bank — a provision which is sometimes honored in the breach, though rather generally in the observance. And no persons outside of banks, under the Bank Act or kindred legislation, may call themselves bankers. (The Bank of Canada Act is an example of the kindred legislation I mean.)

The Bank Act prohibits a chartered bank from using or permitting the use of its name in any prospectus or newspaper advertisements offering shares or other securities for sale to the public. I do not need to discuss the reasons.

Banks Do Not Recommend Investments

No matter how strongly a banker, as an individual, may feel that Canadians should get in on worth-while venture-promotions of their own countrymen, and in their own country, a bank will not actually recommend to a person that he put his money into any particular stock, bond or venture — the one exception being Dominion of Canada issues. The bank will go out of its way to make all information available to the customer, to help him form his own judgment, but the law holds many a pitfall to deter one from recommendations.

At no time have we any quarrel with the wisdom of parliaments. We must observe the rules and principles laid down for us, even, at times, at the expense of criticisms or misunderstandings—which we try, individually and collectively, to remove by public information and by our efforts in the field of public relations.

With all of the foregoing in view, it is noteworthy that our investments are nearly $4½ billion. It is true, these investments are most largely short-term, but none will deny that our contribution to stability in the short-term market is important to you and to the public interest, in the long-term market.

Compared with older countries, the investment market in Canada is a recent growth. It stems largely from two great wars. At the end of the first world war the Canadian investment market was in its infancy. It has not grown to full stature yet. Nevertheless we are maturing rapidly.

Take a bird's-eye view: In 1914 the total securities investments of all the banks put together amounted to $105 million. Contrast that with the $4½ billion I have mentioned as of today. In 1914, at the start of the first world war, bank assets amounted to only $1,555 million and investments were then less than 7% of total assets. In 1939, at the start of the second world war, our investments had grown to $1,540 million and our asets had grown to $3½ billion. The ratio of investments to assets was 42.9%. It is now over 50%. Today our assets stand at $8,839 million and our investments $4,453 million. Our investments at March 31, 1950 were 189% greater than in prewar 1939.

What has been happening in bank deposits, assets and investments is typical of the rest of the economy. Canada's economy has risen in terms of gross national product, from about $4 billion in 1914 to about $16 billion estimated for 1950. Canada has become highly industrialized. Physical volume of production has expanded tremendously. Take cash farm income too as an indicator; it grew from $700 million in 1939 to $2,456 million in1949.

Highlight of this picture is of course the facility, imagination and skill with which business and manufacturing institutions, and not less our democratic system or way of life, effected the postwar reconversion and the expansion since. And in that picture we must all recognize the courage of investors, the work of investment dealers and the immeasurable advantage of a sound, resilient, well-managed, well-regulated banking system.

Bank participation in the investment field is two-fold in character. First the investing on our own account which I have described; and second, the buying and selling for customers. There is quite substantial handling of investments in the latter category by the trading departments of the various banks. Upon the whole, I think the figures establish that banks actually have greater volume investment than any other business in the country.

Up to the end of the first World War no Canadian bank had securities experts or securities departments. Purchase of securities was done usually by the general manager placing the orders direct. At that time banks did not participate in underwriting syndicates. But the growth of the economy has changed all that, and made it essential for banks to establish their securities departments manned by experts, to invest for their own portfolios and also to be able to buy and sell for customers anywhere from coast to coast.

Canadian Banks in Underwriting Syndicates

The advent of the banks into underwriting syndicates came about really at the instigation of the investment dealers and cannot be regarded as an attack upon their field. Underwriting became so substantial that your various underwriting groups realized that the strength of the banks was essential to the underwriting of large amounts.

By and large, the relationships between banks and investment dealers have been cooperative and marked by mutual understanding; your efforts and ours have been of great assistance to the public wellbeing in maintaining a high degree of investment activity—which is so necessary to a sustained high level of national income and to prosperity.

One has only to look back at the second World War to realize how important has been the cooperation of our two interests, for the greater investment market of today chiefly resulted from that cooperation. During the war the banks, with their branches from coast to coast and with their millions of customers, furnished a readymade medium of approach and distribution for the great volumes of victory bonds that the country had to issue—of which the investment dealers' organization was the major selling force.

The activity of the banks and the interesting of bank customers definitely helped to lay the broad base for whatever degree of investment-mindedness exists among Canadians today, and helps the marketing of so great a volume of government, municipal, corporate and industrial issues.

Primarily the function of a bank is to provide working capital and other short-term money for purposes of production, business, manufacturing and the movement of goods and services; but it is not in keeping with sound banking, as Canadians have known it, to make long-term loans a habit. But banks do help your business. When a bank finds a customer who needs long-term money or money to fund capital expenditures, he encourages his customer to float a capital issue—first mortgage bonds, debentures, or stock—whichever is best suited for the customers' requirements. He directs his customer to those who specialize in getting the public to furnish the long-term money—the investment dealers.

Your function as investment dealers is one of high importance in the economy of this country—the finding of new long-term money to go wherever it can be usefully and profitably employed. The investment dealer serves as the essential link between the small investor and the large borrower, with the bank as a wholesale-

Continued on page 13

*An address by Mr. Boyer at the 34th Annual Meeting of the Investment Dealers' Association of Canada, Seigniory Club, Montebello, Quebec, June 8, 1950.

Solving Anglo-Canadian Problems

By THE RT. HON. LORD BURGHLEY, K.C.M.G.*

Prominent British industrialist and statesman, in reviewing problems faced by Canada and Britain, lays Canada's "dollar problem" to heavy exports to sterling area that cannot be converted into dollars to meet excess imports from the United States. Urges reduced purchases from U. S. and increased imports from United Kingdom as well as Canadian investments in sterling area. Stresses Canada's importance to British Commonwealth of Nations.

Introductory

In the first place I would like to tell you how deeply grateful I am to you for the high honor which you have done me in inviting me to come over and speak at your Annual Congress.

David Lord Burghley

My interest in Canada is not confined to that of my position as a Director of one of the "Big Five" British banks. All Directors of all the British banks are always interested in Canada, but mine is also more personal.

My family has always had a great tie with, affection for, and belief in, Canada. For the last 50 years we have owned a cattle ranch in B. C., and for nearly 20 of them my brother has been out there managing it. And now there is yet a further tie, for a company of which I am Chairman has set up a business in Halifax to make electronic instruments and apparatus.

In addition, during the war, while I was in charge of overseas supplies of aircraft in the United Kingdom, I paid many visits to Canada and had the opportunity of seeing for myself not only the magnificent production job which you were doing but also, perhaps what is more important, to learn for myself of the splendid fibre and vitality of your people.

I am very happy too to have the chance of telling you, on behalf of all of us in Great Britain, how enormously appreciative we are of your most generous gestures in helping us in our hour of need during these past few years.

We have been following most anxiously the course of this dreadful disaster at Winnipeg and the gallant struggle which the people there have been putting up against such tremendous odds. Alas, I fear that it must have resulted in an immensity of damage not only nationally but also to many individuals and their homes, which indeed makes us sad.

We here today have a great advantage not given to all people in the world, namely that of being members of the British Commonwealth family, and among those advantages, both material and non-material, that spring from this is that we have the same fundamental approach towards life and that we can speak out frankly to each other without in any way lessening our mutual affection and respect. In this difficult world how fortunate we are in this.

Great problems face us today, and we are all searching for the true solutions. In this rush of everyday affairs, alas, I think we all find that we have too little time to look out into the far future. It is all too easy to be diverted into the sidestreams of temporary factors and come to believe that they are that main river of wise, long-sighted statesmanship which alone can carry us safely to the great ocean of full prosperity and contentment.

We have not I fear been guiltless in the U.K. during these past few years of adding to these diversions; for instance I can fully understand how exasperated many of you must be over the cancellation and switching of large orders from the U.K. which have taken place, frequently without adequate explanation. But for the space of the next half-hour I would beg of you to cast aside such thoughts, however irritating they may be, for all I am proposing to do is to put before you the views of an ordinary person who believes that there is a great future between our two countries, and that the best solution among friends is to put our ideas into the common pool, to be torn at and discussed. For then, among fair-minded, sensible people, the best result will surely come out in the wash. It is, therefore, in this spirit that I ask you to bear with me today.

It is perhaps not inappropriate that my talk to you should coincide with the Third Canadian International Trade Fair which is being held in Toronto, because what I have to say is mainly about international trade in general and United Kingdom/Canadian trade in particular.

No country is entirely self-sufficient and the way to an improved standard for the inhabitants of any country in the long run must be through an expanding trade with other countries. Unfortunately, international trade today is beset with problems, and overriding all others is the "dollar problem," which is by no means confined to European and sterling area nations.

Whatever names may be given to these problems, the background and basis of them all is the dislocation of the world trading pattern which was built up over many years, only to be shattered by two world wars. It will be a disaster if the fund of experience accumulated in the past cannot be put to good use now, and I am sure that Canada and Great Britain, with that mutual cooperation and goodwill which have always been such conspicuous features of their relationship, have it in their power to make a very valuable contribution, not only to each other's immediate welfare but to the economic recovery of the world as a whole. To do this it may be necessary to initiate new methods, to revise old judgments and to take risks which, by past standards, may appear to be over-bold.

Anglo-Canadian Cooperation in the Past

Really to understand a problem and find the right solution it is of immense help to know the background and the previous practice, and therefore I hope you will forgive me if, for a few moments, I paint it into the problem picture.

If we look back we do not find that Canada has been backward in introducing new methods — to mention imperial preference as an example, it was Canada who in 1897 gave Great Britain trade preference, followed in turn by New Zealand in 1903, South Africa in 1904 and Australia in 1907. Thus the system of imperial preference was built up from Canadian action.

Or to take a more recent example: Canada did not hesitate to come to the aid of Great Britain with substantial gifts and loans during the war and a postwar line of credit which represented a magnificent contribution towards recovery; especially can this be realized when it is remembered that the Canadian loan was one-third the size of the U. S. loan, whereas the national income of Canada is only one-twentieth of that of the U. S. A., and Canada's population is only 14 million as against 146 million. I realize you may have heard this before, but in Britain I never miss an opportunity of reminding them.

These examples represent the manifestation of a breadth of vision which will not, I am sure, be lacking when the problems of the immediate and more distant future are attacked.

In the past, Great Britain, for her part, provided capital for the development of Canada's natural resources, and to back up the capital she sent her sons to help to open up these vast resources, not only by the labor of their hands, but by the application of their knowldge gained from similar developments throughout the world. Today we still have the men, and the "know-how," as experience has come to be termed, but the capital is lacking. I will revert to this in a moment.

I am not forgetting that, as well as Great Britain, the United States has figured prominently in the development of Canada. From my knowledge of them the Americans know a good thing when they see it and I have no doubt will continue to play an important part in her future. But the two countries stand in very different trade and financial positions with Canada at the present time, and the problem which faces Canada at the moment is vastly complicated by the world shortage of dollars.

The Dollar Problem

The dollar gap is a problem of which we in Great Britain now have first-hand knowledge. But this problem has been with Canada throughout the whole 80-odd years of her history as a nation. Prior to the second world war, however, the well-known quadrilateral trading system provided the means by which the gap could be bridged. Part of Canada's dollar deficit was covered over that period by the investment of more than five billion dollars of American capital in Canada. The rest was, in the main, met by the transatlantic quadrilateral trading ararngements, the other two participants being Great Britain and the rest of the British Empire, as it was then known. This meant that Canada's exports to Great Britain were paid for with dollars derived from sales by the Empire primary producers to the United States.

Today we all know too well that fundamental changes have taken place. Canada's large surplus of sales to the sterling area, which in 1949 was more than sufficient to offset Canada's deficit with the U.S.A., cannot be paid in currencies which can be freely exchanged for American dollars to meet Canada's debts to the U.S.A.

Thus Canada is faced with a dollar deficit and a sterling surplus, but has no means of bringing the two together. The common factor—convertibility—is, alas, no longer common, nor is it a factor at the present time.

It may be said, and there is a considerable element of truth in the saying, that Canada's future lies in close cooperation with the U.S.A. It has been estimated, for instance, that at the present time exports to the U.S.A. account for about 50% of Canada's total exports, while imports from the U.S.A. cover some 70% of Canada's total imports. Behind these percentage figures is the significant fact that, during 1949, Canada's adverse trading balance with the U.S.A. was no less than $423 million, although it is but fair to say that your splendid sales efforts in the U.S.A. look like being successful in the present year in somewhat reducing this figure. Obviously, trade with the U.S.A. plays — and must play — a vital part in Canada's economy, but she cannot go on importing to the full from the U.S.A. unless the U.S.A. is prepared to accept Canadian goods in payment.

This, however, is not so simple as it seems. For Canada can hardly expect the U.S.A. to absorb her huge agricultural surplus. Nor does the answer lie in diverting Canadian exports from the sterling area to the U.S.A., unless the U.S.A. could herself dispose of her surplus of similar goods in the world markets, a proposition which is at present ruled out of court by the world-wide dollar shortage.

Change in the Pattern of World Trade

The long-term answer to Canada's problem then may not be found in this way. In spite of the marked improvement in her trade deficit with the U.S.A. during the first quarter of this year, Canada's

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*An address by Lord Burghley at the 34th Annual Meeting of the Investment Dealers' Association of Canada, Seigniory Club, Montebello, Quebec, June 8, 1950.

Oil and Canada's Future

By H. H. HEWETSON*
Chairman of the Board, Imperial Oil Limited

Head of Canada's leading oil concern points out importance of increased domestic oil supplies to Canada in not only providing more and cheaper fuel and power, but in diversifying Canada's resources and extending frontiers of Canada's industries. Says Canada is in position to reap benefits of increasing oil supplies, but warns exploration for new oil fields is highly speculative.

As one travels north or west from Edmonton, the old frontier as we know it stands pretty much as it did years ago. But the frontier in general throughout Western Canada is being dealt with by a new brand of pioneering. You might describe it as mechanized pioneering. It depends heavily on the use of mechanical power and transportation.


H. H. Hewetson

This kind of pioneering takes prospectors over the northern snows and forests in aircraft. It brings light and heat to remote mining and lumbering communities through the use of Diesel-powered generating plants. It makes possible the farming of grain and other crops on a wide and profitable scale. The land now yields its wealth to man in direct proportion to the way he is able to take advantage of the possibilities of this new pioneering.

What conquers today's physical frontier, of course, is an extension of the mechanical force that also brings about industrial growth. This force is impossible without energy from fuels—energy that permits man to greatly multiply his own physical efforts.

Canada is a country that particularly needs this energy to keep on growing industrially and to push back her physical frontiers. There aren't many people there. Only about 13,000,000 people live in Canada today—an area that is larger than the United States is inhabited by fewer people than live in the State of New York. Most of the population is confined to a narrow, 300-mile wide strip that lies just above our northern border.

*An address by Mr. Hewetson before the Chamber of Commerce of the State of New York, New York City, June 1, 1950.

To achieve the growth that was forecast for Canada when this century began means that its people must have enormous sources of energy at their disposal. Until now, Canadians have accomplished industrial and pioneering miracles largely with imported fuels. But with production of her own fuels beginning in earnest, I believe Canada is entering her period of greatest growth. Since the years just before the war, the gross value of her industrial production and the gross income of her farmers have more than tripled. More important to long-range development is the fact that vast new discoveries of valuable iron ore have added to the country's long list of raw materials. And now, from within her own borders, Canada is beginning to get the energy that will give her the means fully to develop these resources.

The energy which will help Canadians push back their physical and industrial frontiers is going to come, in large measure, from petroleum and natural gas.

Canada Lacked Oil Reserves

Until the present time, Canada has never had enough crude oil of her own. Three years ago, for example, 92% of her petroleum requirements were imported, most of the oil coming from the United States. The East Coast obtained its needs chiefly from the Gulf of Mexico, Ontario was supplied mostly from the Mid-Continent Illinois fields, the Prairie provinces drew oil from other Mid-Continent fields in the United States. British Columbia imported its supplies from California. This meant that Canada, which ranks second to the United States in the world's per capita consumption of petroleum, was spending more dollars for oil than for any other commodity. In 1947, about $207 million was spent for this purpose.

This lack of crude oil has long spurred Canadian companies to keep looking for deposits of petroleum. In fact, Canadians claim with some justice that the first oil well was drilled in Ontario, not in Pennsylvania. The search for oil in Canada has gone on as long and, in proportion, as intensively as it has in the United States.

The search for oil in any country is largely determined by the country's geographical nature. Canada is divided into four main geographical regions, two of which are much bigger than the others. The first, largest, and geologically oldest region is called the Canadian Shield. It has been aptly described as lying around and below Hudson's Bay like a big, stone bib. This area is highly mineralized, containing gold, silver, nickel, copper and uranium. It is in the Canadian Shield that large deposits of high-grade iron ore have recently been found. The second biggest geographical area is called, as in the United States, the Interior Plains. Including the Arctic Plains, it is an extension of the great flat expanse that runs northward from the Gulf of Mexico.

Most of the oil in the United States has been found in the Interior Plains. The Gulf Coast fields, the Mid-Continent fields of Oklahoma, Kansas and Illinois, and the old fields of Wyoming, Colorado and Montana are all in this flat, central region. These plains, largely covering the beds of ancient seas, continue northward without any regard to national borders. It is for this reason that oil hunters in Canada have always been hopeful that under the plains they, too, would find rich producing fields.

Oil Discoveries in Canada

Certainly the external promises of oil in this region were encouraging. Almost in the middle lie the famous Athabaska tar sands, probably the largest single reservoir of petroleum in the world. Billions of barrels of crude oil are locked in these sands but are not yet economically extractable. Farther north on the Interior Plains are rocks that drip oil and places where campers can light and cook over natural gas as it rushes from holes in the ground. Over the years, enough fields were found in this area to justify continued exploration. You have probably heard of the oil finds in 1920 at Norman Wells in the far north. Earlier, oil had also been discovered in the southern part of Canada's Interior Plains. This was at Turner Valley, not far from the City of Calgary.

But for about 25 years after the Norman Wells discovery, Canadian companies met with little success in the Interior Plains. To my mind, the investment of time and money with no return over this period represents a perfect example of pioneer spirit and of the risks private capital has shouldered all over the world to find oil. I am going to take the liberty of speaking of one instance familiar to me to emphasize this example. Imperial Oil Limited, affiliated with the Standard Oil Company (New Jersey), spent on an average about a million dollars a year during these 25 years. It drilled 134 dry holes on the Interior Plains before the great, heart-warming rumble of oil being released from its geological prison told us we had succeeded one freezing February day.

I well remember the excitement of that day, and I think many Canadians do, too. The actual sound of Imperial Leduc Number One blowing in was carried on a nation-wide Canadian broadcasting company hook-up to all the provinces. People in every part of the country heard the surge and rush of oil coming up through the well, heralding a greater future for Canada.

While companies were mapping and drilling in their search for oil, the potential physical and industrial growth of Canada had to wait. In spite of ample supplies through imports, the expense of using liquid energy in more remote areas was an extra handicap that had to be overcome before the country could be fully developed.

All this began to change in 1947. Shortly after the discovery at Leduc in that year, came those of Woodbend, Redwater and Golden Spike—these fields, like Leduc, lying in a rough circle around the prairie City of Edmonton. Besides bearing out the faith of the oil hunters, the fields gave a tangible clue as to where more oil might be found in Canada's Interior Plains. Alberta oil has generally been discovered in an underground stratum formed in the geological age called the Devonian, and usually in an ancient coral-reef formation. Today, an intensified search for more fields of a like nature is going on all over Alberta as well as in Saskatchewan, Manitoba and British Columbia.

Oil is coming from the Interior Plains region of Canada at a rate that is more than sufficient to take care of the surrounding, mechanized agricultural area. We assume that there is enough oil underneath these plains to take care of Canadian needs in time. The promising territory that may eventually yield petroleum is actually larger in area than our own five leading oil producing states—Texas, Oklahoma, Louisiana, California and Kansas—combined. Some geologists feel it is not unreasonable to expect that the oil coming from this region will be in excess of 5 billion barrels. If this should come to pass by 1958, Canadian crude oil production could amply meet Canada's total consumption.

I should like to stress the point that it is a competitive oil industry that will make this production possible in Canada, just as it achieved the discovery of petroleum there. More than 40 oil companies of various sizes, plus hundreds of individuals, are now looking for oil on the Interior Plains. There are 33 refineries operating in Canada, owned by 17 different companies. This healthy, competitive setup promises to deliver abundant amounts of energy for new Canadian needs, just as it is doing here in the United States.

With the expansion that inevitably goes along with such discoveries have come many chances for investment in Canadian oil. I am sure it is unnecessary for me to point out the speculative element in these ventures and the desirability of carefully examining each investment offering.

Implications of Canadian Oil

The finding of great new supplies of oil under Canada's Interior Plains holds implications that we can only begin to see. Of immediate importance, of course, is the fact that oil products are available in parts of Canada at lower prices than before. And because she now has substantial production of her own, Canada saved many millions of dollars last year alone by replacing petroleum imports.

Then, too, there is the economic balance to be considered. Canada's new oil industry is largely centered in an area whose financial health long depended upon one crop—wheat. The income from oil will do much to level out the discrepancies that were so apparent in the old boom-or-bust days. What we may be seeing in Alberta—rich with her agricultural crops, oil, natural gas and coal—is the birth of a northern Texas. While I will not go so far as to suggest that Texas may be overshadowed by Alberta, nevertheless in the days to come Western Canada will be a very important factor in the supply of this continent.

A great problem of course, in a vast and relatively sparsely settled country like Canada is moving the oil from where it is produced to where it will be used. Under the pressure of constantly increasing supplies, the Inter-

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Mutual Funds and the Business Executive

By JOHN C. ROGERS*
President, J. C. Rogers & Co. Limited

Canadian securities dealer, in explaining investment qualifications of Mutual Funds, analyzes factors in sound investment, such as Liquidity, Income Return, Profit Potential, and Safety. Describes different kinds of Mutual Funds and lists qualities of each for various types of investors. Extols Canada's economic progress.

"Such (mutual fund) companies are media for the investment in the national economy of a substantial part of the national savings and may have a vital effect upon the flow of such savings into the capital markets." Sec. (1) (a) (4), Investment Companies Act (1940), 76th U. S. Congress.

The rapid growth of mutual funds in recent years has made this prophecy seem an understatement. Approximately one billion three hundred million North American dollars have been placed in these "media for investment" since 1940, and the current estimate of this flow, continuing at an accelerating rate, is one million dollars per day. The 16th Annual Report of a leading Canadian mutual fund shows that net assets were increased 74.46% in 1949.


John C. Rogers

This snowballing acceptance of mutual funds should not be shrugged off by the business executive as "something for the little fellow who doesn't know how to run his own affairs." Obviously, figures of this nature must indicate that many large investors have found this medium attractive as well.

What a Mutual Fund Is

Here in Canada, knowledge of the essential features of mutual funds by executives in all walks of industry and finance is very limited. There is instead a general feeling of, "We've been around that race-track before with the investment trusts of the late twenties." This is an unrealistic attitude, and it would be worthwhile for the executive to consider the mutual fund not only as a means for attracting the smaller investors' capital into the equity markets, but also as a new class of investment medium competing with bonds, preferreds and commons for his own attention.

A mutual fund is in reality a constantly supervised investment account. Participation in a group of securities is continuously available to investors through the purchase of mutual fund shares ("units of beneficial interest"), at a price equal to the net worth per unit (plus commission) on the day of purchase. Any fluctuation in the market values of the securities held by the fund is reflected in the net worth per unit, and participants may withdraw their investment interest on any business day, without penalty or charge. Virtually all income received from the invested assets of the fund is distributed pro rata to the shares (or units of beneficial interest). The fund tries to do for the investor what he would do for himself if he had the time, experience and capital available.

The Four Factors in an Investment

All astute investors know that there are really only four basic features of any investment, around which all other qualifications revolve: liquidity, income, profit and safety. They also know that these features are rarely found in balance and are frequently in conflict. For example:

A Bank Account is tops in safety and liquidity, but low in income and zero in profit potential.

Government Bonds are very highly rated for safety and liquidity, but low in income and very minor in profit potential.

Life Insurance (for investment only) is unquestionably high in safety, slightly restricted in liquidity, low in income, and lacking in profit potential.

Read Estate Mortgages are moderately high in safety, low in liquidity, quite good in terms of income, but again without profit potential.

High Grade Corporation Bonds are high in safety, quite high in liquidity, quite low in income, and again very minor in profit potential.

Preferred Stocks are quite good for safety, but weak on liquidity, and only moderate for income—very low, if any, profit potential.

Individual High Grade Common Stocks are—let the reader set his own values.

Possibly the foregoing review of well-known facts may appear pedantic, but it was after making such an analysis that the original designers of mutual funds attempted to create an investment medium which would combine all four basic features and still be attractive and available to all classes of investors.

The Importance of Liquidity

A well-known financier once said, "Investments are made to be sold." What he wished to convey was that liquidity should be the first requisite of any form of investment. The value of ready marketability can be seen by the price usually placed upon it: *e.g.*, bank current accounts, no interest allowed; treasury bills, a return of less than ½ of 1%; savings accounts, 1½%; government bonds, less than 3%.

All four mutual funds in Canada undertake to redeem their shares on any business day at full net asset value without penalty or charge. In other words, monies deposited in this form of "investment bank" are "demand deposits" available for withdrawal at their net worth at any time. It is this guarantee against being "frozen in" that is the basic difference between mutual funds and the investment trusts of the late twenties. It is by far the strongest point in favor of their use as an investment medium. Last year, American mutual funds repurchased over $67 million from investors with no disturbance whatsoever.

Every day, at the close of the stock exchanges, the clerical workers of a fund—

(1) Compute the gross value of the funds' investments,
(2) add to this figure the cash on hand plus other credits,
(3) deduct any liabilities,
(4) and thus arrive at the net worth of the whole fund.
(5) By simply dividing this total net worth by the number of shares outstanding, they get the net asset value per share.
(6) This is the price that the fund will pay other people for its own shares until a new valuation is comptued the next day.

All the assets of a fund are composed of cash and negotiable securities, and by virtue of this fact the guarantee to redeem shares is unquestionable in quality. Also, there is no actual danger from the remote possiblity of a "run on the investment bank" by a large number of shareholders. "Runs" are caused by fears of inability to pay and ignorance of conditions. The fund's first line of defense is continuous full publicity on its operations. Secondly, all funds maintain some position in government bonds and other highly liquid securities of a stable market value. Thirdly, shareholders are spread over the entire country. Fourthly, similar to bank savings account, all funds have "panic hedge clauses" allowing for reasonable delay. At no time in the last 25 years has a mutual fund been embarrassed by its charter guarantee to redeem its shares in full at net asset value.

In a recent poll of over 200 branch bank managers, when the point of liquidity was clarified, all agreed that mutual fund shares represent excellent collateral for borrowing purposes.

Referring back to our initial investment analysis, we have seen that mutual funds score high in liquidity.

The Income Opportunities of Mutual Funds

All investors are interested in income. Security values rise and fall partly because of the supply of money, but mainly because of the investing public's appraisal of the future ability of the security issuer to maintain or increase the income payable on the security. In Canada, where freedom still reigns in respect to a capital gains tax, many investors are primarily concerned with increasing capital rather than immediate income. However, behind this desire to increase capital is the object of building a sum for the future which will be great enough to produce the income desired. In this connection, the following table will be of interest:

To Obtain $1,000 Yearly You Must Invest In

20 Toronto Stock Exchange Industrial Average Stocks	$17,090
6 Gilt-Edged Preferreds (with sinking funds)	25,142
10 Corporation Bonds	30,549
Dominion of Canada Bonds (3%, 1966)	34,333
Savings Bank at 1½%	66,666

All mutual funds make a practice of paying out more than 85% of their net investment income to the shareholders. One Canadian fund still makes a transfer of realized capital gains account to income account, but this is not the general practice. In the United States where there is a capital gains tax, the funds are also required to pay out a portion of their realized capital gains in the form of special dividends. This practice is due to necessity only, however, and the American funds are envious of the position of our Canadian funds in this respect.

A true mutual fund is built upon the solid principle of diversification, and is thus provided with many sources of income. "A river that is fed by many tributaries is less likely to go dry than a single stream." *There is no record of a mutual fund ever having interrupted its dividend payments.*

All of the foregoing has dealt principally with the reliability of income. As to the quantity of income, this is, of course, dependent on the investment policies of the individual fund. As mentioned above, all mutual funds pay out to shareholders something over 85% of net annual income. Mutual funds have a "good" rating for the income factor.

The Profit Potential of Mutual Funds

The investment of money for capital growth is too often regarded by the over-eager investor as a "sprint" whereas in reality it should be regarded as a "marathon." No short-term spectacular results should be anticipated through the purchase of mutual funds. The very safety factor of diversification of assets militates against such an event. The purchaser of mutual fund units should regard his acquisition as a slice of an investment account. If he wishes to make a comparison with other results he should do so with the whole balance of his account. It is human nature to rejoice in successful investments and to try to forget the bad ones. The management of a mutual fund is not allowed this "whistling past the graveyard" practice, but must look at over-all results daily, when the figures depicting the net worth per share are computed.

In order to evaluate the potentialities of the capital growth factor, it is obviously necessary to take into account the timing of purchases in relation to the ebb and flow of the security markets. In order to determine which is the time to buy or sell common stocks as a class, the investor must resist the very pessimism or optimism of the majority of his companion investors, and perhaps do the opposite; this is not always easy. There is, however, a simple plan which is frequently referred to as "dollar averaging." If an

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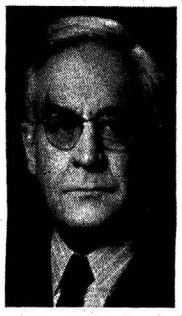
Rule of Law vs. Doctrine of Emergency

By JOHN T. HACKETT, K.C.*
Past President, Canadian Bar Association

Prominent Canadian jurist, quoting Adam Smith's warning against governmental interference with private investment, points out, despite warning, there has been too much legislation based not upon Rule of Law, but on Doctrine of Emergency. Urges investment industry resist this tendency threatening individual freedom.

The general record of mankind has been one of great poverty. By far the most fruitful method, so far discovered, of making the world richer, is that of leaving men free, within the limits of the criminal and civil law, and of letting them engage their energies on their own account and for their own reward.



John T. Hackett

Adam Smith said that: "The statesmen who should attempt to direct private people in what manner they ought to employ their capitals, would not only load themselves with a most unnecessary attention, but assume an authority which could safely be trusted to no Council or Senate whatever and which would nowhere be so dangerous as in the hands of men who had folly and presumption enough to fancy themselves fit to exercise it."

Yet, we find the state exercising substantial controls in trade and investment.

The Rule of Law has also been completely banished in many countries and somewhat curtailed in our own; the doctrine of Emergency, projected years after the War, has given too much legislation, some of the less attractive features of authoritarianism.

The fact is, the world has been moving rapidly. In November, 1834, upon the dismissal from office of Lord Melbourne, Sir Robert Peel was asked to form a government. He was then in Rome. He was sent for by express courier. Peel arrived in London some days later, having completed the journey in the same type of vehicle, drawn by horses, over the same roads, in the same number of days and hours that the Emperor Hadrian had made the journey 1,700 years earlier. For nearly 2,000 years, there had been no change in the manners or methods of travel. Since then, distance has been annihilated.

A hundred years is a relatively short period. It doesn't even exceed the life of a single individual. We read in the newspapers the other day that all of the thirteen surviving veterans of the Grand Army of the Republic are more than 100 years old. Yet the last 100 years has more completely changed the conditions of human existence than any other such period in the history of the world. A hundred years ago, the greater part of the human family was living as it had always lived. The far East was still a closed world, as far removed in thought from Europe as if it were another planet. The far West was still unknown and empty. South and Central Africa were still to be discovered.

In the space of three generations, there has been a breathless advance in population, wealth and knowledge. The period has been revolutionary.

Mankind has found it impossible to keep abreast of his inventions. All Parliamentary Government, with its checks and its balances and deliberate ways, has seemed inadequate to the tasks that lay before it. The truth, which is now more evident, is that military dictatorship has been the most lasting method of ruling civilized peoples.

The cumbersome methods of Parliamentary Democracy have yielded to more direct and cruel ways. Autocracy is the easiest and safest refuge for humanity when the higher and more dangerous forms of Government fail. The Rule of Law anticipates the adjustment to great and enduring principles, something that is constantly changing.

Change is the characteristic of life. Change has been rapid, even revolutionary in our time, yet principles endure. The genius of our people has expressed itself by perpetual recurrence to old principles and of the gradual contrivance of new forms within which to secure the action of these old principles.

By so doing, our ancestors have preserved their freedom and their dignity—the freedom of the individual and the dignity of the individual—a common objective to all the Associations taking part in this Forum. Freedom is best preserved by multiplicity of organizations that are autonomous, independent and clear-sighted.

The "Times" newspaper said in an editorial the other day:

"When authority presents itself in the guise of organizations, it develops charms, fascinating enough to convert communities of free people into totalitarian states."

It behooves the Investment Dealers' Association and their guests to resist with all their talent and energy this tendency for Freedom is indivisible and without it, we perish.

*Extract from address by Mr. Hackett before the Investment Dealers' Association of Canada, Seignory Club, Montebello, Que., June 8, 1950.

Col. W. H. Watson, *Anderson & Company*, Toronto; Charles Burns, *Burns Bros. & Denton, Limited*, Toronto; W. J. McClellan, *Wood, Gundy & Company, Limited*, Toronto; Mrs. Charles Burns

W. T. Dalton, *R. A. Daly Co. Limited*, Montreal; James Douglas, *Royal Securities Corporation Ltd.*, Montreal; Gerald A. Barry, *Wood Gundy Corporation Limited*, Montreal

Common Problems of Trust Companies and Investment Dealers

By HENRY E. LANGFORD*
President, The Dominion Mortgage & Investments Association

Mr. Langford, speaking on mutual concerns of investment dealers and mortgage and trust companies in Canada, stresses coordinated policy for far-sighted and vigorous development of Canadian economy. Tells of trust company investment problems and enactment of law permitting common trust funds in Ontario. Advocates establishment of open bond market in Toronto and Montreal, and warns against extravagance by Canadian municipalities.

I don't suppose I need to elaborate on the honor it is to be asked to be one of the speakers at the Investment Dealers' Association annual meeting. Your association, representing as it does the people interested in bringing together the suppliers and users of the capital needed to develop our natural resources and to build our public utilities, performs probably one of the most important functions in modern business. Without the work of you men, the whole financial and business structure as we know it would not continue. You are the lubricant between the capital users and capital suppliers and, like any other lubricant, you play an absolutely essential part in keeping the machine functioning. On behalf of the Dominion Mortgage and Investments Association, whom I represent, I wish to say how much I appreciate the opportunity which you have given to me to come and take part in the discussions this morning. This brings up the dilemma with which I find I am faced. You know that the kind invitation came to me to speak here because of the office which I hold. However, when I do speak, I am, of course, necessarily speaking for myself and not for the association. This is particularly important to emphasize, because the next speaker on your program will be the fine representative of the life insurance companies of Canada. These life companies constitute the majority interest in the Dominion Mortgage and Investments Association, and probably if I had the nerve to attempt to speak for our association, I would find Harry Guy pulling at my coat tails. As you may know, the Dominion Mortgage and Investments Association has a membership of 20 life insurance companies, 16 trust companies and 11 loan companies. The total assets which are administered by our member companies use figures which remind us of a Dominion Budget, namely, the Canadian life insurance companies, $4.286 billion, the trust companies on company account $275 million and two billion in trust accounts, and the loan companies, $275 million. I think it would be fair to say from these figures that our members are probably amongst your best customers, and I have no doubt that this was one of the factors which entered into your kind invitation.

Henry E. Langford

Our association was formed some years ago for the same general reasons that no doubt led to the formation of your own, or for that matter, any voluntary trade group. We act as a representative of a group of companies and we come together to pool the information which we each receive in our business, in order to assist us all in solving our common problems. Perhaps the only unique feature of the Dominion Mortgage and Investments Association is the binding together of the three types of business as indicated, and which three types all offer widely varying services to the public. All loan, trust or insurance companies, however, in the course of their business, find themselves in the possession of money for which they eventually have to account to others. It is the common problems arising from the investment of these funds in bonds, stocks, mortgages or other securities that constitute the problems of our association. Also, I think it is fair and accurate to say that under our present system of political development, associations like yours and ours find it necessary to make representations from time to time to government bodies, not in order to receive any preferred treatment, but at least to receive equitable treatment and see to it that the special problems relating to our businesses are not overlooked in the mass of detail being considered by government officials when drafting taxation and other measures.

Relations with IDAC

Before turning to the current relations between the individual members of our two associations, I should say that I will be talking henceforth primarily from my experience as a trust company man. As I have already indicated, Mr. Harry Guy who will follow me and who is the head of the Life Officers Association, will speak to you on the investment problems of his companies. From now on, therefore, my remarks will be confined to the trust and loan field, leaving Mr. Guy to deal with the position of the life companies. I believe he will discuss the effects of the proposed changes in the investment clauses of life companies now before the Dominion Parliament. On this question of investment powers, it will be sufficient, on behalf of the loan and trust companies, to state that so far as they are concerned similar amendments are also before Parliament and we endorse generally what Mr. Guy will say in this respect.

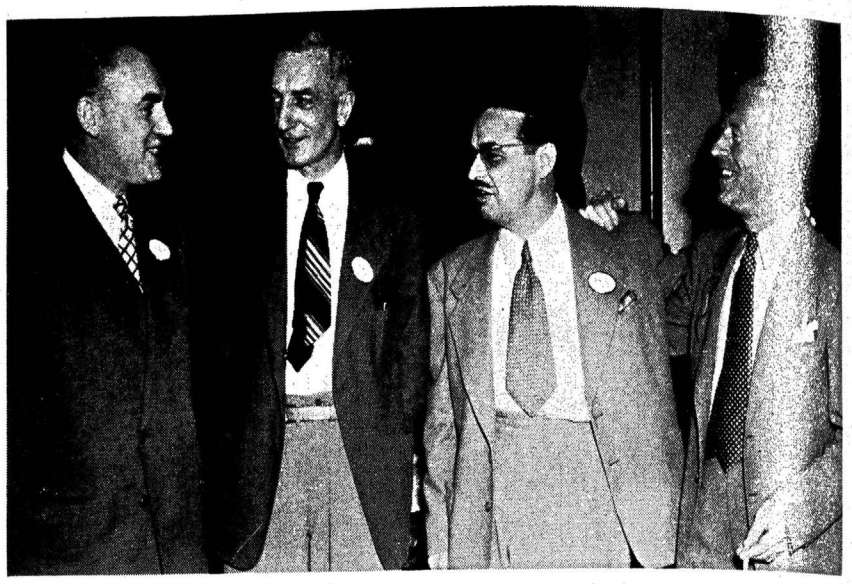
[Editor's Note: Mr. Guy spoke extemporaneously and no record of his remarks was made for publication.]

Probably the outstanding feature of the current relations between the members of our associations is the complete lack of friction. A famous historian has said, that the happiest countries are those which have short histories. Our inter-relationship is just as fortunate, in that it has no incidents to report or comment on. This lack of major problems to discuss, while it does make it somewhat difficult for a speaker when looking for an interesting topic, yet it does tell far better than I can of the sound and healthy day-by-day dealings between our members. I think this is worthy of comment because it is a relationship that does not always exist between the seller and buyer of other commodities.

Continued on page 18

*An address by Mr. Langford at the 36th Annual Meeting of the Investment Dealers' Association of Canada, Seigniory Club, Montebello, Quebec, June 8, 1950.

D. E. Morrison, *Royal Securities Corporation Ltd.*, Toronto; Douglas B. Weldon, *Midland Securities Limited*, London, Ont.; Roy W. Robertson, *Isard, Robertson & Co., Ltd.*, London, Ont.; William D. McAlpine, *Brawley, Cathers & Company*, Toronto; George R. Gardiner, *Gardiner, Watson & Company*, Toronto



Charles L. McCutcheon, *Bankers Bond Corporation Limited*, Toronto; J. Archibald Hodgson, *C. J. Hodgson & Co.*, Montreal; Gerard Gingras, *Rene T. Leclerc, Inc.*, Montreal; Reginald D. Steers, *R. D. Steers & Co.*, Ottawa
Lord Burghley

Continued from page 7

Solving the Anglo-Canadian Problems

surpluses coincide too closely with U. S. surpluses to inspire confidence in the prospect of a permanent solution along these lines.

If Canada's dollar gap cannot be closed by an increased level of exports to the U.S.A. the only alternative open to her would appear to be to reduce dependence on her imports from the U.S.A., and it may be in this way that the solution will be found. Thus it has been estimated that if only 15 to 20% of Canada's imports from the U.S.A. could be obtained from Great Britain and the sterling area, Canada's dollar gap would be bridged and at the same time Britain's problems would be eased. Moreover, it would seem to be in Canada's long-term interest to buy more from Great Britain and the sterling area in order to safeguard her own future exports to these countries. This is not just a paper transaction. It is a very real two-way responsibility. We have to make what you want, and of the right quality and as cheaply as possible, while you can help by facilitating the entry of the goods, and by the Canadian public supporting their purchase.

During the war years British goods were inevitably denied to the Canadian market and, willy-nilly, Canada became more dependent on the U.S.A. for many manufactured articles which had formerly been purchased from the U.K. There is no doubt that, as a result, the Canadian market is now a very much harder nut for British exporters to crack. We have to compete with a country which has established itself in the Canadian market and has built up an effective marketing system geared to Canadian requirements. I am confident, however, that Great Britain has it in her power to compete and win in quality, price and service. Moreover, Canada is a market which is vital to Great Britain. It is gradually becoming more widely recognized that developments going on in Canada today afford unrivalled opportunities for the United Kingdom exporters to establish a permanent market.

But in all this we must look for your cooperation. That this will be forthcoming is, I believe, evident from the fact that, with a population roughly one-tenth of that of the U.S.A., Canada buys from Great Britain some 50% more than is being bought by the U.S.A. So again I would like to emphasize that one of the greatest contributions that Canada can make to the easing, if not the solution, of the dollar problem would be to develop an automatic tendency to think in terms of what Great Britain can provide.

It is a truism to say that a large increase in shipments from the sterling area and the other ERP countries to North America is a basic factor in the bridging of the dollar gap. Until this gap has been bridged there can be no question of a return to a multilateral system of world trade, and failure to do so will inevitably lead to growing trade discrimination, and more and more regional and bilateral arrangements. These cannot fail to be restrictionist in effect. In such a situation the maintenance of Canada's overseas markets would be placed in jeopardy.

The Dollar Export Board in Great Britain and the Dollar-Sterling Trade Board in Canada, and other bodies, are working to bring about a realignment of trade on the basis I have outlined. There is a growing realization in both countries that in closer cooperation lies the key to a solution of the major part of the problems besetting the two countries, but with the approaching end of the Marshall Aid program time is very short.

There has been a tendency in some quarters to magnify points of friction in Anglo-Canadian trade relations and to ignore the solid progress made toward the common goal. British manufacturers may not always have appreciated the special requirements of the Canadian consumer and delivery dates may have left a lot to be desired. But the lesson is being learned and, although examples of poor selling organization and other defects of marketing may still occur, I think you will find that from now on these will tend to be the exception rather than the rule.

The Role of Overseas Investment

Unless Canada can find some means of bridging her dollar gap she must inevitably go on building up a deficit with the U. S. A. year by year, and at some stage the account will have to be settled in the same way as the sterling area one will have to be with you if the present pattern continues. On the other hand, Canada will find that her exports to the sterling area and the rest of the world cannot be maintained because those countries have no means of paying for them. There lies our mutual problem. The solution is not easy. It may involve a re-orientation of Anglo-Canadian trade, and a measure of present inconvenience, but in the long run it is the only practical solution so far put forward.

I have not yet mentioned a further possibility—the investment overseas of part of the Canadian surplus with the non-dollar world. Just as in the past investment by Great Britain opened up markets for the sale of British goods throughout the world, so now the mantle has fallen on Canada and there is a great opportunity for her, by investment in the underdeveloped areas and in the United Kingdom and the rest of the sterling area, to open up markets for Canadian exports.

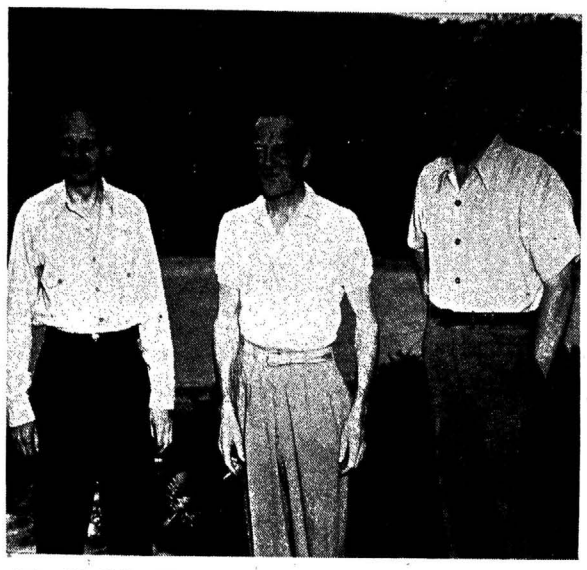
On the other hand, there is no country in the world which affords greater opportunity than Canada herself, with her unlimited natural resources and unlimited possibilities of power development, with her increasing population, and her stability of government, all of which are the essence of a successful economy. But expansion is of no avail if the markets for the products of that expansion do not exist. Therefore, it is essential to take every step to develop markets while, at the same time, exploiting the natural advantages of the country.

In the latter sphere Great Britain can still play a part although she is in no position to resume overseas capital investment on the former scale. But the workers are there, and the technical skill is there. Given encouragement, assisted passages, help in settlement, opportunity to immigrate as a family unit (this would involve accepting a proportion of older immigrants, but they need not necessarily be a liability on the Canadian economy) there is no doubt that there would be considerable response. Even without any special inducements, the postwar emigration from the United Kingdom has been greater to Canada than to other parts of the Commonwealth. Of course, it would be necessary to negotiate with the British authorities for a relaxation of the stringent regulations on the amount of capital to be taken out of the country by the individual emigrant, in order to encourage the family unit to move, and to enable the skilled worker to bring his savings with him, but the long-term advantages to Great Britain should enable some mutually satisfactory arrangement to be negotiated.

Canada's growing strength in industry, the broadening of the base upon which her wealth is built up and from which her income is deprived, are of prime importance to Great Britain. There is considerable scope for the development of branches of

W. P. Pepall, *Bell, Gouinlock & Co.*, Montreal; Dudley B. Dawson, *Dudley Dawson Limited*, Montreal; Wm. T. K. Collier, *Collier, Norris & Quinlan, Ltd.*, Montreal

Albert G. Armitage, *Coffin & Burr, Incorporated*, Boston, Mass.; Murray Hanson, *General Counsel of the Investment Bankers Association of America*, Washington, D. C.; John Ridley, *A. E. Ames & Co. Limited*, Toronto



John N. Cole, *Wood Gundy Corporation Limited*, Montreal; J. Ernest Savard, *Savard, Hodgson & Co., Inc.*, Montreal; Stan Kimber, *A. E. Ames & Co.*, Montreal

British industry in Canada, and the British industrialist is coming to realize this. But to overcome the obstacles of lack of capital on the one hand, and the possibility of a shortage of skilled workers on the other, calls for the close co-operation of the British and Canadian Governments. Here is a legitimate field for government action; certainly far more legitimate than their continued intervention in the world's trading markets. For a few—very few—special deals government trading may be justifiable. In other cases it all too frequently appears to cause friction without any corresponding economic advantages. Free markets and free exchanges may not prove to be outworn shibboleths, despite the obeisance made by so many postwar planners to the altar of restrictionism.

Concluding Remarks

Last year only 11% of total Canadian merchandise imports came from the United Kingdom, compared with 18% in the five years 1935-39. Thus the trading adjustments I have outlined represent, in effect, little more than a return to prewar arrangements on a considerably increased turnover, and I understand have already receive the blessing in principle of your government. If carried out successfully they would not only almost entirely remove the Canadian trade deficit with the United States, but would also go a long way toward maintaining markets for Canadian exports to non-dollar areas. Moreover, by solving that part of the dollar problem that affects Canada and the sterling area, the first—and most vital—step might well have been taken toward a return to convertibility of sterling which, in turn, would ease the difficulties of many other countries.

Finally, I would say this: in dealing with the situation in which we find ourselves today, nothing will be gained by half-measures. A bold program executed with vigor and thoroughness is required. We do well constantly to remind ourselves that it is fatally easy to ignore the wider issues at stake under the pressure of day-to-day events.

Clear thinking and far-sighted, courageous leadership have never been more needed. But granted them, the distant dream of tomorrow of an immensely more prosperous and less troubled world can become the reality of today, and when the saga of this great adventure comes to be written I firmly believe that Canada and the other members of the British Commonwealth of Nations, in their traditional way, will be recorded as having played a great and worthy part.

Continued from page 6

Canadian Banking And Investments

some reliance for the investment dealer.

A great deal of venture capital is going to be needed now; more is going to be needed for oil developments, for mining developments and for the great capital programs already indicated this year, for the expansion of industry, utilities and construction.

Joint Activities of Banks and Investment Dealers

It is important in this situation that investment dealers and banks parallel each other to whatever extent they can in their own respective fields—by informing the individual and increasing his awareness—to influence the flow of venture money from Canadian savers into good Canadian ventures. If the Canadian does not share in and benefit by his country's development, the opportunities which offer gain will assuredly not be overlooked by wideawake investors elsewhere.

Banks do join investment dealers and help in the distribution of sound issues. They make available the utmost information, enabling individuals to form judgments of their own. Banks and investment dealers complement one another; so far as large issues are concerned, neither of us could get along so satisfactorily without the other.

Your industry has many day-to-day dealings with banks. I should acknowledge that these dealings represent a welcome aspect of bank earnings. Our loans of a financial character amounted to nearly $400 million—more than 16% of our total loan portfolio—at Sept. 30, 1949. Of this amount more than $100 million was accommodation to brokers and bond dealers—25% higher than a year before. Nearly $60 million was to other financial institutions, while more than $230 million consisted of loans to individuals against approved stocks and bonds. So it is to our mutual interest to cooperate.

In opening I stated a problem: the problem of getting Canadian individuals to set their own money to work so that they themselves may gain the advantages and rewards of sharing in the development of Canadian resources and Canadian wealth.

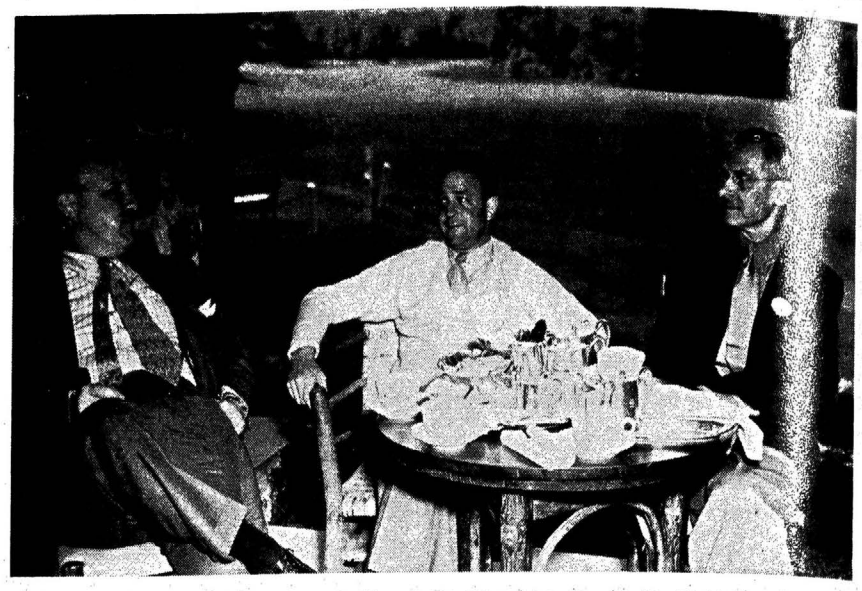
Solution of that problem is not easy. It may be that inexperience, lack of information, absence of adequate appeal to the imagination, or perhaps a "play-it-safe" trend toward securitiy, militate against the fascinations, the profits — and of course the risks — of adventure. The individual is master of his own money in the bank. If it is to be risked in the bolder ventures of the kind we are discussing, it is his right to risk it himself; and it must be available at his will. His savings constitute the primary pool of venture capital. How to enlist his participation in the bolder risks—and in the dividends that now so largely go outside—is primarily, as I see it, a problem for the investment dealer who offers the issues. You will note I said "primarily"; I did not go so far as to say "exclusively."

I have no formula. After you, with your accustomed integrity, set up the securities issues so as to give a fair show to the investor and a sound run for his money, perhaps part of the answer lies in the field of public information and public relations. Is there not opportunity for warmer, more simple, human expression of those things ordinarily couched in the frigid terminology of technical finance? When we were selling Victory Bonds we were not fettered to the sheer technical financial description of the bonds. That is the jargon of the trade. You warmed your advertising up at the fires of emotion and patriotism and you talked in terms of freedom and humanity, not merely in the language of term and yield. Bank advertising, to my knowledge, latterly has taken on something of the human quality. Perhaps Canadians could benefit by a recasting of the approach that is ordinarily made to them in offering issues.

You, yourselves, to my knowledge, have launched a substantial basic educational program. It is well conceived, commendable, and in the long run cannot fail to foster and to stimulate Canadian understanding. I have no fears at any time of a well-informed public opinion; indeed a well-informed public opinion is the most helpful single source of strength that you, or we, or Canada could have.

Of course it is not the whole of the answer—but it may be well worth while to add to your current educational efforts, by studying and perhaps applying or adapting to the advertising of issues, and to your public information generally, some of the modern techniques in the art of expression.

E. Douglas Huycke, *Bache & Co.*, Toronto; Jack Young, *Dominion Securities Corpn. Limited*, Toronto; Arthur B. Cayley, *Bartlett, Cayley & Company, Limited*, Toronto



D. W. Currie, *Goulding, Rose & Co., Ltd.*, Toronto; David R. Dattels, *Dattels & Company Limited*, Kitchener, Ont.; James T. Troyer, *Thomson & McKinnon*, Toronto

Mutual Interests of Accountants and Investment Dealers

By HARVEY R. DOANE*

President, Dominion Association of Chartered Accountants

Prominent Canadian accountant, holding Accountants and Investment Dealers have common interest in nation's financial stability, says they should cooperate to educate public in economic advantages of capitalist system and in knowledge of true nature and purpose of profits. Advocates truthfulness and integrity in financial reporting, and urges investment dealers to use their influence in having corporations give simple, yet full statements to investors and public.

Chartered accountants and investment dealers have a common interest in the present and future financial stability of the country. This common interest frequently finds them cooperating for the welfare of some particular business or as often happens for businesses generally. Canada has attained a position of world leadership, economically and industrially, and our people enjoy a standard of living comparable only with that of our powerful neighbor to the south. We both believe this favorable condition to be possible only under the form of business economy called capitalism and implicit in this belief is a faith in the tenet of the importance of profits as a form of incentive and in the necessity of continuing adequate profits if the corporate form of business enterprise is to survive.

Harvey Doane

The level of business economy as we know it today would not be possible without the limited liability form of business institution, and if that high level is to be maintained, the corporate form of enterprise must be supported. Investment dealers and chartered accountants have both made an important contribution to the development of the corporate form of enterprise and they must continue to accept their responsibility for service in this field if the corporate entity is to continue its important role in our economic system. However, the corporation must not be permitted to abuse its privileges and it must be prepared to accept its own share of responsibility.

There are certain groups in this country, as in the United States and Great Britain, who are determined to destroy our way of life and who believe the capitalistic form of economy and profits to be something evil. Unfortunately, these groups are aided not only by people who think it fashionable to attack the capitalistic system, but by supporters of our way of life who, by thoughtless action or indifference, provide valid ground for criticism.

An important requisite for the continuation of our way of life is a clear understanding by the citizens of the country as to why the capitalistic system does provide the highest possible standard of living and the place of profits in that system. Unless the people have a clear understanding of these points, we may lose our present way of life by default. The development of this understanding and faith in our financial institutions cannot be accomplished by any one interested group, but we must each be prepared to make a contribution through whatever means is available to us.

Educate Public on Nature of Profits

The lack of knowledge by the general public as to the size of corporate profits points up one of the main avenues along which we may well concentrate our efforts at education, and in this field the investment dealers and the chartered accountants can both play their part. Several surveys which have been made from time to time show consistently that the average man on the street feels that the net profits of corporations run anywhere from 10 to 30% of sales. While our first reaction may be that "it would be nice if it were true," our second thought will probably be that this inaccurate opinion stems from a vague impression that the corporation is taking more than its fair share out of the consumer's dollar. On the other hand, the average man's conception of a fair profit which business should receive is significantly greater than profits have ever been in modern times. It should be possible to develop an awareness of the significance of profits as an incentive for the promotion and establishment of business enterprises which will result in continuing improvement in our standards of living.

Truthfulness in Financial Reporting

Accountants and investment dealers both recognize the necessity for truthfulness and integrity in financial reporting. Without this basis modern financing would not be possible. The misconceptions on the part of the general public as to the size of business profits are undoubtedly caused in a large measure by the lack of information provided in respect of business operations. During the last century it was the unusual corporation which provided any useful information to its shareholders, and even today this indifferent attitude towards shareholders exists in some quarters.

In all phases of public responsibility we see an increasing awareness of the welfare of the community as a whole and in financial reporting this has been reflected over the years by changes in the Companies Acts which require higher and higher standards of reporting to shareholders. It is generally recognized today, however, that even the Companies Act, 1934, Canada, does not require a company to give sufficient information on certain matters or to such a degree that the shareholders can be said to be fully or adequately informed.

If it is generally believed that more information should be given, this could be forced by extensive amendments to the various Acts governing financial reporting, perhaps along the line that has been followed in the United States through the Securities and Exchange Commission, but I do not think that the most desirable means of solving the problem. Not only does such a course require the establishment of some agency to decide what information must be provided to shareholders and the public, but it would also have to indicate how it should be provided and, in some cases, would have to go so far as to indicate how the information should be compiled. This suggests further governmental interference in business and I think you will agree with me that we have too much of that now. The main objection, however, is that business operations today are so complex that the circumstances surrounding each individual corporate entity are usually in one degree or other significantly different from those of apparently similar corporations and, to make a fair reporting of their financial affairs, a considerable amount of leeway must be permitted in order to marshal pertinent facts

Continued on page 17

*An address by Mr. Doane before the 34th Annual Meeting of the Investment Dealers' Association of Canada, Seigniory Club, Montebello, Quebec, June 8, 1950.

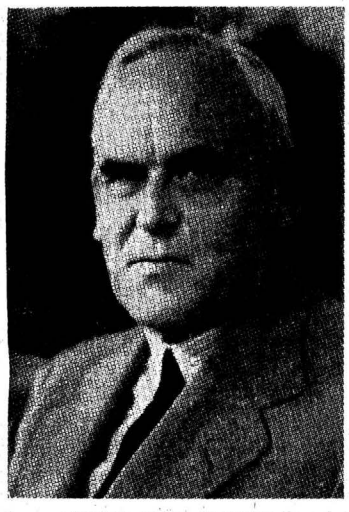
L. P. Chalmers, *W. C. Pitfield & Company Ltd.*, Toronto; Robert A. Jarvis, *McLeod, Young, Weir & Company Limited*, Toronto; Murray D. Cox, *Greenshields & Co.*, Toronto; J. E. Choat, *James Richardson & Sons*, Toronto; Telfer R. Hanson, *Goulding, Rose & Co.*, Toronto

J. Louis Levesque, *Credit Interprovincial, Ltd.*, Montreal; Y. Levesque, *N. P. Levesque & Levesque*, Montreal; Howard W. Hunter, *Fairclough & Company, Ltd.*, Toronto; Gaston Thibodeau, *Credit Interprovincial, Ltd.*, Montreal; Rodolphe Casgrain, *Casgrain & Co., Ltd.*, Montreal

High Production and Employment Featured 1949 Canadian Economy*

Gross national output estimated at $16 billion with inflationary pressures of 1948 no longer apparent. Exploitation of new oil fields and new iron mining developments give promise of continued Prosperity. Soft spot lies in foreign trade situation arising out of dollar difficulties of sterling area, but remedy is seen in increasing industrialization of Canada and expanding domestic market that comes from population growth.

During 1949 the Canadian economy was characterized by high production and employment. For the year as a whole, the gross national product will probably exceed $16,000,000,000 and show some increase over 1948 in real terms. Unemployment at the end of October, although somewhat above 1948 levels, was less than 3% of the civilian labor force.



HON. C. D. HOWE
Minister of Trade and Commerce Dominion of Canada

In general, the inflationary pressures that were reflected in the rising prices of 1948 were no longer apparent in the latter part of 1949. For the past two or three years short-run supply conditions have been a major consideration in any appraisal of the economic situation. This is no longer true. Postwar shortages, which contributed so much to price increases during the period 1946-48, have to a large extent disappeared and the influence of deferred demand has abated. Longer-run and more normal factors, particularly from the demand side, must now be given greater weight in assessing the inherent strengths or weaknesses of the Canadian economy.

At the end of the year domestic demand seems firm. Personal incomes have continued to increase throughout the year. Government expenditure is rising. Any tendency for capital investment to decline because of the need for greater selectivity in business expansion seems likely to be offset by projected expansion in the oil and iron-mining industries and in housing.

The most obvious soft spot in demand lies in foreign trade. Here, improvement in the European domestic supply, combined with the dollar difficulties of the sterling area, raises serious problems for Canada's exports, particularly of agricultural produce. It is impossible to judge the extent of the setback this may give to the Canadian economy. Looking beyond the immediate future, however, this unfavorable influence will be offset to some extent at least by the increasing industrialization of Canada and by the continuing growth of population which assures a greater domestic market.

Foreign Trade

Canadian exports are now running at a lower figure than in 1948, and for the year as a whole, a small decline in volume is expected. In 1949, Canada's current account surplus with all countries will be considerably less than the $453,000,000 surpluses of 1948, largely because of the substantial increase in imports from the United States.

Merchandise exports to the United States were $1,344,000,000 and exports of non-monetary gold $126,000,000 for the first 11 months of 1949 compared with $1,353,000,000 and $107,000,000, respectively, for the first 11 months of 1948. At the same time merchandise imports from the United States increased markedly from $1,646,000,000 in the first 11 months of 1948 to $1,801,000,000 in the first 11 months of 1949. The unfavorable balance with the United States is even greater when invisible items such as interest and dividends and tourist expenditure are taken into account. Merchandise exports to the United Kingdom were $655,000,000 in the first 11 months of 1949 compared with $638,000,000 in the first 11 months of 1948 while imports were $287,000,000 in the first 11 months of 1949 compared with $275,000,000 in the first 11 months of 1948.

There was no decline in Canada's holdings of gold and United States dollars since the unfavorable balance of trade with the United States was more than offset by favorable balances with the United Kingdom and other overseas countries. These latter favorable balances provided Canada with United States dollars, except

Continued on page 20

*Reprinted from "Canada, 1950," published by the Dominion Bureau of Statistics, Department of Trade and Commerce, Ottawa, Ont., Canada.

Joseph W. G. Clark, Executive Secretary, *Investment Dealers Association of Canada*

Hal Murphy, *Commercial and Financial Chronicle*, New York City; C. B. Irwin, *Carlile & McCarthy, Ltd.*, Calgary; J. Paul Guite, *Credit Interprovincial, Ltd.* Montreal

Arnold G. Plaxton, *Intercity Securities Corporation Limited*, Toronto

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W. C. Pitfield & Co., Ltd.
Toronto

DEANS, M. C.
Bankers Bond Corpn., Ltd.
Toronto

HUGHES, J. O.
A. E. Ames & Co., Ltd.
London

HUNTER, H. W.
Fairclough & Co., Ltd., Toronto

LACE, F. D.
Matthews & Co., Toronto

MacKEEN, D. W.
Royal Securities Corpn., Ltd.
Ottawa

McLELLAND, W. J.
Wood, Gundy & Co., Ltd.
Toronto

SPRAGGE, W. P.
A. E. Ames & Co., Ltd.
Toronto

YOUNG, N. D.
Dominion Securities Corpn., Ltd., Toronto

Western District

McCULLOCH, R. G. (Chairman)
Osler, Hammond & Nanton, Ltd., Winnipeg

BENHAM, H. A.
Royal Securites Corpn., Ltd.
Winnipeg

COPLAND, R. A.
Oldfield, Kirby & Gardner, Ltd., Winnipeg

HALL, E. O. W.
Burns Bros. & Denton, Ltd.
Winnipeg

HOUSTON, W. M.
Houston, Willoughby & Co., Ltd., Regina

KNIGHT, D. N.
Wood, Gundy & Co., Ltd.
Winnipeg

LIGHTCAP, J. S.
Lightcap Securities, Ltd.
Winnipeg

STEPHENS, S. C.
James Richardson & Sons
Winnipeg

THOMAS, G. N.
Melady, Sellers & Co., Ltd.
Winnipeg

Alberta District

FARNSWORTH, H. R. (Chmn.)
Royal Securities Corpn., Ltd.
Calgary

HUGHES, F. N.
James Richardson & Sons
Edmonton

JACKSON, W. C.
C. L. Jackson & Co., Edmonton

MacKEEN, H. D.
Toole, Peet Investments, Ltd.
Calgary

MORGAN, R. T.
Wood, Gundy & Co., Ltd.
Edmonton

NEWTON, D. C.
Dominion Securities Corpn., Ltd., Calgary

TANNER, C. R.
Tanner & Co., Ltd., Calgary

TURNEY, A. H.
James Richardson & Sons
Calgary

Pacific District

GLASGOW, F. L. (Chairman)
Royal Securities Corpn., Ltd.
Vancouver

BLAIR, K. S.
James Richardson & Sons
Vancouver

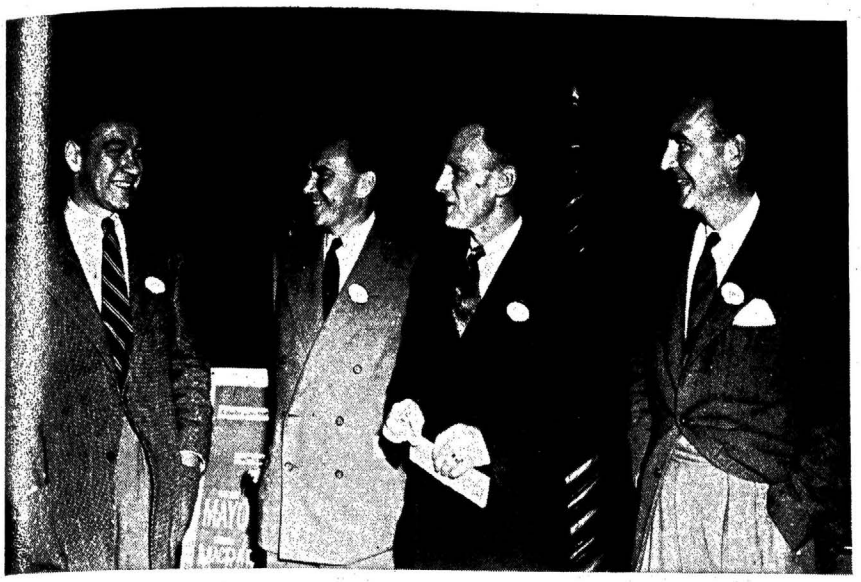
BROWN, W. T.
Odlum Brown Investments, Ltd., Vancouver

DINGLE, H. H.
Wood, Gundy & Co., Ltd.
Vancouver

EDGELL, R. H.
Yorkshire Securities, Ltd.
Victoria

McDERMID, D. C.
McDermid, Miller & McDermid, Ltd., Vancouver

SHERWOOD, G. D.
McMahon and Burns, Limited
Vancouver



Peter Kilburn, *Greenshields & Co. Inc.*, Montreal; C. L. Gundy, *Wood, Gundy & Co., Limited*, Toronto; Wilfred J. Borrie, *Pemberton & Son Vancouver Limited*, Vancouver, B. C.; A. D. Nesbitt, *Nesbitt, Thomson & Company, Limited*, Montreal

Mrs. John Ridley; Lord Burghley, London, England; Mrs. Peter Kilburn; John B. Ridley, *A. E. Ames & Co. Limited*, Toronto; Lady Burghley; Peter Kilburn, *Greenshields & Co. Inc.*, Montreal

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Mutual Interests of Accountants And Investment Dealers

in the manner which will not be too susceptible of misinterpretation.

In my opinion, the best way to bring about proper reporting is to educate investors to seek and management to give full and accurate information concerning the financial affairs of the companies in which they are interested. This is not to suggest that any organization should give out information which would be a useful comfort to its competitors, but there is little doubt that most companies could provide more adequate information than is presently done. A shareholder or prospective shareholder should have sufficient information available to him to allow him to make an informed opinion as to the state of the company's affairs and, supplementing that with whatever other information can be obtained, make his own reasoned estimate as to the worth of the particular securities. If this is done, no person will be in the position at a later date to claim that he was misled.

This objective applies not only to financial information provided in prospectuses, but also to the annual financial statements. The investment dealer who is fulfilling his role in the community is interested not only in the successful flotation of a particular issue, but he must also be concerned with the development and maintenance of a market for the particular securities already sold. This responsibility will include providing information and service to all persons who through his actions have acquired an interest in the securities.

Investment Dealer Should Cooperate

The investment dealer is in a position where he can co-operate effectively with the independent public accountant in promoting adequate disclosure of the financial affairs of the concerns with whom they are both dealing, thus assisting in the education of the investing public as to the importance of the profit motive and freedom of enterprise in our economic system.

A number of concerns are giving increased attention to their annual reports, and in many instances significant strides have been made in providing information beyond the strict legal requirements to their shareholders. Some reports are very attractive to the eye and give a full picture of the company's operations and the prospects as the directors see them, in addition to providing factual financial information in a manner that can be readily understood and that is capable of proper interpretation. Other companies, however, feel that a voluminous eye-catching report with disclosures in the financial statements of the bare minimum legal requirements is all that the shareholder is entitled to receive. In this case the shareholder gets the shell, but not the meat.

The Dominion Association of Chartered Accountants is attempting to promote more useful and informative financial reports through the medium of bulletins on accounting and auditing matters issued by the Committee on Accounting and Auditing Research. Bulletin No. 1 was "A Statement of Standards of Disclosure in Annual Financial Statements of Manufacturing and Mercantile Companies," and in this bulletin a first step was taken in suggesting those instances in which financial reporting, to be informative and useful, would have to go beyond the minimum requirements of the Companies Act. Bulletin No. 2, "A Statement of Minimum Standards of Professional Practice Which Should Apply in Respect of Prospectuses" set out certain aspects of the auditor's responsibility which were deemed to be extremely important in financial reporting in connection with the sale of securities.

Without going into detail, I would like to mention one or two points wherein the investment dealer can co-operate usefully with the independent public accountant. In the presentation of statements in a prospectus, pro forma statements are often used. These can be readily misinterpreted and, if not carefully prepared, enter the field of prophecy, rather than remaining in the field of factual reporting. The auditor should not be expected to express an opinion on a pro forma balance sheet unless the responsible parties have entered into a firm commitment in respect of the transactions on which the pro forma statements are based, and there should be reasonable assurance that the position of the company will in fact resemble that shown by the statements.

In any prospectus, the presentation of information should not be such as to be a misinterpretation of the financial information reported on by the independent auditor. The investment dealer is in a particularly delicate position and has a real interest in making sure that this does not happen either intentionally or inadvertently.

In the annual report of the company's affairs the investment dealer can use his influence towards encouraging the presentation of comparative statements, the full disclosure of reserves such as inventory reserves, and the differentiation of reserves as between liability reserves and reserves which are in fact part of the shareholders' equity.

In Canada, companies seldom provide any information as to sales. This is one of the necessary essentials if a proper evaluation of a company's prospects is to be made, and it would appear that shareholders should be given this information. As you know, this information must be disclosed by all companies reporting to the Securities and Exchange Commission in the United States, and apparently has had few ill effects, if any, upon the status and operations of the companies making such disclosures.

I have mentioned only a few items of information which I feel you will agree should be made available to corporation shareholders. It is very gratifying to note that many of the companies in Canada are recognizing their responsibility in this regard, but on the other hand there is still considerable room for improvement. I feel that if the Investment Dealers' Association of Canada and the Chartered Accountants will continue their efforts to persuade the corporations that the best contribution they can make toward the fight against socialism and government-controlled business is by educating the public in respect to the advantages of our economic system and impressing upon the corporations that such education is only possible through the adoption of wider standards of disclosure, we will be achieving a worthwhile purpose.

Frank C. Cassidy, *Mackellar Securities, Ltd.*, Toronto; Barry German, *Greenshields & Co.*, Ottawa, Ont.; S. R. Mackellar, *Mackellar Securities, Ltd.*, Toronto, Ont.; H. L. Petrie, *Jennings, Petrie & Co., Ltd.*, London, Ont.

Reed Johnston, *G. E. Leslie & Co.*, Montreal; Stanley Cox, *Bankers Bond Corporation, Limited*, Toronto; George McCain, *G. E. Leslie & Co.*, Montreal; J. A. Leddy, *MacTier & Co., Limited*, Montreal

Continued from page 8

Oil and Canada's Future

provincial Pipeline is now under construction. This will take crude from the Alberta fields to Superior, Wis., at the head of the Great Lakes. From Superior, lake tankers will carry it to oil refineries in Ontario and, as supplies become increasingly available, a demand could readily develop in the United States. Canadian crude made be refined in the United States because as time goes along it may be to both countries' advantage — economically and geographically—to in effect exchange crude with each other rather than haul oil to markets a greater distance from sources of supply.

This movement of crude across the Prairie Provinces will ultimately bring about the mechanization of the regions between the well and the farthermost refinery. If crude oil can be delivered competitively to refineries in Southern Ontario, it is plain that in cities like Regina or Winnipeg, less than half that distance across the prairies, conditions are ideal for the permanent development of refining centers. Customers in those areas will be able to get ample amounts of petroleum products under advantageous economic conditions. Furthermore, these larger stocks of domestically produced and refined products will be available for the work of conquering the frontier in the more remote parts of Canada.

Canada in Position to Use Increasing Oil Supplies

It is my own opinion that the benefits of the new oil discoveries on the Interior Plains will spread throughout Canada more quickly than is generally realized. Through its rapid mechanized development during the first half of this century, Canada is in an ideal position to fully utilize these benefits. She has had all the blessings of mechanization except the important one of a domestic source of hydrocarbon fuels. Now that she has that source, Canada should expand at a more accelerated pace.

I think that Americans generally realize that what benefits Canada also benefits us. We are bound together by so many economic ties that to advance the interests of one country automatically helps the other, leading as it does to a greater exchange of goods and the general stimulation of trade. In these days when hemispheric strength is so vital to world peace, these economic ties are of extreme importance. It is comforting to know, for example, that as the Canadian oil industry progresses, as additional reserves of crude oil are found, and as her wells, pipelines and refineries expand we on this continent are provided with a greater measure of protection.

Thus, Canadian oil may be essential to the future of democratic peoples, providing its contribution to the maintenance of the North American way of life.

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Problems of Trust Companies And Investment Dealers

While I am later on going to mention some items in current practice which we in the trust business think you might study, these suggestions are offered strictly as ideas for mutual self-improvement and are not the growth of any unrest amongst the members of our group with respect to the way in which you carry on your business. To repeat, it is an admirable commentary on both the trust and loan companies and the investment dealers that the relationships which do exist are on such a mutual and happy basis.

In the past our respective associations have joined from time to time in submitting briefs to various government bodies on taxation and other matters which affect us both. I am inclined to think that in the future our cooperation along this and similar lines should be even greater. It is obvious that we have a large number of common interests. We are both composed of business concerns which offer services to the public, and these services are devoted primarily to the proper use of the capital resources belonging to that public. As a matter of fact, you of course, as the sellers and we as the buyers, but it does seem to me that our cooperation in all matters affecting securities should be as close as that between the two sides of a coin.

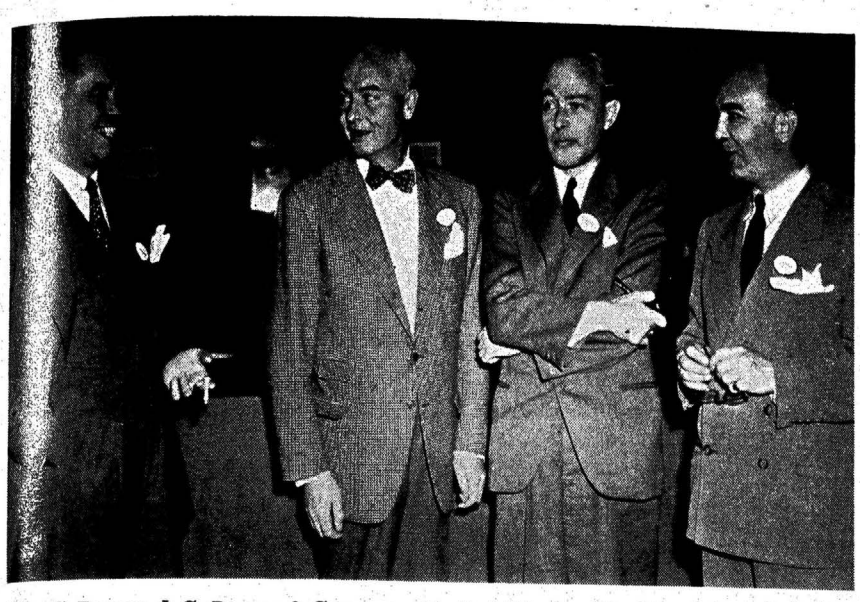
Matters of Common Concern

It is our common concern that there shall be a far-sighted and vigorous development of our Canadian economy in all its aspects. For this reason, we should both consider whether it is not to our mutual advantage to have a common approach to any of the problems which will undoubtedly confront us in the future. At the moment there are no problems of particularly great import which might fall within this class, but there are minor problems which we might well discuss with one another. For example, the position of the trust companies as sub-agents in the recent Dominion Loan, was not particularly satisfactory either for trust companies nor I suspect for the investment dealers. I think we could work out some better way of handling this problem in the future. Another case where closer cooperation would be useful arises when a security gets into trouble by reason of default. The handling of such cases on behalf of corporate investors, fortunately now very rare, is a responsibility of our association. In the past we have had great help and cooperation from most of the underwriters concerned when such trouble does develop. Sometimes, however, there has not been the interest in the affairs of the debtor company or municipality that one would expect from a responsible investment dealer. Personally, I would like to see each association appoint members to a standing committee through which committee any problem of mutual concern could be clarified by discussions between the two groups.

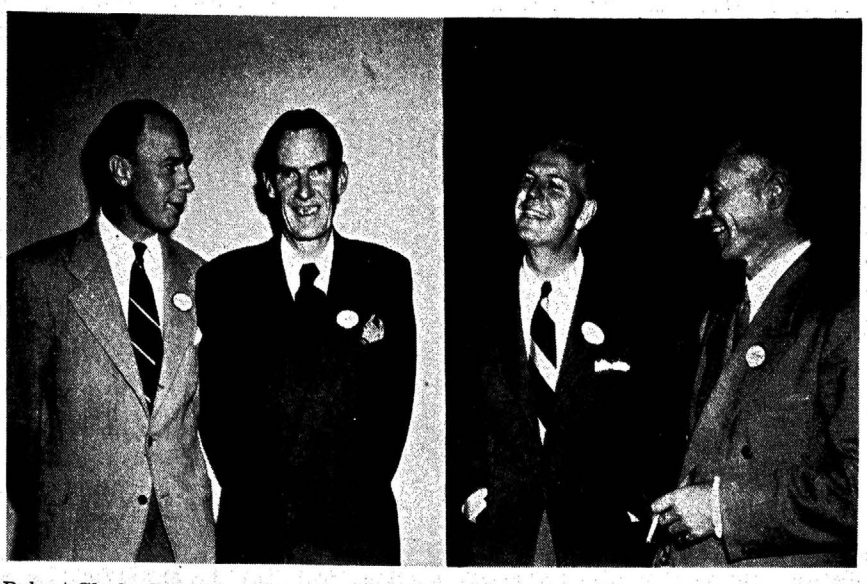
Problems in Trust Company Field

There is one matter in the trust field which the members of our association occasionally find misunderstood by investment dealers, and that is an adequate understanding of the basic relationship between the trust company as trustee and its beneficiaries. Insurance companies, banks and loan companies, when they are buying or selling securities, have basically only one account so far as investment is concerned, that is to say, they buy for themselves. Obviously, this simplifies the problem of buying and selling securities. Because life companies occupy a much larger segment of the financial world than do the trust companies, the difference in the approach of trust companies to investment problems is occasionally overlooked. We in the trust companies when dealing with the question of buying and selling securities, have as many separate accounts for which to buy and sell as we have separate estates and trusts, as well as buying and selling for our own account. In other words, each separate estate must have its own investment policy based on its separate needs.

The trustee side of our business is much larger in total than trading for ourselves. Trustee law will not allow a trust company, or any other trustee for that matter, to buy securities for itself and later on to sell them to the estates for which it is trustee. If a trustee were to do this, it would be held to guarantee the security in the hands of the estate. That is to say, the estate could take the benefit of any profit which might arise by reason of the investment, but the trustee would have to reimburse the estate for any loss. I think you will readily



John C. Rogers, *J. C. Rogers & Company, Limited,* Montreal; D. Arnold Skelly, *A. M. Kidder & Co.,* Burlington, Vt.; G. M. Babbitt, *Biggar & Crawford,* Toronto; J. G. Goldie, *Cochrane, Murray & Co., Ltd.,* Toronto



Robert Clark, *Calvin Bullock,* New York City; Harry J. Bird, *H. J. Bird & Company, Ltd.,* Vancouver; H. H. Dingle, *Wood, Gundy & Co.,* Vancouver; J. M. McConnell, *Nesbitt, Thomson & Company, Limited,* Montreal

appreciate that this is not a position in which a trustee cares to find itself. This means, therefore, that when any investment is offered to a trust company the problems arising as to whether or not the investment will be purchased and in what quantity, are very much more complex than they are in the case of our sister concerns.

If occasionally you find a trust company buying and selling the same security at the same time, or taking delivery of a block of bonds in many relatively small pieces, remember we are dealing for many individuals whose investment needs differ materially, and I hope that we will have your comprehension and understanding of the special problems with which we find ourselves faced. One way in which this difficulty does arise specifically is the current mania for speed in the placing of new issues. On many recent occasions, as you know, a proposed buyer only has a matter of hours in which to decide on whether or not to acquire securities. It is sometimes impossible for a typical branch office of a Canadian trust company with several hundred estate accounts, to determine whether or not to buy for each of those accounts before the books for the issue are closed. The situation of each individual account as to availability of cash, investment powers, suitability of the proposed investment for the beneficiaries and often consents of co-executors have to be considered before a decision can be reached, and you will, therefore, see that a reasonable time must be allowed to the trustee in which to make up its mind. Remember, the trustee always has to be able to justify every investment made, to the court and to beneficiaries as long as it remains on the books of the estate. We are not complaining about the position in which we find ourselves, but we do sometimes think that the investment dealers might give us as least as long to look at their issues as they themselves often take before making up their minds to buy it in the first place. After all, we are going to have the issue on our books a lot longer than you are.

Common Trust Funds

By the way, and before dropping this topic of the multiplicity of accounts, you will be interested, I think, to learn that the problems arising from the buying and selling for individual accounts is being tackled by our trust companies from our own end; that is to say, we do not of course expect the investment dealers to solve this problem for us, although, as I mentioned, you could be of great assistance. We in the trust field are doing this: after a great deal of study of the trend in the United States toward what are known as common trust funds, we made representations last spring to the Ontario Legislature, and at its last session legislation was passed authorizing the establishment of common trust funds in Ontario. Similar legislation is currently before the Parliament of Canada at the present session. These common trust funds, when established, will enable a trust company to lump or join together funds from a large number of estates and to make single purchases or sales of stocks or bonds in large blocks in appropriate cases for such common trust funds instead of for each individual estate account.

Separate funds will, of course, be maintained for the legal type of investment and for the discretionary type of investment, so that each estate will continue to have its assets invested in accordance with its own powers or regulations. This machinery has proven itself very beneficial in the United States. Some of the common trust funds established there are now very large in total holdings running to many millions. This will possibly open a new avenue for you men for business with our trust companies. We hope it will. We know that common trust funds will give us a much more diversity in the investing of balances for the smaller estates and that this will result in a better yield for the widows or children whose money is concerned. This will also go a long way towards eliminating the type of delay and administrative difficulty which I mentioned as inevitable in handling a large number of small accounts one by one. I hope that some of these common trust funds will be in operation before your next meeting, and I am sure that when they are, they will improve and expedite the handling of our mutual investment problems and, what is more important, enable us both to pass on some benefit to the people whose money we administer.

Open Bond Market Needed in Canada

Another matter which we in the trust business think might well be studied by you, would be a reconsideration of the establishment of an open bond market in at least the cities of Toronto and Montreal. Where this effects trust companies arises as follows:

I think it is general practice of all trust companies when administering an estate, to employ the agents usually employed by the deceased in his lifetime, such as solicitor, insurance agent, investment dealer and so on. This policy has, of course, to be subject to the qualification that in so doing the fundamental interests of the estate are not prejudiced in any way. This is where the present practice of private quotations for bonds does cause us some embarrassment. We can buy and sell stocks through a member of the stock exchange at any time because we know that that member will get the current market price for us which, while it may fluctuate from day to day or hour to hour, yet at any given moment is a matter of publicity and of record. This is not the case in bonds. As you know, there are quotations at different rates, maybe only a few cents, but when dealing with a substantial block this is important, and we cannot, therefore, be sure when we are either buying or selling securities that the quotation given to us by any one investment dealer is necessarily the best which we could obtain for the estate at that time. Therefore, a conscientious investment officer has to obtain at least two quotes when making a deal. This not only takes time for ourselves, but does waste time for the second investment dealer. If as a result of obtaining these quotes we find that we can deal more advantageously with an investment dealer who was not retained by the deceased in his lifetime, some embarrassment is occasioned. If there were a recognized and established bond market, this sort of problem would disappear. I know this has been considered by you gentlemen in the past and I doubt whether or not the convenience to trust companies would be of sufficient importance to justify the establishment of such a market again in the future.

However, there is another reason which I will advance, and that is in the opinion of many of us the existence of such a bond market might be helpful to you and to the community generally in stimulating general interest and trading in bonds. We have all heard of that nebulous figure known as "the average investor." The average investor has some idea of the operations of the stock market and knows that stocks are bought and sold publicly in that way, but the average man does not know how or to what extent an investment in municipal or corporate bonds is liquid, and, therefore, often refuses to buy securities of this nature by reason of the fear that he will never be able to realize on them should need occur. It occurs to me that if a public market were established for bonds and it was well known that bonds could be bought and sold in the same manner as stocks, you might find much more interest on the part of the average investor in putting some of his money in corporate and municipal bonds. Even those of us who do know something about the workings of investment dealers might feel freer to buy certain corporate issues if we knew there was a public market available at which they could be sold at some time in the future. A bond market with its constant publicity and day-to-day sales, might in the opinion of some people, greatly expand the public demand for bonds of all kinds.

Current Trend in Municipal Finance

There is another matter of mutual concern to all of us and where we would like your help and that is the current trend in municipal finance. Municipal taxes and expenditures continue

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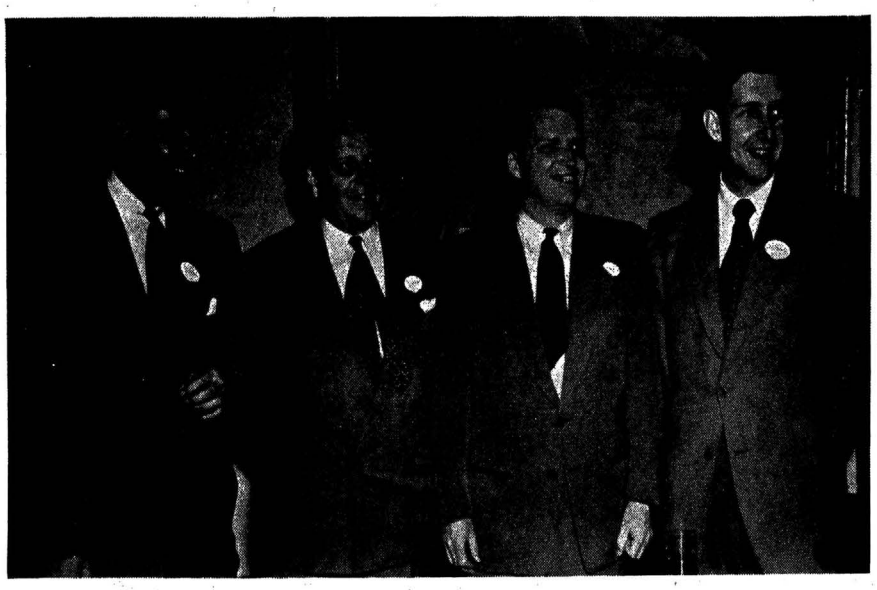

J. Reg. Findley, *F. H. Deacon & Co.*, Toronto; H. C. Howard, *Nesbitt, Thomson & Company, Limited*, Montreal; Benson L. Coyne, *Deacon Findley Coyne Limited*, Toronto; E. G. Percival, *Harrison & Company, Ltd.*, Toronto

W. A. Canning, *Bell Telephone Co. of Canada*, Toronto; Frank E. Hall, *Hall Securities, Limited*, Vancouver; N. A. Mitchell, *Harrison & Company, Ltd.*, Toronto; George N. Thomas, *Melady, Sellers & Co., Ltd.*, Winnipeg

Continued from page 19

Problems of Trust Companies And Investment Dealers

steadily upward and while at the present moment there is little evidence that municipal taxes are too burdensome, there is real danger in these trends for the future if they continue. Municipal bodies are doing little to hold expenditures in check and are looking to someone else, usually the province or the Dominion to assume a part of their financial burdens. I will admit at once that provincial-municipal financial relations need readjustment, and that the financial situation in which municipalities find themselves with respect both to their ability to raise funds and the services which they find themselves called upon to perform, are not satisfactory. However, the experience of recent years shows that the mere assumption by the province of certain municipal costs is not the answer. This has to be accompanied by a willingness and a determination on the part of municipal bodies to hold their expenditures in check. Up to now, anything which the municipalities have saved by shifting of certain costs to the provinces has been spent by them in other directions.

For example, few people realize that the provinces in general have doubled the subsidies and grants to municipalities between the years 1939 and 1949, and most of this help was given by the provinces to the municipalities for the purpose and on the understanding that it would ease the burden on real estate taxes. As you and I and everyone else know, municipal taxes have, however, gone up instead of down. A further repetition of this transfer of cost from the municipalities to the provinces without any consequent saving to the ultimate taxpayer, would be to the advantage of nobody. Where this situation directly affects you and ourselves as investors is in the field of municipal debt. Municipal debt as you all know was much higher before the war than at present, but it has started to rise again for the last three years, and if municipalities proceed with even a part of the plans which they have projected, there will be further substantial increases in the future. Because the total of municipal debt is somewhat lower than before the war, and because it now bears a lesser interest rate than it did at that time, there is a tendency on the part of many to assume that the debt can be expanded to a large extent without any danger to the stability of municipal finance. This is not necessarily so. The present tax income of municipalities is very large, but if it is analyzed you will find that it is very largely earmarked for other specific purposes such as relief, increases in wages for firemen, police and so on. Under these conditions, therefore, any further increase in municipal debt can be just as burdensome to the municipal taxpayer as was the larger debt of years past which led to the unhappy conditions of the '30s.

We would like to see municipal councils and other bodies charged with responsibility for the finances of municipalities, to set an example of economy in administration. If they do not, trouble in a financial way is very apt to happen in the future. I think that corporate investors are going to be increasingly conscious of these present trends in assessing the values of securities which you will offer and, you, the investment dealers, can be of great assistance in giving of your wisdom and guidance to the financial officials of municipal bodies when they come to you to discuss capital problems and proposed issues.

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High Production and Employment Featured 1949 Canadian Economy

for the part financed by the $120,000,000 borrowed by the United Kingdom from Canada under the terms of the United Kingdom Financial Agreement Act of 1946. Canada's holdings of gold and United States dollars rose from $998,000,000 at the end of 1948 to $1,117,000,000 at the end of 1949. Nevertheless as long as overseas currencies are not freely convertible into United States dollars, Canada is faced with the very real problem of redressing this lack of balance in her trade with the United States and the United Kingdom.

It is too early to assess the effects of devaluation of the pound sterling and other currencies on the direction and extent of world trade and particularly on Canadian exports. Despite the devaluation of the Canadian dollar by approximately 10%, sterling devaluation has raised the price of Canadian agricultural produce abroad and has created additional obstacles for this large and vulnerable part of our export trade. At time of writing, the full extent of the United Kingdom food contracts for 1950 is not known but it seems clear that some reduction in both prices and quantities will take place. Canadian non-agricultural exports to overseas countries declined during 1949 because of the dollar difficulties of these countries, and the competitive position of Canadian merchandise was further weakened by devaluation, except as regards the United States. Fortunately the domestic market has absorbed much of this production and the general strength of Canadian and United States demand continues in some measure to offset the decline in overseas markets.

At the close of 1949 imports remain high because of high levels of employment and income and the needs of capital expansion. Exports, on the other hand, suffer both from the shortage of dollars overeas and more normal conditions of supply in world markets. Moreover, despite some favorable factors such as the widespread endorsement of gradual tariff reductions and removal of trade barriers, multilateral trading with free convertibility of currencies seems still to be some distance in the future. Consequently the bilateral aspects of Canadian trade continue to be of great importance. The problem of Canadian trade is therefore twofold: first, to maintain the volume of exports relative to imports, and, second, to correct the direction of trade so that both the favorable balance with the United Kingdom and the unfavorable balance with the United States will tend to diminish.

Capital Expansion

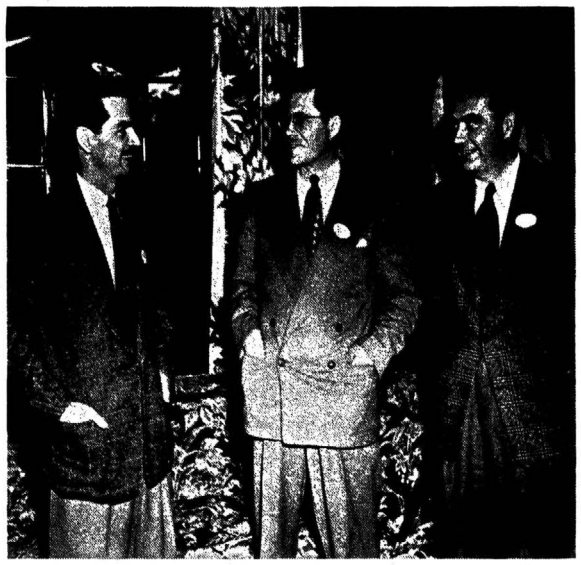
Early expectation of a record level of private capital formation in 1949 now seems to have been fully justified. The value of new building and engineering construction rose substantially and business purchases of new machinery and equipment were also at higher levels. For the year as a whole it appears that investment expenditures on plant, equipment, and housing will be more than 10% higher than for 1948.

A substantial part of the increased construction activity in 1949 was the result of the record house-building program. More than 95,000 new units were completed during the year, including the net increase from conversions. In 1948, 81,000 units were completed. By the end of the year it appeared as if the peak in construction costs had been reached.

There was a general increase in the supply of Canadian manufactured machinery and equipment and factory shipments were somewhat higher than in the first nine months of 1948. Imports of all

D. B. Dingle, *Wood, Gundy & Co.*, Toronto; Frank B. Poutney, *Houston, Willoughby & Co., Ltd.*, Regina, Sask.; F. E. Griffin, *Greenshields & Co. Inc.*, Montreal

George Beves, *Calvin Bullock, Ltd.*, Montreal; John Graham, *John Graham & Company, Limited*, Ottawa; Henry H. Rath, *Thomson & Co.*, Montreal



R. B. McKibbin, *Bank of Canada*, Ottawa; Hugh A. Benham, *Royal Securities Corp. Ltd.*, Winnipeg; H. G. Gammell, *Bank of Canada*, Ottawa

types of machinery were up about 15%. Sales of farm machinery were much higher than in 1948. The value of farm machinery shipments by Canadian manufacturers was about 30% higher than in 1948 and imports were almost 50% higher than the year before.

Net addition to inventories, another form of business investment, fell off sharply during the year, as industry and consumer pipelines were filled. Business inventories (excluding farm inventories) increased by about $200,000,000 in 1949 in contrast with the increase of $700,000,000 in 1948.

Production and Employment

The physical output of manufacturing establishments was slightly greater for the first 11 months of 1949 than for the comparable period of 1948, and about 93% above the 1935-39 level. Shortages still persist in a few lines, notably motor vehicles and some construction materials, but in general full production since the end of the war has produced a much better balance between supply and demand at current prices.

In mining the most significant development was the expansion of Alberta's oil production and the proving of large oil reserves for future development. Apart from the impetus given to the economy by the capital investment in this industry, rapidly increasing production has reduced imports of oil from the United States, and reduced our need for United States dollars. Conservative estimates place Alberta's known oil reserves at approximately 1,000,000,000 barrels. At the present time actual production is perhaps not more than half this current capacity since the prairie market absorbs only about 60,000 barrels a day and pipelines to other markets have not been completed.

Development of the extensive iron-ore deposits near the Quebec-Labrador boundary is soon to begin. This program has important implications for Canadian industrial growth, particularly because of the gradual depletion of the Mesabi deposits in the United States. In addition, it supplies an immediate stimulus in the way of capital investment.

The wheat crop is estimated at 367,000,000 bushels or 26,000,000 bushels less than the 1948 crop. The harvest of coarse grains was considerably lower; the production of oats dropped by 12%, barley by 22% and rye by 60% from 1948. Inspected slaughterings of cattle and calves were not quite as high this year as last and hog slaughterings declined 13%. The production of milk and butter in 1949 was relatively unchanged from last year.

The favorable employment situation during 1949 is indicative of the tempo of economic activity. The labor force increased in 1949 and although there was some increase in unemployment, the employed labor force was larger than the year before. The October survey shows a total civilian labor force of 5,200,000 with unemployment of less than 3%. The average weekly wage in eight leading industries was $43.78 on Nov. 1, 1949, compared with $42.15 at the same time in 1948.

Prices

The price level during 1949 remained fairly stable. While prices were still high, they were gradually coming into adjustment and the inflationary situation of the postwar years abated. The cost-of-living index was 159.6 on Jan. 1 and 161.5 on Dec. 1, while the general wholesale price index showed a slight decline. The main reason for this opposite tendency was that sensitive wholesale prices had reached their peak earlier and had begun to decline at the beginning of the year, while retail prices, previously restrained by regulation, continued to rise slowly. The services such as rents, street-car fares and hospital fees were coming into line with the general price level in 1949. Toward the end of 1948, rent control had been removed from all dwellings becoming vacant, and in November, 1949, rental regulations were further modified by permitting increases of 18 and 22% on unheated and heated accommodations, respectively, subject to existing leases.

Wholesale prices declined during the year for fishery products, furs, livestock, cotton fabrics, lumber, wood-pulp, scrap iron, copper, lead and zinc. Many of these items are dependent on trading conditions in international markets so that the price decline can be attributed to world rather than domestic demand.

Farm prices of agricultural products wavered during the year, without any noticeable upward or downward trend. Retail prices for food, however, showed a slight advance although declines for some items were noticeable at the end of the year. Building and construction material prices declined somewhat in the latter half of the year.

Finances

Attention in recent years has been focused on the use of the government budget as a balance-wheel of the economy, to take up the slack in employment during times of falling national income through increased public investment, and to act as a deterrent to inflation in times of boom by taxing away surplus spending power.

Since a high level of consumption, income, employment and production was maintained in 1949, public investment, which is the corner-stone of counter-cyclical budgeting, has not been called upon to play its compensatory role. The 1949 budget indicated that the policy of the Federal Government was to defer its construction program except where defense or other essential requirements have intervened. At the provincial and municipal levels, current information with regard to both revenue and expenditure is lacking, but the forecast of intentions at the beginning of 1949 indicated that municipal capital investment would show a moderate increase over 1948, and that provincial capital investment would remain at 1948 levels. The outlook for increased public investment in 1950 centers mainly around developments which are taking place in connection with national defense, the construction of the Trans-Canada Highway, and government plans to assist with the servicing of land for housing and the promotion of housing projects.

The total expenditure of the Federal Government for the first nine months of the year ending March 31, 1950, was $1,537,000,000, about $191,000,000 or 14% over the correspoding period of the previous fiscal year. Increased defense spending accounted for $77,000,000 of this increase, and payments to Newfoundland under the accession agreement, higher family allowances and old-age pensions, and the effects of generally higher price levels of all government operations explain most of the balance.

Federal revenues in the first nine months of the fiscal year 1949-50 were down noticeably to $1,836,000,000 as compared with $1,956,000,000 in the previous fiscal period. This represents a decline of approximately 6% and is the result of substantial reductions in the personal income tax rate, and the abolition of indirect taxes on many articles and services. The surplus of $300,000,000 for the first nine months will not be maintained since expenditures become very much heavier towards the close of the fiscal year.

Although the net Federal Government debt was reduced in 1948-1949 by the large surplus of $596,000,000, a reduction on this scale will not take place during 1949-50 since the estimated surplus is only $90,000,000. In addition, the Federal Government assumed $72,000,000 of the sterling debt of Newfoundland during 1949-50.

Money Supply: The average money supply of Canada for the first nine months of 1949 was approximately 5% above that for the same period of 1948. Relative to the value of goods and services produced, the means of payment in Canada has shown a definite decline since 1946.

Bond Prices and Interest Rates: Government of Canada bond prices remained steady in the early months of 1949 but began to move upward in July. Between July and December the price of the longest term Victory Loan bonds (maturing in 1966) increased from an average of 101.12 to an average of 102.65 with the yield declining from 2.89% to 2.73%.

Chartered Bank Loans and Investments: Average chartered-bank holdings of Federal, provincial and municipal government securities during the first 10 months of 1949 increased by approximately 8% over the same period of 1948. At the same time, the volume of commercial loans as indicated by month-end averages increased by 11% to $2,350,000,000 as at Oct. 31, 1949. These increases are slightly over-stated due to the inclusion of Newfoundland in the 1949 figures. Government securities and commercial loans as proportions of the total assets of chartered banks held steady at the 1948 ratios of approximately 43 and 25%, respectively.

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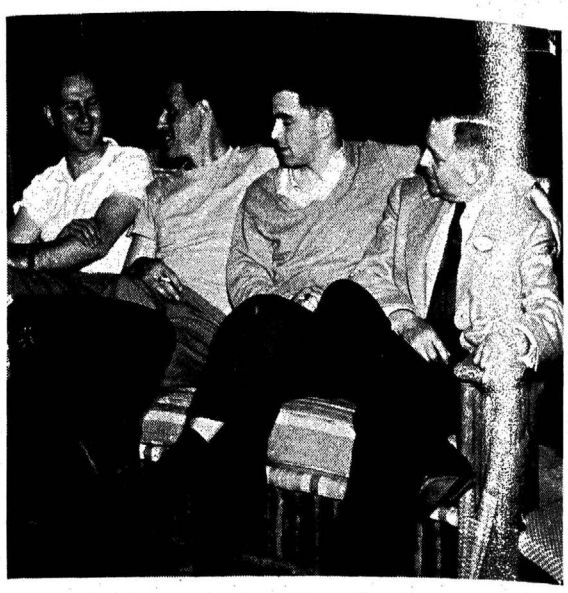
Donovan N. Knight, *Wood, Gundy & Company, Ltd.,* Winnipeg; P. J. Anderson, *A. E. Ames & Co.,* Toronto; Harry Gassard, *Investment Dealers Association,* Montreal



James MacMurray, *Eastern Securities Co., Ltd.,* St. John, N. B.; Harry D. Scully, *Eastern Securities Co., Ltd.,* Fredericton, N. B.; Allan V. Castledine and Victor S. Castledine, *V. S. Castledine & Co., Limited,* Ottawa, Ont.

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Mutual Funds and the Business Executive

investor will adhere to a program of consistently buying a fixed amount of dollars' worth of a security, he will obviously get the most number of units when their price is lowest and the fewest number of units for the same dollar amount when the price is highest. Further study will show that his average cost will always be lower than the average price of the units.

If the industrial growth of this country is going to continue, then the unbiased judgment of the management of the fund in maintaining the stocks of promising companies in its portfolio, will, over a period of years, provide the investor with an eventual capital growth regardless of the current phase of the market in which he makes his initial investment.

One very important factor assisting the management of a mutual fund is the constantly recurring addition of new capital to the fund at varying phases of the security markets, providing the management with the "wherewithal" to take advantage of the different opportunities which present themselves. This factor also has a dilutionary effect on the percentage losses of past mistakes in relation to the gross asset value of the fund. ("Honest mistakes are made by mutual fund managers, just as medical men and lawyers occasionally come to the wrong conclusions.") For example, a $40,000 mistake on a $2,000,000 fund would represent a loss equivalent to 2% of the assets, leaving 98% to be working to recover the loss. With the addition of new capital bringing the fund up to $8,000,000, the 2% of assets shrinks to ½ of 1%, leaving 99½% of the capital of the increased fund working to recover the ½ of 1% loss.

The National Association of Investment Companies (U. S.) has compiled figures showing the composite management performance of its member companies for the years 1941 through 1948. The figures show a gain for these investment companies for these particular years of about 60%. This compares with a gain of approximately 40% for Moody's 200 Common Stock Index.

The profit potential of a mutual fund investment is quite good when measured in comparison with other investment accounts or with fixed dollar value investments.

Safety in Investment

The two most important elements in achieving safety in an investment are, of course, diversification and continuous supervision. The theory of diversification is that 10 securities are safer than one, a hundred safer than 10. No one could deny that there is less chance of loss—other things being equal—in owning shares of a fund based, for instance, on a cross-section of well-known bank or insurance or steel stocks than in simply owning one of such stocks directly. A fund based on a large number of bonds obviously gives more protection to an investor than just one or two even higher-grade bonds.

If one basic principle of an investment company is diversification, another is continuous, experienced supervision. The layman has little conception of the extensive management machinery that is employed to supervise his investment in a well set up mutual fund. The statistics, the investigational field trips, the sifting of advice from hundreds of pertinent sources, are far beyond the capacities of individual investors.

All pensioners from prewar days have discovered to their chagrin that safety of numbers of dollars is not the only factor to be taken into consideration in the assessment of the safety of an investment. They have learned that a dollar bill is measured only by what it can buy at a given time. They have seen its buying power shrink some 40% in the past 10 years. On the other hand, during this same decade, holders of common stocks have not only received a return averaging better than 4½% a year, but also the upward trend of their dividend income has kept pace with the advance in living costs. Moreover, the market value of sound common stocks has increased during this period.

On this fourth factor, safety, the rating of mutual funds should again be considered "good."

Summarizing the Four Factors

Reviewing the above for the sake of including mutual funds in our earlier appraisal of other forms of investment, we have:

Mutual funds are good for safety, high in liquidity, good for income and quite good for profit potential.

Substantiating our analysis is the following quotation from a report on investment companies given at the recent convention of the Investment Bankers' Association of America:

"The shares of a well-managed investment company would seem to offer an investor a larger measure of protection of principal, reliability of income, marketability, and reasonable opportunity for appreciation, combined . . . than any other general class of security available."

Recent articles in such publications as *Fortune, Business Week, Saturday Night, Time, and Collier's,* have all excitedly hailed the advent of mutual funds as the answer to the problem of reaching the huge untapped pool of redistributed capital in the hands of the "little fellow." The value of funds in this connection cannot be over-emphasized. The business executive, however, should have a knowledge of the construction of funds and their merits to enable him to conscientiously endorse their use to the "little capitalist" and also to understand their use for larger accounts.

The Different Kinds of Mutual Funds

Previously in this article mutual funds have been referred to as a class of investment in the same way that bonds, preferred stocks and common stocks represent classes. This may seem a little far-fetched as there are only four such funds in this country currently operating. The classification is, however, fully jusified across the border where there are approximately 90 different funds. Moreover, the Canadian picture is changing rapidly, and several new funds may be expected on the Canadian market in the coming year.

All funds possess the basic features of redemption of shares at full net asset value, continuous offering of new shares at a price based on net asset value plus commissions, diversification of assets and continuous supervision.

Fortunately for the stock exchanges, there is never unanimity of opinion on either the quality of individual stocks or the best manner in which to invest one's money—fortunately, because there would then be no trade. It is only natural, therefore, that no two fund managements are likely to have exactly the same objectives in their investment policies.

On the Canadian scene, we now have the three basic types of funds designed to meet the investment desires of the conservative, the middle of the road, and the aggressive types of accounts. These types of funds are popularly known as "Balanced," "Diversified Stock" and "Leverage" funds respectively. In the United States, with the broader security markets, further sub-classifications are available in the form of Bonds funds, High Grade Preferreds, Low-Priced Preferreds, Quality Commons, Low-Priced Commons, etc., and in industry funds such as Steel shares, Chemical shares, and even Television shares.

Such sub-classifications are unlikely to develop in Canada where adequate diversification within an industry is not possible; so, fortunately for the length of this article, only the basic three will be discussed. For the purpose of anonymity the four Canadian funds will be referred to as A, B, C and D.

Fund A is the oldest and is a "Balanced Fund."

Fund B is the largest and is a "Diversified Stock Fund."

Fund C is the second largest and is a "Diversified Stock Fund."

Fund D is the newest and is a "Leverage Fund."

Balanced Funds

A balanced fund may be described as a fund whose management adheres to a policy of maintaining flexible proportions of bonds, preferreds and commons in its portfolio of investments. For example, one fund might have a latitude in bonds of never less than 10% nor more than [illegible]%; similarly in preferreds, never less than 20% nor more than [illegible]%; and *ipso facto,* never less than 35% nor more than 70% in commons.

The following is a quotation from the literature of Fund "[illegible]" a balanced fund: "Fund A [illegible] all times has its funds invested in

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Hubert Godin, *Societe de Placements, Inc.,* Montreal; Andrew Beaubien, *L. G. Beaubien & Co., Limited,* Montreal; Jack Kingsmill, *Investment Dealers Association of Canada,* Toronto

three classes of securities; i.e., bonds, preferred and common stocks. The percentage in each class is varied in accordance with the judgment of the management as to the relative merits of each class under prevailing circumstances. Such a program permits a measure of relative stability. This also provides valuable purchasing power which may be drawn upon to acquire additional common stocks in periods when declining prices may have made them increasingly attractive; conversely, it permits switching into additional preferred shares or bonds when the financial outlook is obscure."

From an American balanced fund: "Balancing safety against risk — low income against high income—and growth possibilities against stability of principal, is a task which, if skilfully accomplished, fulfills the purposes of a prudent investment. In reality a "balanced fund" is essentially the type of fund in which an investor could, with confidence, place his entire savings. For, instead of representing a kind of security, it represents a complete investment program."

The popularity of the conservative balanced funds is in direct relation to the investing public's attitude toward the stock market; hence in 1947 most net capital was raised by the balanced funds, but in 1948 and 1949 the common stock funds went into the lead in sales.

Diversified Common Stock Funds

A diversified common stock fund is the basic and simplest form of fund. Its investment policy is primarily concerned with the prudent distribution of its assets according to industry and the selection of the best common stocks within each industry. The price stability portion of its investment portfolio rarely attains magnitude although management powers permit full exercise of judgment in this connection. Its very simplicity and constancy of policy probably accounts for its popularity.

Fund B says in its prospectus: "The investment policy of the company seeks to permit a degree of management freedom sufficient to obtain balanced diversification and to take advantage of investment opportunities both as to time of purchase or sale and the selection of securities therefor . . . the policy of the company is to select for the portfolio securities which, from time to time, appear to be attractive from an investment standpoint. A balance is sought between adequate income and appreciation possibilities."

From the literature of Fund C: "The past nine years have been an extremely interesting test period. . . . Certainly the future years will also witness changing conditions. To the solution of those future problems, Fund C will continue to bring the same sound investment principles it has employed in the past—careful initial selection of portfolio securities; wide diversification among many industries and companies; continuous supervision by an experienced staff of investment specialists . . . providing adjustments to changing conditions in the years ahead."

Leverage Funds

The word "leverage" when applied to investments has been used for many, many years by financial analysts, but is still unfamiliar to the ears of the average investor. Fund D, which employs the term in its title, was launched at the beginning of this year and since that time its interpretation and misinterpretation by investors and security salesmen alike has been wide and varied.

Discussion of "leverage" should be divided into two parts—leverage on income, and leverage on capital values; otherwise confusion of objectives is bound to result. Income leverage is the primary purpose of Fund D and capital leverage is the interesting corollary.

Income leverage is, in fact, the basis of the banking system of this country and elsewhere throughout the world. It is simply the hiring of money at one rate of interest in order to rent it out at a higher rate. Outside of the commissions and charges for sundry services rendered, income leverage is the main source of the bank shareholders' dividends. A Canadian chartered bank accepts loans to itself in the form of customers' deposits on which it pays interest ranging from zero to 1½%. It then reloans this money to others at a higher rate of interest and thus earns the difference in these two rates for its shareholders.

Fund D under its borrowing powers, restricted by its charter, rents money at a low rate of interest and invests it in a wide list of sound securities at a substantially higher average rate, and thus earns the difference for its shareholders.

Income leverage is also present in the capitalization of any industrial company which includes bonds, bank loans, or preferred stocks. A prominent public utility company, for example, is presently employing about 50% leverage. (Fund D is restricted by its charter to a maximum of 33⅓% leverage and at time of writing is employing about 15%.) This public utility is allowed to earn 8% on its assets so that by hiring money through the medium of bonds at about 3¼% it is able to earn the difference of 4¾% for its shareholders.

In contrast with the public utility company, the assets of which are stable in value although nonliquid, and whose bond leverage is on a long-term basis, the management of Fund D has highly liquid assets whose fluctuating value must constantly be appraised to determine the amount of leverage it is prudent to employ. Management has the facility of a freedom of decision due to the short-term nature of its borrowings.

From the prospectus of Fund D: "Leverage is feasible when the capital of a large number of people is combined in the fund, as money can then be borrowed at favorable rates of interest to be utilized for investment by experienced management which has available to it the technical aids essential to the long-term investing of money."

The fluctuating nature of the fund's widely diversified assets causes an accentuated movement in the net worth of the shareholders' participation in direct relation to the degree of leverage applied. This presents interesting results in the form of capital leverage.

It is because of the possible effects of this capital leverage that many people bring up the obvious and odious comparison with margin buying. The management takes a mature view of this subject and does not consider that a sound principle in the management of money should be completely shunned simply because it has been abused so often by people whose desires for capital gains overcame their better judgment.

"The fund . . . with all the advantages and safeguards of a mutual fund, at the same time provides a facility (leverage) directly under management control that can accentuate the upward price movement of the common shares. This accentuated movement will, of course, operate on the down side unless the effect of leverage is then reduced or eliminated."

Example: Effects of a 25% increase, and of a 25% decrease in the portfolio value of two funds, of $1,000 shareholder capital each —No. 1 Fund without leverage and No. 2 Fund with 20% leverage:

		25% Increase	25% Decrease
No. 1 Fund	$1,000	$1,250	$750
No. 2 Fund	1,000		
20% leverage	200		
	$1.200	1,500	900
	Deduct lev.	200	200
		$1,300	$700

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Charles Goodeve, *F. B. Ashplant & Co.*, New York City; Mrs. John Ridley; F. B. Ashplant, *F. B. Ashplant & Co.*, New York City; John P. Crysdale, *Gairdner and Company, Limited*, Toronto

K. E. Plumpton, *Nesbitt, Thomson & Co., Ltd.*, Montreal; Ralph Blackmore, *"Globe & Mail,"* Toronto; D. L. Howes, *W. C. Harris & Company, Ltd.*, Toronto; H. H. Mackay, *W. C. Pitfield & Company, Ltd.*, Montreal

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Management approach to the determination of the degree of leverage to be applied at any time is to appraise the stability or growth quality of its assets in the light of the current economic outlook, and then within the restrictions of its charter increase or decrease its borrowings to the best advantage of the shareholder.

From the prospectus of Fund D: "Leverage takes the place of selection of speculative securities. Money judiciously borrowed for investment in fundamentally sound securities, not the speculative nature of individual securities, is relied upon to give the greater-than-average velocity in price movement and the greater-than-average income which many investors seek."

In Summary

Shares of beneficial interest in a mutual fund represent a low-priced unit investment possessing strength through the diversification of completely liquid assets; income in keeping with the current rate on equities; capital growth through ownership interest of a cross-section of national industry; ready marketability because of the self-liquidating clause in its charter; a constant supply of additional shares, and continuous supervision by full-time management whose performances and results are constantly subject to the healthy spotlight of publicity.

Who Should Buy Mutual Funds?

Here then is an investment medium worthy of the attention of every kind and class of investor. Low unit cost and constant availability are two factors which combined create a wide variety of methods of purchase enabling the investor to adopt a program suitable to his own purpose.

Take for insance:

Insurance Companies: A characteristic of their investment problems is their own steady growth of assets in the form of new cash to invest. A "dollar averaging" program carried out over the years will ensure an investment whose average cost is always lower than the average price paid per share. All four funds are eligible under the rule whereby insurance companies may invest up to 3% of their total assets in securities which do not necessarily qualify under the Insurance Act. Funds A, C and D offer discount provisions for large subscriptions. Funds, A, B and C are, in the opinion of counsel, legal investments for insurance companies registered under the Canadian and British Insurance Companies' Act (1932) as amended.

Trust Companies: The ever-widening acceptance of the excellent services of trust companies by people of smaller means, while welcomed by the companies, presents particularly grave administrative and investment problems. With income and succession duty taxes so tremendous, the proportion of small trusts will continue to grow rapidly. The other side of the tax squeeze in the shape of low interest rates is creating a need for the higher yields available only in equities. Just as with an individual account, it is almost impossible to adequately diversify a small trust without incurring all sorts of extra commissions and costs. Furthermore, the use of equities makes more acute the necessity for wide diversification, careful selection and constant supervision. For the small trust funds, where management and diversification are major problems, mutual funds shares may be a very logical solution.

Corporation Pension Funds: "Will Your Savings Pay for a Party?" was the title of an editorial of the Montreal "Gazette" (4-2-50). It reminded readers of the famous story of the German family at the time of World War I who made daily sacrifices for years for the sake of keeping up father's annuity. Unhappily the postwar inflation came along, so that: "It is true father got his annuity. It is also true that it was paid to him in full according to the contract. But by the time he collected it, the purchasing power of money had so changed that the long thrift of the years proved negligible in its results. Father celebrated the coming due of his annuity by holding a family party. The whole proceeds of his annuity just paid the bill. No doubt the decline of money values in Germany after the First World War was extreme and fantastic. But the fact is that money values are declining in North America and declining very seriously."

Hundreds of Canadian corporations, both large and small, are today proudly establishing pension funds for their employees. Some companies are assuming the investment management of their own funds while others are employing established institutions to carry out their programs. The investments of these pension funds should not be controlled solely by managers whose investment training has been of the "Dollar Liability" variety. Common stock equities furnish the only readily liquid income bearing investments which can be expected to keep pace in any reasonable degree with the purchasing value of the dollar. The features of mutual funds, recited above, demonstrate their values to the managers of pension funds who recognize the need for a portion of their funds to be in equities.

Eleemosynary Institutions: Religious organizations, schools and colleges, homes and hospitals, libraries, clubs, lodges, cemeteries, etc.—these organizations usually have a conscientious group of public spirited citizens on their boards of trustees who are torn in their desires to: (a) furnish their respective institutions with as much revenue as possible, and (b) avoid any criticism through incurring undue risks with the capital. The salient features of safety, continuous supply, income, liquidity, and constant supervision inherent in mutual funds explain the preference that so many trustees have for this investment medium.

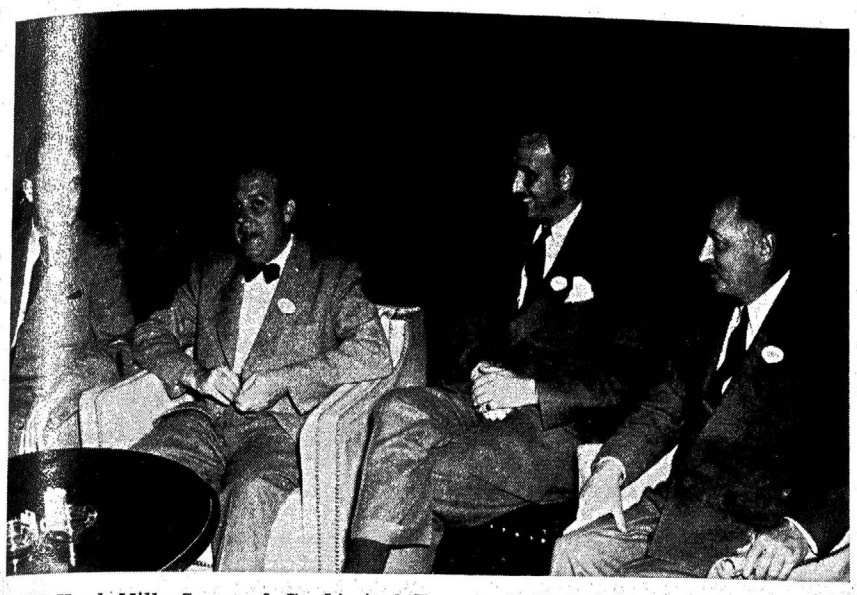
Corporation Reserves: Many large Canadian corporations have built up substantial investment accounts in equities in recognition of the income tax provision that "there is no tax on the dividends received by one taxable Canadian corporation from another." Those who are successful employ capable (albeit expensive) staffs to carry out the same investment principles followed by the mutual funds. Possibly some other corporations would like to build up accounts of this nature, but hesitate because of the risks and expenses involved. Mutual funds may be the answer.

Wealthy Individuals: A commentary on the probate of the estate of the late Franklin D. Roosevelt says: "Despite broad diversification, however, the tax appraisal revealed a weakness which is fairly typicial of a great many such lists of investments. Among the many individual issues, most of which represented sound, well-situated companies, there were some 16 securities which had become worthless. *Because investors never buy worthless securities,* it follows that they became worthless while owned.

"This, of course, indicates a lack of adequate supervision which is often characteristic of the investment accounts of people who are busily engaged in other activities. Such supervision, however, is available at a very moderate cost; and when compared to the 'cost' in terms of losses on securities which become valueless, the amount is negligible." Even those individuals who maintain a staff of their own to follow their investments may find these mutual fund features attractive: (1) ability to acquire a cross-section of the stock market in one purchase (three funds in Canada allow discounts for large purchases); (2) ability to liquidate a cross-section of the stock market in one sale operation; (3) relief from accounting requirements in connection with dozens of dividend cheques, proxies, tax reports, etc.; (4) in the event of succession duties, liability for Federal and for the Province in which the estate is domiciled, only.

Professional Men: Doctors, dentists, clergymen, lawyers and all others whose activities prevent them from devoting the time necessary to properly manage an investment account constitute a type of investor likely to benefit directly by the use of mutual funds. "Investing by whimsy—which is to say that a man invests entirely upon his own hunches, superstitions, financial fallacies, what others tell him, insufficient or erroneous information—or upon a score of other failings, physical or mental—is not so uncommon as we often think.

"The success of the mutual investment fund is . . . based upon the ability to make cold, calculated, unemotional decisions—judgments based on carefully developed facts. It means the difference between an investment program which makes steady progress and one which has become lost in a forest of under-



C. W. Head, *Mills, Spence & Co. Limited*, Toronto; R. K. Wright, *Mills, Spence & Co., Limited*, Toronto; N. B. Bell, *Bell, Gouinlock & Company, Limited*, Toronto; Allan E. Boothe, *Bell, Gouinlock & Company, Limited*, Toronto

G. Lyall Fraser, *Western City Company, Ltd.*, Vancouver; H. J. Vidricaire, *James Richardson & Sons*, Montreal; John P. Cundill, *Craig, Ballantyne & Co., Ltd.*, Montreal; Robt. H. Craig, *Craig, Ballantyne & Co., Ltd.*, Montreal

tainty." (Extracts from "The Prudent Investor.")

Branch Bank Managers: A few years ago the Investment Dealers' Association of Canada conducted a public opinion poll on the question of where people preferred to go for investment advice. Highest in favor was the local branch bank manager because of his reputation for integrity and experience in money matters. However, most Canadian banks expressly forbid their managers to select stock investments for their clients because of the obvious dangers in accepting this form of responsibility. Despite this situation, people do and will continue to seek advice from their bank manager. In respect to equity investments, mutual fund shares eliminate to a large extent the hazards of selection of individual stocks because of the diversification often referred to above. Any banker who takes time out to study the construction of mutual funds will recognize the fact that in approving the purchase of mutual funds by his clients he is in effect merely agreeing to the purchase of common stock equities as a class and not "going out on a limb" as regards the selection of individual issues.

Young Executives: A good rule of thumb as to what proportion of an individual's account should be defensive (bonds, etc.) and what proportion aggressive (equities) is to take his age as representing the percentage for the defensive portion; i.e., at age 39, his account might be 39% defensive and 61% aggressive. Every $1,000 can be divided into $400 of Canada Savings Bonds and $600 of mutual funds, with the $600 being a slice of a large, continuously supervised, widely diversified, investment in equities. As his capital increases through financial progress, additions may be made in their proper proportions.

Payroll Savings: "Oh! Surely not a revival of this headache to employers!" Maybe not—but 20 years ago few top life insurance salesmen thought that group insurance could ever be successfully sold. The question is entirely one of whether "the game is worth the candle." Some points in this connection are recited later. The mechanics are simple. (a) The virtue of acquiring an ownership interest in industrial Canada is extolled to the employees. (b) Employees are then invited to indicate what weekly or monthly deductions they wish to set aside in this growth type savings plan. (c) The employer makes a gross purchase of shares of a fund each payday representing the total amount of employee subscriptions. (d) The shares are held by the employer registered "in trust." (e) Periodically share certificates, registered in his name, may be delivered to the employee. (f) In the event that an employee leaves the company, he may be given the choice of his stock or its equivalent cash value. Wartime experience in Victory Loan campaigns has shown that no other means of securing subscriptions from a large portion of the Canadian public can ever compete with the Payroll Savings Plan. The fluctuation of share values, implied endorsation by company management of any particular fund, attitude of the unions and several other objections are all answerable, and the question really resolves itself into whether management is really convinced of the value of making employees into "little capitalists" with a direct self-interest in the capitalistic system.

The Economic Implications of Mutual Funds

"I fail to see how we (Canada) can avoid being the most prosperous country in the world as time goes on." *T. H. Atkinson, General Manager, Royal Bank of Canada.*

"Sharing-the-wealth of the country can far better be achieved by making it more practicable for an increased proportion of the population to acquire an interest in the business of the country; in other words, to become capitalists themselves. If the worker is also an owner, it will open his eyes to the fallacies put forward by the 'something-for-nothing' boys who would skim the economic cream for political use, under the guise of the Welfare State." *Merrill Griswold, Chairman of the Board, Massachusetts Investors Trust.*

Economic and social factors are closely identified. The events and psychological phases of the first half of that "20th Century that belongs to Canada" have led us up to an impasse in our economic development which may be finally broken by the advent of the public recognition of the merits of mutual funds.

In the first decade with wealth in the hands of the relatively few, great ventures were undertaken but foreign capital was largely relied on. In the war-torn 'teens, Canada broke away from her dependence on England and the United States for development capital when she was forced to carry out her own Victory Loan campaigns. Then came the great progress of the '20s—a period that rarely, if ever, gets anything but condemnation; yet look around and consider how many of Canada's great industries of today owe their imaginative conception and initial capital to the spirit of Canadians at that time. There was no dearth of "little capitalists" then. Unhappily, their exploitation and encouragement to regard common stocks as speculative trading means, rather than as partnership participation in the development of industry, led to the financial stampede of 1929 and the resultant chaos of the early '30s. Surely it was not the common stocks themselves that were to blame, but rather the manner in which they were traded that caused the fiasco.

The hangover period of the early '30s and the remorseful aftermath built up a "never again" attitude that frankly classified investment in common stocks with horse-racing, roulette and other forms of gambling.

During the Second World War, the whole accent of governmetal and industrial counsel to the "little man" was on security. Nine Victory Loan campaigns, preaching security, plus several different social measures along the same line, have done their job a little too well for the future development of this country.

First, no money; then introduction to investments; followed by irresponsible and bad leadership on the methods of investing in equities; next financial loss and a feeling of having sinned; and finally the worship of security, is the economic story of Canada up to the opening of the second half of "Our Century."

It is now time to preach security in terms of the Bible story of the three servants and the talents—the bad servant who spent his in riotous living—the cautious one who put his away in a safe but static place—and the one who invested his wisely and multiplied it many times. Which one was the "good and faithful servant"? Which one achieved real security?

The Social Contribution of the Mutual Fund

Faced with the greatest need for development capital in our history, we have redistributed our wealth into unenterprising hands made sterile by the very width of its distribution.

Let us be realistic about this redistribution of wealth that has taken place. It is wishful thinking that any popularly elected government is ever going to do anything about eliminating the measures which were—and still are—responsible. Nor are they going to restore the old distribution. If the capital is widely distributed in small amounts, then it is up to the seekers of that capital to create economic methods for reaching it.

Such methods, to be successful, must recognize the lessons of the past five decades. The "little capitalists" have been bitten before; they are not enterpreneur minded, and many are of a new crop that will have to be educated. Convention speeches, articles, and advertising in the press or on the radio will not achieve the purpose without an army of trained representatives to follow them up. Such representatives in turn must be rewarded financially. Probably the greatest social contribution of the capitalistic system of a financial nature has been life insurance—but salesmen are still needed to sell it.

Mutual funds have all of the characteristics necessary to pro-

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E. J. Allman, John P. Crysdale, John S. Gairdner, and R. O. Bull, all of *Gairdner and Company Limited,* Toronto

A. I. Matheson, Ottawa; Peter Jaffray, Toronto; J. D. Gilmore, Toronto; and J. H. Davy, Toronto, *Dominion Securities Corpn. Limited*

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Mutual Funds and the Business Executive

vide the "little capitalist" with a sound investment, to give the salesman a suitable vehicle to sell, and to provide a means of raising vast sums for investment in the equity markets. "The more capitalist-investors, the stronger the nation, and the less likely it will be to succumb to the 'isms' now causing most of the world's difficulties."

Conclusion

Referring back to the opinion poll of the Investment Dealers' Association of Canada, the second highest rating for investment counsel went to the employer—the business executive. It follows that he should be familiar with this "modern way of investing" in order to be able to give counsel to others; probably, too, he will find many features attractive to himself.

O. Glenn Saxon, Professor of Economics at Yale University, says this, in part:

"If it is admitted that the cardinal principles of prudent investment are careful selection, scientific diversification and constant expert supervision, then the open-ended mutual companies are not merely another sound investment medium for the average investor, large or small, but they are the only medium available to him which offers both maximum benefits from its investment and maximum protection from the many risks of modern society."

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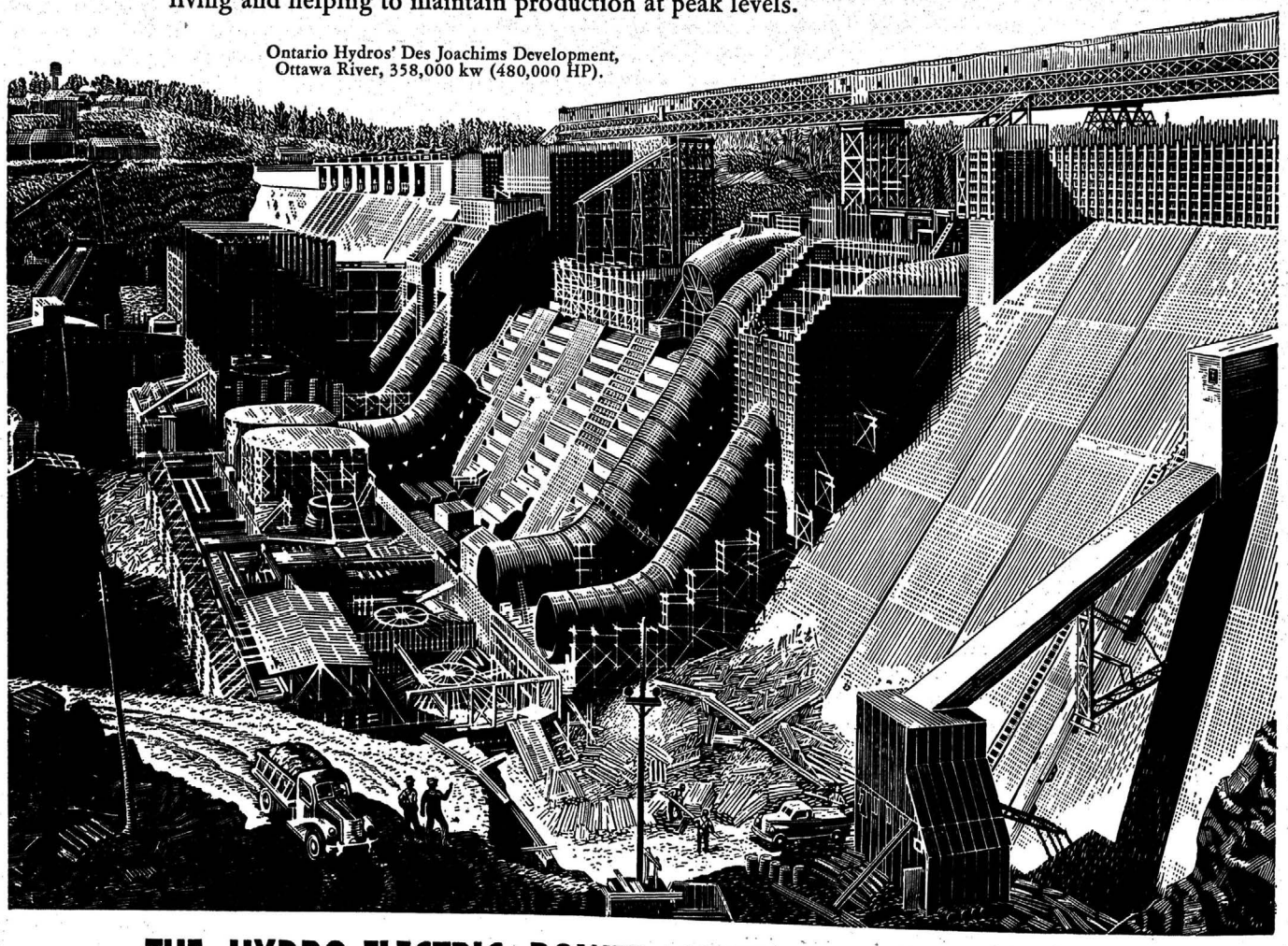

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