Downtown Montreal grows upward with new tall buildings. Surrounding areas and municipalities grow outward—further and further into what were fields—new streets of houses, new industrial districts.

Today, on the Island of Montreal alone, there are some 65,000 more homes and 1,800 more factories than in 1939. Meanwhile, in the rich mining districts of Northwestern Quebec which we serve, activities are expanding rapidly.

New customers demand electricity, and old customers use more than they did.

To supply them—these old and new customers—Hydro-Quebec is actively pursuing a vast expansion programme for the creation of more electricity and its ever-wider distribution.
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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.

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In Manitoba, Canada's Central Province, the Department of Industry and Commerce maintains a complete consulting and advisory service to all industries considering expansion projects. Market research personnel compile inventories of plant sites, lists of manufacturers for contract or lease arrangements...available only to industries...all yours, for asking!

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John R. Ridle, President, The Investment Dealers' Association of Canada.

Dividends on all shares are paid with the feeling of corporation in¬
stinct. A strong reason could have resulted from any differen¬
tiation. Presumably, this is just a start on the elimination of the in¬
quitous double taxation on cor¬
porate profit.

We should continue strenuously to ask for further relief in this field. The risks and responsibilities in¬
tolved in enterprising in¬
dustry are onerous enough. It is only common sense that an ef¬
fective profit-possibility should be available as an incentive. Our country has become great through the efforts of enterprising Cana¬
dians, as for example the hard work, indi¬
gence, imagination and thrift have converted idle natural resources into something that otherwise would have been the living standards of all. As the years go by, the people are more widely dispersed than ever before, profit possibilities must be preserved in order to encourage the many new savers to follow the lead of their courage¬
ous and enterprising fore¬
bearers.

Provincial and municipal gov¬
erments continue to have sub¬
stantial capital needs for capi¬
tal account which resulted in a net increase in Provincial and Municipal Revenue of $369 million in 1948 over $318 million in 1947. These and the refinancing needs for which we are in an orderly man¬
er. Municipalities particularly should scrutinize their capital needs carefully. High construction costs result in an in¬
adequate distance out of proportion to the value of the new services and facilities.

A final word of caution: on the other hand we have a net decrease of $10 million, resulting no doubt from plant rehabilitations and extensions as necessary to meet the postwar period passing their peak. The outstanding exception to this was the petroleum industry where development in Canada is in rela¬
tively low but substantial capital expansion program was in progress.

As these borrowing figures sug¬
gest, there was again an increase in credit against personal income tax. This increase was in the area of business establish¬
ments, agriculture and the ar¬
mong the public. Total amount was $3,400 million in 1948 against $3,150 million in 1947. Obviously the public for 1948 further to reduce the size of the war surplus. Markable figures are exclusive of re¬
pair and maintenance expendi¬
ture so necessary in times of war in such an atmosphere.

A year ago, some were fearful of business expansion and postwar growth in the United States. The prospect was not so bright late in 1948 appears largely to have lost its historical adjust¬
ment character. The position has reversed itself. Since the middle of 1948 production has risen to a new high.

*Address by M. Riisner at 30th An¬
nual Meeting of The Investment Dealers' Association of Canada, Toronto Stock Exchange Club, Montreal, June 7, 1949.

again, I am glad to report are bear¬
ing fruit.

There should be nothing hasty or rash about the Monetary or Financial System, but we must spend the money wisely, and we will ultimately get the much needed charge on the other fellow's—taxes. Insurance agents have some and which are for the 'true traveler'—finances. In fostering knowledge of intelligent educational and public relations efforts, let us make a splendid contribution to the preservation of our own Free enterprise system.
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The shaded area represents the sea beds extending from the Gulf of Mexico to the Arctic Ocean, the source of many oil and gas wells in the United States and Canada.

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Canadian Banking as Related to Investments

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

I have been asked to speak about banking as related to investment—about the bearing of the investment business on ours, and vice versa. It is an easier understanding of the differing relationships. The relationship between the depositor and the banker is that of creditor and debtor. We owe him his money. He looks to his bank—not to a mortgagor. We must—and do—keep ourselves ready to pay him his money when he wants it. And, of course, the depositor 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 59.4% 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, have differed 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 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 worthwhile ventures—promotions of which he has heard, or knows about, 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 even so, pitfalls do occur from recommendations.

I am sure that any quarrel with the wisdom of parliaments. We must observe the rules and conduct laid down for us, even, at times, at the expense of short-term ventures, which we try, individually and collectively, to remove by public and by our efforts in the field of public relations.

With countries with older banks, the investment market in Canada is a recent growth. It originates far in the great wars. At the end of the first world war the Canadian investment market was in its infancy. It has not grown immeasurably, it has not expanded without hesitation; we are maturely.

Take a bird's-eye view: In 1914 the Bank of Canada owned all the banks put together and could buy $4 billion of Canadian securities. Today, if the $4 billion that are held by the banks and the financial institutions in Canada were sold, the banks would receive $4 billion and all investors would in that case have $4 billion of money to invest.

What has been happening in bank deposits and investment 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 $15 billion estimated for 1950. Canada has become highly industrialized. Physical volume of our iron and steel production has expanded tremendously. Take Canada's steel works. When we compute the steel output, we find that the output has grown from 500,000 tons in 1939 to 2,456,000,000 in 1950.

Lightly of the picture is of course the facility, imagination, skill with which business and manufacturing institutions, and not less our democratic system or way of life, have provided for the postwar recovery and the expansion since. And in that picture we must all recognize the courage of investors, the lack of investment dealers and the immeasurable value of a sound, resilient, well-managed, well-regulated banking system.

Bank participation in the investment field has been exceptional. First the investing on our own account which I have described; and second, the buying and selling for customers. There is quite substantial buying of investment in the latter category by the trust departments of the various banks. Upon the whole, I think, the banks have generally increased their volume of business in the past, or any other business in the whole.

Up to the end of the first world war, Bankers' syndicates were formed and their member institutions managed by experts, in order to buy and sell for customers anywhere from coast to coast. At that time some banks were participating in underwriting syndicates and some were not.

Canadian Banks in Underwriting Syndicates

The advent of the banks into underwriting syndicates came really at the instigation of the government, and nothing could be regarded as an attack upon the banks. In the first place, it would have been so substantial that your various underwriting groups realized that the growth of your industry was essential to the underwriting of the banks.

By large, and the relationship between banks and investment dealers, the underwriting activity has been of great assistance to the public well-being in maintaining a high standard of investment activity—which is necessary if Canada is to produce a lot of money and in prosperity. This was the case certainly at the second World War to realize its important the cooperation with the country's banks and dealers. The greater investment market to-day cannot flourish without the co-operation. During the war the banks, with their branches from coast to coast and with their millions of customers, furnished a ready-made market and approved and distribution for the goods. 

The activities of the banks and the interesting of bank customers is to provide working capital and other important services—such as the sale, purchase, and exportation of products, business and manufacturing, and the movement of goods. The importance of the customer, needs long-term money and it is not in keeping with sound banking business to make long-term money a habit.

There are many in the field who needs long-term money at 2½%, and it is not in keeping with sound banking to make long-term money a habit. But banks do help your customer to get the money he or she needs, and our purpose is to furnish the long-term money to the investment dealers.

The function as investment dealers is one of high importance in the economy. Canada needs more new long-term money to go where it is needed. Canadian dealers do a lot of business, and they furnish the long-term money to the investment dealers.

Continued on page 541.
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.

of you must be over the cancella-
tion and switching of large orders from one source to another. This can be done, frequently without ade-
quately explanation. But for the moment, the one thing that stands out in my mind is that we have been so long in managing it. And now there is a yet a further tie, for a company that has just been bought up a business in Halifax to make and sell new mechanical instruments and appa-
ratus.

In addition, during the war, all of the big banks had charged on all of the British banks, and as a result, we had the opportunity of seeing for myself not only the machinery of industry which you were doing but also, perhaps, what was most important, that we could go for the blant and vitality of your people.

I would be happy too to have the chance of telling you, on be-
half of all of us in Great Britain, how much we admire you and your work and the way in which you have helped us in our hour of need during these past few years.

We have been following most anxiously the course of this dreadful war, that has been raging at Winnipeg and the gallant struggle which the people there have been putting up against such tremendous odds. Also, I fear that it must have resulted in a lack of confidence in the dollar, not only nationally but also to many individuals and their homes, in which the British, indeed, have no confidence.

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 moral, you can help us, if we need our help, to make a tremendous difference in the war, for which we stand ready and at your service.

The great problems of the day are, I think, the same problems which we have been having to face this summer. We have been talking of the problems of this great country and the problems of the world. They are, in fact, the same problems. We have been discussing the responsibility of this country and the responsibility of the world.

We have not been afraid to have the chance of telling you, on be-
half of all of us in Great Britain, how much we admire you and your work and the way in which you have helped us in our hour of need during these past few years.

For we have all seen the difficulties that Great Britain has been facing, both on the home front and in the great war, and we know that it is the same thing that we are facing in this country, but on a much greater scale.

I think that the great problems of the world are the same, and that we are facing the same problems in this country as you are facing in your country. We are facing the same problems in the world as you are facing in your country.

And I think that the great problems of the world are the same, and that we are facing the same problems in this country as you are facing in your country. We are facing the same problems in the world as you are facing in your country.

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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.

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*An address by Mr. Hewetson before the Canadian Institute of International Affairs of New York, New York City, June 1, 1950.

As one travels north or west from Edmonton, the old frontier as we now know it stands partly as much as it did yesterday. But the frontier in general 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.

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.

In what manner 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 up with industrial 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. This area is inhabited by fewer people than live in the State of New York.

Most of the population is confined to a narrow, 200-mile wide strip from the United States to the Labrador coast.

The West and the Prairies are still virgin land where the average American or English farmer is still filling his fields with his own power. In Canada the farmer is beginning to use his tractor and his harvester to produce the food that he did not have time to produce before.

That is just as it is today.
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.

income and zero in profit potential.

Government Bonds are very highly rated in safety, extremely restricted in liquidity, low in income, and lacking in profit potential.

Bond and Estate Mortgage Bonds are moderately high in safety, low in liquidity, quite good in terms of income, and very low in profit potential.

High-grade Corporation Bonds are high in safety, quite high in liquidity, quite low in income, and very little in profit potential.

Preferred Stocks are quite good for safety, somewhat restricted in liquidity, and only moderate for income—very poor prospects for profit potential.

Individual High-grade Common Shares are the most 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 requirement of any investment. The value of real estate may be known and the price usually placed upon it; yet current bank accounts, no interest allowed; consumer bills, a return of less than ½ of 1%; savings accounts, 1½%; government bonds, less than 5%.

All four mutual funds in Canada, in the maintenance of a portfolio, have their shares on any business day at full and fair price. They pay cash dividends, or charge. In other words, money deposited in this form of investment is never subject to the usual restrictions. The funds are available for withdrawal at any time with no inconvenience, at the discretion of the investor.

The Four Factors in an Investment

All investors know that there are really only four basic types of any investment, and it is the differences between them that revolve: Liquidity, Income, Profit Potential, and Safety. 

Mr. Rogers: “It is very difficult to know that these features are rarely isolated in the market, and are frequently in combination. For example, a Bank Account is tops in safety, but is almost devoid of liquidity, low in income, and zero in profit potential.

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 "sprint" 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 toexploit successful investments and try to forget the bad ones. The management of the 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 money markets. In order to determine which is the best time to buy or sell common stocks as a business, the investor must resist the pent-up optimism or pessimism 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

Canadians' securities

Continued on page 22

* John C. Rogers, President, J. C. Rogers & Co. Limited.

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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.

Adam Smith said that: "The statesmen who should attempt to direct private people in what manner they ought to employ their capital, would not only load themselves with a most unnecessary burden, 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 legally to the world, some of the less attractive features of authoritarianism.

The fact is, the world has been moving rapidly. In November, 1834, upon the dismissal of 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. Smith and Central Africa were still to be discovered.

In the space of three generations, there has been a breathtaking 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 balances and deliberative ways, has seemed inadequate to the tasks that lay before it. The task, which is now more evident, is that military dictatorship has been the last remaining 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 greed 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 overturning of forms which tend 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 multiplication 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 organization, it develops charms, a fascination enough to convert countless 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.
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 interests 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 its most important functions in modern business. A glance at what you men, the whole financial and business structure as we know it would not continue. You are the lubricant between the capital users and the suppliers and, like any other lubricant, your function is essential to the right operation of the machine functioning. On behalf of the Dominion Mortgage and Investments Association, whom I represent, I wish to emphasize how much I appreciate the opportunity which you have given to me to come and take part in these 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 accept here because of the office which I hold. However, when do I 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 insurance companies constitute the majority interest in the Dominion Mortgages 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 22 life insurance companies, 16 trust companies and 11 loan companies. The total assets which are administered by our member companies use figures which are contained in a Dominion Budget, namely the Canadian Insurance companies, $4.386 billion in trust companies on company account $275 million and two billion in trust accounts, and the loan companies $25 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 enter into your kind invitation.

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 these three types by a financial association.

It is the life of his companies, 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 risks 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 association 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 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.

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* An address by Mr. Langford at the 29th Annual Meeting of the Investment Dealers Association of Canada, Salopitory Montreal, Quebec, June 6, 1930.
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 pay more from Great Britain and the sterling area, in order to safeguard her 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 towards the other end. That this will be forthcoming is, I believe, evident, if the fact is the case 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 the Canadian market 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 EEC 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 a sort of bilateral arrangements. These cannot fail to be restrictive 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 Trading 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 are keenly interested in the Canadian market and have not always appreciated the special requirements of Canadian consumers 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 way of balancing 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 at the present level unless they are reduced in some other way. It is necessary that both countries find means of paying for them. There lies our mutual problem.

The solution is not easy. It may involve a re-ovalization of Anglo-Canadian overseas interests, 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 reverse is true. 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 herefor, with her unlimited natural resources and unlimited possibilities of power development, a market for Canadian goods which has not been increased, and her stability of government, all of which are the essence of a successful economy. But expansion is no avail if the markets for the products of that expansion do not exist. Therefore, any special inducements, such as the exchange of financial assistance for immigration or other inducements, can have no value unless they are related to the real needs.

In the latter sphere Great Britain takes a very active part. Although she is in no position to resume overseas capital investment in the same way the British Empire did during the war, but the workers are there, and the technical development, encouragement, assistance, help is available, opportunity to immigrate as a family unit (this would involve accepting a proportion of older immigrants, but if not necessarily a liability on the Canadian economy). There is no doubt that there would be considerable response. Even without special inducements, the possibility of postwar emigration from the United Kingdom has been greater to Canada than to other parts of the Empire. But, for the reason that it would be necessary to negotiate with the British authorities for a relaxation of the stringent regulations on the amount of capital that may be remitted by the individual migrant, in order to encourage the family to go together, and to enable the skilled worker to bring his savings, there would be considerable advantage to Great Britain should careful consideration be given to the re-adjustment of remittance arrangements to be negotiated.

Canada's growing strength in the world, the increasing power of its industries, the broadening of its markets, and the reduction of the base upon which our wealth is built up and from which it is to be drawn, are of the greatest importance to Great Britain. I am confident that this can be achieved, and by the development of branches of

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Canadian Banking
And Investments


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 capital on the other, calls for the close cooperation of the British and Canadian Governments. Here is a legitimate field for government action; certainly far more legitimate than their continued interference in the world's trading markets. For a very few—special deals government trading may be justifiable. In other cases it all too frequently appears to cause friction with its corresponding economic advantages. Free markets and free exchanges may not prove to be outworn ideas, but the obviance made by so many parades of the altar of restriction.

Concluding Remarks

Last year over 90 per cent of total Canadian merchandise imports came from the United Kingdom, compared with 15% in the years 1933-35. Thus the trading adjustments I have referred to represent, in effect, little more than a return to prewar arrangements on a considerably increased turnover. I would, however, and I understand we have already received a number of representations from British investors to get rid of the old-time checks on your Canadian investments. The more you invest in Canada the better the terms of trade for both nations. Canadian investments, too, are always safer in times of economic disaster than they have ever been. As a matter of fact, it is not only in times of economic distress that Canada is a safer investment than most other areas. Moreover, by solving that part of the dollar problem that affects Canada and the sterling area, the first—and perhaps the last—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—nothing will be gained by widening the gulf between the United States and the British Commonwealth. We do well, constantly to remind ourselves that it is fatal to easy ignorance of the wide-spread disquietude at stake under the pressure of day-to-day events. Clear thinking and far-sighted, courageous policies are more than ever needed. But granted these, the distant dream of tomorrow, of an immensely more prosperous and less troubled world, can become the reality of today. And then the saga of this great adventure can be written. I firmly believe that Canada and its financial institutions, in their sphere, will be rewarded, as having played a great and worthy part.
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.

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 capitalist 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 enterprise which will result in continuing improvement in our standards of living.

Mutual Interests of Accountants and Investment Dealers

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, 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 profit for the corporate form of business enterprise to survive.

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

*An address by Mr. Doane before the 54th Annual Meeting of the Investment Dealers Association of Canada, Empire Club, Montreal, Quebec, June 4, 1950.
During 1949 the Canadian economy was characterized by high production and employment. For the year as a whole, the gross national product would probably exceed $18,000,000,000 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. In general, the inflationary pressures that were reflected in the rising prices of 1949 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.

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.

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 $4,530,000,000 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 $137,000,000 for the first 11 months of 1949 compared with $1,335,000,000 and $171,000,000, 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 $605,000,000 in the first 11 months of 1949 compared with $638,000,000 in the first 11 months of 1948 while imports were $513,000,000 in the first 11 months of 1949 compared with $575,000,000 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

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Mutual Interests of Accountants And Investment Dealers

In the manner which will not be too susceptible of misinterpreta-
tion.

In my opinion, the best way to bring about proper reporting is to educate the public, in measure and management to give full and ac-
turate information concerning the financial affairs of the companies in which they are interested. This is not to suggest that the education of the public should give out information which would be a useful comfort to its competitors, but there is lit-
tle doubt that most companies would provide more adequate information than is presently done. A shareholder or pros-
tective 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, supple-
menting 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 per-
son will be in the position at a late 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 in-
terested 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 se-
curities 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 cooperate effectively with the independent public accountant in providing an adequate disclosure of the financial affairs of the concerns with which he is dealing, thus helping in the establishment of a public service to the public as to the impor-
tance of the profit motive and function of enterprise in our eco-

...should not be expected to ex-
press an opinion on a pro forma balance sheet unless the responsi-
ble 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 presen-
tation of information should not be such as to be a misinterpreta-
tion of the financial information reported on by the independent auditor. The investment dealer should be in a particularly delicate posi-
tion and have a real interest in making sure that this does not happen either intentionally or in-
vadvertently.

In the annual report of the company’s affairs the investment dealer can use his influence to-
wards encouraging the presenta-
tion of comparative statements, the full disclosure of reserves such as inventory reserves, and the differentiation of reserves as between liability reserves and re-
erves which are in fact part of the shareholders’ equity.

In Canada, companies seldom provide any information as to sales. This is one of the neces-
sary essentials if a proper eval-
uation 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 Commis-
sion in the United States, and apparently has had few ill effects, if any, upon the status and opera-
tions 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 corporate share-
holders. 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 improve-
ment. I feel that if the In-
vestment Dealers’ Association of Canada and the Chartered Ac-
countants will continue their efforts to persuade the corpora-
tions that the best contribution they can make toward the fight against socialism and govern-
ment-controlled business is by educing 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.
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 farthest refinery. If crude oil can be delivered competitively to refineries in Southern Ontario, it is plain that 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 benefit us. We are bound together by so many economic ties that to advance the interests of one country automatically helps the other, lending 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.

Problems of Trust Companies

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-improve¬ment and are not the growth of any unrest amongst the members of our group with respect to the way in which we conduct our 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 fact our respective associations have the habit of devoting 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 not as the buyers, are the ultimate consumers of the product. 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.

Masters 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 pool our efforts to solve another. For example, the position of the trust companies as sub-agents in the recent Dominion Loan, was not particularly satisfactory either for us or for the bondholders, it is true, but I suspect for the investment dealers. I think we could work out some better way of handling this particular investment. Another case where closer cooperation might be useful arises when a securities gets into trouble by reason of default. The handling of such cases on behalf of corporate investors, fortunately now very rare, is a responsibility at our association. In the past we have had great help and cooperation from most of the barristers concerned when such trouble does develop. Sometimes, however, there has not been the interest in the affairs of the debtor company by a municipality that one would expect from a responsible investment dealer. Personally, I would like to see all associations appoint members to a standing committee through which committee any problem of mutual concern could be clarified by discussion.

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 with the investment dealers concerned, that is to say, they buy for themselves. Obviously, this makes the problem of buying and selling securities, because, if you consider the really larger segment of the financial world than the trust companies, but 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 as the 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 or trust must have its own investment policy based on its separate needs.

The trustee side of our business, then, is not trading for ourselves. Trust company, as such, or any other trust for that matter, to buy securities for our own account. I refer to a proposition that was brought to my attention by a Mr. Norick whom I suspect for the investment dealers. I think we could work out some better way of handling this particular investment. Another case where closer cooperation might be useful arises when a securities gets into trouble by reason of default. The handling of such cases on behalf of corpor-
appreciate that this is not a position in which a trustee tries 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 for each or that there are occasional reasons for taking our 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 not a record. This is not the case in bonds. As we have seen, the quotation 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 free 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 financial interest to all of us and which we would like you to help and that is the current trend in municipal finance. Municipal taxes and expenditures continue...
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 more assumption by the province of certain municipal costs is not the answer. This has to be accomplished 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 province has been spent by them in other directions.

For example, few realize that the provinces in general have doubled the subsidies and grants to municipalities between the years 1929 and 1946, 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 of the ultimate taxpayer, would be to the advantage of nobody. Where this situation distinctly affects you and yourselves 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 become increasingly more keen in these present trends in assessing the values of securities which will offer and you, the investment dealers, can be of great assistance in giving sound wisdom and guidance to the financial officials of municipal bodies when they come to you to discuss capital problems and proposed issues.

Continued from page 19

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 $99,000,000 at the end of 1946 to $117,000,000 at the end of 1949. Nevertheless as long as overseas currencies are not freely convertible into United States dollars, Canada was faced with the very real problem of rescheduling 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 prices 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 Canadian exports. 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 overseas 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 will free convertibility of currencies and seem to be on the increase in the future. Consequently the bilateral aspects of Canadian trade will 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 buildings 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 25% higher than for 1948.

A substantial part of the increased activity in 1949 was the result of the record level of housing starts. More than 85,000 new units were completed during the year, including the conversion of the former Canadian armed forces housing. In 1948, 81,000 units were returned to the provinces.

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 raw materials and equipment and factory shipments were all higher than in the first six months of 1948. Imports of all

Continued from page 15
the tempo

1949

1949

by

The harvest

iron-ore

lower; the

than half

bushels

stimulus

the

of

and

production

at

The physical output of manu-

facturing establishments was

slightly smaller 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 of essential

products and some construction

materials, but in general full

production since the end of the

war has produced a marked

increase in the difference

between supply and demand at

current prices.

Mining the most significant developments were

the favorable balances sheets of

Alberta’s oil production and the

prospect of future increases in

future development. Apart from

the imports given to the economy

by the capital investment in this

industry, rapidly increasing pro-

duction is expected to create a

demand for the oil from the

United States, and restored our

need for United States dollars

from this source. The end in

place Alberta’s known oil reserves

at approximately 1,000,000 barrels.

At the present time,

production may be at least

upbreak in some 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

in-ore deposits near the Quebec-

Labrador boundary is soon to be

begun. This program has important

implications for the economic

growth, particularly because of

the gradual depletion of the

Messal deposits in the United

States. In addition, it supplies an important stimulus to

capital investment.

The value of capital goods either

estimated at 367,000,000 bushels or 22,000,000

bushels less than the 1948 crop. The

harvest of coarse grains was

considerably lower; the produc-
tion of barley by 22% and rye by 60% from

1948. Inspected slaughters

of cattle and calves were not

quite as high this year as last

and hog slaughter declined

by 5%. The production of milk and butter

in 1949 was relatively unchanged

from last year.

The favorable employment

situation during 1949 is indicative of the time of economic activity.

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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 market, providing the management with the "wherewithal" to take advantage of the different opportunities which present themselves. This factor also has a dilutory 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 $4,000,000, the 2% of assets shrinks to 1/2 of 1%, leaving 99 1/2% of the capital of the increased fund working to recover the 1/2 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. These figures show a gain for these investment companies for these particular years of about 60%.

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 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 investment field trips, the sifting of advice from hundreds of pertinent sources, are beyond the capabilities of individual investors.

All pensioners from preretirement 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 safety of numbers does not mean safety of capital, but 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 the same period the buying power of common stocks has not only received return averaging better than 4% a year, but also the upward trend of their dividend income has kept pace with the advance in living costs. Moreover, the market capitalization 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 re-distributed 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 the social security to enable him to conscientiously ensure 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 a few such funds in this country currently operating. The classification is, however, fully justified across the border where there are approximately 80 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 exchange, there is never unanimity among the funds in the makeup of individual stocks or the best man in which to invest one's money, fortunately, because there would then be no trade. It is only natural, therefore, that as 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 conserva¬tive, the middle of the road, and the aggressive types of accounts.

These types of funds are generally known as "Balanced," "Diversified Stock" and "Leverage" funds respectively. In the United States, with the broader security market, more sub-classifications are available in the form of Bonds Fund, High-Yield, and Preferred Securities, Quality Common, Low-Yield Quality Common, Preferreds, Gold funds such as Steel shares, Chemical shares, and even Television stocks.

Such sub-classifications are un¬important to the investor who desires adequate diversification within an industry and a country. For the length of this article, only the basic three types of funds will be considered. 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 "Leverage Stock Fund."

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

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three classes of securities; i.e.,

bonde, preferred and common

stocks. The percentage in each
class is varied in accordance with the
judgment of the management of each
class under prevailing circum-
stances. Such a program permits a
measure of relative stability.

This also provides valuable purc-
chasing power which may be
drawn upon to acquire additional
common stocks in periods when
deciding prices may have made
them increasingly attractive; con-
versely, it permits switching into
additional preferred shares or
bonds when the financial outlook
is obscure.1

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 skillfully accom-
plished, fulfills the purposes of a
prudent investor. 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.2

The popularity of the conserva-
tive 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
also.

Diversified Common Stock Funds
A diversified common stock
fund is the basic and simplest
form of fund. Its investment pol-
icy 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 in-
vestment portfolio rarely attains
magnitudes which entirely control
management, powers permit full exercise of
judgment in this connection. In
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 invest-
ment opportunities both as to the
time of purchase or sale, and the
selection of securities therein .

The policy of the company is
for the portfolio securities
which, from time to time, appear
to be attractive from an invest-
ment standpoint. A balance
ought between adequate income
and appreciation possibilities.'

From the literature of Fund D:
The past nine years have been
an extremely interesting test pe-
riod. . . . Certainly the future
years will also witness changing
conditions. . . . The solution of
these future problems, Fund D
will continue to bring the same
sound investment principles it has
employed in the past . . .

The selection of portfolio secu-
rities; wide diversification among
many industries and companies;
continuous supervision by an
experienced staff of investment
specialists . . . providing ad-

justments to changing conditions
in the years ahead.'

Leverage Funds
The word 'leverage' when ap-
piled to investments has been
for many, many years by financial
analysts, but is still unfamiliar to
the run of the average in-
vestor. Fund D, which
employed the term in its
prospectus, was launched at the
beginning of

year and since that time its in-

terpretation and misinterpretation
by investors and security sales-
men has been wide and varied.

The discussion of 'leverage' should
be divided into two parts: lever-
age on income, and leverage on
capital values; otherwise confu-
sion of objectives is bound to
result. Income leverage is the
primary purpose of Fund D and
is the reason that the

company seeks to take control
of the market in the

capital leverage is the interesting
corollary.

Income leverage is, in fact, the
basis of the banking system of
countries and elsewhere among
the world, which

has the ability to hire money at
a rate of interest in order to rent
it out at a higher rate. Outside of
the commissions and charges for
sundry services rendered, in-

come leverage is the main source
of the funds of the bank shareholders'
dividends.

A Canadian charter-

ed bank accepts loans to itself in the

form of customers' deposits on

which it pays interest ranging
from zero to 15%. It

then re-

ears 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 is restricted by its charter,
rents money at a low rate of in-

terest 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 indus-

try company which includes
bonds, bank loans, or preferred
stocks. A prominent public util-

ity company, for example, is

presently employing about 50% of

its funds in order to take a better

net rate of leverage to its stockholders.

This public utility is allowed to

earn 6% interest on the assets that by

hiring money through the medium
of bank loans at a rate of interest

of about 4% is it able to

earn the difference of 4% for

its shareholders.

In contrast with the public util-
ity company, the assets of which

are usually employed in non-

liquid, 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 ap-

praised to determine the amount
of leverage it is prudent to em-

ploy. Management has the facility

of a freedom of decision due to

the short-term nature of its bor-

rowings.

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 expe-

rienced management which has

available to it the technical aids

essential to the long-term invest-

ing of money.'

The fluctuating nature of the

fund's widely diversified assets

causes an accentuated movement

in the net worth of the share-

holders' participation in direct

relation to the degree of leverage

applied. This presents interesting

results in the form of capital lev-

erage.

It is because of the possible ef-

fects of this capital leverage that

many people bring up the obvious

and odious comparison with mar-

ginal buying. The management
takes a mature view of this sub-

ject and does not consider that

a sound principle in the manage-

ment of money should be com-
pletely shunned simply because it
has been a b u s e d so often by

people whose desires for capital
gains overcome their better judg-

ment.

'The fund ... with all the

advantages and safeguards of a

mutual fund, at the same time

provides a facility (leverage) di-

rectly under management control

that can accentuate the upward

price movement of the common

shares. This accentuated mov-

ement will, of course, operate on

the down side unless the effect of

leverage is then reduced or elimi-

nated.'

Example: Effects of a 25% in-

crease, and of a 25% decrease in

the portfolio value of two funds,

of $1,000 shareholder capital each

No. 1 Fund...$1,000

No. 2 Fund.... 1,000

25% leverage 200

$L1,300

25% Increase

$1,250

$750

Deduct lev.

900

200

$1,300

$700

continued on page 24

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TORONTO
Mutual Funds and the Business Executive

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 in 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 performance and results are constantly subject to the healthy spotlight of public scrutiny.

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 instance:

Insurance Companies: A characteristic of their investment problems is in their own stock of assets in the form of new cash to invest. A "dollar averaging" program carried out over the years will ensure such 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, B and C offer discount provisions for large subscriptions. Funds D, A and C are, of course, legal investments for insurance companies registered under the Canadian and British Insurance Companies Act. 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. 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 (4-25-50). 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'sanity. Unhappily the postwar inflation came along, so that it is true father got his sanity. 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 thirst of the years proved null in its results. Father realized the coming of his annuity by holding a family party. The word went round 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 slowly.

Hundreds of Canadian corporations, both large and small, are today proudly establishing pension funds for their employees. Some companies are building 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 in the degree of stock market "laboratory" variety. Common stock equities can be just as good an investment vehicle as a fixed rate-income bearing Investments which can be expected to keep pace with the purchasing power 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 invested under the investment principalities followed by the mutual funds.

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The success of the mutual fund is based on the ability to make cold, calculated, unemotional decisions. This means the ability to appraise the facts, take an objective view of the situation, and to act in accordance with the findings. It means the ability to make a decision at the right time, and to be able to stand by it, no matter how unpopular, or how long it may take to prove right.
Employer representing Purchase insurance proper, might be aggressive, i.e., aggressive proportion of issues. Hence, he takes his stock by the local bank manager. In making it one of the greatest need of the mutual funds. In the war-torn England, 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, gives 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. Usually, their exploitation and encouragement to regard common stocks as speculative trading game, 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. It was the result of many 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 acre of government 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 gained; and finally the worship of security, in 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" who 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 unremunerated 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 we—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 find the economic methods for reaching it.

Such methods, to be successful, must recognize the losses of the past five decades. The "little capitalists" have been bitten before; they are not enterprising and minded, many are of a new crop that will have to be educated. Convention speeches, articles, an 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 of a social service project.

Continued on page 26
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 security markets. "The more capitalistic-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 Saxton, 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."

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

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