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EDITORIAL

As We See It

Foolish consumers have of late weeks been staging "runs" on grocery, clothing and other stores and foolish consumers have now become greatly excited as to what the result of their actions may be. In a number of highly vocal cases, foolish consumers are demanding that controls of various sorts be imposed at once to circumvent the natural consequences of their own acts. The situation had at one time at least made a deep impression upon members of Congress and upon numerous politicians whose main object in life is to move with the tide. Bernard Baruch, a gentleman of years and of experience—and we may also add of an exceptionally keen sense of "timing," as they now say—appeared at precisely the "right moment" in Washington, and gave great momentum to this control madness.

As is so likely to be the case, members of Congress, fired with zeal resulting from the effect of Mr. Baruch's testimony and of the effects of nonsensical hoarding by the general public, quickly came forward with proposals far more extreme than those which for a time made a sort of hero of Mr. Baruch. There are some indications that more rational attitudes are gaining headway, but there is still very strong support both in Washington and outside for drastic controls of the type employed in World War II. This support appears at times to stem from a strange sort of fatalism, which finds controls "inevitable" and which thus somehow reconciles individuals to them.

Still Virile

But whatever the immediate tactical position of the control movement, there can be little doubt that it still has real virility, and that the case for

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How Is the Stock Market?

By JOHN M. TEMPLETON
Templeton, Dobbrow & Vance, Inc.

Stock market analyst contends, although market is in high ground historically, statistics indicate that current stock prices are still below normal in relation to (a) earnings; (b) dividends; (c) national income; (d) liquid savings of individuals; and (e) the relatively permanent changes which have been caused in stock prices in previous great wars.

The stock market is now dominated by the international situation. In the first 18 days after the invasion of South Korea industrial stock prices declined 13.5%. Some people think that this was only the beginning of a greater downward trend caused by the prospect of excess profits taxes and price controls. Others think that this was only a temporary reaction in a long upward trend caused in part by inflation. Some light may be shed on this subject by studying the question of whether stock prices today are high in relation to intrinsic value or low.

John M. Templeton

Historically the market is in high ground. In May and June, 1950, the Dow Jones Industrial Average was the highest in almost 20 years. Even now the DJIA is about 208, whereas the average level of the last 30 years was only 143. On the other hand, the prices of secondary stocks are much lower. Standard & Poor's index of low prices stocks reached a peak of 315 in the first week of February, 1946, and this index is now only 151.

In relation to earnings, stock prices are low. A record of earnings for 79 years is shown in Table I. From this table it is easy to compute that the average earnings for the last 30 years were $7.48; but current earnings are $19.90. In other words, earnings are 166% higher than the average of the last 30 years. Therefore, it is not surprising to find that industrial stock prices are 45% higher than the average of the last 30 years. In fact if stocks should sell now as high in relation to current earnings

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Investment Companies on The Eve of World Crisis

By HENRY ANSBACHER LONG

Analysis shows sales increased during second quarter, but cash position of many open-end stock funds was reduced. Despite accelerated pace of selling, purchases were still predominant. Natural gas, oil, utility, building, and chemical issues favored. Foods and steels sold.

Trust managements' buying of oil and natural gas issues took precedence over the purchase of utilities during the second quarter of the year thus through design or otherwise placing Fund executives in a position to protect portfolios against the inflationary implications of an increasing war economy. Of course the quarter under review had almost passed into history before the full import of the growing international tension had fallen upon us by way of the "affair Korean." Yet it is of particular moment to consider some of the statements of portfolio managers on investment policy subsequently to appreciate to what extent second quarter operations may or may not call for reorientation.

Henry A. Long

Inflation in A War Economy

First we might well examine the statement of Emerson Axe whose firm manages the two Axe-Houghton funds as well as Republic Investors. Mr. Axe, in his report to stockholders, dated July 18, states: ". . . It is important . . . to keep in mind certain features in the situation which must in the long run work for higher common stock prices. The Korean war guarantees an almost indefinite continuation of the present high levels of general business activity. The general business outlook had already been favorable but there were a few areas of uncertainty. These weak spots have now been lessened in importance. Of even greater long-range investment importance is the inflationary effect of increased government spending. As shown by the experience of previous wars, these

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CORPORATE FINANCING POSTPONED—This week's "New Issue Calendar," which appears on page 39, includes a list of the larger corporate issues which have been temporarily postponed due to unettled market conditions resulting from the Korean war.

The Security I Like Best

A continuous forum in which, each week, a different group of experts in the investment and advisory field from all sections of the country participate and give their reasons for favoring a particular security.

This Week's Forum Participants and Their Selections

Davidson Bros., Inc.—Paul Chester, Security Analyst, Baker, Simonds & Co., Detroit, Mich. (Page 2)

Chicago Transit Authority Bonds—Milton S. Emrich, Vice-President, Julien Collins & Co., Chicago, Ill. (Page 2)

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PAUL CHESTER

Security Analyst, Baker, Simonds & Co., Detroit, Mich.

(Davidson Bros., Inc.)

Naturally, the security I like for the future should be the one that offers the greatest reward in capital appreciation and rate of dividend return. Unless a security can be bought at an advantageous price, it is obvious that immediate dividend yield will be sacrificed to participate in the capital growth. Such premium to purchase growth has been characteristic, for example, of some of the leading companies of the chemical industry.

Paul Chester

Of the available opportunities, I am particularly attracted to companies engaged in retail trade. Chain stores under aggressive and capable management have a vitality of growth difficult to find in other fields of endeavor. When coupled with conservation of earnings for expansion, prospects for the future are tremendous. An outstanding example of such a chain, in my opinion, is Davidson Bros., Inc.

From a modest beginning during 1932, the year of incorporation, Davidson Bros., Inc. has gradually expanded its retail outlets to a total of 15 large modern stores, with another under construction and others being considered. With the exception of the Muskegon and Pontiac stores, growth in the past has been confined to the Metropolitan Detroit area. The long-range plan of expansion will take the chain into States adjoining Michigan, in which State all of the stores in operation are now located. The first of such stores is now under construction in Cleveland and will probably be opened this fall.

During the past 15 years, sales have increased more than tenfold and are now approximating a $40,000,000 annual rate. During this period net worth has increased more than fivefold. Sufficient working capital for continued expansion is indicated by current assets which are treble current liabilities. Quarterly dividends have been paid without interruption since public participation in the ownership began during 1937. Current dividends represent less than 40% of earnings and afford a 6% return at current market for the common stock.

The stores, large in size (up to 100,000 square feet of floor space), are departmentalized and are outstanding in appearance. "Goodwin's," a women's apparel specialty store, is located in downtown Detroit. The other 14 stores, operated under the name of "Federal Department Stores," are in general located in strategic growing outlying shopping areas. Merchandise handled is of the "popular" priced variety for the family and home, and consists of household furnishings, household appliances, millinery and varied wearing apparel. A central warehouse of 420,000 square feet provides for the prompt and efficient handling of merchandise for the system. Large tracts of adjacent land will be used for expansion as needed.

The company does not make heavy outlays of capital in opening new stores. In general, the properties occupied, on sites carefully selected, were built to the company's specifications by others and leased on a long-term basis with right of renewal. Rentals are at a modest percent of sales made in such premises with a minimum guaranty and protection against rise in taxes. Such leases are believed to be on a more favorable basis than generally prevails in the industry. The more than adequate working capital position of the company will allow a substantial margin of expansion in sales through additional outlets without resort to further public financing.

The management group is of the best. Their constructive approach in solving the problems of successful merchandising has attracted other managerial ability in the process of growth. If future periods of stress, such as war, are handled with the same competent judgment of the past, Davidson Bros., Inc. should continue to expand and provide an excellent vehicle for investment of semi-speculative funds. The stock is listed on the Detroit Stock Exchange and the New York Curb Exchange.

MILTON S. EMRICH

Vice-Pres., Julien Collins & Co., Chicago, Ill.

(Chicago Transit Authority Bonds)

The bonds of the Chicago Transit Authority which were first distributed to the public in August of 1947 do not appear to be fully appreciated, and some of the many unusual protective features have apparently not been generally understood. They possess many unusual provisions and they should appeal to investors who seek a high tax exempt return and an opportunity for enhancement in value.

Created by an act of the General Assembly of the State of Illinois in April, 1945, the Chicago Transit Authority is a political sub-division embracing the major portion of Cook County and Metropolitan Chicago. The Authority was granted the exclusive right to acquire, construct, maintain and operate local transportation facilities for a term of 50 years and thereafter until terminated. Acquisition of the elevated lines, subway and surface transportation facilities in October, 1947, launched a new era in Chicago's transportation history.

In August of 1947, $105,000,000 revenue bonds were sold to finance the purchase of the Chicago Surface Lines and The Rapid Transit Systems which were acquired and consolidated in October of that year. The shorter maturities are protected by an accumulation of $3,782,865 in the Bond Reserve Fund as of Aug. 1, 1950, and this fund increased at the rate of $107,000 monthly. At the present time, these funds are sufficient to meet the 1953 and 1954 maturities and will in 1951 cover the 1955 maturity. The longer serial maturities offer coupon rates of 3½% and 3¾% at a discount, thus combining general tax exempt yield with profit possibilities. The 3¾% bonds due July 1, 1978 are offered at 99½ in the present market.

General powers to operate the System were bestowed upon the CTA, and, in addition, exemption was granted from any and all regulations of service and rates of fare by any regulatory body. Thus, when the need arises, because of reduced revenues, the Board of the CTA is required by the terms of the Act to raise fares to a level which will provide profitable operation. In this respect, the CTA may operate as would a private industry, and in this manner an adequate fare structure is reasonably well assured.

Three increases in fares since the Authority began to function serve as examples of this power to adjust rates. They were the result of higher operating costs and lower net revenues which were brought about because of wage increases and a decline in overall traffic.

From the outset, the CTA has made persistent efforts to reduce operating expenses by the introduction of economies without sacrificing good service. The modernization of equipment and the substitution of one-man buses for street cars on certain lines has resulted in an impressive reduction of operating costs. Approximately $33,500,000 has already been spent on new rolling stock which includes 600 PCC street cars and 1,110 modern gas, diesel and trolley buses. Another $9,000,000 has gone into shop improvements and garages.

The Authority has accumulated a reserve of $5,500,000 which together with the $15,000,000 loan recently negotiated will be used for the purchase of 200 additional elevated subway cars and 760 buses, and it has been estimated that there will be a saving of approximately $3,000,000 annually when this new equipment is placed in operation. The new Dearborn St. subway should be in operation early next year.

It may have been unnoticed, but it is important that in no month since March of 1948 has the Authority failed to show earnings sufficient to meet interest charges of $318,000 and the Bond Reserve Fund of $107,000. While the balance for depreciation in some months proved inadequate, the last report of the Authority shows earnings to be sufficient to cover this item. It is anticipated that modernization will produce even more impressive results.

The administration of the Authority is vested in a board of seven commissioners, and the Chairman at the present time is Ralph Budd who was formerly President of the Chicago Burlington & Quincy Railroad. The other members of the commission who are appointed alternately by the Governor of Illinois and the Mayor of Chicago serve staggered terms of one to seven years. In this manner, the conduct of the affairs of the Authority by a commission of leading citizens has been well protected against the intrusion of considerations sometimes found in elective offices.

If we must at this crucial point in our national history anticipate a larger budget and increased military appropriation, it seems reasonable that we will have higher income taxes than those now in effect, and this should

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The Outlook for Retailing

By WHEELOCK H. BINGHAM*
President, Macy's, San Francisco

After reviewing problems and progress of retailing, West Coast department store executive points out increasing ratio of operating costs to sales, and stresses need of raising employee's productivity through job analysis, work simplification, specialization and studies of personnel problems, as well as intensified use of mechanical equipment. Says most radical development in retailing in last decade has been the supermarket, and predicts in future: (1) more night shopping; (2) more chain and multiple unit organizations; (3) more branch department stores in outlying areas of large cities; and (4) trend toward bigness and specialization.

Retailing is big business. The most recent Department of Commerce census indicates that there are a total of approximately 1,800,000 establishments which, in 1948, produced a total sales volume of $130 billions. Excluding such obviously specialized enterprises as motor vehicle distributors, building supply houses, restaurants and bars, the balance of general store selling reaches the still impressive total of 100 billion dollars. This is the type of retailing that is done largely by the drug stores, the food stores, the variety stores, the mail order houses, the chain stores, specialty stores of all kinds, and the department stores.


Wheelock H. Bingham

Being primarily a rag merchant myself, the comments and observations which follow refer particularly to the kind of merchandise which is sold and the type of business which is done by the chains, specialty shops and department stores.

In this general field, there are two recognized sources of statistics and relative performance figures. These are compiled annually by the Controllers Congress of the National Dry Goods Association and by the Harvard University Graduate School of Business Administration. These reports do not have exactly the same accounting basis, but together they portray the operating results of several hundreds of the most important retail organizations in the country.

The statistics which are quoted in this presentation have been chosen from one or the other of these analyses and, therefore, may not be in precise mathematical balance. Rather, they have been selected only on the basis of proving long-term trends in the retailing business.

Furthermore, there is no intention of implying that the ideas expressed here are original—far from it. I have drawn liberally upon statements made from time to time by Malcolm P. McNair, the eminent professor of retailing at Harvard. Other comments have been developed in consultation with my own associates, and perhaps a few are my own. However, the purpose is to outline at one time several of the problems which are peculiar to retailing and which face present-day merchants, especially those in the department store field, and to mention some of the developments which may influence the future of the retail business.

This presentation is divided roughly into three parts—the current condition of retailing, some of the avenues of progress, and finally, the kind of stores which may predominate in the future.

In many public opinion surveys I have seen, the popular notion appears to be that all business makes a handsome profit. It is a safe statement that most people do not realize that the type of retail business of which I speak is far from being highly profitable. The National City Bank's 1949 annual tabulation of 1710 manufacturing corporations indicates that from 1939 to 1949 (excluding the war years), there was an average profit of approximately 7% after taxes. During the same period (and again eliminating the war years, which distorted the picture in both groups), a similar summary from figures compiled by the Harvard study shows for specialty stores and department stores an average profit of approximately 3.5%. Quoting from the Retail Dry Goods Association figures, the actual profit after taxes for 1949, for specialty stores and department stores, was 2.7% of sales—and certainly that is not a handsome profit.

Retailing Not an Easy Business

Large retail organizations have had a sound financial record, but retailing is not an easy business. However, it is not going out of business, and in one form or another will always be a part of the economic system. For without the aggressive efforts of retailers to sell more and more goods—particularly those beyond the normal necessities of life—this country could never maintain full production and full employment. It is especially in this manner that retailing fulfills a vital function in maintaining a prosperous economy, because as the last step between production and the consumer, retailers persuade people to buy untotaled quantities of merchandise with which they could do without. Yet, in the per-

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*An address by Mr. Bingham at the Stanford University Business Conference Palo Alto, July 24, 1950.

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Regular Features

GOING TO NSTA CONVENTION?

The Annual Convention of the National Security Traders Association will be held September 26-30 at Virginia Beach. As in former years, the "CHRONICLE" will publish a special Convention Issue which will include texts of addresses and Committee reports, also numerous candid shots of those in attendance at this important yearly event.

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Railroad Income Bonds—Post-Korea

By E. FREDERIC UHRBROCK*

Railroad Analyst, Vilas and Hickey, Members N. Y. S. E.

Expert maintains railroad income mortgage bonds are in good position to benefit from, rather than be hurt by, armament economy's factors, since they will benefit from increased traffic volumes while being sheltered from tax inroads. Declares despite recent rise in market price of these issues, they are still well below their 1946 high equivalents.

This Korean situation has, in my opinion, changed the outlook for railroad traffic considerably. I think from here on we can definitely be pretty well assured of a heavy volume of traffic for a more or less indefinite period of time. It will take not only manufactured and miscellaneous goods, but also the heavier goods including coal. Let us consider the probabilities and possibilities of a change in the relationship of the price of coal and oil, so that we might get some shifts back again to the coal industry. I think we are going to see a lot of shifts; so much so that I think the coal loadings of the next six months are going to be not only substantially ahead of 1949, but could easily run fairly close to the 1948 level.

E. Frederic Uhrbrock

As a result, we look for a sustained, increasing volume of business over the last part of the year.

The Expense Factor

Now, from the standpoint of expenses, we are going to see some increase, perhaps some wage increase. We will undoubtedly see more maintenance as the roads attempt to cut down the supply of bad order cars. I think that can be done and taken in stride so that even though the roads may substantially increase their maintenance work, they still will show large increases in net income.

From the standpoint of the income mortgage bond field, which I have felt is one of the most interesting in the railroad picture, I want to remind you all that the bond characteristic of this class of obligation is one that has become of more value and probably will become of greater value as time goes on.

Tax Impact

No one yet knows what the tax situation in this country is going to be, but I do think we can all be pretty well assured that the government is going to take a much larger share of income. Consequently income bonds, with their protection against increased taxes, are going to get more and more attention as the investor endeavors to get at an obligation where the earnings will not be siphoned away, as they might be in the general run of stocks, by either an excess-profits tax or by higher normal taxes.

During the past month, we have seen a very sharp and abrupt rise in the price of practically all income bonds; starting around July 10 and in the following two weeks, a rise of probably on an average of 10 to 15 points on most of the active bonds. It raised the Dow-Jones index of income bonds up to a new high for the time that that index has been running, and that is since the beginning of 1947.

At first glance, the rise would seem to be rather abrupt and sharp, but if one takes the time to recalculate what the index would have been on the basis of some of the 1946 prices for income bonds, you will see that there is still plenty of room in it. The index is now around the 72 level, and the 1946 high equivalent would have been up around the 88 to 89 level.

Since reorganization, we have seen the railroads, through sinking funds and other cash resources, purchase their income bonds. That process is going to continue and will be a factor in the market action of the bonds. Certainly, as the supply goes down and more people become interested in a form of obligation that is somewhat protected from taxes, these bonds should do better.

Changing Price Inter-Relationships

During this past month, probably the leaders in the parade on the upside have been bonds like Frisco 4½s, Eries, Lehigh Valleys (talking from the standpoint of points which they have moved), and St. Pauls. Some of them may have, because of the rapid rise, changed their relationship quite a bit with other bonds in the income-bond field.

Look at Seaboard incomes during this time. They went up about 7½ points as compared with about 15 for Friscos, St. Paul and Erie. St. Paul and Frisco incomes have now reached a level probably about 18 or 19 points above this year's low, whereas Seaboards are only about 8 or 9 points above this year's low.

I think that the Seaboard incomes, for example, today, at the present level, are probably somewhat more attractive than the others that I have mentioned.

Northwestern incomes have tended to be a laggard in this market, probably due in part to the fact that, despite better earnings this year, they still show a sizable deficit for the first six months of the year. But they have been coming along quite rapidly and I firmly believe that before the year is out Northwestern will pick up quite sharply and the incomes could do considerably better, and will probably tend to close up the spread between them and the St. Paul A's. After all, it was only about a year ago when the bonds were selling even. Now there is about a 13-point spread between the two in favor of the St. Paul A's.

Baltimore and Ohio

B. & O. incomes have tended, also, to lag somewhat behind the market, as have the refundings. The two issues, I think, are about in proper relationship with each other, but I think that B. & O. bonds still are attractive and could be one of the better performers in the move from here on.

B. & O., because of the coal strike early in the year, did go through a pretty tough time for a while from an earnings standpoint. The B. & O. management is very alert and has good control of expenses, and I firmly believe they will do substantially better as time rolls on.

Missouri and Pacific, "when-issueds" in the income field, have been laggards in this upswing and are behind the rest of the market, probably in part due to the stories of a possible Mahaffie bill plan, and also the bonds have a "when-issued" status.

Personally, my feeling is that there will be a reorganization of the Missouri-Pacific under 77. I do not believe there is a chance of a Mahaffie bill plan going through, and I think reorganization could be consummated by the middle of next year. Consequently, I believe that for anyone who is willing to buy a "when issued" security he can buy real value in the Missouri-Pacific A's at around the 71½ or 72 level, and the B's around the 65 or 66 level. Both of these bonds, as you know, will carry interest from Jan. 1, 1948. It was earned and accumulated for both of these years.

New Haven is a situation that we have liked quite a bit. We feel the New Haven management has done a good job from an operating

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*Special transcript for the "Chronicle" of an address by Mr. Uhrbrock before N. Y. Society of Security Analysts, New York City, Aug. 4, 1950.

Railroad Common Stocks—Post-Korea

By PIERRE BRETEY*

Railroad Analyst,

Baker, Weeks & Harden, Members N. Y. S. E.

Citing likely long duration of armament economy, higher flat corporate and excess profits taxation, and switching to heavy traffic hauling, Mr. Bretey cites comparatively favorable status of the carriers. Considers in detail changed post-Korean position of individual issues.

Future market trends of railroad equities in all likelihood will be determined by whatever taxation will emerge from Washington over coming weeks or months.

Our inability to forecast future tax trends forces certain fundamental assumptions in attempting to gauge the value of railroad stocks in an armament economy.

Pierre Bretey

(1) Our rearmament period is likely to be of relatively long duration, several years at the very minmium, regardless of the time involved for the ultimate reconquest of Korea, since our military impotence will have aroused the American public. Therefore, public approval will sanction large scale sacrifices to the hilt.

(2) Public opinion apparently favors higher taxes, although as of this writing does not appear to favor cuts in governmental expenditures, whether for veterans or agricultural benefits. Futhermore, controls similar to those in effect in the last war seem to meet with increased approval. Hence budgetary expenditures are likely to remain high for several years, with higher personal and corporate taxes almost certain for an indeterminate number of years.

(3) If an excess profits tax is voted, one which will "pinch" and produce sizable revenues for the Treasury, it would appear that 75% of an average of 1946-49 earnings, currently mentioned as the most likely tax to be passed, may prove inadequate. For, average corporate earnings after taxes have approximated $19 billion in recent years. In contrast, average corporate earnings after taxes for the 1936-39 base year period amounted to only $5 billion.

Therefore, the country may find itself with an exces profits tax based on 1936-39 average earnings, particularly if current hostilities spread. In such an event railroads would be hard hit, comparatively speaking, since only a handful of carriers had any worthwhile earnings in this period. On the other hand, if a formula similar to that used in World War II, based on invested capital, is allowed, the railroads would become major beneficiaries as compared with most industrial and utility companies.

Increased Heavy Traffic Haul

A large armament program suggests to me a sizable cut back in civilian goods, and the substitution therefor of heavy machinery and war materiel. And, let it be strongly emphasized, railroads are probably going to haul 80% of these armament manufactures, whereas much of the production displaced formerly was hauled by trucks. To that extent the rails will be helped.

As I try to peer into the future, I see within the next 12 months or more, automobile output cut from an eight million annual output to a 4½ million rate; truck output reduced below the one million rate; new home starts cut from 1.5 million currently to 900,000; and a cut in television sets from a six million to a three million annual rate.

Of our approximate 100 million tons of steel, some 17 million tons doubtless will be allocated to the armament industries, leaving some civilian shortages, admittedly negligible, even though the remaining output would still be a whopping 84 million tons.

Such is the background as I see it with respect to common stocks of our leading railroads.

Income Bonds

Before I mention specific issues, may I offer a word on Income Bonds. I would like to emphasize the tax ruling handed down by Commissioner Helvering back in 1942, dealing with Boston & Maine Income 4½s. In effect this ruling makes it possible for the individual investor to translate an income return of 8% into a 6% tax free investment. The following illustration will indicate that, under certain circumstances, subject to change in future Treasury interpretations, of course, that income obtainable from income bonds can be treated as a return of capital, and not as normal and surtax income.

Tax Advantages

"A" purchases $10,000 par value of Lehigh Valley Income 4s/2003 at 49 on August 3, 1950. Contingent interest, if earned, will be paid on May 1, 1951. Should the bonds sell above 49, original purchase price, at any time subsequent to February 6, 1951, which date would mark the end of the six months holding period, and April 30, 1951, the date preceding the interest payment to be paid, if earned, "A" could establish a long term capital gain through selling and repurchasing his bonds in a simultaneous transaction. In this way, maximum taxable rate would be 25%. On May 1, 1951 interest received, $40 per $1,000 bond, would not be considered taxable income. Such income would be deductible from the new purchase price and the adjusted price would then become "A's" new cost for computation of subsequent capital results. The value of such tax shelter should serve to popularize income bonds, inasmuch as I believe a high tax economy is to be with us for a long time to come.

Effect of Tax Hike

May I again digress for a moment and indicate the effect of a change in corporate tax rates from 38% to 45% on several rail equities.

Kansas City Southern earned $6.99 on a consolidated basis for the first five months this year. Assuming that taxes were to be made retroactive to January 1—although there are many who doubt this hypothesis—these earnings would be reduced by 67¢, or to $6.32. On an annual basis, projected earnings of $18.25 per share, consolidated, would be reduced to approximately $17.00 per share.

Were we to assume that Pennsylvania Railroad would report

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*Special transcript for the "Chronicle" of an address by Mr. Bretey before N. Y. Society of Security Analysts, New York City, Aug. 4, 1950.

The State of Trade and Industry

Steel Production
Electric Output
Carloadings
Retail Trade
Commodity Price Index
Food Price Index
Auto Production
Business Failures

No apparent change in the course of total industrial output for the nation was noted the past week from the high operating level enjoyed in preceding weeks. Total industrial production, however, showed a noticeable increase above the level obtaining in the similar 1949 period. Another factor worthy of note was the further decline in industrial unemployment, which in turn reflected the need for increased manpower in some lines of manufacturing.

Steel ingot production rose almost two points the past week to about 101% of capacity. Automobile and truck output also advanced in the week ended July 29; production was 31% above the level of a year ago. Carloadings were higher in the latest reporting period (week ended July 22) and distribution of electrical energy in the week ended July 29 attained a new historical high point for the industry.

The impact of war demands on the steel market is increasingly in evidence, "Steel," national metalworking magazine reports this week. Although military orders so far bulk small in relation to total steel order volume, they are rising. And the mills, giving precedence to armament needs under voluntary allocations, already are finding it necessary to revamp some production schedules. While such rescheduling has been minor it is contributing to shipment delays on civilian account, giving increased impetus to consumers' scramble for protective tonnage before supply conditions worsen as more military orders come out.

Ultimate policy with respect to steel distribution for the emergency remains to be determined. For the near future it is believed voluntary allocations will prove adequate to care for all likely armament needs. Anticipating a flood of military orders in the fourth quarter the steelmakers are booking new civilian business warily, hoping to avoid wholesale rescheduling as far as possible, "Steel" magazine notes. They are screening all orders as regards end-use, giving tonnage directly or indirectly connected with government contracts preference in rolling schedules. Expectations are producers will accept military tonnage on the basis of each company's percentage share of the industry's capacity. While not yet heavy some substantial military and related orders are appearing.

The volume of steel required for the Korean war and the nation's new rearmament program is unknown. But trade authorities anticipate no severe shortage. Producing capacity tops that of ten years ago by about 20%, now standing at over 100 million tons of ingots with another 5 million tons scheduled for completion within two years. At the outside, it is thought military needs will run to no more than 10 to 12 million tons of finished steel annually, leaving around 65 million tons for civilian use, about as much as was shipped in 1948.

Steel Output Based on 99.9% of Capacity

Steel buyers are taking every ton of steel they can obtain and they are reaching out for more according to "The Iron Age," national metalworking weekly, in its current summary of the steel trade. Some of them are operating under firm instructions to procure all available tonnage from a variety of sources—provided the price is "reasonable."

There is, however, practically no chance that consumers will be able to boost their steel quotas for peacetime production. With steel items already on informal allocation by the mills, the only way a consumer can get more steel from the mill is by obtaining defense or essential orders or by showing a history of steel buying far out of proportion to his present quota, this trade authority declares.

Foreign mills, conversion and gray markets have all been pretty well exploited by ingenious or desperate steel buyers. There is no doubt that they have played a vital role in keeping the operations of some plants at a high level and they are continuing to do so.

Steel procurement is going to be a major problem for most manufacturers for a long time, and recognizing this, some firms have already put their most able men in these jobs. It is apparent, "The Iron Age" adds, that they are not planning to fill all their steel needs by waving a government slip. Meanwhile both producers and consumers are anxiously waiting for the government to formalize voluntary allocation of steel.

Steel people who had been awaiting a government pronouncement on requirements and distribution before opening their fourth quarter order books are becoming impatient. Buyers have been told that anything promised is subject to change pending government

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$25,000,000 Bonds of Puerto Rico Authority Sold to Investors

A nationwide investment banking group headed by Allen & Co., Bear, Stearns & Co., and Ira Haupt & Co., all of New York, experienced no difficulty in placing with investors the new issue of $25,000,000 Puerto Rico Water Resources Authority electric revenue bonds which the syndicate purchased from the Authority via the competitive bidding route on Wednesday. The bonds are dated July 1, 1950 and mature semi-annually on Jan. 1 and July 1 from 1952 to 1984 inclusive. Allen & Co. and associate underwriters named an interest rate of 2¾% on bonds due from 1952 to 1973 inclusive, and a 2.80% coupon on those maturing from 1974 to 1984 inclusive.

Investors purchased the bonds at prices to yield from 1.30% to 2.80%.

Under the provisions of the Acts of Congress now in force, the bonds and income therefrom are, in the opinion of counsel, exempt from Federal income and State taxation. The bonds will bear the approving legal opinion of Mitchell & Pershing, of New York City.

Criticizes Census Bureau's Figures On Employment

Study under auspices of NAM holds monthly figures of employment create erroneous impressions, since apparent stability of both labor force and employment concepts is an illusion.

In a study of employment statistics, undertaken by the Research Department of the National Association of Manufacturers, and prepared by George G. Hagedorn, the Census Bureau's monthly reports of employment are criticized as creating some seriously wrong impressions. The report cautions that "any action taken by government, business or any other element in the economy—if based merely upon net unemployment changes might be seriously in error."

In the language of the report:

"The widespread popular use of the Census Bureau's monthly statistics on the number of persons in the labor force, and on the division of these persons as between the employed and the unemployed, has created some seriously wrong impressions. For the most part, the changes from one month to the next in these quantities is very slight. This leads to the impression that 'labor force,' 'employment,' and 'unemployment' are sharply defined concepts and that they do not ordinarily vary much in magnitude or in content over short periods of time. Then when any abrupt change does occur—as for example a sudden increase in the number of unemployed—it is assumed that an important economic change must be taking place, since these quantities are usually so stable.

"Actually the apparent stability of the labor force and employment concepts is an illusion. The monthly figures customarily consulted conceal a continuous process of movement back and forth between the various categories. The situation is so far from being static or stable that *from any one month to the next about eight million people make some change in their status: that is, they either leave the labor force, or enter it, or become unemployed, or find*

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Observations . . .

By A. WILFRED MAY

"The Outlook for the Securities Market"—A Fantasy Post-Korea!

OUTLOOK—Prospect; hence the scope or content of mental vision; a mental perception from a special point of view.—from Webster's New International Dictionary, 2nd edition.

The post-Korea investment scene is posing problems which are truly epochal—for the theorist, and the professional adviser; as well as the hard-boiled trust manager, individual capitalist and shoe-string margin trader all trying to devise operations to save their material skins in this pre-atomic extinction prelude.


A. Wilfred May

Even to a greater degree than at the times of the war outbreaks in 1914 and 1939 is it now being found difficult to maintain sound and effective investment programming *vis-a-vis* an "armament-war" situation. Such greater difficulty now is largely attributable to the element of surprise over President Truman's sudden about-face bestirment-to-action last June 25, as well as to the unprecedented task of predicting the imminent temperature of the "Cold-to-Hot" War.

War-and-Peace Investing Foibles

Its chief traditional foible which the investment community has now been successfully tempted (quite understandably) to continue following, is Wall Street's traditional fallacy of gearing its thinking to the short-term. The over-emphasis on the classification between so-called war stocks and peace stocks, prediction of market action gauged to immediately prospective happenings in the Korean shooting, and the linking of investor-speculators' nerves to domestic policy details in the taxation and economic-control fields, are in line with the American investment world's perpetual insistence on betting-on-the-news without any concept of the true investment purposes of securities-ownership. The present relatively hectic war environment of course makes such a frame of mind and attempts to outguess-the-crowd more excusable and easier to self-rationalize.

This is not to imply that investment programming today is anything other than unprecedentedly difficult. Nor is it to misunderstand the perfectly human proclivity of trying to gauge present action to historical experience, even though this commits the same error as did Gamelin and the other French generals who tried to re-stage World War I strategy in 1940. Investors are people, and in a period of crisis, they want to lean on the imaginary security of an "impregnable" Maginot Line.

The Investor's Current Problems

Let us itemize some of the investor's present difficulties—particularly in trying to arrive at some basic key for his operations.

The many difficulties involved in tieing present investing policy to previous wartime patterns—no matter how meticulous be the research—have been set forth in the preceding studies which this writer has published in collaboration with Mr. George F. Shaskan, Jr. in this space.

Armament Economy Imponderables

Even if it could be assumed that a correct forecast (guess) could be made of the duration of the actual shooting or mere arming to ensue from the present crisis; there would still be many imponderables remaining to confound the investor. In setting an overall wartime program, he would still have to know the nature of the economy's production. Will its war segment remain at Mr. Keyserling's 10% figure; will we shortly be forced into Mr. Baruch's inclusive controls; will the hard goods producers have to convert completely to war production; or will they be producing for both the civilian and armament demands? And what will be the nature of the ever-increasing taxation impact—steeper flat rates or an excess profits tax, or both? If an excess profits tax, what will be its basis and bases (the currently distributed elaborate hypothetical tabulations surely cannot assure

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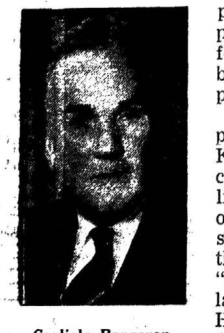
From Washington Ahead of the News

By CARLISLE BARGERON

Of the many amazing angles of the Korean mess, not the least is that it is conceivable that once we have liquidated it we may have another shift of policy and decide that after all, Formosa is not worth defending, that for all we care, the Chinese Commies may have it. This is not in the bag now. The present policy is to defend Formosa and apparently this is taking no more than a show of force by our Navy. But in the running war between Dean Acheson and Louis Johnson the policy might be shifted overnight.


Carlisle Bargeron

A few months ago it was the announced policy of our government not to defend either Korea or Formosa and insofar as Congress was concerned this attitude toward Korea aroused little or no criticism. Indeed, the House at one time voted down by one vote, the extension of any further money for economic aid to that country. The Administration and the "Liberals" raised the hue and cry of "isolationism" against their opponents and turned Heaven and earth to restore the aid. The Administration and the Liberals saw no nonsense at all in a policy of continuing to pour money into Korea—South Korea it was—while at the same time inviting, in effect, the Commies to come in.

A determined group of Republicans, however, did keep up a drumbeat of criticism of the Administration's policy toward Chiang Kai-shek and Formosa. As Senator Taft pointed out several months ago, defense of Formosa entailed no appreciable risk because it is separated by a large body of water from the mainland and the Commies have nothing but junks in which to attempt to cross it.

It is not yet ascertainable whether, when Truman decided to switch overnight and defend South Korea, he acted against Acheson and in support of Johnson. This is to say, that although the two have been at odds pretty generally in the effectuation of our so-called foreign policy and were at odds regarding our policy in Asia, it does not follow that Johnson urged a stand in Korea. The best information is that Truman talked with MacArthur on the telephone and asked him if he could hold Korea and he gave assurance that if given the job to do he could do it.

But with the exception of this detail, so to speak, this conflict between the military and the diplomats, running throughout the postwar period, the period of our so-called "global" leadership, has been extremely costly to the American people, and if the State Department's position does not bear out the Republicans' charge that it is infiltrated with Communist sympathizers, it does seem to prove that the department is dominated by some sort of out-of-this-world idealism such as that held by the fuzzy intellectuals of the Americans for Democratic Action.

For example, MacArthur, now that he has been given the job of protecting Formosa—and he has steadily insisted this was necessary to our policy in Asia—visited with Chiang Kai-shek a few days ago. To all intents and purposes it was the defense of Formosa that he wanted to talk to the Chinese leader about. But ever since his visit, the State Department has been complaining to its pet commentators and columnists that MacArthur should have taken a diplomat with him and that he must be compelled, in defending Formosa, to keep our "political aims" in mind. It is understood here that Averell Harriman was sent to Japan to tell him this. Presumably these "political aims" are not to make any bargain with Chiang Kai-shek that would draw us into war with China. But undoubtedly MacArthur knows this, knows further that he has no such authority and certainly the way for the State Department to deal with its pique was not to build a fire under him through pet commentators and columnists. The truth of it all is that the State Department, if it now had charge of the new Korean and Formosan policy, would back and fill for fear of offending the "liberal" elements of the world, or of giving Stalin and Malik something to distort.

The State Department has had charge of our "program" in Greece to head off Communism there. A few days ago, Lieut. Gen. James A. Vanfleet, who has been administering the military aid program, returned to this country and in an interview in New York, said that while the Communist Party had been outlawed in Greece, collaborators under various guises saturated the government. The State Department whined to its columnist and commentator pets that this was an awful thing to say, that it caused misunderstanding. The policy of our ambassador, Henry F. Grady, who has just been transferred to Iran, had been to set up a "popular" government, one embracing all elements. So Communists are still there after the hundreds of millions of dollars we have spent in that country.

We are hearing around Washington these days a lot of agitation that in our policy of stopping Communism in its westward march through Asia, not to let it get to India or the Malayas, we might have to make an exception of Indo-China where we are now supporting the French in an effort to stop it, because the leader set up by the French is not a "Liberal" but a reactionary.

It will be recalled there was this same criticism of the Greek Government when we began pouring in money over there. We were supporting a "reactionary" government. Now we have made it a "liberal" government by letting in Communist collaborators. The "liberals" won't let us extend aid to Franco, who could be very helpful, because he is a "reactionary."

The thing to do to settle this terrible mess of our "global" leadership, it would seem, would be to have the Eastern European countries, Eastern Germany, Red China, Korea and all the rest of them throw out their Communists and put in "collaborators." Then they would be "liberals" just like the "liberals" in our own country.

Railroad Bonds in a Defense Market

By WALTER FINCKE*

Assistant Vice-President, Savings Bank Trust Co., New York

Savings bank investment authority expresses bullishness at least over the short-term for the railroad industry. Cites increased armament activity to be added to the already-high level of pre-Korean traffic. Maintains tax impact will be less severe on them than on other industries. Advocates up-grading holdings from second-grades to first-grades over long-pull.

The unexpected is always a shock to us and certainly the Korean explosion was no exception. It would appear that we previously had no extensive plans to defend South Korea, and if the Communist aggression should spread, this "emergency" might last for several years. The Communists have the nerve to say that we are the aggressor nation, although our army had been cut to about 550,000 men.


Walter H. Fincke

We don't know whether it will be a short war or a long war. I believe, however, that our government will now enlarge our Armed Forces considerably and keep better prepared in the future. President Truman has already requested an additional $10 billion for defense and indicated that more requests would follow, if necessary.

Arming's Effects on Rails

How will all of this affect railroad securities? Actually, freight traffic had been moving at a better level in May before the invasion. Most of the June reports have shown earnings well above those of June, 1949. Early in June the Shippers Advisory Boards had estimated that carloadings for the third quarter of 1950 would increase by about 9.3% over those for the corresponding period of 1949. Increased defense expenditures, therefore, should result in higher carloadings and higher earnings than previously expected. Heavy-industry traffic should show a marked increase. Raw materials will undoubtedly be stockpiled. There may be some diversion of coast-wise shipping to the railroads. Although we seem to have plenty of oil at the present time, there may even be some reconversion of fuel back to coal which would, in turn, increase railroad traffic. The most encouraging factor is that there should be less labor trouble during the "emergency" as witnessed by the President's action in the Rock Island Switchmen's case.

Mr. Faricy, President of the AAR, stated two weeks ago that the railroads were in better shape now to handle defense traffic than they were before World War II. You will recall that at that time many railroads were still in reorganization. As a group, they did not have any net working capital. In fact, there was a net working deficit of over $1.4 billion for Class I railways at the end of 1939. Even after huge capital improvements of over $4 billion since 1939, current assets now exceed current liabilities by about $1.4 billion, so that there has been a net goin of at least $2.8 billion in net working capital since 1939. Fixed and contingent charges now amount to less than $500 million per year compared with over $631 million for the year 1939. Consequently, the railroads are now in a fairly good financial position.

We apparently have a very good man in W. Stuart Symington, Head of the National Security Resources Board because that is where operation of the railroads will be if this "emergency" gets much worse. We understand that former ODT Johnson has given Mr. Symington a complete outline of the plans which were put in effect during World War II.

The Passenger Outlook

Many of you railroad statisticians know that one of the greatest problems of the railroads is the deficit from passenger operations. From 1928 to 1941 all passenger train services, including mail, baggage and express, operated at net railway operating deficits. But from 1942 to 1945 passenger train services were operated at an average net railway operating income of over $200 million per annum. Passenger net railway operating incomes were much higher than these figures, but deficits from mail, baggage and express offset these to a certain extent. Since then, all passenger train services have operated at the deficits ranging from $140 million in 1946 to $649 million in 1949. During World War II there were huge movements of troops, and a large part of our civilian population was shifted to defense centers. We hope it won't be necessary to have as large a movement during the present emergency, but the importance of passenger traffic is clear. Furthermore, there will not be any "land grant rates" on government traffic during this "emergency," although the roads undoubtedly will make some concessions in rates to the government because there have been rate increases granted during the last several years.

Tax Impact Relatively Favorable

As far as increases in income taxes go, the railroads will not be affected as much as other industries due to their heavier fixed and contingent charges; and, of course, the railroads have large invested capital bases if excess profits taxes should be imposed.

Savings Banks Increasing Bond Holdings

I am only speaking from the standpoint of savings banks' investment and therefore must confine my remarks to railroad bonds and not to stocks. For the last several years, savings banks have been increasing their investment in real estate mortgages at rates of from 3½% to 4½% per annum, with monthly amortization. Almost 40% of the deposits of New York State savings banks are now so invested. President Truman has recommended a curtailment in consumer credit, and if new construction should decline, there, of course, would be fewer opportunities for investment in this type of security. During the last month, there has been an increase in tax exempt municipals and in railroad bonds. Some banks want only 1st mortgage railroad bonds. They have been buying such issues as Baltimore & Ohio First 4s; C. & O. Refs.; Chicago, Milwaukee, St. Paul & Pacific First 4s; New York Central divisional first mortgages; Northern Pacific Prior Lien 4s; Pennsylvania Consolidateds; Reading First and Refunding 3⅛s; and Southern Railway Consolidated 5s. Some banks have been purchasing Illinois Central Joint 4½s and 5s and Northern Pacific Gen. 3s.

Equipment trust certificates also are attractive to savings banks because of the serial maturities of such investments. The government indicates that there is a serious shortage of equipment at the present time. Free demurrage has been eliminated over weekends. Last week, the managements met in Chicago and agreed to buy at least 122,000 new cars. At 10,000 cars per month, this would be over one year's production. How are these purchases to be financed. Present equipment depreciation charges are pretty close to the annual maturities. Should the weaker roads turn to the insurance companies under rental plans or Conditional Sales Contracts, or should Philadelphia Plan Equipment Trust Certificates be issued? We would prefer to see the latter. We would not like to see the government form an Equipment Pool, but if such a pool should be necessary, we would rather have the railroads form one of their own to lease cars to the respective railroads.

Under the new Section 21 of the New York Banking Law, savings banks may now invest part of their funds in certain corporate interest-bearing obligations which are negotiable. Some have purchased such issues as Chicago & Great Western 1st 4s; New York Central Refundings; St. Louis-San Francisco First 4s; Missouri-Kansas-Texas First 4s and Prior Liens, and Pennsylvania Generals.

Savings banks are not permitted to invest in railroad income bonds, but many of those issues were received in reorganization proceedings. We have recommended that they still be held.

International Situation the Crux

In conclusion, however, I wish to point out that so much depends upon foreign news. Eventually, the long-term problems of the railroad industry may return to us again after the defense "emergency" is over. As you know the losses from passenger and head-end operations are a drain on the profits from freight traffic. Under continued inflation, the cost of railroad operation may be higher. From the savings banks' point of view, I would suggest up-grading from second-grade bonds into first-grade bonds as favorable opportunities occur.

*A talk by Mr. Fincke before New York Society of Security Analysts, New York City, Aug. 4, 1950.

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Railroad Income Bonds—Post-Korea

standpoint. There have been a lot of internal shifts and there has been a lot of confusion generated in many people's minds as to where and what the New Haven is trying to accomplish, but I believe it is headed in the right direction. While the road's territory is not all that could be desired, and while the New Haven reorganization was not as severe as many others, I still think that New Haven securities, at present prices, in relation to the rest of the market, still have something to go.

I have also been asked to touch a little bit on the stock end, although I think Pierre is going to go into it much more deeply.

Position of Equities

I have looked at railroad stocks

and have been interested in them for a long period of time. I find it rather difficult to make many firm recommendations in railroad stocks at this time, simply because I cannot have any real assurance of what sort of tax situation we are going to face. Presumably, even though an income tax increase comes in just higher normal and surtax rates, the rails will probably still do relatively better than many industrials, because the rails will still be handling their present business at an expanded volume, whereas many industrials, as you know, will undoubtedly be subject to renegotiation on contracts and things of that sort, which would cut earnings down.

From the standpoint of an excess-profits-tax base, we are on unstable ground, because no one yet knows what sort of base we will work from, whether it will be invested capital and/or 1946-49 average earnings, or whether it will be a reference back to the basis that the railroads had in the last war. It makes a lot of difference what years you use and how you calculate things.

For example, Pennsylvania and New York Central, if they can have an invested capital base rather than a 1946-49 average earnings base, will have plenty of room on the upside for earnings before they would be stopped by higher taxes. However, if average earnings should be used, they would be in the soup.

On the other hand, Santa Fe, for example, has had not only good average earnings in the last three years, if that be the base, but also has a good invested capital base, so that their earnings could be maintained within reasonable shooting distance of where they are today, and the stock would seem to have substantial interest.

Stick to Better Grades

But until these things have been resolved, and also until we see how far this conflict is going to carry, or see whether it is going to bring any substantial volume of passenger business back to the rails, it has been my feeling that one should stick to the better-grade common stocks where management has demonstrated an ability to earn money over a period of years.

I would include in that group stocks like Southern Pacific, Kansas City Southern, Coast Line, Rock Island, and Sante Fe, to mention just a small group. There are probably more that I could put in if I stopped to list them all, one after the other.

In general, it has been my feeling that the income mortgage bond field provides the greatest amount of protection for the investor at the present time.

Conditions change and shift, and my outlook now is based entirely upon a defense and preparedness basis on which I believe industry will be operating for probably the next year or two. If this whole thing blows over or if there is a very substantial upheaval in Russia, that might change the entire outlook. Then I believe all of the remarks that I have made here today would require a revision.

Garnet L. Frazier With Blunt, Ellis & Simmons

(Special to THE FINANCIAL CHRONICLE)

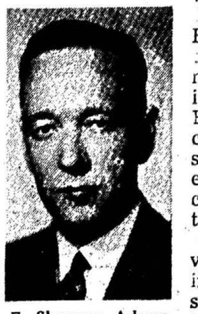
CHICAGO, Ill.—Garnet L. Frazier has become associated with Blunt Ellis & Simmons, 208 South La Salle Street, members of the New York and Midwest Stock Exchanges. He was formerly cashier for Chesley & Co.

Bank Investment Policy In a War Economy

By E. SHERMAN ADAMS*
Lecturer on Finance, New York University

Dr. Adams lists as major questions for banks to consider in adopting an investment policy under a military economy: (1) danger of sharp contraction in bank deposits and means to offset it; (2) likelihood of substantial rise in reserve requirements; and (3) danger of appreciable increase in interest rates. Contends deposits cannot contract sharply because of impending government deficits, and there is little likelihood of substantial increase in reserve requirements. Looks for no change in present interest rate policy, though holds to possibility of government bonds breaking below par.

The outbreak of the war in Korea has far-reaching implications for Government finance, for the money market and for bank investment policies. The United States is now headed at least for a military economy and the danger of a global war has obviously become intensified. It is especially appropriate, therefore, that bankers should pause at this time to take stock and to reappraise thoroughly their banks' investment programs.


E. Sherman Adams

The basic aim of every bank's investment policy should be to obtain as much income as possible without assuming too much risk of incurring losses of principal. In formulating a bank's investment program, therefore, we must analyze how much risk a bank assumes in holding different classes of securities.

When we consider Government securities, which constitute four-fifths of total bank investments, this problem boils down largely to a matter of maturity distribution. To what extent are bankers justified in assuming the risk of holding medium-term and long-term Governments for the sake of the higher yield these issues afford?

In appraising this risk, there are three major questions to consider:

(1) Is there any real danger of a sharp contraction in the volume of bank deposits which might force us to sell our bonds at depressed prices?

(2) Are bank reserve requirements likely to be raised substantially?

(3) Is there any real danger of an appreciable increase in interest rates?

Let us analyze these three key questions.

Deposits Cannot Contract Sharply

As we know, the volume of bank deposits has more than doubled during the past decade. The chief underlying cause, of course, was the growth in the national debt during the war and the resulting increase in bank holdings of Government securities. As a result, the total volume of bank deposits now depends to a very large extent upon the amount of bank holdings of government securities.

As long as bank holdings of government securities remain high, therefore, the volume of total bank deposits must necessarily remain high. It is difficult to imagine how there could be a really large percentage decline in the volume of bank deposits unless there were to be a substantial reduction in the public debt.

*An address by Dr. Adams at the Fourth Alabama Bank Study Conference, University of Alabama, Aug. 7, 1950.

How much chance is there that the public debt will be substantially reduced within the next ten years? Even before the Korean war started, we were faced with the prospect of a deficit in the Federal budget despite the fact that our economy was operating near peak capacity. Today, even if we should be able to bring the Korean war to a successful conclusion within a few months, it seems certain that our military expenditures will be greatly increased for at least several years to come.

And that is the most optimistic view. If the war is prolonged or if it spreads, then it goes without saying that the national debt will increase rapidly.

Eventually, of course, if peace is restored, the Government may be able to reduce its expenditures to some extent. However, the hard truth is that most of the expenses of the Federal Government cannot be eliminated. If for instance, we were able to achieve all of the economies recommended by the Hoover Report, the annual expenditures of the Government would be reduced by only about 7%. Even under the most favorable circumstances, governmental expenditures are bound to remain very large.

Even if the Government's expenditures were to be miraculously cut, this would not mean that we would see a budgetary surplus of equal magnitude. Taxes are already very high and are obviously going higher. If a sizeable surplus should someday appear in the Federal budget, the clamor for tax relief would be overwhelming and the surplus would quickly shrink.

The chances are, therefore, that over a period of years, Treasury deficits will substantially exceed Treasury surpluses. The indications are that the debt will increase, rather than decrease, over the years ahead.

Since the debt will remain large, then it follows that the volume of bank deposits will also remain large. In the future, deposits of commercial banks will not show the large percentage declines which have periodically occurred in the past.

If during the next ten years we are able to remain prosperous and to avoid a global war, the money supply will probably not change greatly one way or the other. If there is a depression or if we become involved in a full-scale war, the money supply will undoubtedly increase as a result of deficit financing by the Treasury through the banking system.

The important point, however, from the standpoint of bank investment policy today, is that the possibility of a huge percentage drop in bank deposits, such as occurred during 1930-33, no longer exists.

Bank Reserve Requirements

Now let us take a look at our second key question: Are bank reserve requirements likely to be raised substantially?

At present, of course, the Federal Reserve Board has authority to raise member bank reserve requirements from present levels by only two percentage points in the case of demand deposits and by only one percentage point in the case of time deposits. If commodity prices continue to rise, it would not be at all surprising to see the Reserve Board make use of this existing authority to raise reserve requirements as a so-called anti-inflation measure.

However, such a boost in reserve requirements of only one or two percentage points would not greatly affect bank investment positions. The serious question is whether new legislation may be passed which would augment the power of the Reserve Board and which would lead to much higher reserve requirements and compel the banks to liquidate securities on a very large scale.

As we know, there are those who have advocated for several years that the Reserve Board should have additional authority of this kind. We also know that legislation was actually passed in the summer of 1948 which did temporarily give the Reserve Board some additional power over reserve requirements. Since the outbreak of the Korean war, certain individuals have already begun to urge that this device should be used again and that the Reserve Board be empowered to raise bank reserve requirements very substantially above existing levels.

No one, of course, can say for sure whether such legislation might someday be passed under the stress of emergency conditions. However, most economists, bankers and monetary officials are in agreement that the manipulation of bank reserve requirements is not a good method of short-run credit control. Unfortunately the Federal Reserve Board has not as yet seen fit to make its own position clear. It would be a most constructive step for the Board to announce emphatically that it would oppose a substantial increase in bank reserve requirements.

Until the Reserve Board does clarify its position, one cannot disregard the possibility of higher reserve requirements. It is possible that the Board may receive authority to increase requirements to a moderate extent, as it did under the 1948 legislation. It is also possible that we may see a revival of some kind of a certificate reserve plan, especially if we become involved in a full-scale war. However, my own opinion is that we will not see really substantial increases in primary reserve requirements. My reasons are as follows:

(1) Because a general tightening of credit in this manner is not a realistic approach to the problem of wartime inflation;

(2) Because this type of restriction, if carried very far, would seriously interfere with the smooth financing of a military economy by the banking system; and

(3) Because substantial increases in reserve requirements would greatly complicate the task of the monetary authorities of maintaining an orderly market for United States Government securities.

It seems to me that these arguments are compelling and that they will therefore prevail.

Outlook for Interest Rates

Now for our third key question: Is there any real likelihood that interest rates will rise substantially over the next five or 10 years? Or, to put it another way: Do we need to fear a sharp decline in prices of government bonds?

During the past decade, we have witnessed a convincing demonstration of the ability of the monetary authorities to manage interest rates despite unprecedented demands for credit. As a

Continued on page 21

Dealer-Broker Investment Recommendations and Literature

It is understood that the firms mentioned will be pleased to send interested parties the following literature:

Leading Banks & Trust Companies of Northern New Jersey—Current study—Parker and Weissenborn, Inc., 24 Commerce Street, Newark 2, N. J.

Operating Public Utility Companies—Comparative tabulation of common stocks—Central Republic Company, 209 South La Salle Street, Chicago 90, Ill.

Over-the-Counter Index—Booklet showing an up-to-date comparison between the thirty listed industrial stocks used in the Dow-Jones Averages and the thirty-five over-the-counter industrial stocks used in the National Quotation Bureau Averages, both as to yield and market performance over an eleven-year period—National Quotation Bureau, Inc., 46 Front Street, New York 4, N. Y.

Railroad Income Bonds—Analysis—Vilas & Hickey, 49 Wall Street, New York 5, N. Y.

Selected Industrial Bonds—Brochure giving comparative data—The First Boston Corporation, 100 Broadway, New York 5, N. Y.

* * *

Aro Equipment Corporation—Bulletin—Stanley Heller & Co., 30 Pine Street, New York 5, N. Y.

Associated Transport, Inc. — Analysis—J. R. Williston & Co., 115 Broadway, New York 6, N. Y.

Bank of New York and Fifth Avenue Bank — Memorandum — A. M. Kidder & Co., 1 Wall Street, New York 5, N. Y.

Carrier Corporation — Analysis Ira Haupt & Co., 111 Broadway, New York 6, N. Y.

Delaware, Lackawanna & Western — Memorandum in current issue of "Railroad and Other Quotations"—B. W. Pizzini & Co., 25 Broad Street, New York 4, N. Y.

East Sullivan Mines, Ltd.—Research report — First California Company, 300 Montgomery Street, San Francisco 20, Calif.

Evans Products Company—Analysis — Bruns, Nordeman & Co., 321-323 Broadway, New York 7, N. Y.

Georgia Pacific Plywood & Lumber Co.—Memorandum—Walston, Hoffman & Goodwin, 265 Montgomery Street, San Francisco 4, Calif.

Also available is a memorandum on **Rayonier, Inc.**

Hartford - Empire Company — Bulletin—Eisele & King, Libaire, Stout & Co., 50 Broadway, New York 4, N. Y.

Mexican Railways — Analysis—Zippin & Co., 208 South La Salle Street, Chicago 4, Ill.

Pure Oil Company—Analysis—Hornblower & Weeks, 40 Wall Street, New York 5, N. Y.

Riverside Cement Co.—New analysis—Lerner & Co., 10 Post Office Square, Boston 9, Mass.

Also available is a brief review of the Cement Industry.

Stokeley - Van Camp, Inc. — Memorandum—Reynolds & Co., 120 Broadway, New York 5, N. Y.

United Aircraft Corporation—Analysis—Eastman, Dillon & Co., 15 Broad Street, New York 5, N. Y.

U. S. Thermo Control—Analysis—Raymond & Co., 148 State Street, Boston 9, Mass.

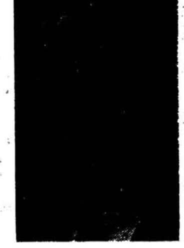
Washington Suburban Sanitary District—New form of annual report for 1949—Wainwright, Ramsey & Lancaster, 70 Pine Street, New York 5, N. Y.

NSTA Notes

AD LIBBING

This week's personalities:


Clyde C. Pierce


Oscar M. Bergman

We greet Clyde C. Pierce of Clyde C. Pierce Corporation, Jacksonville, Fla., and Oscar M. Bergman of Allison-Williams Company, Minneapolis, both well-known in national trading circles, and local chairmen representing the NSTA Advertising Committee.

Many of us can recall our Convention held in Miami back in 1938 when we stopped in Jacksonville and at that time we first met Clyde Pierce. He sure put on a party that will long be remembered. Clyde, can't your quota be topped? How about it?

Oscar Bergman is not a new member of the National Advertising Committee. He has served before and I am confident he will make a real effort to put our Twin Cities affiliate in the receiving class with corporation ads. I have heard he is working with my old friend "the tiger man," Kermit Sorum. Regards.

With about six weeks left to complete our job, we now have over $10,000 in gross business and at the present time our Cleve-

Continued on page 16

Trends in Public Utility Financing

By MARVIN CHANDLER*
Reis and Chandler, Inc., New York City

Mr. Chandler recounts recent public utility financing, particularly with reference to the character of securities issued and the amount of new capital obtained from public. Explains rule of Security and Exchange Commission regarding proportion of debt, preferred stock and common stock in utilities' capital structures, and tells of underwriting difficulties in placing utilities' securities under competitive bidding and low price spreads. Describes private placements with institutional buyers and gives an analysis of mortgage bond indenture requirements as well as protective features of preferred stocks.

At the end of 1949, the electric utility industries had a capital structure comprised of 46% bonds, and 3.3% long-term debt, so that the total debt ratio was not quite 50%. Then there was preferred stock of 14½%, and the balance, representing common and surplus of 36.2%. The Edison Electric Institute being correct, that adds up to 100%.

Marvin Chandler

In round numbers, in dollar figures, there were $8 billion of bonds, half a billion of other long-term debt and about $2½ billion of preferred and the remainder of common, making a total of about $17½ billion work of capitalization.

That represents an increase since the end of the war from $13¼ billion, so there has been $4¼ billion of new utility financing in the years 1946, 1947, 1948 and 1949. In addition, there has been a good deal more this year, already.

The largest amount of financing was in 1949, with sales of $1½ billion for new money. This 1949 new financing, to continue our orientation a little bit, added to the total capitalization about $1 billion of debt, about a quarter of a billion of preferred stock, and some $340 million of common stock. Thus, it is a big industry and one that is very active in financing the tremendous postwar development that the electric business has had.

The electric industry was caught short, without enough capacity, at the end of the war, not being able to install it during the war, and has been building to beat the band trying to get caught up on its reserves, and also to get a reasonable margin over and above its reserves. It has to have the capacity to serve the public and it takes 10 or 15% margin over and above just meeting the peak demands.

We might, next, consider what is going to happen from here on. In other words, has this run its course, or not? The indications are that it has not. The total construction budget for electric utilities in 1949 was $2.8 billion. You can see where a billion and a half was raised by sales of securities. There was about half a billion of cash that accumulates, first, through the depreciation charge which can be reinvested in new property and second, from the retention of earnings not distributed in dividends. These two sources—retained earnings or surplus not distributed, and the depreciation and other noncash charges—bring in $5 to $6 hundred million a year. So, with construction expenditures last year of $2.8 billion and a budget this year of probably around $2½ billion, there is still $2 billion to be raised by sale of new securities in 1950.

*A lecture given on July 21, 1950, the sixth in a series of 17 on Securities Analysis, sponsored jointly by the New York Securities Industry and the University of Vermont's Department of Commerce & Economics.

We are speaking, so far, just of the electric utility industry. I will have some words to say also about gas and telephone, but you can see already that there is enough financing to keep the investment bankers and people like myself pretty busy in the utility field.

Last year, about two-thirds of the new money was raised by sale of bonds, not very much by preferred stocks, and a pretty good chunk, $340 million, by sale of common stocks. Of course, the addition to total common stock and surplus in the combined balance sheet of the industry would be greater than that $340 million because of the retention of earnings which is added to the common stock equity on the balance sheet, so that the total increase of half a billion in the industry's common equity last year was due largely to this sale of $340 million of common stock, the first real big bite of common stock utility financing that we have had.

In the immediate years after the war, utility earnings were declining because of the pressure of rising costs which could not be offset quickly enough by increased business or higher rate schedules. Regulatory action was a little slow and cumbersome and the companies got pinched, with wages and fuel prices going up. As a result the market for their common stocks was not too receptive. That $340 million figure compares with $114 million in 1948 and less than $100 million in the two preceding years.

As I say, there is a lot to come. There is $2½ billion of construction this year and there are continuing construction programs which tend to indicate that by the end of 1953 this $17½ billion of total capitalization will be up around the $23 billion vicinity. So, the utility industry's really major or number one problem—and I think it is recognized as such throughout the industry by all the top executives—is getting this capital, getting this money.

There are a number of influences on the industry as to how the money shall be raised, which is what I plan to talk about now.

Where New Capital Is Coming From

The Securities and Exchange Commission has wielded a pretty potent club, although that may be too strong a word to be used. It has had jurisdiction over a very large segment of the industry which was under the Public Utility Holding Company Act. Prior to 1935, when the act was passed, there were only a handful, twenty or twenty-five companies, that were not owned by a holding company. All the other companies came under the influence of the Securities and Exchange Commission. It set up a pattern at the outset — a rule of thumb — that financing should be not over 50% debt, not over 25% of preferred, and not less than 25% common. That is still widely regarded as the rule of thumb capital structure for utility companies, particularly electric utilities—a 50-25-25 capital structure. That is the terminology that you hear widely used. If it is a pretty good company, it has a 50-20-30 structure, meaning 50% debt, 20% preferred, 30% common and surplus.

Investors are rather loath to get into common stocks where the equity gets any thinner than 25%. Below that level, there tends to be a little too much leverage, and there is a danger that in periods of declining earnings the common will get affected too drastically.

On the other hand, if you get a very thick sound structure with 50, 60 or 70% common equity and only 20, 30 or 40% debt, that probably is not the most economical way to raise capital. The common money costs more, of course. The common stock investor expects a larger return because of the greater risk than the bond investor, so the utility will have to pay more for its capital in toto if it has too large a proportion in common.

The pattern now, with SEC having obtained common acceptance of 25% as the minimum, is to get somewhat above that. The SEC, itself, as the Commissioners have asserted, say that 25 should not be considered perfection but only a minimum, and a utility should have a higher proportion of its capital in the form of common stock and surplus. Their thinking probably is in the region of 30% to 35% for common capitalization, which approaches the industry average.

Of course, the industry average of 36% is made up of a couple of hundred different companies, and when you have one large company that has a 50% common stock structure and hardly any company has less than 25, the average is pulled up by those very soundly capitalized companies such as Commonwealth Edison.

SEC's Jurisdiction

The SEC's jurisdiction has lessened greatly because, as holding companies have been liquidated and dissolved, the operating companies have come out independently and are no longer under the jurisdiction of the Securities and Exchange Commission, which only has jurisdiction over holding companies or their subsidiaries. There are any number of companies that were formerly part of a holding company system that are now independent and outside of the jurisdiction of the Securities and Exchange Commission.

My firm, Reis & Chandler, Inc., maintains a tabulation of all the companies in the electric utility field with common stocks in public hands. There are 128 on our list. There are probably about ten more that will come out from under the Holding Company Act but, as I say, we started with maybe 25, so that you can see the job is pretty nearly all done and most of these 128 are outside of the jurisdiction of the SEC now. They are on their own and they are subject only to the state commission that regulates their securities or, in some cases where the flow of power is across the state line, the Federal Power Commission comes in, also.

There are a few that remain under the jurisdiction of the SEC in their financing because they may have a subsidiary, even though they themselves are an operating company. Ohio Edison Company, a large operating company, serves Akron, Youngstown, Springfield and goes right up to the eastern border of the state. There it has a subsidiary, Pennsylvania Power, that serves New Castle and Sharon on the Pennsylvania side, and that makes Ohio Edison a holding company in form. Because it is a holding company, it remains under the jurisdiction of the SEC. Wisconsin Electric Power and Utah Power and Light are other examples of that type.

Then there are half a dozen companies that have been approved by the SEC as an integrated system and are permitted to stay in their holding company form. Those are companies like American Gas and Electric, which has a very fine system, running from Michigan and Indiana down through Ohio over into Kentucky, West Virginia, Virginia and a portion of Tennessee; or West Penn Electric, which owns a system centering around the western part of Pennsylvania including portions of West Virginia and Ohio.

Even though the SEC's influence and direct jurisdiction has lessened, its influence continues to permeate, and has premeated the thinking not only of the state commissions but also of the managements themselves. They recognize now that the SEC's ideas on financing are sound and they generally are accepted.

The state commissions tend, generally, I would say, not to be too strong in their regulation of the issuance of securities. Many state commissions are not as well staffed as they should be. They cannot afford to engage as good a personnel as can a Federal commission and they often are not a forceful regulator of the issuance of securities, although there are many exceptions to that.

The Federal Power Commission has jurisdiction where there is a flow of power across the state lines and where a company is not regulated as to securities issuance by any other means. In other words, if the state commission has the power, the FPC does not get in. It only gets in if nobody else has the power. It has not been an aggressive regulator of the issuance of securities either, but there is some indication that it is tightening up. I will discuss that later.

Buyers of Public Utility Securities

Another very important influence on trends of utility financing are the buyers of securities. The principal buyers are institutions, insurance companies, the banks, trust funds, pension funds. They are almost the sole market for the billion dollars of bonds sold last year. Those bonds, coming out at less than a 3% yield baisis, just do not attract individuals, and it is the insurance companies that make or break that market. Those institutions, being such important buyers, have considerable to say as to how the issues shall be shaped up, what their terms shall be, what the proportions shall be and what the price shall be.

The security analysts have an influence because they represent the individual in the institution, in the investment banking house, in the brokerage house, or in the investment trust, that makes the initial decision as to whether certain securities shall be bought or not bought.

The investment banker is the middle man between the buyer and the seller of the securities of the utility company, and he fulfills the purpose of suggesting to the utility what the terms or proportions of the issues shall be. This reflects his own judgment, of course, which is influenced to a considerable extent by the buyers,

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Functions and Operations of The Stock Clearing Corporation

By GEORGE F. MULLER*
Vice-President and General Manager, Stock Clearing Corporation, New York City

Describing Stock Clearing Corporation as link between brokers and firms on the "sell" side and brokers and firms on the "buy" side, Mr. Muller says its principal function is to eliminate heavy bank certification of checks and separate delivery of securities on each individual transaction. Describes process of stock clearance, which he states reduces deliveries by 70%. Gives description of making "settlement prices," "clearance adjustments," "mark to market" clearances and cash settlements

To begin with, I think I ought to tell you what the Stock Clearing Corporation is. The Stock Clearing Corporation is a wholly owned subsidiary of the New York Stock Exchange, and was incorporated under the laws of the State of New York in April 1920. I will illustrate for you the connection that the Stock Clearing Corporation has with the financial industry. I think I can show you graphically and give you a much better impression of where the Stock Clearing Corporation fits into the scheme of things in the brokerage industry.


George F. Muller

As you know, in the purchase and sale of securities, we always have the customer. For the sake of illustration, this circle will be the "buy" customer, and this will be the "sell" customer. Each customer makes his purchase or sale through a broker or brokerage firm.

There are 1,375 members of the New York Stock Exchange but they are not all active at the moment. There are approximately 610 member firms of the New York Stock Exchange, of which Stock Clearing Corporation has a membership of 191, which means that every broker who is a member of the New York Stock Exchange is not a member of the Clearing House and every member firm of the Stock Exchange is not a member of the Clearing House. There are only certain firms that are members of the Clearing House and they are firms that are located in the vicinity of the Exchange.

The reason why we have such a thing as the Stock Clearing Corporation, is that in some efficient manner, we have to get the securities from the selling customer to the buying customer. The broker, if he is not a member of the Clearing House, goes to a Clearing House member, and we, the Stock Clearing Corporation, are the middle link. We are the link between the brokers and firms on the "sell" side, and the brokers and firms on the "buy" side. The selling customer sends the security in to his broker, who in turn sends it to the Clearing member who in turn sends it to the Stock Clearing Corporation, and we start the process back to the eventual customer who purchases the securities.

*A lecture given on July 24, 1950, the 7th in a series of 17 on the New York Securities Markets and Their Operation, sponsored jointly by the New York Securities Industry and the University of Vermont's Department of Commerce and Economics.

Elimination of Individual Deliveries

What can be accomplished through the operations of the Stock Clearing Corporation? Why did we ever have, or why do we have a Stock Clearing Corporation? The first reason for it is that back in the early days, prior to the Stock Clearing Corporation, every one of these deliveries on a sale of securities was made directly from one house to the other, and to give you an illustration of what that would mean, on a 5,000,000-share day, that would represent some 50,000 transactions or 50,000 deliveries, and you can well understand and appreciate what that would mean—having runners individually taking deliveries to the firm that purchased the security and drawing a check for them and sending that check back to the selling or delivering broker. You would, therefore, not only have 50,000 deliveries, but you would also have 50,000 checks, and that was the condition that existed prior to the establishment of Stock Clearing Corporation.

The banks objected very strenuously to the certifications required before the advent of Stock Clearing Corporation because the volume of business was steadily climbing, so a group appointed by the Board of the Stock Exchange set out to develop the Stock Clearing Corporation. This happened in 1920. They investigated the operations in various other points in this country and in other countries, and they developed what we now call the Stock Clearing Corporation.

As I say, the first reason for the Clearing Corporation was the elimination of bank certifications and the deliveries directly between the purchaser and the seller. We have to establish a central point for the settlement and delivery of all of these securities and checks. No. 1, therefore, was the elimination of check certifications and this elimination accounts for the Settlement Department in the Stock Clearing Corporation, the elimination of deliveries directly between Clearing members' accounts, for the central delivery department of Stock Clearing Corporation.

The next major problem was how to go about reducing the number of deliveries. Knowing that we have a central point to send them to, how do we go about eliminating or obviating many deliveries and many checks? We have accomplished that by several means. We have a clearance operation, accounting for the Clearance Department. We have, in that clearance operation, striven to have a better allocation of deliveries, and we have also developed an envelope system of deliveries. (I am just covering these points generally at the moment, but when I get into the detailed operations, I will follow my talk by actual reference to the forms that are used for each operation.)

The Clearance Operation

The clearance operation is actually the first operation of Stock Clearing Corporation, because it is something that was taken over from the old New York Clearing House. The clearance operation accomplishes this: Let us assume that on the floor of the Stock Exchange, we have Broker A, Broker B, Broker C, and Broker D. Broker A sells 100 shares of Steel, for a price, to Broker B. In turn, Broker B also makes a sale to Broker C of the same stock. Through the clearance operation, what happens is this: There is actually no sense in Broker A delivering 100 shares of Steel to Broker B, and then have Broker B deliver the same hundred shares to Broker C. Through the clearance operation, we eliminate Broker B's part of the transaction. We reduce each brokers' deliveries to his net position in each security, which, as you can readily understand, eliminates deliveries, because in this example there are two transactions resulting in one delivery. We have a 50% obviation.

There is another reason for the clearance operation. Let's assume that we have five transactions in which one broker has purchased five single 100s of a stock from five different brokers. We would then have a situation where, let's say, Broker No. 5, who had 500 Steel, sold to Brokers 6, 7, 8, 9 and 10, a hundred each, in the same security. In the same security, we have another broker who sold 500, Broker No. 11. He sold 500 to five single Brokers Nos. 12 to 16. Actually, there are no pair-offs involved. Let's assume these are the only transactions. There are no pair-offs involved, because the same brokers are involved in any of these transactions. On settlement date, without a clearance, we would have ten deliveries coming through the Clearing Corporation. Through the medium of clearance we would order Broker No. 5, to receive 500 shares from Broker No. 11. Immediately, we have the elimination of four deliveries, because then we can pair off for delivery purposes these five [indicating Brokers 6 to 10 and 12 to 16] and we have elimiated four deliveries, which is a 40% obviation of delivery.

Now, suppose we refer to the first exhibit. By the way, this group of sheets represents a complete sample clearance. Some of these sheets have been headed. I did not have sufficient time to head them all, but I will explain them as I go along, and you fellows who have them headed up can perhaps lend them to others

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Generation and Use of Capital in Oil Industry

By DR. COURTNEY C. BROWN*
Standard Oil Company (N. J.)

Reviewing sources of capital for expansion of oil industry, Dr. Brown reveals that of $24.1 billion of new capital over 16-year period, external sources contributed only 8%, and this came mainly during last four years. Holds high risks in oil business leads companies to refrain from borrowings. Describes attempts to devise fair and reasonable basis for depletion allowances and decries move by Treasury Department to reduce rate from 27¼% to 15% of gross sales of crude oil.

You have asked me to talk about the depletion concept as it applies to the oil business, and to trace its effects on the financial position of oil companies. With your permission, I would like to look at this subject in the context of the broader characteristics of the oil business, as these characteristics have been reflected in the financial results of the past decade or so. In that way, we can better see just where the depletion concept fits into the overall picture, and we may get some indication of whether the depletion allowances are too high, too low, or just about right.


C. C. Brown

I notice that this evening's session fits into your program under the section headed "Securities Analysis." Some of this review of past financial data may even provide partial answers to why some of the old rules-of-thumb relating to price-earnings ratios have been so unreliable a guide to investment values in recent years.

Fortunately, the work done for a number of years by Dr. Joseph E. Pogue and Mr. Frederick G. Coqueron of The Chase National Bank provides us with a convenient set of data to make this financial analysis of the essential characteristics of the oil business. It's a very big business, as you know. These authors have recently estimated that the total gross assets employed by the industry in the United States exceed $30 billion, of which $23½ billion is in fixed assets before deducting reserves.

Their more detailed data relating to 30 oil companies, which probably make up about two-thirds of the domestic industry, depending upon how the comparison is measured, indicate that in the past 16 years, capital expenditures have totalled about $17½ billion. That averages better than $1.1 billion a year over a 16-year period. It is a big industry indeed.

*A talk given by Dr. Brown on July 13 to the Summer course on the Economics of the New York Securities Markets sponsored jointly by the New York Securities Industry and the University of Vermont's Department of Commerce & Economics.

Where Did Capital Come From?

It is essential to our inquiry here this evening to find out where all that $17½ billion came from. As you know, the cash income of a company is made up of its net income, plus cash received against capital extinguishments—that is, depletion and depreciation—and other miscellaneous non-cash charges. Purchases and sales of non-consolidated investments, and receipt of funds from or loss of funds to the capital market make up the rest of the cash flow. Over the 16-year period through 1949, these 30 oil companies had cash income of $22.1 billion from net income, from capital extinguishments, and other non-cash charges. After adding funds required from external sources of $1.9 billion, there were $24.1 billion available from all sources.

The first thing of importance to note in these figures is that net income plus capital extinguishments and miscellaneous items contributed 92% of the cash intake over the 16-year period. Resort to external sources of funds, including the capital markets, contributed only 8% of the total cash receipts. That is a rather dramatic recording of the extent to which the oil industry, because of the nature of the business, has felt it necessary to rely on its own resources to provide the expansion required by the growing public demand for liquid fuel.

To balance out the story of these cash flows, capital expenditures of $17.5 billion occurred during a period in which working capital increased $1.7 billion, and dividend disbursements, including dividends to minority interests, were paid of $4.9 billion. The cash flow of these 30 oil companies over the 16-year period can

Capital Flow, 30 Oil Companies, 1934-1949, Inclusive
(In Billions of Dollars)

			Percent of Total	
Cash from operations		$22.1		92%
Capital extinguishments	10.8		45	
Net income	10.3		43	
External capital required		1.9		8
Total funds provided		$24.1		100%
Capital expenditures		17.5		73
Increase in working capital		1.7		7
Dividends (incl. minority)		4.9		20
Total funds disposed		$24.1		100%

Capital Flow, 30 Oil Companies, 1949
(In Billions of Dollars)

			Percent of Total	
Cash from operations		$2.6		81%
Capital extinguishments	1.2		37	
Net income	1.4		44	
External capital required		0.6		19
Total funds provided		$3.2		100%
Capital expenditures		2.2		69
Increase in working capital		0.4		12
Dividends (incl. minority)		0.6		19
Total funds disposed		$3.2		100%

be seen best, perhaps, in a little table.

There are two additional observations of interest in connection with this table. Dividends have been a rather small part of the total cash flow—only 20%. Indeed, even though sales and excise taxes are not included, dividend payments have averaged well under payments for taxes—in 1949 they were nearly 30% less than tax payments. In terms of more usual accounting, dividends, including payments to minority interests over the 16-year period, have averaged only 47½% of reported net income, whereas I believe the average for some industries has been closer to 60% of reported net income. The undistributed cash has been put back in the fixed capital of the business. It has not been hoarded or put into readily liquidible assets. The increase in net working capital over the 16-year period was a very small one—only 7% of cash receipts.

Not shown in the table, but of considerable interest, is the fact that of the $1.9 billion of net cash receipts from external sources, $1.7 billon was obtained in the last four years of the period, i.e. 1946-1949, inclusive. Despite the high level of earnings reported in the postwar period relative to the prewar period, the oil business has had to rely more heavily on outside funds in recent years than in the prewar period, when for all practical purposes, it was entirely self-financing.

This is shown quite clearly in a capital flow table of the 30 oil companies for the single year 1949.

You see the amount of cash derived internally was only 81% last year of total funds provided, in contrast with 92% averaged over the past 16 years. External sources provided 19%, in contrast with only 8% for the 16-year span. Dividends accounted for about the same share of cash disbursements as they had over the 16-year period.

From this analysis, two interim conclusions can be drawn:

(1) The oil business is a big business and it has been largely a self-financed business. It has not relied on the security markets to any very significant extent, although there has been some increased reliance in recent years.

The business has been especially reluctant to borrow money, probably in part due to the feeling that it is inappropriate for a high risk business to get very far in debt. A prudent businessman does not borrow money to gamble, and drilling an oil well in unproved territory is a gamble. Debt has never constituted more than 18% of the total stated capital funds of the 30 oil companies during this 16-year period, and has usually been closer to 10% or 12% of total capital employed.

(2) Capital extinguishments and retained net earnings have been the two chief sources of funds to expand the facilities of the industry to meet a steady and large growth of demand. Capital extinguishments over the 16-year period under review have contributed slightly more cash than net income, and nearly twice as much cash as retained net income after the payment of dividends. That throws the spotlight of emphasis on the importance of the depletion concept, together with depreciation, in the operating history of the oil business.

Nature of Fixed Investments

Now let's turn to the nature of fixed investments. It has been said that the oil business is really three interdependent businesses—transportation, refining, and marketing—and all three are in turn dependent on a dice game, namely production. It is called a dice game because it carries a high risk factor. But this uncertain part of the business makes up better than half of the total fixed assets of these 30 oil companies. Dr. Pogue and Mr. Coqueron have reached a similar conclusion in estimating the distribution of the $23.5 billion gross investment of the total domestic industry. Production properties, they believe, account for about 54½% of the gross investment of the industry. Transportation, refining, and marketing each fall in the range of 11½ to 18½% of the industry.

Currently, the outlays for production facilities are running close to 60% of total outlays for fixed assets. Operating experience in the industry confirms the logical expectation that finding and development costs are, and have been, increasing for a number of years, as wells are drilled deeper and more remote areas are explored. This importance of production facilities in the oil business emphasizes still further the significance of the depletion concept.

Mineral deposits differ in three fundamental ways from other types of fixed assets:

(1) They are extinguishable and non-replaceable:

(2) Their in-the-ground value, or even their volume, cannot be determined with a high degree of precision. That is perhaps more true of oil than it is of some of the solid minerals; and

(3) A greater risk is involved in finding and developing them than in the construction or provision of other types of fixed assets.

All three of these characteristics make the usual concept of depreciation, as contrasted with depletion, inadequate to assure the return of the value of mineral property exemption from taxation. In the case of a factory building, or a machine, the cost is known, and it is assumed that its replacement will bear some relationship to the initial cost. The life can be estimated at any given rate of use with a fair degree of precision, and it isn't a particularly difficult task to set a depreciation schedule which will protect the owner against taxation of his capital as it is returned to him in the use of the asset.

Problem of Depletion Allowances

In the case of an oil well, however, the cost of finding is determinable but the cost bears no relationship to its value. The value of an oil well must of necessity be many times the cost of its finding and development, simply to offset the large number of wells that prove unproductive and other expenditures that represent complete losses to the driller. Moreover, it is difficult to determine how much oil a given well may produce in its life. It is a function of bottom hole pressures, of the nature of the sands, of the rate of production, of drainage to other wells, and other variables which an experienced producing engineer could recite *ad infinitum*.

Congress recognized long ago that depletion sometimes requires a basis other than cost in order to result in a proper determination of income. The first example was in the case of property owned by a taxpayer at March 1, 1913, when the income tax law first became effective. In that case the property was treated just as if the taxpayer had bought it on March 1, 1913, at a price representing its fair market value at that date. Thus the law recognized value,

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Davis With Clair Hall

CINCINNATI, Ohio—Stanley O. Davis has become associated with Clair S. Hall & Company, Union Trust Building. He was formerly with Don D. Kuemmerling and H. B. Cohle & Co.

Mutual Funds

By ROBERT R. RICH

Management Reaction To War Uniform

The reactions of Mutual Funds' management to the Korean war and subsequent market break were in the main entirely orthodox. Common stock holdings, which in many cases had been tightened before the break, were strengthened. There was a noticeable shift in holdings to war industry stocks. Neither one of these activities is particularly surprising.

Specialty funds immediately stressed their particular virtues. Aeronautical Securities pointed to their increased holdings in military aircraft companies. Television Fund predicted an acceleration effect of six if total defense developed. Insurance Group Shares stressed its desirability as a tax shelter.

The differences weren't so much in the reactions, as in their extent. Conservative funds adopted a "wait and see" attitude; others immediately acted on the premise of a modified war economy. Specialty funds either were in the picture or they weren't.

Particularly impressive, and noted in this column two or three weeks ago, was the rather calm attitude of management, which in other years might have exploded into a crisis theory of operation. As one fund manager put it, "We've been through this sort of thing before, in one way or another."

Equally significant is the degree to which this nation has become shock proof. After nearly 11 years of living on "nerves," both from domestic and international activities, it seems that events, other than the most dire, have to a certain extent been discounted. This contains investment implications of particular importance to Funds. The degree to which investors have been "shock-proofed" may be one explanation for their refusal to be carried into an hysteria of redemptions immediately after the Korean outbreak.

As Toynbee so aptly put it, we are living in a "time of troubles," and the investment sector of our economy has been realistic in its acceptance of this melancholy state of affairs.

New Inflation Pressures Catch Funds Short

During the recession or "disinflation" of last year, when prices were weakening or actually falling, and when our nation's productive capacity, at most economical unit costs, was at a new peak, with incipient price cuts, the mutual funds were preparing and releasing to dealers elaborate graphs and charts in their promotional material illustrating the depreciation of the dollar and the resultant higher cost of living.

Actually, in an economy of declining prices, a small investor with his money in the savings account at 2% and with a projected decline in his cost of living of about 5%, would have enjoyed in real-goods terms an interest rate of about 7%, in real terms, for each year that this phenomenon of falling prices persisted at a uniform rate. This certainly could compare favorably with mutual funds' performance and would not have entailed a capital risk.

Now, however, when the exigencies of a near-wartime economy make necessary a further budget deficit of at least ten billion dollars, which in a full-employment economy can only find its surfeit in higher prices, the mutual funds have failed completely to inform dealers of this vital change in the investor's outlook. . . . the desirability and necessity of an inflation hedge for capital preservation.

Since the first devaluation of money by Draco in 621 B. C., during the codification of Athenian laws, man has sought an inflation hedge.

And, although there is no inflation hedge which will completely equilibrate itself with rising prices, investments in the capital market have been found to be quite adequate.

Mutual fund sponsors, failing to appreciate or capitalize upon these fairly long-run situations, have placed themselves in other than the school of sophisticated selling.

People don't buy life insurance; they buy protection for the loved ones that are left behind. People don't buy automobiles; they buy trips in the country, picnics, vacations, and if the car happens to be a Stutz Bearcat, they buy a certain social prestige.

And people don't buy mutual funds; they buy greater enjoyment from higher income, freedom from worry and petty details because of diversification, and a hedge against inflation.

With assets currently at over two billion dollars, it would seem an appropriate time for mutual funds, as a maturing industry, to realize these few essential facts and certainly a time to provide dealers with the promotional material necessary to help them capitalize on these current trends.

Pell, de Vegh Reaches New High After Break

Pell, de Vegh Mutual Fund, which began operations on April 5, reached a new high share value on August 7, with net asset value at \$26.58. The previous high was \$26.38 on June 12. The Dow Jones average for the dates was 228.38 on June 12, and 215.82 on August 7.

Institutional Is Tax Shelter

In a special letter to shareholders, illustrating Insurance Group's special qualifications as a tax shelter, Institutional Shares, Ltd., stated:

"The Russian attitude, plus the Korean situation, appears to have finally awakened the Administration in Washington out of its political complacency and, as a result, billions will have to be spent to rearm the Country and our Allies, with attendant increases in the present rate of the normal tax and surtax of corporations and in addition, in all probability, an 'excess profits tax' such as was enforced during the last war from 1940 to 1945, inclusive. Just as during the last war, this increased taxation will undoubtedly have a varying effect on different companies, depending on the ratio which their capital and borrowed funds, or average earnings during preceding years, may bear to their forthcoming earnings. It is therefore pertinent to point out that such increases in taxation during the last war, as discussed below, had comparatively little adverse effect on the earnings of the insurance companies in whose stocks your shares provide ownership.

Insurance Taxes Lower

"During the last ten-year period ended January 1, 1950, total taxes paid by the insurance companies, in whose stocks Insurance Group Shares provides ownership, **averaged annually only some 13% of their earnings. In contrast, taxes paid by large corporations in general averaged considerably over 40% and upward, depending on the extent to which each was subject to the excess profits tax.** During the first six years of this period, namely from 1940 to 1945 inclusive, a normal tax and surtax aggregating 40% was in effect and, in addition, an excess profits tax. For the last four years, a normal tax and surtax aggregating 38% has been in effect, but there has been no excess profits tax.

"Any forthcoming excess profits taxes are likely to follow the pattern of the last war. These provided exemptions from the excess profits tax, at the choice of the company, based either on average earnings during the 1935-39 prewar period or on a percentage of their capital funds and borrowed money. Under these exemptions and the fact that 50% of the huge unearned premium reserves of our fire insurance companies were treated as borrowed money, none of these companies was required to pay any excess profits tax. Furthermore, the normal tax and surtax to which they were subject was far less than in the case of industrial corporations, due to the following continuing factors.

"For tax purposes, fire insurance companies may report their underwriting earnings on a 'statutory' basis, whereby taxation decreases as their premiums written (sales volume) increase, and premium volume is continuing to increase.

"A substantial amount of their investment income comes from their large investments in common and preferred stocks and 85% of such income is exempt from taxation. Thus it appears that, should an excess profits tax be reenacted and/or the normal tax and surtax rates raised as seems probable, the above favorable factors should continue to protect the earnings of our insurance companies, just as they have during the last ten years, not only against an excess profits tax but also against a high normal tax and surtax.

Safe From Controls

"As the commodity of the insurance business is the dollar, there is no ground on which to conceive that our companies would in any way be affected by the regimentation which might be expected under wartime conditions. Further, the character of the insurance business and its personnel makes it pretty much immune to labor disturbances.

Earnings Protected

"Insurance policies issued by every company in whose stocks Insurance Group Shares provides ownership contain a provision which states that the company is not liable for loss or damage caused, directly or indirectly, by insurrection, civil war, invasion, war, riot, military action, etc. Further, it is a foregone conclusion that they will not alter their present policies to furnish war risk insurance, any more than they did during the last war. The opinion of fire insurance officials is that war risk insurance is not the type of coverage that should be provided by private insurance companies. As a result, during the last war the Government, through the War Damage Corporation, furnished insurance of this kind in cooperation with fire insurance companies acting as fiduciary agents in receiving applications and premiums, issuing policies and otherwise expediting the plan. This resulted in the War Damage Corporation operating through nearly 1,500 established policy-issuing offices. The insurance agent or broker who submitted the application received a service fee, as did the insurance company through which the application was submitted.

Earnings at High

"The market value of securities has suffered of late from fear selling despite the fact that, during the worst of the recent decline, not over 1% of outstanding stock changed hands. In other words, 99% of those owning stocks have believed it desirable to retain their holdings. While the public's psychology can affect market prices favorably or adversely during intermediate periods, history shows that over the long term stock prices may be depended upon to again reflect their intrinsic value measured by the growth in equity, earnings and dividends of the companies in which they provide ownership. Thus it is pertinent that during the last three years the earnings, after taxes, of the insurance companies, in which your Shares provide ownership, have as a group risen by over 200% whereas, as yet, the market value of their stocks has risen less than 30% and represents today a discount of over 20% from the net asset or liquidating values underlying their stocks."

Insurance Group's current return is about 5% on shares selling at about $1.

Bond Trust Explains Penta-Split

Bond Investment Trust's units were split five for one in order to create broader interest among the investment public, the semi-annual report to shareholders declared.

Prior to the split, Units of Bond Investment Trust of America were selling for approximately $100, in contrast to a price of approximately $20 after the split.

Noting that greater public interest in stocks is a cause of the Trust's tendency to grow smaller, the report remarked that "Your trustees believe that a small investment company cannot be operated both economically and effectively and it is not expected that as favorable an expense ratio [of 10% of income] can be maintained if the Trust grows smaller. The trustees are also aware that although capable management is a requisite for the accomplishment of investment objectives, it must be adequately compensated."

The report also noted that amendments will be submitted to stockholders within a short time to bring the Declaration of Trust up to date.

New England Fund Protected in Break

New England Fund's 75th consecutive Report to Shareholders for the first six months of 1950 was made public by its four trustees. The latest report reveals that the trustees sold substantial amounts of common stocks in the early part of the June quarter as the stock market climbed to new 20-year highs. As a result, total assets of the Fund were better protected from the impact of the sharp break that followed the Korean news.

Common stock holdings were reduced to 67.5% of total assets from 73.7% on March 31, 1950; cash and bonds (all June 30 bond holdings were U. S. Governments) were increased to 22% of total assets from 17.7%; and preferred stocks were increased to 10% from 8.6%. This was the trustees' first definitive move toward greater conservatism since a similar program, initiated late in 1945, gradually cut common stock holdings back to about 53% as of June 30, 1946 (just prior to the 1946 summer break). Most of the proceeds of those sales were kept in cash and government bonds until late in 1947 when common stocks were again added to the portfolio in sizable quantities.

New England Fund's asset value per share was $16.09 on June 30, up 5% from the $15.33 asset value on Dec. 31, 1949. Realized profits for the first six months of 1950 totaled $102,021, but unrealized profits of $352,940 remained in the Fund.

"Broadcaster" Stresses Sucessful Selling

The July issue of Investors Diversified Services' "Broadcaster" contains an excellent article, "Success in Selling" by M. D. Campbell, the southeastern sales manager. The sub-titles follow a well-worn path, "Think Success," "Look Success," and "Act Success": the writing is fresh and original.

Calvin Bullock Fund Tests Common Stocks

One of the important basic tests for selecting a common stock is the degree to which it may be expected to be an "inflation hedge," according to Calvin Bullock's "Bulletin."

According to a recent survey, "Today's Tests for Common Stock Investment," prepared by the investment management department of Calvin Bullock, over 67% of the total common stock investments of Dividend Shares at May 31 fell in this category, using a carefully defined objective test based on earnings for the past 10 years in relationship to the rise in the cost of living.

The Survey includes 10 basic objective tests for common stock investment, with each defined, and analyzes the 106 individual common stock holdings of Dividend Shares in terms of these tests. In discussing these tests, the Survey notes that before selecting common stocks other major factors must be weighed carefully, many of which are "judgment" factors and do not lend themselves to exact statistical definition.

Quinby Offers $2,000,000

Quinby Plan, Inc., Rochester, New York, filed a registration statement with the Securities and Exchange Commission covering $2,000,000 of Quinby Plans. Underwriter is Quinby & Co., Inc.

Knickerbocker Fund Offers One Million Shares

The Knickerbocker Fund, New York, has filed with the Securities and Exchange Commission a registration statement covering 1,000,000 shares of beneficial interest. Underwriter is Knickerbocker Shares, Inc., N. Y.

Axe-Houghton Fund Offers One Million

Axe-Houghton Fund B, Inc., New York, has filed a registration statement with the Securities and Exchange Commission covering 1,000,000 shares of $5 par value capital stock. Underwriter is Axe Securities Corp., New York.

Dividend Shares Offers Six Million Shares

Dividend Shares, Inc., New York, filed with the Securities and Exchange Commission a registration statement covering 6,000,000 shares 25c par value capital stock. Underwriter is Calvin Bullock, New York.

Corporate Leaders Files

Corporate Leaders of America, Inc., New York, filed with the SEC a registration statement covering $10,000 trust fund certificates, series B periodic payment certificates, and 474,748.53 participations, and $500,000 trust fund certificates, series B single payment certificates, and 25,170.26 participations. Underwriter is Corporate Leaders Sales Co., Inc.

Fundamental Increases

An $8,795,000 increase in assets was reported by Fundamental Investors, Inc. in the mid-year report to shareholders covering the period to June 30, 1950. Total net assets on that date were $64,216,080—up 16% from $55,420,988 at the 1949 year-end. In the same period the number of shareholders increased 19% from 18,126 to 21,619.

Net asset value per share on June 30, 1950 was $15.31 comparing with $14.93 on Dec. 31, 1949 and $12.26 on June 30 a year ago.

Faroll Co. Adds

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, Ill.—Edward D. Davis has been added to the staff of Faroll & Company, 209 South La Salle Street, members of the New York and Midwest Stock Exchanges.

By All Means!

"Another matter, and one that seems to have escaped adequate notice, is the possibility of curtailing non-essential expenditures in government. This is what the citizen is expected to do in his budget when his taxes are increased. He is entitled to wonder why, if he is to forego some of his spending plans, the government administrator cannot do the same. He is entitled to expect a shakeout in non-essentials—and everyone knows they are there—before resort is had to tax increases.

"The President's directive to major government departments and agencies to trim down 'as far as practical' projects 'which do not contribute to defense or civilian requirements essential in the changed international situation,' is good as far as it goes, but it will take a lot of following up. Left to itself, bureaucracy is not likely to find many cuts as 'practical,' while the number and variety of projects that can be found to be in some way or other 'essential' to the war effort is truly astounding. . . .

"It seems reasonable to suppose that, in these five areas (housing, agriculture, new programs recently urged by the President, expanded existing programs, and 'recovery' and 'development' types of foreign aid) alone, cutbacks could release $5 billion for defense requirements. More could be realized if the needs of the situation — and the courage of government officials, administrators, and legislators —demanded it."—The National City Bank of New York.

A very moderate statement of the facts! To which we should like to add the suggestion that waste in military operations themselves be drastically reduced.

LETTERS TO THE EDITOR:

Readers Object to Proposal for Ending $35-an-Ounce Bid For Foreign Gold

George F. Bauer insists proposal would bring about alarming inflation and increase the world's skepticism of us.

Editor, Commercial and Financial Chronicle:

Continued purchases of domestically-owned gold at $35 per ounce and cessation of purchase of internationally owned gold by U.S. Government seem to be main features of plan described recently in the "Commercial and Financial Chronicle" as having been developed by Mr. George Putnam of Boston.

George F. Bauer

Since the presentation of this plan, the Korean war started and the subject of inflation has acquired renewed significance.

For the time being it seems to be less a problem of buying gold at $35 per ounce to maintain the integrity of the dollar than of having our government offer gold from its huge stocks at the rate of an ounce in return for 35 paper dollars.

Unless possessors of paper dollars abroad, individuals and not only central banks, are given the privilege of converting them into gold at $35 per ounce, black market rates for dollars can become increasing occurrences again. Already we have supposedly official rates for dollars held by central banks who are allowed to convert them into gold at $35 per ounce. Such dollars might be construed as "restricted" titles to 1/35 of an ounce each of gold.

On the other hand, individuals abroad not accorded that facility are inclined to give up more than 35 paper dollars; in some instances 46 or more to obtain an ounce of gold. For them the dollar is not a title to 1/35 of an ounce of gold but to 1/46 or less.

Under our refusal to sell gold at $35 per ounce to individuals abroad, we are encouraging a double standard for the dollar with the result that the black market rate may gradually be assumed to be the proper one.

This procedure has two-fold disadvantages during a period of war. As a contestant in a war, we have to contend with skepticism of the outside world toward our country. If we fail to make our paper money convertible into an international substance, such as gold, at a definite ratio, we add to the world's skepticism about us.

At the beginning of a war, there is always an inclination to raise the prices of international products, such as rubber, tin, etc., required in the conduct of war. If payment is offered for them in a currency that in itself represents title to a definite quantity of gold, the surge toward excessive price increases is held somewhat in restraint.

If, on the other hand, payment for international products is effected in a currency which an individual cannot convert into gold, the two-fold effect of great demand and inferior medium of payment can bring about alarming price enhancements.

What is needed today is less insistence on purchase of gold at $35 per ounce but rather on sales of gold at $35 per ounce to assure confidence in the dollar during the present economy of war and during the one of peace which will follow it.

GEORGE F. BAUER,
Vice-Chairman,
International Trade Section,
New York Board of Trade.

New York 7, N. Y.,
August 7, 1950.

Frederick G. Shull, Connecticut State Chairman of Gold Standard League, takes issue with proposal advocated by George Putnam in July 27 issue of "Chronicle."

Editor, Commercial and Financial Chronicle:

In all probability, as unsound a piece of advice as was ever given Franklin D. Roosevelt—which, unfortunately, he followed—was that he devaluate the American dollar, and throw overboard the time-honored privilege of redeemability of our currency, at its face value, in gold. This happened during the first year of Mr. Roosevelt's First Administration. Today, President Truman is similarly being bombarded with advice from people bearing impressive titles, and—if much of that advice should be followed—it could be as detrimental to the welfare of this nation as was the unfortunate advice which President Roosevelt followed in 1933 and 1934. Unless constructive action is taken to offset some of the poor advice that is being volunteered to a very busy President, there is no telling what the outcome might be.

Frederick G. Shull

Getting right down to cases: the "Commercial and Financial Chronicle" of July 27, 1950, carries what would appear to be an authoritative article by the Chairman of the "George Putnam Fund of Boston," under the title "Urges End of $35-an-Ounce Bid for Foreign Gold"; and the article quotes, in full, a letter Mr. Putnam addressed to the President on May 19, 1950. I should like to comment on the following excerpts from that letter:

(1) "I admired very much the stand you took some months ago against raising the price of gold."

(2) "The real purpose of this letter, however, is to suggest that this is an appropriate time to take another step forward on the subject of gold. What seems to me the sensible thing to do is to continue the $35-an-ounce price of gold for all that is produced domestically, but to maintain no bid on gold that is mined outside of the U. S. A."

(3) Affirming that the U. S. has, for a number of years, done this in the case of silver, the letter continues: "Why not apply the same policy to gold? After all, none of the world's major currencies are convertible any longer; therefore, gold is now, nothing but an international commodity and one that has very few uses. It hardly seems to make sense to pay someone a high price in South Africa to dig it up, only to turn around and rebury it in Kentucky."

(4) "Now that gold has become just another commodity, and one that has very few uses, why should the American taxpayer be asked to maintain an artifically high price for it?"

Mr. Putnam's letter to the President contains much fallacious reasoning on the subject of monetary policy — particularly that some "artifically high price" is being maintained by our purchase of foreign gold at our statutory price of $35 an ounce; and I shall undertake to refute his argument by drawing on the authority of our greatest monetary expert of the 20th century—the late Professor Edwin W. Kemmerer, of Princeton University.

In the first place Mr. Putnam, in expressing approval of the Truman policy of not raising the price of gold, and in stating that we should "continue the $35-an-ounce price of gold for all that is produced domestically," gives evidence that he is in favor of our continuing to regard the dollar as carrying a fixed value of $35 an ounce of pure gold. Here is what Professor Kemmerer has to say (in his "Gold and the Gold Standard," pp. 143 and 144) on this subject: "A Fixed Price. When a government adopts a gold standard, it fixes the gold content of the monetary unit. . . ." And his next paragraph reads: "An Unlimited Market. Not only was the price of gold always the same at the mint and assay offices, but these concerns were under obligation to buy all gold presented to them in proper form, no matter whether it was produced within the United States or abroad, or whether it was new gold or gold obtained from the melting down of foreign coins or from jewelry, ornaments or other sources." He states that this is the way we operated from 1879 to 1933, except for a brief period at the time of the First World War.

How out of tune with Professor Kemmerer's views are those now expressed by Mr. Putnam! And how unfair it would be to such a self-supporting country as South Africa to refuse to buy her gold at our statutory price of $35 an ounce! Gold is an important product of South Africa; she would like to exchange that product for dollars with which to purchase goods in the world's markets; and she appears willing to exchange her gold for our dollars at the $35 price—we being about the only place in the world she can apply for this dollar exchange. Is it a good deal for the United States? Of course it is—in fact, it is so much better than we are getting for our dollars in other parts of the world that Mr. Putnam's suggestion would be amusing if it were not for its possible serious effect on the stability of our dollar.

Again, silver and gold — contrary to the apparent view of Mr. Putnam—are not in the same class: Silver is strictly a commodity, as is wheat, steel or oil—and should be treated as such; while gold is not only a commodity for use in the arts—it is also the basis of value for the American dollar. Therefore, we cannot properly "apply the same policy to gold" as we do to silver.

It is to be hoped that neither the President, nor the readers of the "Chronicle," will be unwisely influenced by the proposal Mr. Putnam has presented in his letter to Mr. Truman.

FREDERICK G. SHULL,
Connecticut State Chairman,
Gold Standard League.

Today's International Gold Market

By FRANZ PICK
International Monetary Economist

Authority reports record demand for gold in Far East, Western Europe, North Africa and India. Fall in U. S. activity. Large rises occurred in Asia in July. Attributes increasing demand to general fear of new world inflation.

The international flight to exchange dollars, French francs and Sterling currencies for gold, gained new momentum during July and continued during the first week of August. Demand for the yellow metal reached record figures in the Far East, in Western Europe, North Africa and India. Free trading of gold in all international markets rose in the following proportions:

Franz Pick

	Approximate Sales In U. S. Dollars
December, 1949	$45,000,000
January, 1950	65,000,000
February, 1950	80,000,000
March, 1950	70,000,000
April, 1950	100,000,000
May, 1950	60,000,000
June, 1950	80,000,000
July, 1950	130,000,000

The reason for these transactions, which led to new increases in the free gold price all over the world, was, besides the evident world war scare, a general fear of new world inflation.

In the **United States** however, gold transactions were less active in June. Besides a small increase of demand for "gold dust," which was offered at $41.50 to $42.50 an ounce, hoarding of the yellow metal gained only slightly in New York, Chicago and San Francisco. Double Eagles rose from $41.50 at the end of June to $42.75 on August 4. There were only limited transactions in small gold bars at $39.50 to $40 an ounce. International gold transactions in New York declined in volume during the last five weeks. Transit gold of South and Central American origin was sold at $39.50 f.o.b. New York, against $39 at the end of June. Italian Swiss and Dutch brokers handled these transactions for European buyers. Fear of eventual foreign exchange control, or blocking of foreign assets in the United States, contributed largely to the reduction of Manhattan's international gold business.

Hoarding in Canada

Canada reported a new rise of hoarding activities in Montreal, Toronto and Vancouver. Demand for bars and coins increased. Bar gold rose from $39.00 an ounce to $39.50; coins were traded at $41.55 against $40.50 at the end of June. Smuggling of Canadian gold into the United States increased.

Central and South America reported a decline of private gold purchases in Mexico and Brazil and an increase of Argentine hoarding activities. Large arrivals of gold for deposit were noticed in Montevideo. The Uruguayan capital seems to offer ideal deposit facilities for the yellow metal. Mexico sold about 20,000 ounces of gold to European dealers at $39.75 and $40.00 f.o.b. Mexico City. Caracas sold at $39.75 to French and Swiss brokers; Chile offered the yellow metal for August shipments at $40.00 and $40.50.

Europe's gold transactions again centered in Paris, where a real hoarding panic raised prices for bars from $42.75 at the end of June, to $45.50 at the end of July. On August 4, the market closed at $45.00 an ounce. Daily volume of transactions exceeded 40,000 ounces during the last week of July and the first week of August. French farmers, again panicky, paid as high as $48.00 an ounce for coins. The revaluation of the gold reserves of the Banque de France, which was contemplated for many years, had no effect whatsoever on the free market price of gold in Paris. French dealers considered this revaluation as a simple adjustment of bookkeeping.

Zurich, Brussels, Amsterdam and Milano took advantage of France's gold hunger and rushed part of their "transit stock" to the Paris market, which easily absorbed all offers. Prices rose only moderately in London, Zurich, Berlin, Lisbon and Trieste. Madrid, Vienna and Athens reported slight declines of free market quotations of the yellow metal.

African markets showed increased activity. Transactions in Tangiers were reported to have exceeded $5,000,000 in July, against only $2,000,000 in June. The gold price in Tangiers remained practically unchanged at $39.50. Casablanca, Algiers and Tunis paid $44.00 against last month's $42.50. Cairo, also very active, raised its free gold price from $41.25 to $42.00. South Africa sold "artistic gold" at $39.75—$40.25 to France, India and Hongkong.

Asiatic Rise

Asiatic gold transactions centered in Hongkong, where over $50,000,000 worth of the yellow metal were reported to have changed hands during July. Prices in Hongkong rose from $40.25 at the end of June to $47.00 on July 27, and then declined again to $45.60 on August 4. Macao's gold price rose from $40.50 on June 30 to $48.00 on July 27 and declined to $46.00 during the first week of August. Europe and South Africa supplied most of the gold traded in the Far East. Fresh arrivals of the yellow metal in Hongkong averaged 100,000 ounces a week. The Philippines also sold small shipments to Hongkong dealers at $40.50 to $41 f.o.b. Manila. India is reported to have bought about 100,000 ounces of bars and coins from Beyrouth, Saudi Arabia and from Iran. Pakistan, expecting a new devaluation, reported sharp increases of gold dealings in Karachi. Trading within Communist China continued to be restricted by local authorities. Some increase in free trading of small bars and coins was noticed in Japan, where $40.00 to $41.00 per ounce was paid for the yellow metal.

Dansker Bros. Is Formed in New York

Announcement is made of the formation of Dansker Brothers & Co., Inc., with offices at 511 Fifth Avenue, New York City, to act as underwriters, participating distributors, and dealers in general market issues.

Officers are Jerome Dansker, President, and Norman Dansker, Vice-President.

Public Utility Securities

By OWEN ELY

Utilities That Paid EPT in 1945

Wall Street is hopeful that Congress can be persuaded not to apply new excess profits taxes ("EPT") against the utility industry, substituting a straight increase in the corporate tax rate to 50% or more, or if an EPT must apply, to modify the old law in such a way as to make it more uniformly applicable and more reasonably adjusted than was the old tax. Particularly, Wall Street is fearful that the "growth" companies—those which have benefited in 1948-49 by rapid sectional growth, improvement in hydro conditions, substantial gains in steam generating capacity, etc.—will be harshly penalized. (While the old law made some special provision for "growth" companies, this is considered inadequate for many companies currently.)

As one way of showing the irregular application of the old law, it may be of interest to examine the list of important operating companies (those with recent revenues of over $25 million) to note whether they paid excess profits taxes for the year 1945, the last year when EPT were paid, and about the worst year so far as the industry was concerned. These are listed in two tables as follows:

PAID EPT IN 1945

Boston Edison	Dayton Power & Light
Commonwealth Edison	Florida Power & Light
Consumers Power	Gulf States Utilities
Northern States Power	Houston Light & Power
Ohio Edison	Indianapolis Power & Light
Pacific Gas & Electric	Long Island Lighting
Philadelphia Electric	Louisville Gas & Electric
Public Service Electric & Gas	Northern Indiana Public Serv.
Southern California Edison	†Potomac Electric Power
Wisconsin Electric Power	Public Service of Colorado
Connecticut Light & Power	Public Service of Indiana

†Very small.

NO EPT PAID IN 1945

*Cincinnati Gas & Electric	Central Illinois Public Service
*Cleveland Electric Illuminating	*Illinois Power
‡Consolidated Edison of N. Y.	Kansas City Power & Light
‡Consolidated Gas of Baltimore	*New Orleans Public Service
*Detroit Edison	§Puget Sound Power & Light
‡Pennsylvania Power & Light	Rochester Gas & Electric
Carolina Power & Light	Toledo Edison

*Paid EPT in previous years; in 1945 there were substantial "charges in lieu of taxes." ‡Substantial "charges in lieu of taxes." §Doubtful.

In many cases the big holding companies (which in 1945 had only begun to break up) were able to escape the worst of the tax burden because Treasury Department regulations do not recognize the New Deal accounting rules of other commissions, which have required the holding companies to write off huge amounts on their stockholders' books. Those holding companies set up in the 1920s had generally paid high prices for their properties, which gave them a large capital base, similar to that of most railroads. Holding companies still in existence may still retain part or all of this advantage—in other words, if they wish to use a capital base for EPT, they can probably set up the amounts actually paid for their properties in cash or securities regardless of "cost when first devoted to public service."

It will be noted that some of the companies listed as non-payers of EPT in 1945 had substantial "charges in lieu of taxes." This is also true of many companies which paid both income taxes and EPT. This is another irregularity in the application of the tax. Companies which carried on refunding operations during the war period were usually able to make substantial charge-offs for security values, which otherwise might have been amortized over a period of years, and thus effect large tax savings; other companies, which did not have any occasion to do such financing, were unable to make such tax savings. There were also some provisions for accelerated wartime depreciation of new plant facilities, which applied on an irregular industry basis.

Without going into the merits of these various devices used to mitigate the wartime tax burden, the main point is that they applied to various utilities with great inequality. Companies which were able to make heavy charge-offs of a bookkeeping nature were able to retain substantial amounts of cash which otherwise would have gone into the Federal Treasury. Those companies which could not or did not arrange for such charges had to give up the cash, which otherwise might (in part at least) have been available for dividends, or to build up the properties.

$65,000,000 Penna. Bonds Marketed

A group headed by National City Bank of New York, Bankers Trust Co. and the Chase National Bank offered on Aug. 9 an issue of $65,000,000 Commonwealth of Pennsylvania Series N, 1.45% serial bonds due Aug. 15, 1966-67 inclusive. The bonds, which are part of a total of $500,000,000 authorized to provide payment of compensation to certain veterans of World War II, are priced to yield 1.35% for the 1966 maturities and 1.40% for the 1967 maturities.

Other members of the offering group include:

First National Bank, New York; Bank of America N.T. & S.A.; Harris Trust & Savings Bank, Halsey, Stuart & Co. Inc.; Blyth & Co., Inc.; the Northern Trust Co.; Chemical Bank & Trust Co.; Continental Illinois National Bank & Trust Co. of Chicago; Glore, Forgan & Co.; Phelps, Fenn & Co.; First National Bank of Portland, Oregon; American Trust Co., San Francisco; Salomon Bros. & Hutzler; Stone & Webster Securities Corp.; R. W. Pressprich & Co.; Merrill Lynch, Pierce, Fenner & Beane; Moncure Biddle & Co.;

Mercantile-Commerce Bank & Trust Co.; Braun, Bosworth & Co. Inc.; First of Michigan Corp.; F. S. Moseley & Co.; L. F. Rothschild & Co.; Singer, Deane & Scribner; Geo. B. Gibbons & Co., Inc.; G. H. Walker & Co.; Edw. Lowber Stokes Co.; Butcher & Sherrerd; Dolphin & Co.; Rambo, Close & Kerner Inc.; Janney & Co.; the Illinois Co.; Hannahs, Ballin & Lee; Eldredge & Co., Inc.; G. C. Haas & Co.; R. L. Day & Co.; Darby & Co.; Bartow Leeds Co.; Walter Stokes & Co.; Fauset, Steele & Co.; Chaplin & Co.

With Paine, Webber

(Special to THE FINANCIAL CHRONICLE)

BOSTON, Mass. — Thomas N. Metcalf is now connected with Paine, Webber, Jackson & Curtis, 24 Federal Street, members of the New York and Boston Stock Exchanges and other leading Exchanges.

With R. H. Johnson

(Special to THE FINANCIAL CHRONICLE)

SPRINGFIELD, Mass. — Robert H. Chapdelaine is with R. H. Johnson & Co., New York investment firm.

Merrill Lynch Adds

(Special to THE FINANCIAL CHRONICLE)

DETROIT, Mich. — Thomas C. Orr has been added to the staff of Merrill Lynch, Pierce, Fenner & Beane, 205 West Congress Street.

Joins King Merritt

(Special to THE FINANCIAL CHRONICLE)

CLARKSTON, Mich. — Jack E. Harned has been added to the staff of King Merritt & Co., Inc., of New York.

With Waddell & Reed

(Special to THE FINANCIAL CHRONICLE)

OWOSSO, Mich. — Forrest B. Horton is with Waddell & Reed, Inc., of Kansas City.

Two With Waddell & Reed

(Special to THE FINANCIAL CHRONICLE)

KANSAS CITY, Mo. — William W. Bogue and Harold M. Jayne are with Waddell & Reed, Inc., 1012 Baltimore Avenue.

Saunders, Stiver Add

(Special to THE FINANCIAL CHRONICLE)

CLEVELAND, Ohio—Francis I. Safford has joined the staff of Saunders, Stiver & Co., Terminal Tower Building, members of the Midwest Stock Exchange.

Bank and Insurance Stocks

By H. E. JOHNSON

This Week—Bank Stocks

The prospect of higher taxes has been one of the principal items of concern to investors for the past month. Because of the effect a tax increase will have upon earnings and dividend policies, it is likely to continue to be one of the most influential factors in determining the market value of equity shares.

Until such time as the nature and extent of the final tax bill are known, it is impossible to measure exactly its impact on any particular company. Nevertheless, the market does not wait until full details are available but makes adjustments in the light of probable future developments.

Thus under present conditions one should start thinking in terms of a 43%-45% corporate tax rate this year. Government officials have recently indicated that there would not be a request made for an excess profits tax this year. Present thinking is that such legislation would be asked for in the next session of Congress.

An increase in the corporate tax rate of seven percentage points, from 38% to 45%, would mean that operating earnings of banks would be reduced by approximately 11%. Of course any generalizations on this subject must be qualified because of the tax position of the banks and the differences in accounting practices between the various institutions.

For example, the impact of a tax increase should be lessened by the income the banks receive from municipal securities which enjoy special tax consideration. Also in the bad debt reserves, there are special tax problems. As the building of these reserves is at or near an end, the tax savings from this source would be eliminated. Conversely, operating earnings could benefit as the deductions from earnings for this purpose should be reduced.

In all it would appear that, with earnings so far this year showing moderate improvement over those of 1949, the effect of an increase in taxes will be to reduce operating results slightly or at least keep them from showing the improvement which might otherwise have been the case. In any event the reduction in earnings should be less than the 11%.

For purposes of comparison the indicated earnings of the principal New York City banks for the year 1949 and for the 12 months ended June 30, 1950 are shown in the following table.

	Indicated Earnings 1949	12 Mos. to June 30	Indic. Div.	% of Oper. Earnings Paid in Divs.	Current Price	Yield %
Bank of Manhattan	$1.91	$2.02	$1.30	62	$27⅛	4.79
Bankers Trust	2.61	2.70	2.00	65	47⅛	4.24
Central Hanover	6.52	6.52	4.00	59	97¼	4.11
Chase National	2.63	2.79	1.60	68	38⅛	4.20
Chemical Bank	2.95	2.96	1.80	68	43	4.19
Commercial National	3.20	3.00	2.00	63	52¾	3.79
Corn Exchange	4.79	4.92	3.00	60	60	5.00
Guaranty Trust	17.68	17.68	14.00	80	291	4.81
Irving Trust	1.21	1.24	0.90	35	18¾	4.80
Manufacturers Trust	4.84	5.06	2.40	50	54	4.44
J. P. Morgan	17.44	17.42	10.00	66	242	4.13
National City	3.36	3.64	1.80	52	44⅛	4.08
New York Trust	6.54	6.91	4.00	61	87½	4.57
Public National	4.55	4.32	2.00	44	39½	5.06
U. S. Trust	42.60	41.83	35.00	82	605	5.79

The interesting point in the above figures is that current dividends in most cases account for approximately 60% of the operating earnings reported last year. Some of the banks pay out as little as 50% of their earnings, while in other cases over 75% is distributed. Nevertheless, in no instance does the prospect of the proposed increase in corporate taxes appear to endanger the dividend payment of any of the above institutions.

In fact it is not impossible that once the effect of the higher taxes is determined, there would be a moderate increase in current payments by some banks.

One of the factors that could be especially significant in this connection would be favorable action in the near future on the Maybank Bill. A reduction in the F.D.I.C. assessments as now proposed by this legislation would help to maintain the level of current earnings after taxes and could result in a more liberal attitude toward dividend payments.

Westheimer Adds

(Special to THE FINANCIAL CHRONICLE)

CINCINNATI, Ohio—Louise B. Joyce is now affiliated with Westheimer & Company, 326 Walnut Street, members of the New York and Cincinnati Stock Exchanges.

Hornblower Weeks Add

(Special to THE FINANCIAL CHRONICLE)

CLEVELAND, Ohio—Donald A. Buchanan is with Hornblower & Weeks, Union Commerce Building. He was formerly with Cunningham & Co.

COMING EVENTS

In Investment Field

Sept. 8, 1950 (New York City)

Security Traders Association of New York annual outing at the New York Athletic Club, Travers Island.

Sept. 8-9, 1950 (Portland, Ore.)

Pacific Northwest Group of the Investment Bankers Association annual meeting at Gearhart Hotel, Gearhart-by-the-Sea, Ore.

Sept. 15, 1950 (Philadelphia, Pa.)

Bond Club of Philadelphia Field Day at the Manufacturers Country Club.

Sept. 26-30, 1950 (Virginia Beach Va.)

National Security Traders Association Annual Convention at the Cavalier Hotel.

Oct. 12, 1950 (Dallas, Tex.)

Dallas Bond Club Annual Fall Meeting.

Nov. 26-Dec. 1, 1950 (Hollywood, Fla.)

Investment Bankers Association annual convention at the Hollywood Beach Hotel.

Dec. 8, 1950 (New York City)

New York Security Dealers Association Silver Anniversary Dinner at the Waldorf Astoria Hotel (Starlight Roof).

With R. S. Dickson & Co.

LUMBERTON, N. C.—John B. Stedman has become connected with R. S. Dickson & Co., Inc.

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NSTA Notes

land organization is the only affiliate which has passed their quota with a large margin. Congratulations. This demonstration brings added revenue for the second year to this active group.

Many thanks to those who have forwarded their suggestions to President Frank Burkholder. I will be glad to advise you about the results later.

Jack Egan, First California Company, called in yesterday, and it appears certain that ads from some of the large industries on the Coast will be signed up; in fact, companies whose securities our membership distributes and trades. Thanks, Jack. See you at Virginia Beach next month.

Are you taking your vacation at Virginia Beach with your fellow traders? Bring your family and meet some of the finest folks from all over the country.

HAROLD B. SMITH, Chairman,
NSTA Advertising Committee,
Pershing & Company,
120 Broadway, New York City

TAKE YOUR CUE FROM HERB BLIZZARD!

Herbert H. Blizzard, Herbert H. Blizzard & Co., Philadelphia, is known for his 8-ball trade mark ("Because it is inactive doesn't mean it is behind the . . . 8-ball"). He certainly is proving it by keeping that old ball rolling, sending in ads for the TRADERS Convention number.

NSTA CONVENTION CALCUTTA GOLF TOURNEY

The National Security Traders Association will hold its second annual men's Calcutta Golf Tournament during its Convention at Virginia Beach. The tournament will be played in foursomes composed of teams of two, at full handicap; the combined gross score of the team less their full handicap.

Entries will close on Wednesday, Sept. 27, with the play scheduled to begin at 10:30 a.m. on Friday Sept. 29. Prizes will be awarded to the winning teams at dinner on Saturday, Sept. 30.

Entry blanks, etc. may be obtained from any member of the Calcutta Golf Tournament Committee: Stanley L. Roggenburg, Roggenburg & Co., New York, Chairman; Herbert H. Blizzard, Herbert H. Blizzard & Co., Philadelphia; Wm. F. May, May & Gannon, Inc., Boston; Fred J. Casey, Doyle, O'Connor & Co., Chicago; Jay L. Quigley, Quigley & Co., Inc., Cleveland; John B. Cornell, Jr., Dallas Rupe & Son, Dallas; Paul I. Moreland, Moreland & Co., Detroit; Robert D. Diehl, Paine, Webber, Jackson & Curtis, Los Angeles; and Jack C. Morris, Courts & Co., Atlanta, Georgia.

SECURITY TRADERS ASSOCIATION OF NEW YORK

The Security Traders Association of New York, Inc., announces its annual summer outing and dinner Sept. 8, 1950 at the New York Athletic Club, Travers Island, N. Y. Cost is $8 per person, including gratuities. Golf, softball and horseshoes with free beer and prizes will be features of the day.

Members of the arrangements committee are: Charles O'Brien Murphy, III, Chairman, Merrill Lynch, Pierce, Fenner & Beane; Richard M. Barnes, A. M. Kidder & Co.; C. Merritt Coleman, Allen & Co.; Samuel F. Colwell, W. E. Hutton & Co.; Donald A. Daly, Walston, Hoffman & Goodwin; Samuel Gronick, Garfield & Co.; Sydney Holzman, J. F. Reilly & Co.; Joseph M. Kelly, J. Arthur Warner & Co.; Nathan A. Krumholz, Siegel & Co.; Daniel Gordon Mullin, Tucker, Anthony & Co.; William D. O'Connor, Fitzgerald & Co.; Frank J. Orlando, Goodbody & Co.; Walter E. Sullivan, Ira Haupt & Co.; James V. Torpie, Torpie & Saltzman; David Wittman, Stanley Heller & Co.

Reservations may be made by calling: Charles O'Brien Murphy, Merrill Lynch, Pierce, Fenner & Beane, (WH 4-1212); James Torpie, Torpie & Saltzman (WH 4-6784); Daniel Mullins. Tucker Anthony & Co. (RE 2-8300).

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Generation and Use of Capital in Oil Industry

distinguished from historical cost, as the proper basis of measuring deductions for recovery of capital in that situation.

A few years later the same principle was again applied by Congress. World War I suddenly called for vast supplies of oil, and both government and industry were doing their utmost to stimulate efforts toward discovery and development. The most effective stimulus was to provide, in the Revenue Act of 1918, for depletion based on discovery value. Under this provision the taxpayer who discovered oil was permitted to compute depletion based on the value of the oil in the ground, just as if he had bought the property within the first few weeks following discovery, paying what it was then worth. The logic of this measure was readily understood. It applied the valuation principle to those mineral deposits which could not be valued at March 1, 1913, because they had not yet been found.

But this method of computing depletion allowances resulted in innumerable controversies over the proper evaluation, and the costs and delays of administration were so great that there was wide dissatisfaction. The percentage depletion allowance was devised in 1926 to overcome the difficulties of administrating the discovery value depletion, which had complicated tax administration for some seven or eight years. I am told that statistics compiled by both industry and government indicated that the depletion allowance had ranged from 25% to 40% of the gross income from production. After many hearings and much discussion, the House and Senate passed bills providing respectively for 25% and 30% of gross sales as depletion allowance. In the joint conference to reconcile the legislation, the percentage was fixed at the compromise figure of 27½%. You can see that the figure selected was in the lower ranges of the percentages that had been allowed under the previous discovery value depletion arrangement. An earlier provision that the depletion allowance could not exceed 50% of net operating income from the property was retained.

All of these attempts to devise a fair and reasonable basis for depletion have sought to achieve two purposes: (1) to insure the tax free return of capital itself, a basic tenet of our national tax structure; and (2) to encourage the search for new petroleum reserves. It is recognized that an oil producer must constantly replace his below-ground inventories if he is to remain in business. It is a cost of his staying in business. If he is to maintain himself as an important factor in the business, he must not only replace his reserves, but he must expand them, because the oil business is a growing business and it is expected to continue to grow in the years to come.

Objections have been raised to the percentage depletion allowance from time to time by the Treasury Department, and more recently, the President himself requested the Congress to modify the provision. Subsequently, Secretary Snyder of the Treasury Department recommended that the rate be reduced from 27½% to 15% of the gross sales price of crude. It has been represented that depletion based on a percentage of gross sales permits continued tax exemption on a part of the income of specific properties, even though the original cost may have been fully repaid many times over. That does not appear to be a very valid objection, however, in view of the fact that the cost of a number of producing properties is not the cost of the producing wells only, but of those wells plus all the other wells that prove to be dry holes. Moreover, the continuing increase in the cost of finding and developing oil means that replacement costs greatly exceed original costs. The market price of developed oil reserves in the ground has advanced steadily.

It is further recommended by the Treasury that the provision of the law that permits taking the 27½% depletion allowance against gross income, should be changed so that the percentage depletion would be figured against income after the deduction of intangible development costs. Intangible development costs are in general all the costs of drilling a well other than those incurred in the acquisition of equipment — costs that have no salvage value. These are deductible from gross income in the calculation of net income, and the Treasury has said that they should be treated as a reduction in gross income on which the depletion allowance is computed.

When the accounts of a single producing well are examined, it often appears that these two provisions, the percentage depletion allowance against gross sales and the "expensing" of intangible development costs, add up to a mighty good thing. It has looked especially inviting as a refuge to some optimistic individuals with large personal incomes, as their personal income tax rates have mounted and the rate of progression has increased. A few have made spectacular fortunes. There have been many more who have found that dry hole expenses are not recovered in successful producing ventures. Even though intangible development costs are allowed as deductions for tax purposes, they are very difficult to convert into income.

Finding of Oil Risky Business

The business of finding oil is an uncertain and hazardous venture. Despite the great advances that have occurred in geological science, only one out of six wildcats strikes oil. Only 20% of the discoveries have accounted for about 60% of the present proved reserves. In other words, the chances of making a really significant find appear to be about one in thirty.

But the basic question of whether the depletion allowances are too high cannot be determined by looking at single wells or even single owners. It would have to be determined from an analysis of the overall accounts of the oil business. Unfortunately, these are not available for the entire industry, and it should be recognized that the work of Dr. Pogue and Mr. Coqueron, valuable though it is, deals with 30 integrated oil companies, whose assets are only about 55% invested in the producing end of the business.

If we had similar records for the producing departments of the 30 oil companies, or for companies whose assets were exclusively in the producing end of the business, we might come out with somewhat modified conclusions. But the data that are available to us, the financial survey of the 30 oil companies, disclose nothing to suggest that the depletion allowances are too high.

There has been no extraordinarily generous distribution of earnings in the form of dividends. Indeed the percentage of earnings distributed by these oil companies has been substantially less than those distributed by most other industries.

If the cash accruing from the combined depletion and depreciation allowances, that is, capital extinguishments, plus net earnings, had not been for the most part needed for the development of new oil properties, it would show up as a substantial increase in working capital, since it has not been paid out in generous dividends. There would be no other place for it to go. But we have seen that working capital over the past 16 years of two-thirds of the oil business has increased only about $1.7 billion — only 7% of cash accruals.

We have seen that in the postwar years, the industry has had to rely more heavily on outside sources of funds than in the prewar period — and that has been true despite the fact that reported earnings have been the highest in the industry's history, and dividends, as a percentage of earnings, have been relatively lower. No, there does not seem to be any evidence that this two-thirds of the oil business is being favored by special tax consideration.

The point might be made that the case is still not fully proved—that all we can say from the data presented here is that the combination of depletion **plus** depreciation allowances, **plus** net earnings, have not provided an excess of funds for these 30 oil companies making up about two-thirds of the industry. I think the point is valid in part, but all that it says in fact is that if the depletion allowances were too high, then the depreciation allowances or net earnings, or both, would be too low, and an adjustment downward of one without increasing the others could not fail to result in an inadequate level of capital formation in the oil business. An alternative to what has occurred would have been a higher realization obtained through higher prices of crude. But that would not have been particularly palatable to a public that makes oil prices one of its occasional preoccupations.

It should be recognized, moreover, that a decrease in the percentage depletion would serve to increase the inducement to sell oil properties. Since oil properties are expensive, large companies would be the most available buyers. The properties would then be depleted by the purchasing company on a cost depletion basis in all probability, and the smaller independent producers would pay their taxes on capital gains rather than an income tax in high brackets. The end result would be a tendency to concentrate the producing end of the oil business in larger companies, and I for one, believe it would be undesirable to lose the full vigor of the independent wildcatter and producer as a vital factor in the finding effort of the domestic oil business.

The final test of whether the depletion allowances are too great, just right, or not enough, is in the amount of oil that is found and developed. There is today approximately a million barrels per day of shut-in crude producibility. That is about the same amount of crude that was shut-in prior to World War II. It proved to be a very fortunate national asset at that time. It could prove to be a fortunate asset at any time. There are those who have expressed the view that even larger unused production capacity of crude from domestic wells would not be undesirable from the standpoint of the national interest and security.

The finding of oil is a matter of great importance to the nation, and I am inclined to feel, after weighing all of the considerations involved, and the financial history of the industry, that there is no compelling reason to believe that the depletion allowance, as it is now established, constitutes an undesirable tax consideration from the public's point of view. Certainly when the present percentage depletion is viewed as an integrated part of the overall financial results of the 30 major companies that constitute the major part of the domestic industry, there is no evidence of unreasonable benefits accruing to the millions of individuals that are the stockholders who own these properties.

The public wants oil, and is willing to pay a reasonable price to assure its availability, including the necessary cost of finding and developing the oil. The figures we have examined here show that if the oil business is not to be slowly liquidated, that cost must be borne either by the level of crude prices or by the depletion allowance. It must be borne by one or the other, and of the two, the depletion allowance has proved its effectiveness in getting the required work done.

Illustrations of Present and Proposed Methods of Computing Depletion Allowances

Present		
Gross Income	$100,000	(27½%—$27,500)
Development Costs	40,000	
	60,000	
Operating Costs	30,000	
Net Operating Profit	30,000	(50% —$15,000)
Depletion Allowed	15,000	
Taxable Profit	$15,000	
Proposed		
Gross Income	$100,000	
Development Costs	40,000	
	60,000	(15% — $9,000)
Operating Costs	30,000	
Net Operating Profit	30,000	(50% —$15,000)
Depletion Allowed	9,000	
Taxable Profit	$21,000	

Changes in Staff of New York Curb Exch.

A number of changes in administrative assignments and designations on the staff of the New York Curb Exchange have been announced by Francis Adams Truslow, President of the Exchange.

H. Vernon Lee, Jr. has been named director of the department of admissions and outside supervision in the division of transactions. Mr. Lee has been public relations director of the exchange and will continue in that capacity also. Associated with the Albert Frank-Guenther Law advertising agency for 10 years prior to the war, Mr. Lee joined the Curb staff on leaving the service in 1946.

Arthur A. Bellone has been designated director of the department of floor transactions and will have charge of floor transactions matters administered through the office of the transactions division. Floor transactions matters administered on the trading floor of the exchange will be in the charge of Edwin J. O'Meara, who has been designated director of floor supervision. Mr. Bellone has been with the Curb Exchange since 1922, while Mr. O'Meara has been active in floor supervisory work with the Curb since it moved indoors in 1921.

In the division of administration Joseph R. Mayer, Assistant Treasurer of the Exchange since 1939, has been named director of the Department of Finance. He has been on the Exchange staff since 1924.

Bernard H. Maas, Assistant to the Vice-President in charge of the Curb division of securities, has been appointed director of the division, Mr. Truslow announced. Mr. Maas has been with the exchange in the securities division since 1929.

Stockholders of Draper Corporation having approved a proposed three-for-one split-up of the corporation's no par capital stock to be effected by the distribution of two additional shares of that stock for each share held of record at the close of business on July 28, 1950, at Boston, the New York Curb Exchange announced Aug. 3 that this issue would be quoted ex distribution at the market opening on Friday, Aug. 4, 1950.

Charles M. Ward

Charles Montague Ward, former member of the New York Stock Exchange, died at his home at the age of 92.

Our Reporter on Governments

By JOHN T. CHIPPENDALE, JR.

Limited price movements in a market which has lost some of its volume and activity, indicates buyers are not going to do too much until the impending financing terms are made available by the Treasury. The Central Banks continue to liquidate the long terms in order to keep quotations within the very narrow trading range. Sales of bonds by Federal in the last four weeks amounted to almost $700,000,000, which in itself is equivalent to a good sized new issue. This was done to keep prices from advancing. Liquidation at this rate, cannot go on too long, because the bottom of the barrel is well within sight.

Despite the vacation period, long governments are moving out of the market in sizable amounts, led by the longest ineligibles. Pension funds and trust accounts, according to reports, are the principal buyers of these securities. Commercial banks are operating all over the list, with quite a few moving from the shorts into the higher income obligations. The middle term maturities have also been getting attention.

Switching Is Principal Market Feature

Considerable switching is being done in the government market, especially among the longer maturities of the taps and the eligibles. Non-bank investors have been quite active in this operation. There have been a number of swops in fair sized amounts from the eligible 2¼s and the 2½s of 1956/58 into the Victory bonds. Also there have been instances where the funds have gone into the 2¼s of 1959/62, the 1962/67s and the 1963/68s. It seems as though this is one of those periods which comes along every now and then when there is a desire to complete switches that had been worked out, but which were held in abeyance, pending developments in the money markets. Preparation for vacations may have had something to do with these transactions being put through at this particular time.

Good Demand for 2½s of 1967/72

The 2½s of September, 1967/72, came into the market in modest amounts recently, partly as switches and partly as the result of liquidation by non-bank owners. The funds from the outright sale of the longest bank issue went principally into non-government commitments. There was no trouble in disposing of the September 2½s because there is good demand around for this bond particularly when it appears in amounts large enough to be attractive to block buyers. While there has been some price shading in this issue, it has been mostly a quotation decline. Certain buyers in not a few cases have paid above prevailing levels in order to get at one time all the bonds that were wanted.

The partially exempts continue to attract attention despite the high prices at which they are being qouted. The strong demand in the municipal market has not had an adverse effect upon the tax-protected Treasuries. Non-bank owners of the partials have in some instances even seen fit to be parted from the few remaining ones they still owned. This has brought in not too sizable, yet fairly respectable amounts of the 2¾s due 1960/65, and the 2⅞s of 1955/60. The longer maturity was snapped up immediately with the 2⅞s also finding a home, but with somewhat more effort. Buying of the partials has been mainly among the big money center banks, while those outside of the New York area evidently have the better of the competition.

Short Maturities Have Following

The short- and intermediate-term issues have been coming and going, with the Central Banks getting quite a few of the near term ones, mainly because money is on the tight side. Nevertheless, there has been and still is an important interest in the 1954 maturity with a number of out-of-town banks being attracted to this issue. The just under 100 price appears to have intrigued many of these institutions. The 1½s of 1955, seems to be a debatable issue, with some being inclined to liquidate it now while others are putting rather sizable amounts into it. The 2s of 1952/54, are not without followers, and reports are that substantial amounts of these securities were taken out of the market recently. Some of the liquidation in the shorts has come from non-bank owners, in order to get funds that have been used to pay for non-government commitments. These have been mainly private placements. The corporate bond picture has been and will be slow for a while which means practically no competition from this source.

Market Memos

Individual investors have shifted fairly sizable amounts into the government market. These funds were largely in the equity market, but because of the uncertain state of affairs, are not being put back in stocks. While some near-term issues are being bought, the bulk of this money is being put into either the 1952 eligible taps or the Vics.

Some of the inventory which traders have had in the 1959/62s and the Vics has been cut down slightly. However, most of it has been retained because the feeling is that these issues will continue to be stable.

The September refunding is again coming in for considerable discussion because there will be an announcement about it in the near future. Certificates and an intermediate-term issue is what many informed observers are looking for. It must not however, be forgotten the Treasury nearly always comes up with a surprise. What will it be this time?

Now Sole Proprietor

NEW ORLEANS, La.—Claude J. Derbes is now sole proprietor of Couturier & Derbes, Whitney Bank Building, Mr. J. L. Couturier having passed away.

A. J. Bock Opens

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, Calif.—Albert J. Bock is engaging in a securities business from offices at 345 Franklin Street.

Conserving Management

By ROGER W. BABSON

Asserting struggle today for personal, economic, social and political survival is leading many to overexertion, Mr. Babson urges taking time out periodcally "to restore body tonus." Say too few business leaders have concerned themselves with prevention of psycho-physical breakdown and increasing their own physical stamina.

"Poor Tom, he was such a nice guy. I was shocked to hear of his untimely death. He was still in his early fifties. . . ." Conversations like this are heard too frequently today. I'm very much concerned about the way we are wasting our needed brain power.

Roger W. Babson

The struggle today for personal, economic, social and political survival is taxing many men to overexertion. The business tempo becomes faster and faster whether you are on the production line, in the office, or part of management. Today's social responsibilities find men burning the candle at both ends. Hot and cold wars help keep men nervous and jittery. The result: a civilization "on the go" of impatient, tense persons, characterized by hypertensions, ulcers, insomnia, a high divorce rate, delinquency and crime.

Have you, too, become touchy and sensitive about little things? Have family quarrels grown out of proportion to the incident? Do business associates make you irritable? Are headaches bothering you? Chances are, then, you, too, have forgotten how to relax. My long years of active life have taught me that, if you are to survive, you will have to learn how to conserve and utilize economically your own physical and mental resources. You owe it not only to yourself and your family, but to your country. A healthy, vigorous, emotionally well-balanced stock is especially essential to the democratic state if it is not to be submerged and overrun.

Hard Work vs. Overwork

Hard work never hurt anyone. There is, however, a very real difference between hard work and overwork. Hard work produces a pleasant, healthy good-and-tired feeling easily dispelled by food and sleep. Overwork drives a tired body and mind on and on without rest and without thought of the consequences of overfatigue. Many overworked people can't seem to slow down. Instead they immerse themselves in more work or seek escape through overstimulating commercial amusements, or liquor. No matter what a man's goal may be—money, professional advancement, social prestige, or what have you — he must take time out periodically to restore body tonus.

Too many American businessmen are tense, headachy and hurried, believing that if they are to attain their goals, they cannot take time out for quiet diversion. These individuals will not live long! They are "selling themselves for a mess of pottage." What most of these overworked people don't realize is that they could easily accomplish 50% better results if they would learn how to relax through regular periods of constructive body-mind-soul refreshment.

Maintaining Maximum Output

Too few business leaders have concerned themselves with their own problems of prevention of psycho-physical breakdown and increasing their own physical stamina, particularly those over 40. It is not my purpose to prescribe a course of action for such individuals. I shall be satisfied if I have made them aware of their own needs. They owe it to the concern for which they work.

Experience has taught me that in order to maintain maximum output, the average man must find a job he enjoys doing, maintain good health, learn how to play, achieve satisfaction in love, and keep spiritually refreshed. To live a useful, well-balanced life today requires vigor. Vigor comes primarily from physical, mental and spiritual energy. Such energy can be built up only by alternating periods of powerful output with proper periods of relaxation and meditation, preparation for ever greater achievement.

Take Quiet Vacations

This is vacation time. Take a vacation by all means. Take with you a book or two on relaxation, meditation and prayer. It is an excellent time to set up a conservation program for your own resources! Don't dash around in an automobile. Go to some quiet place and sleep!

F. A. Wood, Knuth With W. C. Langley

W. C. Langley & Co., 115 Broadway, New York City, members of the New York Stock Exchange, have appointed Frank A. Wood manager of the firm's bond department. John H. Knuth has become associated with the firm, specializing in municipal securities. Mr. Wood was formerly president and Mr. Knuth vice-president of Burr & Company, Inc.

To Open Washington Branch Under Schultz

WASHINGTON, D. C.—J. H. Drass & Co., Inc. on August 15 will open a branch office at 1406 G Street, Northwest under the management of Edward F. Schultz.

Mr. Schultz was formerly with Robinson, Rohrbaugh & Lukens.

Willard Boothby Is Janney Co. Officer

PHILADELPHIA, Pa.—Willard S. Boothby has been elected executive vice-president and a director of the Philadelphia investment banking firm of Janney & Co., 1529 Walnut Street.

Mr. Boothby was formerly vice-president of Blair, Rollins & Co., Inc. and E. H. Rollins & Sons, Incorporated.

Norbert Smith Joins T. L. Watson Co. Staff

T. L. Watson & Co., 40 Wall Street, New York City, members of the New York Stock Exchange, have announced that Norbert W. Smith, formerly of Norbert W. Smith & Co. has become associated with their firm as a registered representative.

Sec. Snyder Gives Views on Tax Legislation

Tells Senate Finance Committee major proposals of President to retain excise taxes and to increase corporation and individual income taxes should be enacted immediately. Estimates resulting increased revenue at $5 billion.

Treasury Secretary John W. Snyder appeared on Aug. 2 before the Senate Finance Committee in support of the Administration's tax proposals.

John W. Snyder

In his prepared statement to the Committee, the Secretary stated:

"With respect to the President's program, I should like to make it clear that the revenue measures which are urged for immediate enactment represent the minimum requirements of financial preparedness at this time. As you know, the finances of the government were not balanced at the beginning of the Korean crisis. Our deficit for the fiscal year 1950 amounted to over $3 billion and a deficit of approximately $5 billion was in prospect for the fiscal year 1951. In times like the present it is not only desirable, it is vital to the entire defense effort that the finances of the government be placed in the strongest possible position for meeting the demands which will be made on them for defense against unscrupulous destroyers of peace. This program is an essential first step—though it is a first step only—toward utilizing our revenue system to strengthen the economic defenses of the nation.

"Besides improving the fiscal position of the government, the increase in our revenues at this time will serve another important purpose. As the President has pointed out, it will aid in restraining inflationary forces generated by increased defense expenditures. Every person in the nation is aware of the primary importance of these objectives. Now is the time to take action toward maintaining an environment which will discourage, rather than encourage, the growth of inflationary pressures. Larger tax payments from current incomes — both business and personal — are an essential feature of an effective anti-inflationary program. I share the confidence of the President that every citizen stands ready to make this necessary contribution to our national security.

"As I emphasized in my appearance before your Committee on July 5, both corporations and individuals are in an exceptionally favorable financial position at the present time. Personal incomes this year, excluding the insurance dividends to veterans, have already risen to a level close to the peak reached in the last part of 1948. Corporate profits are also running near the 1948 record totals. Industrial production in June surpassed the previous peacetime high of November, 1948 and civilian employment passed 61 million in June, a record high for the month. The whole economy, in fact, appears to be surging forward at an accelerated pace and the need for increased output for military purposes will intensify this trend.

"Under these circumstances and in view of the increasing evidence during recent weeks that inflationary pressures are already having a strong impact on the price structure, we cannot fail to make an earnest effort to pay for a larger proportion of current governmental expenditures out of current incomes. In order to do this it is essential that legislation increasing taxes be passed promptly. A major tax program would consume a substantial period of time and could not result in an immediate increase in tax payments. Present inflationary developments could not be curbed by the enactment of taxes after the crucial transition period has passed, regardless of how high they might later be raised.

"The development of a tax program fully adequate to meet the demands of a continued mobilization effort will require consideration of many basic problems. Our present effort should preserve freedom of action with respect to these problems. The Congress will later wish to re-examine our wartime experience with a view to devising the most appropriate methods for dealing with the complex problems of excessive profits, measures to stimulate defense production, and the interrelationships between taxation and direct economic controls. These problems raise some of the most difficult issues in the field of taxation. It will be necessary to have a fuller understanding of the future course of our mobilization plans in order to resolve them in a manner which will make the maximum contribution to the effectiveness of economic programs.

"The interim tax measure recommended by the President and developed in cooperation with the Congressional leadership is based upon a careful evaluation of all of these elements in the present situation. The President has recommended that H. R. 8920 serve as a basis for the desired legislation, with the following adjustments:

"**First**, that the excise tax reductions and other revenue-losing sections in the bill now pending before your Committee be eliminated, but that the provisions for closing loopholes, for instituting a withholding tax on dividends, and for adjusting the taxation of life insurance companies be retained.

"**Second**, that the corporation income tax rates in the pending bill be raised by an additional four percentage points, effective for 1950 incomes, and

"**Third**, that the pending bill be amended to include increases in individual income taxes by removing one-quarter of the reductions from 'tentative' tax for 1950 incomes, and by eliminating such reductions entirely beginning in 1951.

"As the President has stated, these measures together would raise approximately $5 billion of revenue on a full-year basis. It is fortunate that when the need for additional revenue became apparent your Committee and the Committee on Ways and Means of the House of Representatives had already laid the groundwork for the program now recommended by the President. The careful consideration which the pending tax bill has already received has prepared the way for the measures which must now be taken to adjust our revenue system to the new requirements of national defense. The changes in the pending bill to incorporate these revisions could be made with a minimum of drafting problems for the Committee to consider.

"The details of the three major proposals of the President with respect to revenue measures which are recommended for immediate enactment follow.

1. The elimination of revenue-losing provisions and closing of loopholes

"The need for revenue at this time requires the retention of all present revenue sources. This means that the excise taxes now in existence should be continued. In urging the Committee to eliminate the excise reductions provided in the bill, I should not like to leave the impression that these taxes in their present form are a desirable and necessary permanent feature of our revenue system. When the Congress undertakes a comprehensive tax program to meet increased defense needs, consideration can be given to the proper composition of excise taxes.

"For the purpose of immediate legislation, however, two extensions of existing excises should be considered in the interest of competitive equality. One is the extension of the present tax on household refrigerators to deep-freeze units, a provision already incorporated in the pending bill. The second is the extension of the 10% radio tax to television sets, as I previously recommended. Television now is a strong competitor with alternative forms of entertainment, such as the radio, motion pictures, and professional sporting events, all of which are subject to Federal excise tax.

"In my statement to your Committee on July 5, I called attention to certain other revenue-losing provisions of the bill which are highly objectionable on equity grounds. Present circumstances strengthen the case for removing these provisions from the bill.

"As the President pointed out, the loophole-closing, dividend withholding, and life insurance provisions of the bill should be retained. The retention of the loophole-closing provisions of the bill is particularly desirable in view of the higher tax rates which are certain to increase the exploitation of tax loopholes. We should not encourage the opportunities for tax avoidance that have been brought to the attention of your Committee. Necessary technical changes in these provisions to meet the problems that have been raised will be presented by the Treasury staff.

"The provisions of the bill for the taxation of the life insurance industry become increasingly more important as other segments of the economy are required to pay higher taxes.

"Withholding on dividends will be particularly helpful since it will assure more effective tax compliance at a time when the rising level of taxation necessitates more intensive enforcement efforts.

"The significance of these measures extends beyond their immediate revenue effect. If imperfections are permitted to survive in our tax laws, increasingly larger amounts of revenue will be lost. Inequities under present circumstances would tend to reduce taxpayer morale.

"The full-year revenue effect of the loophole provisions of the pending bill, and the excise adjustments, is estimated at more than $500 million.

2. Corporation Income Tax

"The second element in the President's interim revenue program is an increase in the corporation income tax of 4 percentage points above the rates contained in the pending tax bill. The corporate normal tax included in the House bill would be increased from 21% to 25% which, with the 20% surtax provided in the bill, would result in a combined top rate of 45 percent. It is proposed that these increased rates apply to the 1950 incomes of corporations as the present bill provides.

"The recommended increase in corporation tax rates would add, on an annual basis at calendar year 1950 income levels, about $1 billion of revenue to the amount provided under the pending bill, representing a total increase in corporate tax yield over present law of $1.5 billion.

"The tax increases as compared with present law would vary at different income levels as a result of the desirable substantive changes made in the corporate rate structure by the House bill. The bill eliminates the 'notch' provision which, as the Committee knows, has existed since 1938 for the purpose of making the transition from the reduced rates provided for small corporations to the flat rate applicable to the total income of all other corporations. The 53% 'notch' rate in the present law has long been recognized to be an obstacle in the path of small, growing corporations. If this method of transition were left unchanged, the corporate rate increase in the bill with the additional increase recommended by the President would require raising the 'notch' rate to a highly inequitable level. The elimination of the 'notch' under the bill provides in effect a flat corporate income tax rate with a $25,000 exemption from surtax, which continues to accord incentive tax treatment to small corporations.

"The combined effect of the higher rates and the elimination of the 'notch' is a relatively small increase in tax for small corporations, incidental reductions for corporations in and immediately above the 'notch' area, and a general increase of seven percentage points for larger corporations. As shown in the Treasury chart, the effective rates of corporation income tax liabilities under the President's recommendation would be four percentage points higher at all levels than under the pending bill.

"The major increases would be paid by 41,000 large corporations. These corporations, account for 88% of taxable corporate net income, although they represent 11% of all taxable corporations. Those with net incomes above $71,400 would pay, on the average, 16% more tax than under present law. Smaller increases would be paid by the 296,000 corporations with incomes under $31,250. The maximum increase for this group of smaller corporations would be $500, payable by corporations with net incomes between $20,000 and $25,000. The increase for a corporation with $5,000 net income would be $200.

"Because of elimination of the 'notch,' about 33,000 corporations with incomes between $31,250 and $71,400 would have a net reduction in tax. The maximum reduction would amount to $1,500 and would occur at the top of the present 'notch' area on net incomes of $50,000.

"It will be recalled that the President recommended in January, 1950, an increase in the corporate rate to 42%. The Ways and Means Committee began hearings on Feb. 3, 1950, and the pending bill, as passed by the House of Representatives, adopted a corporate rate of 41%. Therefore, businessmen have had reason to anticipate an increase in the tax on corporate profits effective as of Jan. 1, 1950.

"When the House bill was passed, corporate profits were estimated at an annual rate of $31 billion and the indications were that the full-year rate would be somewhat higher. Profits at this level would have permitted corporations, after the increase taxes under the House bill, to pay record dividends and to retain larger profits than last year. Moreover, current prospects for corporate profits in 1950 are steadily improving.

"In connection with the application of the proposed corporation tax increases to 1950 incomes, the Committee will be interested in the record of past changes in the corporation income tax.

Beginning with the corporation tax in 1909, the Congress has generally made corporate rate changes applicable to the income of the calendar year in which the legislation was enacted, even in those years in which legislative consideration of the corporate tax increase was not completed until the closing months of the year. In two instances (the Revenue Act of 1918, enacted Feb. 24, 1919, and the Revenue Act of 1926, enacted Feb. 26, 1926) the tax increases were made effective as of January 1 of the preceding year.

"The present schedule for payment of accrued corporation taxes makes it essential that the proposed increases apply to 1950 incomes. Taxes on 1951 incomes will not be payable until 1952 and will be fully collected only by Dec. 15, 1952—almost 2½ years hence.

Further changes in the corporate tax area can be made with respect to 1951 incomes after full consideration of the various alternatives and in the light of subsequent developments in the economic situation and expenditure requirements.

3. Individual Income Tax

"The third element in the President's interim revenue program is an increase in the rates of the individual income tax. The President recommended that this be accomplished by removing the present percentage reductions from 'tentative' tax provided for 1948 and 1949, but that only one-fourth of these reductions be removed in computing tax liabilities for the current year 1950. The increase in tax on 1950 incomes would be coordinated with an increase in withholding, effective October 1 of this year.

"You will recall that in 1945 this Committee developed an income tax schedule which was 3 percentage points lower in all brackets than the wartime rate schedule enacted in 1944. In addition, your Committee provided for a flat 5% reduction from these rates in determining the final liability.

"When income taxes were again reduced in 1948, the general 5% reduction was replaced by a series of reductions amounting to 17% on the first $400 of tentative tax; 12% between $400 and $100,000; and 9.75% for tax in excess of $100,000. The net effect of this complex schedule is to produce rates rising from 16.6% in the first bracket to 82.1275% in the highest.

"Under the President's proposal, the percentage reductions would be eliminated for 1951 and the 'tentative' rates would, become the actual rates. In terms of effective rates, the increases over present law would be 3.4 percentage points at the top of the lowest tax bracket and about 9 percentage points in the highest bracket."

Leonard Frisbie to Form Own Firm

Leonard A. Frisbie will shortly form Frisbie & Company to engage in the securities business. Mr. Frisbie was formerly with Mellon Securities Corporation and Union Securities Corporation.

With Kidder, Peabody

SCRANTON, Pa.—Kidder, Peabody & Co., members of the New York Stock Exchange, announce the association with them of Harold A. Doud in their Scranton office, Scranton-Lackawanna Trust Building, as a registered representative.

Elements of Strength and Weakness in Mortgage Situation

National City Bank of New York says though building situation and mortgage conditions are more favorable than in '20s, when a collapse ensued, there are elements of weakness in present mortgage lending program.

In reviewing the current mortgage credit and building boom as contrasted with the period of the 1920's, when an inflated real estate and mortgage market was followed by a severe collapse, the August issue of "The Monthly Bank Circular" finds there are some favorable features in the present situation that were absent in earlier period, but warns undue inflation and a contraction of national income can again produce a serious and unhappy mortgage situation.

"In comparing mortgage conditions no wand i nthe '20s," says the bank, "it is necessary to recognize that elements o f both strength and weakness presently exist.

"On the favorable side, one factor is that, while the home mortgage debt has increased, so have disposable personal incomes. The ratio of debt to disposable incomes in 1949—20%—was actually lower than in 1939 and about the same as in the middle '20s. While the ratio has been rising rapidly it is still below the levels of the late '20s.

"Secondly, a tripling of the liquid assets of individuals means that many families have resources to draw upon in the event of a decline or loss of income due to adverse economic conditions.

"Thirdly, it is likely that nearly 50% of the mortgages now being acquired by financial institutions are either insured by the FHA or guaranteed by the Veterans Administration. All of these insured loans and many of the noninsured loans now made by institutional lenders, are of the fully amortized type. The proportion of mortgages granted in the '20s on this basis was negligible.

"This widespread practice of full amortization by maturity is, of course, an improvement in our mortgage debt structure. For one thing, it reduces the amount of second (and even third) mortgages, at very high interest rates, which were a source of so much difficulty in the '20s. Now, by permitting higher borrowing ratios—in some cases as high as 95%—loan insurance has in effect written junior debt into the first mortgage. However, the total debt is more clearly visible in this form. Also, it is now commonplace to require that taxes and insurance be paid along with interest and principal, which further improves the quality of the credits.

"The main weakness, undoubtedly, in the present mortgage situation lies in inflated real estate prices and the lengths to which government policy of encouraging longer-term loans and higher borrowing ratios has been carried. Under the Government's liberalized credit policies, FHA has until recently insured mortgages written for 30-year periods and with loan-to-value ratios up to 95%. In the case of ex-service men, the Veterans Administration has enabled veterans to buy homes without paying any money down, and even under the tighter terms recently announced only a 5% down payment is required. Consequently, it now takes longer for the some owner to build up any appreciable equity. The loan 'seasons' more slowly.

"Such conditions have the effect of offsetting the strengthening influence of the regular reduction of principal through scheduled amortization payments.

"With mortgage loans being written with such low equities and long repayment terms, the prevention of wholesale defaults would seem, when all is said and done, possibly more dependent than ever upon the avoidance of any sharp decline in real estate values or contraction of the national income. The longer the building and mortgage boom is prolonged by excessively easy credit terms, the more likely of realization becomes the warning of the editor of the New York 'Journal of Commerce' that—

"'This is building up to a big headache for all concerned. The Government some day is going to be asked to make good on large amounts of insurance and guaranteed mortgages. Financial institutions will face serious red tape and public relations problems, should foreclosures of these mortgages ever reach large proportions. Veterans and others now assuming heavy mortgage obligations will clamor for relief. And the economy as a whole will be hurt from too much building at one time that leads to subsequent curtailment of home construction.'

"The prospect that the country now faces intensified inflationary pressures as a result of increased military spending postpones but does not eliminate these dangers. The tightening of mortgage lending terms recently called for by the President, while intended as a move to conserve materials needed for national defense, is also a much needed step in the direction of putting the mortgage lending program on a sounder basis."

Wiley White Opens

OKLAHOMA CITY, Okla.—Wiley W. White is engaging in a securities business from offices at 1922 Northwest Eighth Street. He was formerly with R. J. Edwards, Inc.

C. B. Bentley Opens

SIDNEY, Neb.—C. B. Bentley is engaging in a securities business from offices at 916 Tenth Avenue.

W. C. Doehler Opens

JACKSON HEIGHTS, N. Y.—William C. Doehler is engaging in a securities business from offices at 3530 Seventy-third Street.

Securities Salesman's Corner

By JOHN DUTTON

If you were asked the question, "What do you think is the one thing that salesmen do which causes them to lose sales?", what would you answer? I don't know if I am right on it, but it seems to me that of all the things that can be done wrong, the worst is to overtalk. If you have the habit don't be surprised. It is something like halitosis—most of us that do it are hardly aware of it. Yet this is the main reason many salesmen talk right beyond the point where they have a chance to make the sale. Once we get our vocal chords oiled up most of us don't know when to stop. It is a pernicious failing—we are mostly unaware of it.

Some of the best producing salesmen are guilty of this fault. They do business it is true, but they miss many more sales than they should. One of the main reasons we do this is that we are too anxious to force the issue—to control the interview—to impose our ideas on the other man. Another is that we talk out of sheer nervousness—talking on and on indicates a lack of emotional control. Our voice becomes a safety valve for our emotions and we blow off steam. The other man becomes the unwitting and often unwilling target for our undisciplined barrage. Naturally his interest wanes and there goes our chance for an order.

The next time you see your customer indicate the slightest desire to talk, let him have the ball. Keep him going— give him a chance to SELL HIMSELF. It is a strange thing, but psychologically true, that if you can keep a person's mind on a certain objective (which should be favorable in its outcome) and then let him talk to you about it, that in many instances he will begin to GIVE YOU ARGUMENTS FOR DOING THAT THING. As soon as this happens start to agree with him and let him have the ball a bit longer. Then the next stop will be a close that is so natural that you will hardly know that he has bought.

This sometimes works very well on a call back. In the first interview you have set the stage, you have built up certain reasons for doing a particular thing, and your man has been thinking about it. When you come back the first impulse is to start right off and try harder than ever to convince him that he should take a stand that is favorable to your proposition. Here is the time when he can give you the real reason why he should buy. He is now in the position of having thought things over—he must now tell you what he thinks—LET HIM DO IT. The chances are that he will begin by telling you why he thinks he should not buy now. If so, let him go right ahead. Make a mental note of the objections but don't answer. Then let him keep on talking. He may next tell you why HE SHOULD BUY. If he does that by all means let him go. Soon you will have his order. HE WILL SELL HIMSELF. This type of person is quite common among security buyers. People who have done things, who have accumulated property, securities and cash, are doers. They are people who like to make their own decisions. At least they like the other fellow to believe they are that kind of individual. If you try and sell them the other way the chances are against you—LET THEM BUY.

If this doesn't work then at least, you still have an opportunity to answer the objection which is the REAL REASON FOR THEIR FAILURE TO BUY. You find the real reason through listening—and through asking questions. Once you find it don't fight it—let it come out clearly and openly on the table. Analyze it together with your prospect—in this way you may be able to show him that the advantages of action still outweigh the supposed objection. Of course, reason rarely decides any sale—but if you do it this way you can be sure that your customer's interest will be kept alive and his respect for his own opinion will be raised—as well as his regard and liking for you. Once a man begins to like you he trys to find ways that he can do business with you.

Respect and regard for the other fellow's ideas, opinions, and his DESIRE TO TALK helps make sales that otherwise could not be made. Self control goes along with "talk control"!

Canadian Securities

By WILLIAM J. McKAY

The thoughts recently expressed concerning the impact of international events on the future of the Canadian dollar appear to have met with almost general agreement. The only uncertainty expressed has been in connection with the timing of an upward revaluation but not with regard to its eventual occurrence. Even in the absence of the current emergency the Canadian economy had already reached a stage of spectacular expansion that had attracted universal attention to the possibilities of an ultimate appreciation of the Dominion's currency; its relative strength moreover has been further accentuated by the depreciating trend of the U. S. dollar.

In recent years there has been also a growing appreciation of the possibilities of Canada as a haven for foreign funds. This tendency has been encouraged by increasing doubts concerning the degree of security afforded by the traditional refugee capital centers. Until recently, by reason of its geographical situation and the preeminence of its currency, this country provided the perfect resting place for nervous foreign funds. Switzerland also was a natural haven in view of its neutral status in two world wars, the long-standing stability of its currency, and the facilities offered for the safeguard and anonymity of foreign deposits; in the light of recent developments these natural attractions have lost much of their force. To a lesser extent Australia and South Africa have been the recipients of foreign funds but the movement in these directions has been motivated largely by purely investment and speculative reasons.

It would appear therefore that when a foreign investor looks abroad for a country that offers the best facilities for preservation of the principal amount of his capital, the possibilities for profitable investment, and the safeguard of his interests, it would be difficult to ignore serious consideration of Canada. This natural gravitation toward the Dominion is further encouraged by the fact that the Canadian dollar can now be acquired at a discount vis-a-vis the U. S. dollar. Thus in addition to security of capital, and the possibilities of profitable return, the investor in Canada has reasonable expectation of eventual repatriation of his funds at a more favorable rate of exchange.

Recent developments moreover tend to attract still further attention to the tremendous potentialities for Canadian economic development. The role to be played by the Dominion in the next few years can be compared to that of this country in World Wars I and II. Whereas prior to the Korean incident the estimate of Canada's contribution to the U. S. defense program was $25 million it is now anticipated that, following the conclusions reached at the U. S./Canadian Joint Industrial Mobilization Committee, the total will be limited only by Canada's capacity for production. In World War II moreover the Dominion was called upon to supply the United Kingdom with war requirements in the form of gratuitous "Mutual Aid." Now, however, Canada's contribution to the U. S. defense program should materially augment the Dominion's exchange reserves.

It is apparent, therefore, that the operation of natural economic forces will exert an ever-increasing upward pressure on the rate of exchange. This obvious trend is likely to attract a considerable degree of speculative interest that will further accentuate the demand for the Canadian dollar. For this reason it is probable that the Canadian authorities will give serious consideration to urgent action in the currency field. In the recent instance of the bull speculation in the Australian pound, the heavy influx of foreign speculative funds has caused considerable embarrassment to the Commonwealth authorities. As the case for upward revaluation of the Australian pound is by no means as strong as that in favor of an appreciation of the Canadian dollar, there is every reason to anticipate a similar movement of funds north of the border. This undesirable type of capital influx would be checked to large degree by placing without delay a more realistic official valuation on the Canadian dollar.

During the week the external section of the bond market was firmer with Canadian Nationals in fair demand following the announcement of the redemption of the 4's of Oct. 1, 1960/50. The internals were also higher in sympathy with the persistent strength of free funds; for the first time funds for future delivery were quoted at a premium. At 10½-9½% the corporate-arbitrage rate likewise reached a new high level. Stocks on the Toronto board continued their rallying tendency of the past few weeks. The industrials again provided the strongest feature but the Western oils were also well to the fore on anticipation of stepped-up military and civilian demand reaching into the far future. Base-metals were less buoyant but finally succeeded in reaching higher levels. The golds after following an initial spurt subsequently lost most of their gains; unlike the oils and base-metals the golds have little basic appeal under present circumstances.

Fred Enders Opens

(Special to THE FINANCIAL CHRONICLE)

KIMBALL, Neb.—Fred L. Enders is engaging in a securities business from offices in the Rexall Building.

Paine, Webber Adds

(Special to THE FINANCIAL CHRONICLE)

GRAND RAPIDS, Mich.—Jack J. Korff has been added to the staff of Paine, Webber, Jackson & Curtis, Peoples National Bank Building.

Financing Rearmament

By PAUL EINZIG

Asserting, U. S., Britain and Western Europe concentrated during postwar years on achievement of prosperity at expense of security, Dr. Einzig sees in present crisis probability of return in Great Britain of both rationing and higher rates. Points out higher tax levies, because of political reasons, will fall on medium and high incomes, and looks for possible capital levy.

LONDON, Eng.—Once more, as in 1939, the Democratic powers have been caught unprepared. The United States, Britain, and the Western European countries concentrated most of their energies during the five postwar years on the achievement of prosperity at the expense of security. Somewhat late in the day they have now realized the need for strengthening their national defenses. The United States is in the fortunate position of being able to rearm on a considerable scale without having to reduce too drastically the production of essential goods for civilian requirements. This can be done because of the large number of unemployed who can be absorbed through rearmament; to that extent it will be possible to produce arms in addition to civilian goods. Moreover, the supply position of the United States is very satisfactory. Not only has the government stockpiled strategic raw materials but commercial stocks are also very high in most lines.


Dr. Paul Einzig

Britain is less favorably placed from all these points of view. There is virtually no unemployment, so that unless the workers can be persuaded, as they were in 1940, to work harder in the interest of national defense, any increase of arms production must be accompanied by a corresponding decline of the output of civilian goods. And at the moment it does not look very likely that the "spirit of Dunkirk" could be revived in British industrial workers. The danger is too remote for that. An incident nearer home would probably arouse that spirit, but as things are little can be expected in the way of increased output per man hour or longer working hours for the sake of speeding up rearmament. In the circumstances more guns means necessarily less butter. Yet when a British senior diplomat stated in public this obvious truth it created a wave of indignation.

Britain's supply position has undoubtedly improved during recent years, even though the government is not believed to have gone very far towards stockpiling strategic raw materials. Food supplies are probably larger than at the outbreak of the second World War. Above all, commercial stocks have increased very considerably. They were near depletion in 1945, but by 1950 the problem for manufacturers, wholesalers and retailers in most lines was not how to procure stocks but how to dispose of them. What is equally important, consumers in Britain have replenished their depleted possessions during the last year or two. The noteworthy decline in the amount of savings is due to the fact that more goods, and a wider variety of them, have become available.

Even so, the British supply position bears no comparison with the American, and a substantial diversion of production from civilian goods to war materials would lead to the reappearance of shortages before very long. It is for this reason that the method of financing rearmament is much more important a problem in Britain than in the United States. In the latter country the additional expenditure of $10,000 million on arms is not likely to cause a general shortage, although shortages in particular lines may become apparent. In Britain rearmament on a much smaller relative scale is likely to lead to scarcity of civilian goods in general, because once more too much money would be chasing too few goods.

This means that while the United States could afford deficit financing Britain could not afford it. The result of deficit financing in Britain would be the disappearance of goods with controlled prices and a sharp rise in the prices of uncontrolled goods. The question is how to raise the amount required. It is true, at the moment this problem does not arise. For the government merely intends to spend £100 million on additional arms for the time being, and this amount is too small to disturb the British economy. But once rearmament has gathered momentum the additional expenditure will no longer be reckoned in hundreds of millions but in thousands of millions. In addition large numbers of workers will be drafted into the armed services, leading to a decline of producing capacity.

It is not the government's present intention to introduce a supplementary budget in the autumn, because the small amount needed at present can well be met without having to raise immediately additional revenue. But next year's budget is certain to contain some drastic additions to taxation. On a recent occasion Sir Stafford Cripps hinted at the possibility of restoring the postwar cuts in direct taxation, increasing indirect taxes and death duties, as means for raising the necessary additional financial resources. The restoration of postwar cuts in income tax would hit primarily the taxpayers with small incomes, for it was mostly they who have benefited by the cuts. This is inevitable, for it is impossible to bring about a drastic reduction of civilian demand for goods by merely taxing the rich. For the overwhelming majority of consumers are people with small incomes, and it is only by curtailing their purchasing power that excessive demand for goods can be reduced to any substantial extent.

Since, however, such measures would be most unpopular among the working classes the government will undoubtedly adopt very drastic taxation of medium-sized and large incomes, and possibly even of capital. The taxation of the latter would do more harm than good from an economic point of view, but might possibly be considered expedient from a social and political point of view. The government might feel it is worth while to take measures which would interfere with the efficiency of production rather than antagonize the masses of the public with small incomes. The choice is between two evils.

* * *

The above was written just before the announcement was made that the British Government has decided to increase its expenditure on defense to £3,400 million during the next three years. This decision does not in any way affect the arguments in this article. It is true, it means an increase of defense expenditure from £2,440 million (including the additional £100 already announced) to £3,400 million, representing an average increase of £320 million per annum, a large part of which is expected to be contributed by the United States. But the principle that there should be no sacrifices in the form of a lowering of the standard of living remains in force. All that the government is prepared to sacrifice for the time being is a further improvement of the standard of living. Events are likely to prove that this is not enough.

News About Banks and Bankers

CONSOLIDATIONS
NEW BRANCHES
NEW OFFICERS, ETC.
REVISED CAPITALIZATIONS

The National City Bank of New York opened its Broadway-56th Street Branch on Aug. 7 in the Mutual Life Building at 1740 Broadway. All accounts formerly served at the Broadway and 57th Street Branch will be handled at the new location, which has double the floor space of the former headquarters. Modernly appointed and completely air conditioned, the new quarters were opened Aug. 7 from 9 a.m. to 5 p.m., an extra two hours in the afternoon, for the purpose of welcoming visitors. MacDonald S. Warner is manager.

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The election of Feodor D. Cekich and John P. Sullivan as Assistant Vice-Presidents of **The Marine Midland Trust Company of New York** was announced on Aug. 8 by James G. Blaine, President.

Mr. Cekich, formerly Assistant Secretary, continues his duties in charge of Investment Research in the bank, while Mr. Sullivan, previously an Assistant Treasurer, remains connected with the Investment Management Department.

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Bankers Trust Company, New York on Aug. 7 opened six new offices in Manhattan, the Bronx, Brooklyn and Queens in premises previously occupied by the Banking Division of Title Guarantee and Trust Company. This brings to eleven the total number of Bankers Trust offices in Greater New York.

The opening of these offices puts Bankers Trust Company into the "retail" banking business in New York City to a greater degree than ever before in its history. For the first time it will offer depositors compound interest accounts and Christmas Club accounts, as well as an expanded small loan and personal checking account service.

The new offices are located at 176 Broadway, 6 East 45th Street, in Manhattan, and at 370 East 149th Street, Bronx; 196 Montague Street, Brooklyn; 92-11 Union Hall Street, Jamaica; and Bridge Plaza North, Long Island City.

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Martin H. Bluethner, Comptroller, **The Bronx Savings Bank, New York**, has been elected Vice-President and Comptroller of the bank.

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The retirement of two of the officers of the **Greenpoint Savings Bank of Brooklyn, N. Y.** was announced on July 29 by the board of trustees. The Brooklyn "Eagle" in reporting this states that both officials have been with the bank since it was founded 65 years ago. They are George W. Felter, President of the bank for the past 32 years, and Frank S. Harlow, Secretary for the same period. Their retirements have been accepted as of Sept. 1.

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The sale of new stock to the amount of $60,000 has served to increase the capital of the **First National Bank & Trust Co. of Ridgefield, Conn.** from $90,000 to $150,000. The enlarged capital became effective July 20.

Frank D. McFadden, Vice-President of the **Fidelity Union Trust Co. of Newark, N. J.**, in charge of the Ironbound branch, was guest of honor on July 27 at the dinner after the 13th annual golf tournament of the Ironbound Manufacturers Association. The Newark "Evening News" from which the foregoing is taken, adds that Mr. McFadden, who was retiring on July 28 after 43 years service with the bank was presented with a brief case on behalf of the manufacturers by David Butler of Fiske Bros. Refining Co., President of the group. Mr. Butler was toastmaster at the dinner.

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The capital of the **Drovers & Mechanics National Bank of York, Pa.** has been increased from $150,000 to $300,000 as the result of a stock dividend of $150,000; the new capital became effective July 10.

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At a meeting Aug. 3, 1950, the Board of Directors of **Capital Bank and Trust Company, Harrisburg, Pa.** accepted the resignation of Mr. Walter E. Burns as President and as a member of the Board of Directors.

At the same meeting the Board elected the following officers: Chairman of the Board, Mr. Arthur H. Hull; President, Mr. Paul L. Ellenberger; Secretary, Mr. Ernest Keys.

All of the men elected have been associated with the Bank in official capacities since it was organized.

Mr. Hull has been a Director and General Counsel of the Bank since its organization in 1935.

Mr. Ellenberger has been a Director and Vice-President since 1941, and Secretary since 1949. From 1935 to 1949 he was Trust Officer.

Mr. Keys is a Director and will continue to serve as a Vice-President as well as Secretary.

* * *

The absorption of the **Pulaski Trust Co. of Pulaski, Va.** (a state member of the Federal Reserve System) by the **Peoples National Bank of Pulaski**, as of July 3, is announced by the Board of Governors of the Federal Reserve System.

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The **South Shore National Bank of Chicago** has increased its surplus $100,000 by transferring that amount from undivided profits, it was announced on July 19, according to the Chicago "Journal of Commerce," which notes that the new capital structure of the bank is $300,000 capital, $700,000 surplus and $271,182 undivided profits and reserves.

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A change, effective July 25, in the title of the **Ecorse-Lincoln Park Bank of Lincoln Park, Mich.**, a State member of the Federal Reserve System, to the **Security Bank** has been made known by the Board of Governors of the Federal Reserve.

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An increase of $200,000 in the capital of the **Commercial National Bank of Knoxville, Tenn.**, raising it from $300,000 to $500,000 has occurred as a result of a stock dividend of $150,000 and the sale of $50,000 of new stock, it is reported by the Office of the Comptroller of the Currency. The enlarged capital became effective July 1.

* * *

An increase in the capital of the **Fort Worth National Bank of Fort Worth, Tex.**, is reported, the sale of $500,000 of new stock having raised it from $4,000,000 to $4,500,000 as of July 14. In January of this year the capital was increased from $3,500,000 to $4,000,000, at item regarding which appeared in our issue of Feb. 23, page 812.

* * *

The **First-Lockhart National Bank of Lockhart, Texas**, has increased its capital from $100,000 to $200,000; part of the increase was brought about by a stock dividend of $70,000, while the sale of new stock to the amount of $30,000 was the further means of providing the $200,000 capital, which was made effective July 26.

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The sale of $80,000 of new stock by the **First National Bank of Santa Fe, New Mexico**, has served to increase the capital of the bank from $420,000 to $500,000. The enlarged capital became effective July 14.

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The voluntary liquidation of the **First National Bank of Kellogg, Idaho**, effective June 17, was reported by the Office of the Comptroller of the Currency in its July 24 Bulletin. The bank, which had a capital of $50,000, has been absorbed by the **Idaho First National Bank of Boise, Idaho.**

* * *

Advancement of Albert C. Meyer, Secretary of **Bank of America, California**, since 1947, also Secretary of its Board of Directors and senior committees, is announced by L. M. Giannini, President of the bank. Meyer, who first joined the bank as an adding machine clerk in 1936, now assumes the post of Assistant Vice President and executive assistant in the bank's headquarters administration.

Giannini also announced that Meyer would be succeeded in the role of Secretary by Frank E. Young, heretofore assistant to the personnel relations officer of the bank. Young has been engaged in the personnel and industrial relations work since 1943, previous to which he served in the bank's corporation and bank relations department and in the instalment credit division.

* * *

An addition of $20,000 through the sale of new stock has been made to the capital of the **First National Bank in San Leandro, Calif.**, whereby it has been raised, effective June 30, from $150,000 to $170,000.

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One of California Bank's oldest branches, the American Office, established as the American Savings Bank in 1903 by the late A. M. Chaffey, founder of **California Bank**, opened for business in new quarters July 31, 1950, at 200 S. Spring Street, Los Angeles. Called the Second and Spring Office, the new bank is in charge of A. O. Otsea, Assistant Vice-President and Manager, and Ralph L. Templar, Assistant Manager.

Wes Tamblyn, Assistant Manager of California Bank's Market and Produce Office, has completed his 20th year of service with the bank. He is a graduate of the American Institute of Banking and was appointed to his present post in 1942.

W. F. Brandt, Vice-President in charge of California Bank's Beverly Hills Office, was recently honored by the Beverly Hills Kiwanis Club for his many years work with service organization.

Continued from page 8

Bank Investment Policy In a War Economy

matter of fact, today, as a result of the increase in the public debt, the Federal Reserve and the Treasury could not possibly refrain from managing interest rates even if they wished to. The Federal Reserve System controls the supply of credit and the Treasury is the chief factor in the demand for credit. Under these circumstances, managed interest rates are literally inescapable.

Since managed interest rates are inevitable, the significant question is: How will they be managed? As long as the international situation remains as critical as it is today, we can confidently expect that the monetary authorities will keep interest rates stable. But even if peace is restored, it seems apparent that with a national debt as large as ours has now become, the monetary authorities will not in the future permit interest rates and government bond prices to fluctuate over as wide a range as they have in the past. The sheer magnitude of the public's holdings of Treasury obligations is a potent argument for maintaining relative stability of bond prices and interest rates.

Moreover, the Treasury's financing problems will unquestionably be a major consideration in the determination of interest rate policy. In view of these financing problems, it seems inconceivable that the monetary authorities will abandon their policy of keeping interest rates relatively low.

Governments May Break Par

I do not mean by this that we will never see government bonds quoted below par. In fact, I hope we do. The monetary policy of the Federal Reserve System can never be fully effective as an anti-inflation weapon unless we can destroy the recently manufactured myth that there is something sacred about par and that government bonds should never sell below 100. It should be clear from the experience of 1947-48 that inflationary credit expansion cannot be effectively curbed if the Federal Reserve banks stand always ready to buy unlimited quantities of government bonds at par or higher.

Since 1948, of course, the Federal Reserve System has made some progress toward greater flexibility of monetary policy. However, it still remains to be seen whether the Reserve authorities will be able to achieve bond market flexibility below par as well as above par. There are some who argue that Government bonds should always be supported at par or higher.

For the immediate future, the par-peg seems assured because of the Korean crisis. Taking a long-range view, however, it seems to me unlikely that this country will permanently discard one of its most useful and desirable weapons for combating inflation, namely, monetary policy. Therefore, since a support-at-par program is incompatible with effective monetary policy, bankers should formulate their investment programs on the assumption that Government bonds may someday sell below par.

How far below par? In all probability, only a few points at the most. Conditions have changed completely from the early 1920's when Government bonds sold down into the 80's. Moreover, as long as Russia remains a threat to world peace, the monetary authorities would never take the risk involved in permitting a big decline in the Government bond market.

My guess would be that for many years to come, a 2.75% yield basis would be about as high as we are likely to see market yields for Government bonds. For a 20-year bond with a 2½ coupon, a 2.75 yield basis would mean a price of a little better than 96.

Let us briefly summarize our conclusions thus far: (1) The danger of a really sharp percentage decline in total bank deposits during the next ten years does not exist. (2) Bank reserve requirements may be increased somewhat but a really substantial increase seems improbable. (3) The general level of interest rates will remain relatively low over the years ahead.

We may conclude, therefore, that the degree of risk involved in holding a reasonable amount of long-term Government securities in a bank portfolio is considerably less today than during former periods. Long-term Government bonds could someday decline a few points below par but a wide-open break in Government bond prices is utterly out of the question.

The Over-liquidity Fetish

What do these conclusions mean in terms of the investment policies of country banks?

The first and very obvious meaning, it would seem, is that bankers should not bet too heavily that these conclusions are completely erroneous. Any banker who confines his investments solely to very short-term securities, unless he has a special need for liquidity, is doing just that—betting that our whole analysis thus far is incorrect. He is betting on a substantial rise in interest rates that just does not appear to be in the cards at all.

There are some bankers who feel that an excessively short position is conservative banking. I would not agree. It is never truly conservative to be over-conservative. A bank which is too liquid is in a speculative, not a conservative, position. It is not sound banking to make a fetish of over-liquidity.

Some bankers still appear to be suffering from an excessive fear of market depreciation. A banker should not be too greatly concerned about market depreciation in United States Government securities. Lost income makes a real difference in dollars to a bank's income account and to its capital funds. Market depreciation in a properly arranged Government portfolio need never become an actual dollar loss at all.

Unfortunately, some bankers have a very practical reason for being unduly cautious to avoid market depreciation in their investments. Some bankers have directors whose approach to bond investments is highly emotional and who may get panicky and insist upon selling bonds just because prices have declined and presumably might decline further. There are doubtless some banks represented here tonight which sold Government bonds at the pegs in 1948, not because they really needed to sell but because certain directors feared that prices might go lower.

What is needed, of course, is to educate those directors regarding certain elementary facts about bond investments. A banker cannot possibly foresee all the ups and downs in bond prices. In fact, he should not even try to do so.

The banker should think of investment primarily in terms of income, not in terms of market quotations. A bank should invest in long-term bonds on a permanent basis for income purposes and should be prepared to see prices fluctuate downward as well as upward.

Desirable Liquidity Ratios

What degree of liquidity should a bank maintain under existing conditions? The answer naturally depends in part upon the circumstances of the individual bank. Banks whose deposits are unstable or whose capital positions are weak, obviously need to be highly liquid. But what about the average bank whose deposits are reasonably stable and whose financial position is strong?

At the end of 1949, for all Country member banks in the United States, cash plus United States Government securities due or callable within the one year amounted to 41% of total deposits. Cash plus Governments redeemable within five years amounted to 61% of total deposits.

These average figures indicate that there must be many Country banks holding 45 to 50% of their deposits in cash plus one-year Governments, and holding 65% or more of their deposits in cash plus 5-year Governments.

It seems apparent that most banks are far more liquid today than at any previous period in our history. What is more, if our analysis is correct, the average bank has less need for liquidity now than in the past.

For the average country bank with stable deposits and ample capital, it seems to me that it is excessively liquid under normal conditions to keep 45 or 50% of total deposits in cash plus one-year governments. My own opinion is that a ratio of around 35% should be adequate in many cases. Similarly, it would seem that few country banks need to keep almost two-thirds of their deposits in cash plus five-year governments. For many banks, a ratio of around 50% would seem conservative.

Needed: A Long-Range Program

This does not mean that a banker whose portfolio is excessively short should rush out tomorrow and shift from short to long-term bonds. Perhaps he should buy **some** long-term bonds at once, especially if his bank's income position is unsatisfactory. The best procedure, however, would be to work out a long-range investment program to be accomplished over a period of time. Such a program should be based upon a careful analysis of the investment requirements of his individual bank and it should be revised from time to time with changes in his bank's circumstances.

That, gentlemen, sums up my approach to the investment problem of the country bank under present-day conditions. To some of you, it may seem rather drab and unexciting. Some of you may have hoped that I would give you something more spectacular: that I would tell you either that bond prices are about to skyrocket or else that they are about to plunge downward. It would be more exciting, I grant you, to speculate as to what the course of events may be during the months ahead and what the effects may be upon the bond market.

However, even if my analysis happened to be right, the emphasis of such a discussion would be all wrong. The implication would be that a country banker should base his investment operations to a considerable extent upon his own, or someone's, guess as to what may happen during the next six months or so. That, to my mind, would be a serious mistake. Experience has proven time and again that a bank's investment operations should not be based on trying to guess bond market fluctuations.

Principles Are Not Enough

But perhaps my own discussion here tonight has created another impression which is equally misleading. Perhaps I have been guilty of giving the impression than any banker can easily achieve good investment results merely by the adoption of a fairly simple set of bank investment principles.

There is nothing highly complicated about this matter of bank investments, to be sure, but the fact is that principles are seldom actually adhered to unless they are thoroughly understood. It is not difficult for a banker to adopt a nice shiny set of principles for his investment portfolio but sooner or later he may abandon these principles, and at just the wrong time too, unless he has a real understanding of the workings of the banking system, of the implications of Treasury financing and the principles of monetary management.

The **formulation** of a good investment program may not require this understanding but its successful **execution** over a period of years does. Almost all of the costly investment mistakes made by bankers over the past 15 years were made because they or their directors did not have sufficient understanding of the operation of the money market and the banking system.

This point is of extreme importance and it is one that is not always appreciated. I should therefore like to give you several examples to illustrate its significance.

Costly Investment Mistakes

First take the period 1935 to 1940. Many bankers made serious mistakes in their investments during that period. Some maintained a very short maturity distribution throughout all those years of rising bond prices and expanding deposits. Others bought long-term bonds from time to time but then sold them out simply to realize profits or in the hope of buying them back later at lower prices. In most cases, since the trend of bond prices was strongly upward, they eventually bought back at higher, not lower, prices, having suffered a loss of income in the meantime.

Why were these mistakes made? The outstanding reason was the failure of bankers to understand the implications of the huge inflow of gold to this country and the effect of Treasury deficit financing upon the volume of bank deposits.

My second illustration is the period of the wartime financing. Throughout the war there were many bankers who maintained a position of extreme liquidity. Had not interest rates risen during World War I? By simply analogy these bankers reasoned that interest rates would also rise during World War II. They failed to understand the effectiveness of the new techniques which the Treasury and the Reserve System had developed for controlling interest rates.

Third: When the war was over, many bankers expected that somehow the volume of deposits was going to shrink to prewar levels and they based their investment policies upon that erroneous assumption. They simply did not understand the workings of the banking system and the relationship between the public debt and the volume of bank deposits.

Fourth: During 1947-48 many banks sold government bonds at the pegs, right at the bottom of the market. Some bankers doubted the ability of the Reserve System to maintain its support of the bond market. Others simply failed to understand the reasoning of the monetary authorities.

Fifth: When it became apparent during late 1948 and early 1949 that the forces of inflation were waning, bond prices began to rise. Early in 1949 there were clear indications that the Federal Reserve System was shifting toward an anti-deflation policy. Some banks, however, which had sold bonds in a panic at the pegs, were not reassured and did not buy back again until the bond market reached its 1949 peak—just before the Federal authorities again reversed their policy and knocked the market down.

How to Avoid Mistakes

That covers most of the major mistakes that bankers have made in their government portfolios during the past 15 years. Those mistakes were costly. They were made not because bankers were unacquainted with sound investment principles but because they were afraid at times to stick to them. They were made not because bankers were lacking in judgment but because they did not have enough knowledge of the situation to apply their judgment to it.

The same thing, I feel sure, will be true in the future. Some banks will remain excessively liquid on the mistaken theory that total bank deposits would decline sharply in the event of a depression, or on the assumption that interest rates may rise substantially. Some banks will continue to sell bonds when the market is weak and will then buy them back again at higher prices when the market is strong. Some banks, in other words, will continue in the future to make the same costly investment mistakes they have made in the past.

Bankers as a group deserve great credit for organizing self-educational efforts on many aspects of the banking business. Nevertheless, there is still much to be done. There are still too many bankers and bank directors who do not have a real understanding of the banking system and of the money market.

Summary of Conclusions

In conclusion, let me summarize briefly.

Over the next decade, the volume of bank deposits will remain very large and interest rates will remain relatively low. Some banks therefore appear today to be excessively liquid. The remedy is not to go to the opposite extreme but to plan gradually to achieve and maintain a well-balanced investment position. In buying long-term bonds, a banker should not buy more of these securities than he and his directors will be prepared to hold to maturity in spite of price fluctuations—including fluctuations below par.

Investments have become and will remain a major segment of the earning assets of almost every country bank. In managing this large portion of our assets, we should not attempt to outguess the bond market. We should invest on a permanent basis, in accordance with the requirements of our institutions and we should pay less attention to changes in bond market quotations.

Finally, if we are to avoid costly investment mistakes, we must educate ourselves and also our directors regarding the banking system and the money market. Study and diligence, as well as common sense, are needed if we are to be sure that our investment policies will properly perform their vital function in keeping our banks sound and prosperous.

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Railroad Common Stocks—Post-Korea

$25 million net earnings for 1950, or $1.90 per share, such earnings would be adjusted downward by 14¢ per share, or to $1.76 per share in the event of a seven point advance in our corporate tax rates.

Southern Pacific, earning $3.10 per share for the first five months, would have such earnings reduced by 22¢, or to $2.88 per share, assuming a tax increase to 45%. In the same period, this company's equity in the undistributed surplus of the Cotton Belt would be reduced from 76¢ per share to 71¢ per share, a modest reduction of five cents per share.

These illustrations will suffice to emphasize that while no tax increase is ever welcomed with too much enthusiasm, the increased burden will prove relatively light.

Excess Profits

Similar conclusions could be arrived at with respect to possible excess profits taxes if we assume that railroads will be allowed to compute such taxes on an invested tax base as in the last war. Many railroads have had their accounts audited by the Treasury from 1942 through 1946. If to the previously approved World War II base, is added Gross Additions and Betterments since 1945, less depreciation of both Way & Structures and of Equipment for the same period, Great Northern could earn $8.25 per share before being subject to excess profits taxes; Northern Pacific $4.75 per share and Nickel Plate preferred $35.00 per share. These figures will serve to indicate the relative tax shelter of railroad stocks.

Turning to equities, I believe it fair to state that up to the Korean incident, if it can be so designated, there were but two investment rail equities, i.e., Union Pacific and Norfolk & Western, and even the latter was becoming a bit tarnished as coal was increasingly losing its markets to competing fuels. Union Pacific should earn well above $12 per share this year, possibly above $14, and a $6.00 dividend seems assured. Norfolk & Western's great financial strength, absence of equipment obligations, which allows the company to use some $9 million of funds from depreciation accounts to bolster working capital resources, already sufficiently large to cover total amount of funded debt outstanding, suggests continuation of $4.00 dividend payments even though earnings may not reach $5.00 per share this year. Also worth noting is the existence of some $40 million of government bonds "above the line." Few industrial corporations can boast of such impregnable financial strength.

Intermediary Issues

Following these two investment issues, several intermediary issues are worthy of mention. Kansas City Southern should earn at least $17 per share on a consolidated basis. The economic growth of the South, particularly of Texas, lends an element of romance to this stock. Ultimately management plans to reduce non-equipment debt from $54 million currently outstanding, to as low, possibly as $30 million. In that event, dividends will be somewhat circumscribed, although I believe some latitude for an increase over the next several years from a current rate of $4 per share to $6 per share exists.

Other stocks I favor are Seaboard Air Line, Illinois Central and Western Pacific.

Already Seaboard's managment has reduced the company's transportation ratio to below 35%, as compared with 37-38% last year, and with over 40% in 1946 and 1947. When fully dieselized, transportation ratio should be reduced to around 32%. This probability, added to the relatively near term completion of its rehabilitation program, with consequent reduction in maintenance ratios by some two points, ensures relatively high degree of earnings. Already the company has earned $6.50 per share before Funds for the first six months of this year and may well earn over $14.00 for the full year. Further reduction of total amount of Income bonds outstanding is also probable. Current dividends should be increased to a $3.00 per share annual rate possibly before the end of this year.

Western Pacific has benefited economically from the growth of California and financially, from a drastic reorganization. Management anticipates selling shortly $22 million of new mortgage debt, the funds obtainable therefor to be used in retiring presently outstanding $10 million Firsts and $6.2 million of Incomes. The difference is to be used for a rehabilitation program which aims at full dieselization, installation of centralized traffic control throughout its main line, or in brief, building the road up to Burlington standards. If tax monies, now subject to litigation, are ultimately released to the corporation, such funds will doubtless be used to retire a portion of the existing 318,502 shares of preferred, with a refunding operation to eliminate the balance.

Since Mr. Whitman, formerly with the Burlington, became President last year, great strides in operating efficiency have been effected, transportation ratio declining from 36% last year to below 30% in May.

Illinois Central

Illinois Central has done a wonderful job both financially and operations-wise. Debt has been reduced by $130 million since 1941, and fixed charges from $16.4 million to $10.5 million in the same period. Near term maturities no longer prove a serious problem, and over the next several years, management may possibly reduce debt by as much as $30 million. Despite failure to have dieselized, Illinois Central in recent years has maintained its transportation ratio around 36%, well below the Class I average. The company should earn between $11 and $12 per share this year and ultimately should increase its dividend from the present $3.00 annual rate, recently inaugurated after a 19-year lapse, to $4 per share and subsequent to 1955, possibly to $7.00, the rate maintained uninterruptedly from 1917 through 1930.

Of particular interest to those not hindered by limited marketability or possession of a minority stock, is the Cotton Belt, 87.55% controlled by Southern Pacific through ownership of 97.20% of the preferred and 76.39% of the common, both stocks voting. Already the company has reduced its debt to below $40 million, having recently retired $8.32 million of General & Refunding 5s, 1990. In all likelihood notes due Southern Pacific, currently outstanding in the amount of around $12.5 million and $3.03 million of Second Mortgage Income 4s will be retired within the next 12 months, leaving the sole debt outstanding $19.9 million of non-callable first 4s. No equipment obligations are outstanding.

Currently the Cotton Belt is earning at a rate in excess of $45.00 per share on the common. Under an armament economy, earnings might exceed $60.00 and under extremely favorable conditions might reach $100 per share, indeed a phenomenal turn of events for a stock almost wiped out under Section 77 proceedings in the early '40s and which sold as low as fifty cents per share. Ultimately I'd expect Southern Pacific to purchase sufficient minority stock to permit consolidation of the two properties and at such a time the stock might command a handsome premium, not altogether unlike the situation which existed when New York Central paid minority holders of Michigan Central as high as $1,400 per share.

Other situations which appear speculatively attractive are, Jersey Central non-interest bearing scrip certificates, as well as its first mortgage 3¼s, and Lehigh Valley common. Time doesn't permit going into these situations in detail but should Lehigh, when fully dieselized, maintain for a whole year its transportation ratio below 35% and if an armament economy should increase revenues by some $20 million, it is conceivable that as much as $5.00 earnings could be reported, before Funds, in 1951. If such an optimistic estimate should be realized, this low priced equity might indeed enjoy a market advance of sizable proportions.

Railroad Securities

Missouri Pacific

The Missouri Pacific reorganization, which started with the filing of a petition in bankruptcy on March 31, 1933 and has been in the courts ever since, is again in the news. On July 29, Judge Moore of the United States District Court approved the ICC reorganization plan in its entirety. He found that the provisions of the plan are fair and equitable and that the plan does not discriminate unfairly in favor of any class of creditors. The effective date of the plan is Jan. 1, 1948. Announcement of lower court approval of the plan resulted in a sharp increase in trading interest in both the old and the new, when-issued, securities, and prices moved substantially higher.

It is hardly surprising that this major step forward in the long drawn-out reorganization proceedings stimulated renewed speculative interest in Missouri Pacific System securities. It is well to bear in mind, however, that consummation is still not "just around the corner." The plan provides for participation by the old preferred in the reorganized company, which had not been contemplated in earlier plans. On the other hand, it still eliminates the old common stock as having no value. It has already been announced that an appeal will be taken on this point. Also, other appeals are likely.

It is possible that the ICC will go ahead with the mechanics (balloting, etc.) under Section 77 before the appeals are settled. Such action would naturally expedite matters to an important degree. Even under such circumstances, consummation prior to Jan. 1, 1952 does not appear likely. If the balloting is to be delayed pending at least Circuit Court action on the appeals, consummation could well be postponed even further. As a matter of fact, if railroad earnings are going to expand under the stimulus of rearmament to the extent expected in many quarters, it is quite possible that the reorganization may never be consummated in its present form. It may eventually again go back to the Commission for further liberalization.

By the close of last week the series "B" and series "C" 1st mortgage bonds had advanced to 91 and 90, respectively. These bonds will both bear interest at the rate of 4% but interest does not accrue to the purchaser until the date of delivery. The series "A" income bonds were selling at 72¾ and the series "B" at 67. Both of these bonds bear interest at the rate of 4½% and this interest accrues to the purchaser from the effective date of the plan—Jan. 1, 1948. The present quotations, then, include interest for the years 1948 and 1949 and there will be an additional 4½% accrued by the end of the year.

The 5% preferred stock ($100 par) was selling at the end of last week at 57½ and the class "A" common at 28¼. There is as yet no quoted market for the class "B" common, all of which is allocated under the reorganization plan to the old preferred stock. The preferred is entitled to dividends of $5.00 a share, cumulative to the extent earned. This dividend was earned in full in 1948 and 1949, indicating a "net" price of 47½ for the new preferred. The class "A" common is entitled to dividends of $5.00 a share, noncumulative, in any year before the class "B" stock gets any dividend. After the class "B" common gets $5.00 both classes share equally, share for share, in any further disbursements.

The new 1st mortgage bonds appear reasonably priced but not exceptionally cheap, particularly as they carry no interest arrears for the when-issued purchaser. Considering the nine points in interest already accrued for 1948 and 1949 the income bonds are probably six to eight points low in relation to already outstanding income bonds of similar caliber. Ex the dividends accrued for 1948 and 1949 the preferred stock also looks five or six points undervalued in the current market. Therefore, over the longer term there still appears to be some speculative room in the various existing system securities. However, there is an indicated arbitrage spread of only about 10% between the old and the new securities which is rather narrow when the probable time element is taken into account.

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The Outlook for Retailing

formance of this mission, many a retailer is just between nip and tuck in making a profit.

The reasons why low profits prevail in the retail business are specific and clear. The yardsticks of a retail business are the gross margin percentage and the total expense rate. These two figures are related to total sales and the difference between the two represents the retailer's operating profit. Gross margin is composed of the initial mark-on (difference between cost of merchandise and retail selling price), the markdowns, stock shortage, workroom costs and cash discounts on purchases. The total expense rate is obviously the total of payroll costs and all other costs.

In 1949, the gross margin of the stores reporting figures to the National Dry Goods Association was 35.3%—the lowest figure in 14 years, war or no war. In this figure, the original mark-on on merchandise was 38.8%, only .4 above the lowest point since 1935 and 1.3 points below the high in 1941. At the same time, markdowns of 7.6% to sales were the highest in 14 years. Therefore, over the last many years, the trend in gross margin for retail businesses has been downward. Furthermore, there is not much that the retailer can do about it.

Mark-downs are the bane of the retailer's existence. Successful retail selling results from a continuous flow of new merchandise reflecting the very latest styles, fashions, ideas, technical developments and manufacturing skill. Merchandise is constantly changing as are the desires of customers. Also, retailers make mistakes. I well remember my own experience as a young buyer in Macy's New York. At that time, bow ties were having a short rage of popularity. In those days, they were sold in sizes, 29-inch, 30-inch, 31-inch, 32-inch. I wanted to show Mr. Straus that we really could corner the bow tie business. I bought a tremendous quantity of ties and did do a terrific business. Mr. Straus was greatly impressed with my ability as a merchant, but he never knew that I ended up on the first of August with 50 dozen ties, all in size 29-inch. A small boy would have had difficulty in getting that size around his neck. I couldn't even find that many small boys to give the ties away, so they had to be salvaged. Therefore, old stocks and unwanted merchandise must be eliminated, and the sooner the better. Mark-downs are the only way. Furthermore, values change. The retailer is the first to experience consumer resistance to price. Accordingly, he is in the forefront, taking a loss on his inventory to stimulate its sale. Of course, greater skill can be developed in the original selection of merchandise, which will always help to reduce markdowns, and a more staple price level assists in keeping markdowns at a minimum: but many years of statistics have shown that no very radical improvement can be made in the mark-down rate.

As far as mark-on is concerned, the retailer is in a definite bind. With 1,800,000 retailers in the country, there is no question but that the business is highly competitive. Furthermore, if the price is too high, the merchandise just plain doesn't sell. Another important aspect is the fact that the retailer cannot take an excessive mark-on on merchandise because if he does, he is immediately susceptible to the accusation of profiteering, and the retailer is dependent upon public good will. His success comes from mass acceptance, not just from a selected list of a few customers. He cannot afford to run the risk of losing the confidence of the people in his community. To say it in a more affirmative manner, the retailer in the true sense is the protector of the consumer. He should not take a higher mark-on, for if he is fulfilling his proper function of bringing merchandise to the public at the lowest possible price for value received, his constant endeavor must be to retail his merchandise as low as possible.

The other factors of gross margin, namely, stock shortage, workroom costs, and cash discounts are not subject to much manipulation. Therefore, with mark-downs—like death and taxes, always with us—and mark-on controlled by a definite ceiling, it is quite evident that the retailer's gross margin cannot go up very much. Actually, it is more likely to go down.

Expenses Mounting

As for the other half of the retailer's picture—expenses, as in most industries, have been mounting. In 1949 the total expenses were at the rate of approximately 32.0% to sales, up from 31.1 in 1948 and 30.1 in 1947. Included in this figure is the highest payroll—17.9% of sales in 1949—in the last 30 years, with the exception of the three years of 1932, 1933 and 1938 which were all depression years. This increase in the expense rate is proceeding at an alarming pace.

The difference between these two figures—the gross margin percentage of 35.3 and the total expenses of 32.0%—equals the retailer's operating profit of 3.3% for 1949. That represents 2.7% net profit after taxes. This 1949 performance indicates dramatically just how precarious is the retailer's profit picture. Total sales were down approximately 6%, with transactions staying about the same as in 1948. Therefore, the drop in sales was largely due to a reduction in prices. Professor McNair in commenting on the 1949 showing states that "an approximate estimate leads to the conclusion that if gross margin percentage continues to be stable and dollar expenses remain unchanged, a further decrease of only 7½% in dollar sales will wipe out department store operating profits." Such a result is certainly not expected, as retailers have usually found a way to combat the problems of falling sales, but it does dramatize the seriousness of the situation if such conditions were to prevail.

Therefore, if the retailer's gross margin is not susceptible to much upward movement—and in my opinion it is not—then the future of the retail business (if it is going to be a profitable future) is based upon the ability of the merchants to reduce their operating costs. The break-even point for department stores and specialty stores has risen so high in the last few years, that if this is not done, retailing will be in the red. The accomplishment of lower operating costs is going to make the future of retailing vastly different than its past.

And that brings me to the second part of my story—things to be done, avenues of progress on which we might travel more profitably, plus some current trends. The most startling aspect of the current high retail expense rate is the fact that when translated into terms of costs per sales transaction, it is at the highest point in history. It is this situation which is so frightening to thoughtful merchants.

Professor McNair in his last year's analysis of the national figures compiled by Harvard University, stressed the fact that this extraordinary rise in the cost per transaction has brought the department store business to a critical state. Although inflationary forces have pushed up prices, which combined with generally greater demands for more goods has increased total retail sales substantially, transactions have not kept pace with the rise in the average sales price. Therefore, as expenses have continued to mount, the cost per transaction has passed the increase in transactions until it is now at the extreme level of approximately $1.25 per transaction. In 1939 it was 67c per transaction, or in other words, the cost per transaction has increased 87% in the last 10 years.

Of course, some of this increase in the cost per transaction reflects inflation in rising costs as it is reflected in rising prices. The Harvard analysis, however, using both the USSLS consumer's price index and the department store price index, shows that allowing for the rate of inflation which has taken place, 16 to 18 cents of the rise in the average cost per sales transaction cannot be explained away by the element of price change.

Increasing Employee's Productivity

One of the ways to lower the cost per transaction is through an increase in the production per employee. Harvard made an analysis of the 1948 production of department stores in terms of the number of sales transactions per total man hour. This survey indicated that in 1940 there were 1.5 transactions per total man hour; in 1948, the ratio—1.5—was exactly the same. This amazing fact shows there has been absolutely zero improvement in nine years in employee productivity.

In general, department stores and specialty stores apparently have not considered this a problem serious enough to embark upon any scientific research or analysis of the situation. Yet in most businesses, such considerations of operating production command the constant attention of highly trained technical staffs. In my opinion, the general retail industry, excluding possibly the true chain store operations and super markets, has been one of the most backward, in this regard, of any of the major industries of the country.

Surprisingly few new things have been added. Beautiful new stores have been built, wider and wider assortments of attractive merchandise have been presented to the public, but little has been accomplished in terms of new techniques, lowered costs per sales transaction, or increased production per employee. Yet these are the usual tests of efficiency and progress in most other businesses.

Therefore, my first point is that some of the methods which have been beneficial to other industries should be more assiduously pursued in retailing. The results could be noteworthy. I refer specifically to job analyses, work simplification studies, work measurement, specialization, and consideration of employee attitude problems. Actually, there are fields of research in which graduate business schools such as Stanford and Harvard could make an important contribution. There is no question but that retail distribution is confronted with a major problem. It obviously cannot be solved by the adoption of the exact methods of the manufacturing or wholesale industries. But similar approaches might be applied, altered and adapted to meet the peculiarities of mass retail selling.

My second point is the avenue of machine utilization. Mechanization has been characteristic of modern business development. Through this means, production has been raised, real wages increased, and lowered costs achieved. Yet mechanization has had only limited application at the retail store level. Chain stores and super markets have made some progress in this field, but even their ventures have been meagre. In department stores nearly 60% of all employees are behind the scenes—nonselling personnel. Certainly in this work area, mechanization could be profitable. For instance, warehouse handling of bulk goods such as furniture, mattresses, major appliances and rugs has been at a notoriously high cost. Some of the major stores of the country such as Macy's New York, The Emporium, Lazarus, Bamberger's—to name a few—have installed machinery to handle this merchandise. Costs have been reduced from 50% to 80%! And the surface has hardly been scratched.

But such mechanization should not be limited to just the most obviously high cost operations. Isolated experiments have been successfully conducted all along the way which merchandise travels—from the manufacturer until it finally reaches the consumers' homes—but it has not been a comprehensive program. Much could be accomplished in the receiving function for all kinds of goods: the marking of ready-to-wear and other smaller unit articles; the compact and scientific storage in reserves; the movement of merchandise to forward selling areas; billing and the maintenance of all sorts of statistical records.

Engineering has had an incidental place in retailing, but if and when directed toward reductions in handling costs, it could pay its way.

Scientific Architectural Planning

The next point is one of scientific architectural planning. Since the war, millions of dollars have been spent in the modernization of old stores, the construction of new major plants and branch units. Some sizable expenditures have been made for the erection or remodeling of warehouse facilities. However, it appears as if the majority of this money has been directed toward the creation of beautiful stores in the belief that customers would be attracted by the sheer pleasure of buying in impressive surroundings.

This is a desirable objective, but it should not be accomplished at an excessive cost. Exteriors, of course, should be attractive and imposing, but this can be achieved through the medium of design rather than high cost substances. More important is the fact that the interiors do not have to be extravagantly decorated, or filled with fixtures which are superior in quality and construction to the furniture in most of the customers' homes. The effect of great charm and a pleasant atmosphere can be attained by a thorough application of good taste in the use of color and ingenuity in the adaption of inexpensive materials.

It has been traditional in the retail business to build stores to last forever. Of course, the basic structure should be of sound construction, but inside everything should be completely flexible—except traffic facilities, the utilities, the floors and the walls. Some of us would like to move even those occasionally, as there is nothing more permanent in the retail business than change.

The merchandise itself is constantly changing its size and packaging. New items are developed. Consumer interest in items or whole classifications of merchandise fluctuate endlessly and, of course, seasonal variations in demand are innumerable. Most stores cannot keep pace with these perfectly normal merchandise changes or selling requirements. Consequently, they are never realizing maximum business. Their adaptations to changed conditions are restricted by expensive fixtures bolted to the floor, by the permanently constructed interior walls, by enclosed shops, by established aisles, and more particularly by the cost of moving or scrapping any of these features.

So far, I have referred only to the selling areas. These observations are equally pertinent to the nonselling sections. The same changing requirements dictated by merchandise are reflected in the operations behind the scenes. In addition, new methods, new machinery and new policies demand similar flexibility in all of the operating functions.

Accordingly, at least in my opinion, the interior of a store should be built like a stage setting. Everything should be designed for appearance, efficiency and quick change. Stores of the future will be built in this manner as high costs, the need for maximum sales, and higher production will force this concept.

Another feature of store design is the proposition of display—not in the sense of beautiful backgrounds for merchandise, but from the angle of showing goods to the customer. One of the first fundamentals of store keeping is to show to every potential customer every piece of merchandise the retailer has to sell. Before any type of store is placed on the drawing board, analytical research should be undertaken to define the specific selling requirements of all of the various kinds of merchandise. There are few experts in this field. Chain stores and chain department stores, having concentrated on limited classifications of goods, have developed a knowledge through the trial and error method which has led them to design stores from a truly functional viewpoint. The layout of most other types of stores is too frequently the result of the whims, the convictions, the entrenched thinking and the personal opinions of store owners, managers, or buyers. Even architects who specialize in the field of store design make only a limited contribution to this basic purpose of a store. Practically none of them have ever been merchants, and there are few practical merchants on their staffs. Hence, the architects, true to their profession, are prone to be more concerned with the finished appearance of their creation than its workability or effectiveness from the viewpoint of maximum sales.

Great progress could be made in the design of fixtures alone. Not only should fixtures be as flexible as possible in order to satisfy the changing merchandise demands which have been mentioned, but also they should be built to show the maximum amount of goods. Customers like to see large assortments of merchandise. Back cases and front cases, as well as counters, should be designed to display the merchandise in a logical and easily understandable fashion so that the customer can buy on a pre-selection basis. The majority of people enjoy this type of buying and frequently buy more than they would if they were entirely dependent upon a sales clerk digging out the merchandise. The widespread use of such types of fixtures specifically developed to handle various kinds of merchandise would go a long way toward actually improving service and increasing man-hour production. This is truly a wide-open road and one which would be worth following.

Furthermore, there is much to be accomplished in terms of capitalizing on the flow of customer traffic, not only by free flow methods which have been developed in recent years, but also from the angle of departmental location on the basis of potential sales and profit. Also studied consideration should be given to the relative emphasis to be applied to various departments or classifications of merchandise, as often local competitive conditions and the reputation of the store should influence such decisions.

In addition, the most efficient utilization of total floor space justifies more careful analysis. Selling space in the average store constitutes only 60% of the total, so that operating facilities are an important part of the total plant. However, it is safe to state that in few instances have the non-selling areas received 40% of the thinking which went into the total store design. Some operating functions should be contiguous to the selling areas, while others may be more properly centralized at distant points. Most frequently, however, non-selling activities are forced into whatever space is left over and are not an integral part of the original total perspective.

Speaking of non-selling activities immediately raises the subject of selling. There are potentially two kinds in all retail stores—self-service and personal selling. As a matter of fact, both can be highly productive.

Growth of Super Market

The most radical development in retailing in the last ten years has been the growth of the super market. The essence of its operation is self-service to the extreme degree that the need for personal selling is actually eliminated. The super market's success is based upon showing to the customer a maximum amount of merchandise, skillfully arranged by complete display of the total assortment and accompanied by a highly informative sign job. The stock is immediately available in front of the customer. She makes her own selection. She literally sells herself as a result of being shown a wide assortment of goods. She buys on impulse; she buys more; and she loves it. The exclusion of all direct selling costs is the chief reason the super market can

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operate on a lower initial markor, sell goods cheaper, and still make a profit. Other types of retailers could well afford to investigate the value of this method of selling.

Training Salesmen

On the other hand, there will always be, in most stores, a need for personal selling. Few organizations have given this function the emphasis and the study it deserves. There seems to be a common belief among retailers that store salespeople are migratory and that, accordingly, they have no personal ambition for permanent employment or advancement. Also there is widespread opinion that retail stores cannot attract capable people who are able to earn substantial wages or commissions. Undoubtedly some of this viewpoint is attributable to the fact that women constitute some 80 to 85% of the selling force of most stores. Nevertheless, in normal times, there are enough women who are interested in permanent employment and who have the ability to develop into top-flight salespeople to justify a vastly superior approach to the entire subject of selling. All that is needed is the conviction by top management that it is worthwhile, plus an enlightented incentive and training program.

It is true that most retail organizations, and all of the large ones, have a training department whose purpose ostensibly is to fulfill its title. However, the training job actually performed is largely confined to introducing the employee to the store and its regulations, and teaching the individual the basic system. These in themselves are extensive and complex, but actually they are the least important part of a really complete training plan. Insufficient stress is put on merchandise knowledge. This responsibility is usually left to the store manager or buyer, and not all managers and buyers are capable instructors even though they might recognize the importance of sales people having the maximum amount of information about the goods which they are trying to sell. Furthermore, selling is a profession in itself. A great amount of research has been done by special organizations in developing proven selling techniques, but little of this is taught to the average retail clerk. There have been, even, courses in salesmanship presented a week or two at a time. But that is about all, and they are soon forgotten, while the retailer goes on to another problem. Suggestive selling is another whole approach to increased sales, and it is largely ignored. All retailers will grant intellectual agreement, but it stops about there. Retail organizations do a spit-and-polish job of developing selling personnel both in terms of training and real selling supervision. It is extraordinary that skillful selling does not receive greater consideration, as it is right under the retailer's nose. It is the primary reason that he is in business—to sell. But he will willingly spend 20 hours a week on the development of a new system and two hours on talking about better selling. The standards are too low. They will have to be raised if increased production is to be achieved.

Furthermore, both types of skillful selling—the self-service and the personal—can be used in most stores. The super market is exclusively self-service, but the majority of stores are not and never will be completely on a self-selection basis. However they should adopt for the various kinds of merchandise which they sell, the various methods which are the most appropriate and the most productive.

Customer Services

My fifth point is the proposition of customer services. As large retail stores have developed over the last 20 or 30 years, increased customer service has been characteristic. Until recently these services could be provided and the stores were still able to sell merchandise competitively and at continuingly lowered prices. Now, however, as super markets, chains and limited department store chains have flourished, with their lower cost of doing business, other large retail outlets must re-examine their customer services. Most of these services are appreciated by a few customers, and paid for by all. Especially in those stores which are catering to the mass market, it is questionable if all of them can be or should be continued. For example, a practice of many stores is to present customers with a free special gift wrap. This undoubtedly delights people who are buying a gift for a wedding or a birthday, but it costs the store money, and if it wasn't available, the customer would still make her purchase. If she is really anxious to wrap her gifts attractively, she will procure the material and do it herself. Another example is the fact that practically all stores deliver the smallest and least expensive article that is sold. If one wishes, she can have a paper of pins with a total value of perhaps 10c delivered to her home, although it costs the store probably 30c to make the delivery. High costs are going to eliminate some of these luxuries which should be provided only by the high priced specialty stores, which can cover the cost of such services in the price of their merchandise.

And now comes a point which many retailers will deny completely. Stores which sell a general line of merchandise as distinct from the pure specialty shops or chains, naturally have good and poor departments. These have resulted from the emphasis placed by the store on particular classifications of merchandise, the skill of individuals who have operated specific departments, and the over-all reputation of the store. Likewise, there is wide deviation in net profit between various merchandise classifications. As a result of the rising cost of doing business, there has been a tendency in many stores to eliminate some of the poorer departments and non-profitable departments. This is the worst possible approach that a general store could take to solve its high cost of doing business.

In the first place, the general store has a real function to fulfill. It is to sell under one roof, as a matter of customer convenience, all types of merchandise. Also, if the store has a good reputation, the acceptance of its name should be extended to the maximum selling of all kinds of merchandise. Discontinuing poor or non-profitable departments, rather than being the answer, tends to circumscribe a store's own value to the consumer and enhance the position of the competition, whether it be the same or a different type of store, carrying these lines of goods. Instead of throwing in the sponge, so to speak, a store should analyze these "problem children" and develop new ways of doing that business on a satisfactory basis. Major appliances are a case in point. Countless stores have found it exceedingly difficult to show a profit in this category. There are problems of a large investment in stock, servicing and highly specialized selling. Nevertheless, the smaller stores and chain stores have solved these problems and many exist successfully on major appliances exclusively. Department stores will and should study their methods, increase their efficiency in terms of service elements, and develop capable salesmen. Another angle of this particular kind of merchandise is that a large share of it is most successfully sold by personal calling in the home, and after store hours. There is no reason why general stores should not compete in this type of selling as well, but most large retail organizations think along traditional lines, and they hesitate to experiment in a field which appears to be contrary to their proven ways of doing business. The next years, however, are going to disprove many of the conventional methods, as the public is changing its way of life.

These same changed living habits of the public indicate an important new trend in retail stores. There is a definite desire on the part of the public to do more and more evening buying and shopping. As a matter of fact, we are rounding a cycle in consumer buying habits.

Many years ago, when all people worked six days a week and long hours each day, most retail stores were open at night, particularly Saturday night which was the family shopping time. Over the last twenty years, as a shorter work week has become the prevailing custom, with most people working five days a week, Saturday blossomed into the big shopping day. The most recent of these years, however, have also been marked by a substantial increase in the standard of living. More people have automobiles and own their own homes. Most people want to enjoy their day off in relaxation. A day's shopping no longer is the great sport that it used to be. Today it is frequently a chore caused by necessity. Also in the urban centers, parking has grown extremely difficult during the busy day-time hours. For all these reasons, a rapidly increasing number of people like to shop at night.

In most large cities of the country, it is now a common practice for the stores to be open at least one night a week—and it is not Saturday, which proves the change which has taken place. In some cities, there are two night openings a week, and lots of the chain stores are open five or six nights a week. Most of the super markets are open nightly. There is a whole new industry—television—which is being sold largely at night. The world's largest banking institution, the Bank of America, on whose Board I happen to sit as a Director, has recognized this trend with experimental evening banking hours in some locations.

Therefore, distasteful as it may be to retail store personnel, opening hours are going to change. Actually, the effect on employees is not insurmountable or necessarily without its compensations. They certainly will not work any more hours in a given week, and having more day-time hours for their own relaxtion may even be attractive. At any rate, it is a trend which is inevitable.

Quite apart from the night openings, and not intending to be taken too seriously, I am in favor of the California legislator who introduced a bill to make Saturday a legal holiday when all kinds of business would be completely shut down. I wish I lived in his community so that I could vote for him. Perhaps, it is not such a crazy idea—much worse are introduced in California. I don't think any of us would lose any business, and we all would have a lot more fun. It would improve my golf, too — and six-day-week retailers like myself can stand a little improvement.

Merchandise Control

And finally, another aspect of retail operations, which bears more technical study, is the subject of merchandise control. This term in department store parlance refers to the statistical methods which are employed to record merchandise inventories, rate of sale, purchases, and outstanding commitments. Generally speaking, chain stores have produced the most highly sepecialized techniques. The common pattern of these stores is that the merchandise is bought centrally by highly paid and experienced personnel. These organizations sell large quantities of the same merchandise in either dozens or hundreds of different outlets. Therefore, necessity being the mother of invention, it has been vital that the central offices have complete and up-to-the-minute knowledge as to their stock position in all of their stores. Merchandise is not only purchased by the main office, but it is also usually stocked at a central source.

On the other hand, department stores and specialty stores carry wide ranges of personally selected merchandise. Their assortments change rapidly. Most of their merchandise is bought by the local organization and selected primarily on the basis of the demand of their particular community. Surprisingly enough, a woefully inadequate job is done as far as the maintenance of their stocks is concerned. They are always running out, even of the most staple items. Sometimes it seems as if buyers have the viewpoint of the old country storekeeper who, when he was asked by one of the farmers' wives for some red flannel replied: "Missus, that stuff sells so fast, I have given up trying to keep it in stock. Just too much work."

There are as many methods of control as there are stores, and almost as many different systems as there are buyers. Controls range from figures which are kept in a little black book by the buyer, to elaborate and expensive installations. Some methods must be more efficient than others, and some must be less expensive. New ones adapted to the needs of these individual community stores can be developed. Especially important is the necessity of establishing a high standard of storewide performance in the maintenance of "in stock" position and compliance with whatever are considered to be superior methods of control.

The foregoing has been a description of some of the objectives in retailing which warrant more thoughtful consideration. Some of these will undoubtedly influence its future growth. One thing is certain, the years to come will be dominated by efforts to reduce the cost of retail distribution.

Kind of Retail Stores in Future

And now I come to the third and last part of this address—the kind of stores that we have and may have in the future.

Fundamentally, there are three types of consumer demand. These might be labelled the impersonal, the personal and the ultra-special. The impersonal demand is reflected in the more staple type of merchandise. Characteristic of this category would be the everyday kinds of food, necessities such as the many items commonly known as notions; hardware supplies; pots and pans; drug and toilet articles; and even the lowest price lines of such wearables as hosiery, underwear, work clothes, dresses. In other words, they are the many types of consumables which are regularly replaced.

Personal demand is expressed in that large area of merchandise—in fact, the largest—in which personal expression of selection and desire is the vital element. It is in this category that wide assortments are most essential and have the greatest appeal. This type of demand is characterized by fashion, by style, by the latest model or the newest development. It is typified by the desire to indulge individual preferences and to satisfy one's own ego. It has something of the element of being "looked over not overlooked" by your friends; of giving vent to your own individual expression of color; of keeping up with the Joneses in owning the most up-to-date refrigerator or television set. These are possessions of a semi-permanent nature and definitely ones that show. The plain white handkerchief is the impersonal, the staple, the "blow-er"; but the fancy colored or silk handkerchief is the "show-er."

The ultra-special demand is the desire to be definitely exclusive or the expression of a special interest. The type of merchandise which meets this demand may be, as in the case of a Paris original, a custom suit, or an authentic Chippendale cabinet, found usually at the highest price levels. The special interest demand would be merchandise for which there is only a limited use, or which is confined to individual knowledge or interest. For example, an artist's palette; or any article to please the hobbyist or meet a cultural or strictly professional requirement.

Obviously, the first two types of demand—the impersonal and the personal—represent the mass market. It is upon the mass market that retailing as an industry depends. It is in these areas of consumer demand that retailing will grow. The types of stores which cater to the greatest needs and to the demands of the greatest number of people are the ones which will expand. Bigness will be the keynote. Through size, greater specialization of effort can be achieved and lower costs of distribution can be attained. This does not mean that the small independent retailer is doomed. Not at all, for he will still fulfill either the function of convenience, of the limited or ultra-special demand, or of highly develpoed personal service. It is unquestionably true, however, that the independent retailer who runs a small department store, carrying a general line of merchandise, is going to find the competition tougher and the going rougher. The chains and large department stores, with their ability to provide wider selection and better values, will have greater appeal to the general public.

As for the specialty shop, which caters exclusively to the ultra-special demand for higher priced and original merchandise, they are just not going to grow except in proportion to the growth in numbers of that small 5 or 10% of the population which can afford to pay for the superlatives in the exclusive, the extra-special categories of goods and service. It is to be hoped that the American capitalistic system will always provide a segment of our population with the income to afford exclusive merchandise sold in luxurious surroundings, with the highest degree of individual attention.

Therefore, the trend of retailing points toward more and more chains and multiple unit organizations.

Super markets are here to stay. The only thing that can happen to them will be an extension of their techniques in terms of mechanized selling, self-service, and still lower costs of distribution. They provide the consumer with the greatest array of replacement merchandise—the impersonal demand—at the lowest possible prices. They provide practically no customer services, but they offset this by making buying cheaper and easier. Their hours are arranged to suit the wishes of the public. The stores are conveniently located, and they have recognized the need for ample parking facilities. As super markets grow, they are adding more and more different types of staple merchandise to their assortments. Even today, some of them have almost become small department stores in themselves. You will find that in addition to food lines, they are selling hardware, chinaware, notions, drugs, toys, clocks and even radios. Department stores and popular priced chain stores do not seem to be sufficiently aware of this threat to their supremacy. Both of these latter two groups are going to have to adopt some of the techniques of the super market if they are going to remain competitive and not lose business.

The extraordinary success of the Sears Roebuck, J. C. Penney and Montgomery Ward type of chain department store is well known. These stores have achieved their powerful position in retailing by concentrating on carefully selected ranges of merchandise which have either a national acceptance or which are sold commonly and simultaneously in large sections of the country. Their assortments—especially in the so-called soft lines—are not as extensive as the large typical department store, but their merchandise is outstanding and represents excellent value. The pattern of these organizations is to separate the buying function from the management function. Accordingly, they have developed first class personnel who are paid to spend their entire time on merchandise. As a result, these large chains have made a great contribution to the development of new and better items through their concentration and research. Their tremendous sales volume has given them the buying power which, combined with their merchandise skill, has brought about better merchandise at lower prices.

In the management end of their business, personnel specialization has likewise achieved a focusing of effort which has produced improved efficiency. Generally speaking, the stores follow a set physical pattern and have a similarity of appearance. They provide limited customer services, but as they have common operating problems and are transacting business in hundreds of similar units, they have achieved a degree of efficiency in their operation which has reduced their costs so that they are respected competitors in almost any line.

In much the same manner, the chain specialty stores have made great progress in their particular method of distribution. As in the chain department store of the limited type, the buying function is quite separate from the management of their many stores. As a result of their concentration on particular classifications of merchandise, such as women's or men's apparel, shoes, automobile accessories, appliances, radios and television, they have developed a high degree of perfection in their selection of merchandise. Their assortments are wide and their values good. The presentation of their merchandise is well timed and they are among the most fast-moving of all retailers. Usually, these stores spend a minimum amount on advertising, depend upon A-1 locations for their traffic, and have limited customer services. This type of retail enterprise will grow in importance.

The large department store type of retailing is probably the hardest of all, for they try to be all things to nearly all people at the same time.

In the department store field, there have been well recognized trends in the last few years—each has been in the direction of increased size. They have unquestionably been motivated by the increasingly competent competition of the super markets, the chains of limited department stores, and the chain stores—and by the common desire of all retailers to buy merchandise cheaper so that it can be sold cheaper.

The first of these developments has been a grouping together of several large department stores into a single financial structure. The Allied Stores, the Associated Dry Goods Corporation, the Federated Department Stores, the May Company, and R. H. Macy & Co., Inc. are typical of this trend. Each one of these groups operates from six to 10 major department store units. They are located in large urban centers.

These stores are typical of the popular understanding of what a department store means. Fundamentally, they provide the convenience of collecting all types of merchandise under one roof. The merchandise which they carry is largely in the personal demand category although they do sell substantial quantities of the staple, impersonal goods, and even have a small percentage of their departments in the ultra-special category. These stores are generally more elaborate in their physical plants than are the Sears or Penney type of limited department store. The stores usually have their own distinct personality and emphasize an attractive, pleasant shopping atmosphere. The name and reputation of the store have great acceptance and the store is respected in the community which it serves. These stores provide the customer with an assortment of services such as charge accounts and delivery, and the public is generally proud to buy in them.

Although these stores have a common corporate structure, they are not real chain store operations. Quite to the contrary, they are mainly operated as autonomous units. They maintain complete individual organizations in terms of operating personnel and buying staffs. The Harvard figures for 1948 and 1949 indicate that these large single ownership groups have achieved some reduction in operating costs as compared to other large independent department stores. This is probably due to a spread of overhead, the exchange of all types of operating figures, and the installation of some common operating policies and methods. However, it is a fact that these groups have not capitalized on their great buying power in the same manner that the true chain department stores or chain specialty stores have been able to channel their volume.

There are difficulties in this regard. These stores are usually widely separated over the country. For that part of their business which satisfies the impersonal demand, there has been impressive progress in buying as a unit and so gaining the advantages of price for large quantities. And, even in the category of personal merchandise, effective pooling of purchases has been effected through committee action of the buyers from the various stores in the group. However, this is not without its problems. Individually, successful buyers who control a sizable volume do not accept readily the idea of working in concert with their associates. Such cooperative action requires a certain amount of give and take and someone has to compromise his viewpoint. They usually feel that their own ideas are the right ones, and they would rather go their own way. Human nature seems to be like that. Nevertheless, progress is being made and more and more department store buyers are beginning to realize that there are benefits in group purchasing.

There are, however, some real differences in demand that exist between widely separated stores in these ownership groups. Their business is chiefly in the personal demand type of merchandise, and demand does vary sectionally throughout the country. The seasons are different in the west than in the east. Climates are certainly not uniform in the north, south, east, and west. Even tastes and relative quantities of merchandise fluctuate widely between various areas of the country. Furthermore, the character of the stores and their position in their respective communities are frequently radically different. Their physical plants have no common pattern of size or layout. They don't have the same breakdown of sales by quantity or price levels, and they have distinct and unique operating problems. Actually, for many of these large department store groupings, their only common denominator is that they have a single ownership.

So far, these large combinations of stores have not brought about any radical innovations in retailing. However, great advantages are inherent in this type of set-up and they will be perfected. Suprisingly enough, although these ownership groups are big, they are possibly not yet big enough. Today most of them have a combined total sales volume of around $300,000,000 per year. They probably should be at the 600 million or billion dollar level, with several large units located in each of the major sections of the country. In this way, they would be able to have more in common and gain more of the advantages of a true chain store operation.

Trend Toward Chain Stores

The second important recent development in department stores is actually pointed in the same direction—toward chain store operation — although it has been brought about for an entirely different reason. This is the opening of branch department stores in outlying areas by a large major store located in the heart of a city. It is the picture of the mother hen and her brood of chicks. It represents another inevitable trend. Large cities have become terrifically congested with mass public transportation facilities becoming inadequate and public parking a serious problem. The 1950 census figures prove that people are moving to the suburbs. As this exodus accelerates, there will be an increasing decentralization of retail stores. It is already evident in nearly every section of the country, and it has mushroomed since the war. Most of the major stores in New York have suburban branches, as does Boston, Atlanta, Philadelphia, Chicago and Los Angeles. They are beginning to be seen in Seattle and San Francisco.

These branch units are located in small towns or in shopping centers removed from the general business district. Large and small shopping centers are blossoming all over the country. The appeal of the branch department store is one of convenience, as adequate parking facilities are a prerequisite. They carry with them the reputation and acceptance of the main store. And, they look as if they are successful, as the Harvard figures for 1949 indicate that this type of branch operation contributes a higher rate of profit than does the main store. Actually, they are developing into small chains, gaining the benefits of centralized buying, common management and standardized operating techniques.

The growth of this kind of branch store operation, however, has resulted in one problem which, although serious, was not entirely unexpected. As business has spread to the out-of-town areas, it has become increasing difficult to maintain the level of volume in the main downtown stores. The situation in Los Angeles is an excellent example. Practically all of the major Los Angeles department stores have not one, but several, branches anywhere from five or six miles to 10 or 12 miles from the main plant. More and more business is being done in these outlying units and it is a continuous fight to maintain the sales level of the home plants at a point which will support their large capital investment. In the next 50 years, we might even see more business done by the large department stores in their branches than in their main stores. This will certainly be a new and different kind of department store retailing.

It seems to me that as far as mass markets are concerned, it appears unmistakable that the trend for the future will be toward bigness and specialization in retailing. This may be somewhat of an unpopular thought—especially among some of our politicians—for the economic well-being of the small businessman has great common appeal. However, there will always be thousands of small businessmen, meeting the demands of personal service and special requirements. Furthermore, the frightening cry of "monopoly" and "power" cannot be properly flung at the retailer. The growth of the large chains and the big department stores over the last several years has shown little evidence of abnormal or handsome profits. On the contrary, it is a fact that their size has resulted primarily in lowering prices to the public. That is the essence of successful retailing, and so it always will be. The large retailer cannot afford to risk the loss of public good will by charging high prices and all retailers have the greatest respect for the intelligence and intuitiveness of the buying public. Consumers know value and demand value, so the retailer—large or small—will go broke if he doesn't provide it.

Therefore, in summary may I state that the major objective of the retailing industry in the coming years—if those years are peaceful ones — will be toward drastically reducing the costs of doing business.

Some of the avenues of approach will be along the way of more scientific research; analyses of the factors which make up the costs per transaction; an increase in the production per man-hour through greater use of machinery, superior store and plant design, self-service, and more skillful selling. We can't afford to be gas light retailers operating in the atomic age.

More Multiple Unit Operations

There will be more and more multiple unit operations. Retail organizations will be getting bigger so that they can capitalize on the chain store techniques of pooled buying power, and more efficient operating methods.

Branch stores and chains will flourish in areas away from the large cities. Decentralization has started.

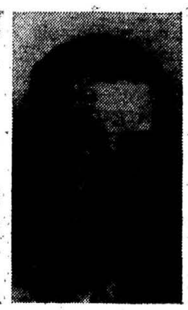
And retailers may be selling more in the night time than in the day time.

Retailing is a great industry and an essential one. It deserves the attention of the best academic brains in the country and the participation of the most intelligent men and women. Today it presents a real challenge and an unlimited opportunity for young men and women who can make it a satisfying and rewarding career. It is one of the most exciting endeavors that there is, for as I have said, nothing is more permanent in retailing than change. Every day is different and completely consuming. It is hard work, but then so is everything that is worthwhile.

In closing, may I propose a creed for retailers:

The retailer is a public servant. His job is to make this world a better place in which to live by selling more good quality merchandise, in greater quantities, and at lower prices. He must conduct his business in a manner which will be pleasant, gracious, efficient, and with the greatest integrity. He should earn the respect of his resources and his customers. He has a responsibility for the well-being of his personnel, and an obligation to attract to his profession honorable young men and women who are intelligent, imaginative and aggressive. He should assume a place of leadership in the affairs of his industry, his community and his country.

H. Link, Geo. Robson With F. I. du Pont

Henry C. Link George U. Robson

(Special to THE FINANCIAL CHRONICLE)

MIAMI, Fla.—Harry W. Link, Jr., George U. Robson and Charles F. Ebert, Jr. have become associated with Francis I. du Pont & Co. Mr. Link and Mr. Robson were formerly with A. M. Kidder & Co. and Cohu & Torrey and prior thereto they conducted their own investment business in Miami.

Two With Davies & Mejia

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, Calif.—Lyman Dyson and Edwin E. Hendrickson have become associated with Davies & Mejia, Russ Building, members of the New York and San Francisco Stock Exchanges. Mr. Dyson was formerly with Paul C. Rudolph and Company.

McGuirk With Troendle

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, Calif.—Sanford E. McGuirk has become affiliated with Victor H. Troendle & Co., Russ Building. He was formerly with Investors Syndicate on the coast and prior thereto was with H. R. Baker & Co.

Waldron Adds Brown

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, Calif. — Clarence L. Brown has joined the staff of Waldron & Company, Russ Building. He was formerly with Wilson, Johnson & Higgins and Chapman & Co.

Two With Walston-Hoffman

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, Calif.—David R. Dean and Edwin A. Robertson have become connected with Walston, Hoffman & Goodwin, 265 Montgomery Street, members of the New York and San Francisco Stock Exchanges.

With Dean Witter

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, Calif.—Ernest T. Johnson has become affiliated with Dean Witter & Co., 45 Montgomery Street, members of the New York and San Francisco Exchanges.

Continued from page 9

Trends in Public Utility Financing

both institutional and individual, through their representatives, the analysts.

Electric Company Mortgage Bonds

Enough of the background. Let us talk about the securities themselves, starting with the electric company mortgage bonds, which would be at the top of the heap, in the financing of a public utility security.

First, for how long are these bonds sold? When do they fall due?

There is a very distinct pattern there. Generalizations may be dangerous, but one generalization that can be made is that most electric utility mortgage bonds are for 30 years. I checked the principal offerings in the first six months of this year, and I found 30 electric utility bonds. Twenty-six were for a maturity of 30 years. Two were for 35 years, namely, Detroit Edison and Potomac Electric Power—the latter serves Washington, D. C. — and both of these are very strong, well regarded, highly rated issues. Two were for a shorter period than 30 years.

The shorter the term, the lesser is regarded the risk, and the reasons for a shorter term usually are the desire by a weaker company to minimize the risk in its issue by shortening the period during which the investor has to wait until he gets his money, or an endeavor by a company to fill the particular need of buyers.

Since most issues are for 30 years, if there was one year when there was not much selling of utility bonds, there would be a dearth of maturities 30 years after that particular year. By putting a maturity in that gap, a company could offer a piece of paper that a number of institutional buyers might want, those who have a gap in their maturity schedule which could be filled in.

There also will be an effort by some companies to space their own maturities. In other words, they may have sold a large block of bonds due in 1976, and then they did not come into the market again until 1949, when they sold an issue due in 1979. Now, in the first part of 1950, they sell an issue again. Rather than put it right on top of the last one, and have it fall due in 1980, they might space it back to have it fall due in the 1978 or 1977 period, or even go back to 1974, so that the company's maturities will be spaced out and the company will not be faced with very large amounts maturing all at the same time.

How Bonds Are Sold

So much for the length of issues.

Now, how are these bonds sold? What is the method of selling? There are three principal methods that a seller can decide upon. He can offer them for competitive bidding by underwriting houses; he can sell them through a negotiated sale with one particular underwriting house of his own choosing; or he can sell them privately, directly to a large buyer, such as an insurance company.

The SEC requires competitive bidding. Many state commissions now require it. The Federal Power Commission has just recently, this year, adopted a rule requiring it, although previously they had a rather general rule which required competitive conditions to be maintained. But the strong trend in the past ten years is toward competitive bidding for utility bonds. That assures the company getting the best possible price. It also breaks up the tie between the investment banker and the company and that is one of the ties that the SEC was directed to sever in the law that Congress passed—the Public Utility Holding Act.

The theory was that the investment banker, if he dominated the financing of a utility company, would shape up an issue which would be profitable for him to sell, even if it were not the best thing for the utility company to offer at the time. Not only profitable for him to sell in terms of what buyers wanted, but profitable for him to sell in terms of the spread that he received between the price he paid the utility company for the bonds and the price he offered the public. A spread of three, four, five or eight points was frequent 20 or 30 years ago. In other words, three, four, five or eight per cent of the offering price went to the underwriter for selling the issue.

Now, with the insurance companies the big buyers, the underwriter fulfills the position, practically, of an order taker. He does have the risk of holding the issue. He buys it, and he has to sell it. He owns it, and he takes on the risk of market fluctuations during the time of ownership. But it is pretty generally felt now, by regulatory authorities, and by many managements, that this competitive bidding, whereby the price is determined by two or five or eight groups of investment bankers bidding against each other through sealed competitive bids is the best method of sale.

That method, you know, has been used for years and years in the sale of municipal tax exempt bonds and it seems to work out all right in that field.

There is considerable grumbling among the investment bankers about the method, and the competition has become so keen there is a considerable doubt as to whether it is a profitable form of business for an underwriter to engage in. But it does go on, and we have companies like American Telephone and Telegraph selecting it even though the company is under no compulsion to use that method of sale in its bonds because it is not under a state commission.

In any event, in the first six months of this year, there were 30 competitive sales of utility bonds and no negotiated sales at all. That was formerly the method. The underwriter who was the banker for the company negotiated with the company the price at which he would buy the bonds, and reoffer them.

There were 16 private sales, which means a sale directly to one, or a few, buyers. Private sales may be made by the company executives themselves, or they may be made by the bankers for the company, who get a fee for negotiating the sale. The bankers go to half a dozen insurance companies, and line up two or three that are receptive to an issue at a price and then the deal will be made directly with the issuer, with the bankers getting a fee for their services. So here we have about two-thirds of the issues sold competitively and about a third of them privately.

The private sale has the advantage that there is no registration cost and no registration statement for the SEC. It can be handled very speedily. There is no necessity for having an audit of the books, which you have to have for a registration statement, advertising for bids, opening of bids and so forth.

There is a recent development in private sales which might interest you; namely, to take part of the proceeds now and part later. This is not feasible except in a private sale. Rochester Gas and Electric set up a deal that way last fall. As I remember the figures—the precise figures do not matter — they sold something like $12 million of bonds, taking $3 million of the money right away, and drawing down the balance over a period of six or nine months. Thus they did not have to pay the interest on the remaining $9 million until they took the money from the insurance companies as they needed it. Then, as their construction program proceeds and their cash runs low, they go to the insurance companies and say, "We will take another $3 million of that issue." Finally then four or five months later when they complete a generating station and have to make final payments of large amounts, they draw down the balance of $6 million. In that way, they can be assured of the interest rate which is prevailing, but do not have to pay for money which they are not going to use immediately.

The Underwriter's Spread

Turning to another topic, what is the spread at which these bond issues are sold? What has been the trend in that?

The spread is the compensation to the underwriter, or the cost to the company. It averages nowadays about half a point. In other words, about one-half of one per cent. Sometimes it has been as low as a quarter of a point, a quarter of one per cent.

The Indiana and Michigan Electric is an example of that. The spread was extremely low. A spread of a quarter of a point for underwriting an issue means that the investment bankers are getting the same compensation as if they merely executed an order for a customer on the Stock Exchange in buying the bond. Of course, in that case, they would be a broker and there would be no underwriting risk at all. But the competition has become so keen that underwriters have shaved this spread down to a point where in some cases they get no more compensation for buying the issue and holding it—$25 or $30 million of bonds—than they would if some customer called up and said, "Buy me ten bonds on the market" and, as a broker, the banker went out and filled the order and received compensation of a quarter of a point.

It seems as though that is an irreducible minimum. It is extremely difficult for investment bankers to show any profit when their spread approaches that low figure.

What is the purpose of this money that the utilities are raising?

I showed you that last year, 1949, there was a billion dollars of bonds sold for new money. There also can be refunding, that is, the sale of a new issue to retire an old issue. That is done if the old issue matures and it is necessary to raise the funds to pay it off, or if there is a substantial saving in interest to be gained by retiring the old issue.

In other words, if you have an issue that you are paying 3½% on, and you can call it in and sell a new issue on a 2.75—2¾%—basis it would be advantageous.

There has been considerable refunding. Back in 1945, 1946 and 1947 interest rates toward the close and after the close of the war dropped greatly, and there were very substantial savings to be realized. Bond refunding operations in 1945 by electric utilities totaled 1,200 million and was still 600 million in 1946 and 800 million in 1947. In 1948 there was only 100 million and last year, only 200 million, because most of the profitable refunding had been done. There wasn't much left that could be called advantageously.

This year, in the first six months, the bond offering picture was about like this, in millions of dollars:

	First Quarter	Second Quarter	Total
New Money	86	234	320
Refunding	36	175	211
Total	122	409	531

New money is money for new capital in the financial structure. So that the total new money, $300 million, compares with the total of a billion raised last year, but the refunding is more than the entire last year together.

Interest rates were favorable in the first half of the year and accounted for that pick-up in the refunding.

The relative decline in the sale of new money bond issues, $300 million compared to a billion over all of last year, or the rate of half a billion in the first six months of last year, is hard to explain in the light of the tremendous construction program continuing this year. It tends to suggest that there will be a lot more bond sales for new money during the remainder of the year in order to come up with something like the billion and a half or more that is necessary to finance the $2½ billion of construction.

Of course, bank loans are always a balancing factor, and they can be used to defer financing until the management feels that conditions are ripe for it. Of if conditions are ripe, a large bond sale my be accomplished with a major portion of the proceeds being used to pay off existing bank loans. The banks are very willing to lend money to utility companies for construction purposes, as long as they are cleaned up every now and then by a permanent financing.

The next question is what is the quality of these issues being sold?

Bond Ratings

The statistical services have ratings of quality which I think you are going to hear about at a later lecture. They start with triple A, as being the gilt-edged security, and they do down the line, Moody's symbols being Aaa, Aa, A, Baa, Ba and so forth.

The first three notches of quality are readily accepted by bond buyers. The fourth, the Baa, is of border-line investment quality. If an institutional bond buyer buys it, it may be subject to criticism. If a bank buys it, a national bank examiner will tend to criticize it, although it is permissible. Nothing below that is permissible for national banks to buy. That being the border-line issue, the bank examiners try to keep the Baa issues down to a minimum, and confine most of the bank's portfolio to issues with higher ratings.

So there is not much appeal in this Baa category. There are not many buyers for it. The field is limited. Consequently, the change in yield is pretty sizable at that level.

My firm compiles weekly averages of the yields on utility securities, and our index yesterday for triple A issues was 2.63% yield to maturity; double A was 2.66; single A was 2.76. We used to compile the Baa average, but there just are not enough issues of that type active enough to compile it, and there are no new ones coming along, but such few as there are out tend to sell at around 2.90 to 3.25 basis today. So you can see there is not much difference here on the yield on the three top grade categories. The typical Aaa bond might represent a company with a 40% or a 45% debt, double A a company with a 45% to 50% debt, and single A 50% to 55% debt. When you get to the Baa, you are running into a 60% to 65% debt ratio, and you get great resistance so there is a tremendous difference in yield as compared with the differences between the other groups.

Most utility issues are now rated A. The double A category are few and the triple A are fewer. The debt ratios, on an average, tend to be around 50% to 55%.

Terms of Bonds

What are the terms of these issues? How is the indenture written?

That is the agreement between the company and the fellow who holds the debt. If you are a home owner, it would be the terms of your mortgage with the bank, what you promise to pay off and when, what assurances does the bank, or the holder of that mortgage have that there will not be a tremendous increase in the debt or an increase in the contract of the borrower.

The indenture terms are very tightly written to protect the buyer. There has been a tremendous improvement in that over the last ten or twenty years. The indenture used to be a very loose instrument which had a lot of words but very little protection. It still has a lot of words, quite a few more than it had before, but I think it has a lot better protection, too.

Perhaps one of the first things a buyer would want to know is what is going to stop the issuer, the utility company, from selling so much more debt, so that my piece of paper isn't any good any more. I am satisfied if I am buying a $10,000 000 mortgage and there is $20,000,000 of property. I am satisfied now. I have a good deal. But, what is going to stop the issuer from borrowing another $10 million and putting it into the property? Then there would be $30 million of property and $20 million in debt and my position would deteriorate. I want some protection against the issuance of additional bonds.

A typical indenture today says that no more than 60% of additions to the property will be financed with new bonds, and 40% has to come up from equity, from sale of stock. So that, if I start out with this 50% debt relationship, I am not going to get any worse than 60%, and I am never going to quite reach that.

Let us say that the borrower wants to add $10 million in property. It is all right with me. He can only add $6 million of bonds and my position is not going to be greatly affected.

Now, he may retire some property; in fact he probably will. Property wears out. The generating plant becomes obsolete and is scrapped. Some of my $20 million here depends on some property that may be scrapped. How am I going to protect against that?

That is in there, too. The $6 million of additional bonds can be issued only against net additions to the property, additions less any retirements that occur. So he cannot issue bonds here against $10 million of property and then I find that meanwhile there is $5 million of property that is worn out. Instead of having $30 million for my $16 million of bonds, I have 25. He is stopped from doing that. If there is $5 million of property worn out, then only $5 million of net additions can be the basis for issuing more bonds, and 60% of that would only permit a $3 million bond issue.

Utilities Earnings

Property protection is fine. It is particularly important in the utility field because earnings tend to be regulated on the amount of property that the company has. But it is going to be the earnings I look to for protection, so how am I going to be protected, as a buyer, in knowing that there are going to be enough earnings after we issue some more bonds?

The indenture has that in there, too. It says that bonds will be issued only if the earnings are sufficient to cover the interest requirements on the debt, including any new bonds to be issued, at least two times. That is almost standard practice now. It never used to be in there at all. It started being in there at one-and-a-half times. Now, pretty generally, it is two times.

That gives you some protection, but it is not perfect. Most coverage ratios of interest are higher than two times, but the interest requirements on the debt outstanding and to be outstanding after any contemplated new financing must be covered by recent earnings at least twice, or else the bonds cannot be issued. So I am protected there.

Taking Care of Depreciation

Furthermore, the property not only may be retired occasionally, but it tends to wear out. It depreciates over a period of time. So let us go back to the original example and forget for a moment the issuance of additional bonds and see that this matter of depreciation is taken care of. This property may wear out at the rate of, say 2% a year just through normal processes of wear and tear and obsolescence. If that is the case, at the end of ten years this property won't be worth $20 million any more. It will have depreciated 2% a year, or by 20%, and will only be worth $16 million.

I would have $16 million in property as protection for my bonds but I am still sitting there with $10 million of debt, so far as I know. So, instead of having a 50% debt ratio, I have a 62½% debt ratio. My position has deteriorated.

How am I protected against that? Well, the lawyers dreamed something up and the buyers have insisted on it, so there now is a provision in the indenture usually called a "Maintenance and Renewal," or "Maintenance and Replacement Fund." In effect it is a stipulation. Without going through the legal language, the result of it is that a certain amount must be set aside each year for depreciation, this 2% a year, let us say, and that that money must go either into new property or into the retirement of bonds.

In other words, I say, as the holder of the bonds, I do not care particularly whether we come out at the end of the 10 years with $10 million of bonds still and $20 million of property or whether the property is depreciated to $16 million of value but the bonds have been pulled down to $8 million, as long as the relative position is maintained.

So the Maintenance and Renewal Fund says, as to the extent of the depreciation, "We will make it good by adding new property or else we will use the funds to retire bonds."

That is usually measured by a proportion of revenues or a proportion of the property account, which must be set aside initially for maintenance and secondarily for depreciation. Instead of just setting aside the 2% for depreciation, let us make it 3½% and say you have to spend it first on maintenance and anything left over you have to spend either for new property or buying in bonds.

Improvement and Sinking Funds

That protects me on that. But now there is one other problem, and that is these bonds fall due sometime and how do I know the company is going to be able to pay them off at that point? So I would like to feel that there is going to be an improvement in this situation all the time, with a view to the day 30 years hence when the debt falls due.

What can I require the company to do to protect me, from that angle? That is done through a Sinking and Improvement Fund. A straight sinking fund would be an agreement that a certain proportion of the issue would be paid off each year. Very probably 1%, may be half of 1%, maybe 1½% of the issue would be paid off each year. In that way, over thirty years, if it were 1% sinking fund, at least 30% of the issue would be paid off and I would be down to a 70% of the issue remaining. I am not assured that the company would be able to pay off that 70% of the issue, but at least it would be in a better position; and if the debt was reasonable in the first place it would be even more reasonable at that time. So that is a good protection for me—to know that the company is whittling away at this debt and not waiting and trusting that it will be able to pay off all at the end.

However, the company comes in at that point and the president says, "Look here, it doesn't make sense to us to be paying off the debt. We have to raise money We need to issue more debt and we are going to be issuing debt to build new property, and paying you off at the same time is sort of ridiculous. So we will make this kind of a deal with you. We will either pay off 1 % a year or else we will throw in enough new property, free and clear, so that you will have additional protection for your debt. In fact we will throw in more than 1% a year in property. Because, if we added 1% in property instead of retiring 1% in bonds, that would be the same as bonding at 100%. So we will put in more property and we will keep the relation of debt to property the same as it would be if we paid off 1% a year." Roughly, we might say that $1.66 of property will be added or else $1 worth of bonds will be paid off each year for every $100 of bonds outstanding.

That is the theory behind the bond indentures and the way the bond buyer is protected really pretty solidly now against any malpractice by the management, or imprudent financial management by the company over a period of years.

Fixing Selling Price of Bonds

Now, at what price can these bonds be sold? I already showed you something there, based on prices on July 20. I thought you might be interested in how this checks up with pre-Korea. As a matter of fact, there is not very much difference. Let us take March 30 of this year: The triple A bonds were on a 2.59 basis, the double A bonds were 2.61, the single A at 2.71, with a slight decline in yield from March 30 to a week or so before the outbreak of war and a further slight decline since then. It is relatively small.

To you and me the difference between 2.63% and 2.59% is meaningless, but to the bond buyer it is something. These yield indices are for mixed maturities, although they all tend to be between twenty-five and thirty years. They do not attempt to merge short-term and medium-term with long-term issues.

Those are yields on going issues. Of course, the new issue we may want to sell will be in competition with those outstanding, and, having a slightly longer maturity, we would have to price them a little more attractively. By and large, a typical single A issue can be sold today between a 2.75% and 2.80% basis to the public. Double A probably would be nearer 2.70 and for a triple A you would have a hard time getting under 2.70. So much for electric mortgage bonds.

Unsecured Debt Financing

Now, what other forms of financing are there?

There is unsecured debt. That may be in the form of debentures, which are merely unsecured long-term or medium-term obligations; may be in the form of serial loans maturing usually in equal annual amounts, generally over a period of ten or fifteen years, not one maturity twenty or thirty years hence; or may be in the form of term bank loans.

The banks, and to some extent the insurance companies, have gone into a medium-term loan business, loaning up to ten years, usually requiring a fairly sizable payment each year, and then an element at the end to be paid off at the final maturity at the end of the ten years.

Say the loan is for $10 million. There might be $700,000 due each year through the ninth year, which would retire $6,300,000, and then there will be $3,700,000 to be paid off at the end of the tenth year. That is the "balloon," to let you fellows in on the nomenclature of the trade. In this example it would be a 37% balloon. I don't know why it is a "balloon" but that is what it is called.

The interest rate on the equal annual payments and the balloon would be the same, probably set at 2¾% or 2½%. The balloon will rarely be more than 50% and it may be as little as 15%. This form of loan presupposes the ability to pay off those amounts annually. Very frequently the repayment will not start immediately because of a heavy construction program. In other words, there may be no payment for the first three years to give the company time to complete its construction, and then it will start a million dollars a year for six years.

Debenture issues have been of a wide variety. They were used rather frequently in 1948 and 1949 because the preferred market pretty nearly dried out. Preferred stock just could not be sold without putting on all the fanciest frosting possible. The institutions ceased to be buyers for preferred and individuals were steering pretty clear of the stock market in any form and were reluctant to take it. The utility companies could not keep on selling mortgage bonds indefinitely. They were beginning to spoil their ratings. When they get up into the double A and triple A categories, they do not want their ratings to drop a notch as they will if the proportion of debt gets higher. The preferreds were yielding relatively high rates.

Preferred Stock Yields
(Electric Utilities)

End of	1948	1949
First Quality	4.10%	3.85%
Second Quality	4.37%	4.06%
Third Quality	4.81%	4.46%

Moreover, there was no market for them. So debentures were sold in some quantity, usually with a fairly sizable sinking fund on an average, probably, of 50% sinking fund and 50% balloon.

It was cheaper than preferred money by a good deal, not only because it was 3% or 3½% or 3¾%, compared to maybe 4½% or 5% for preferred, but, also, the interest was deductible for income tax purposes; so the net cost was only 60% of the apparent cost. However, it added to the debt ratio, which, if it gets too high, tends to react unfavorably on all the company's securities. If, with a 50% debt, you put a 10% debenture issue on top of that, you have 60% debt, although 50% is mortgage bonds, and it gets to be something that the preferred holder worries about and the common worries about, and may begin to reduce the level at which all your securities sell.

There have been very few debenture issues of that type recently because the preferred market opened up again and companies could sell preferred. I am speaking of the last six months.

The only debenture issue in the last six months was one by Commonwealth Edison, which sold a 50-year issue, due 1% a year, thereby paying off the whole thing in fifty years. That was very unusual and exceptional. Nobody else has followed that But it had considerable appeal and sold very well with a 2¾% coupon rate on it. It is a very highly rated company.

American Gas and Electric sold an issue of serial debentures from 1952 to 1965, but there were no other financings of that type.

Natural Gas Pipe Line Bonds

Now, let us talk for a minute about natural gas pipe line bonds. There is not much difference in the financing worth mentioning between the natural gas distributing company and the electric distributing company Many electric companies are a combination. They do the electric business and the gas business, like Consolidated Edison, here in New York. But the natural gas pipe lines are a major development of the last six or eight years.

They have been and are coming into new markets, like the Northeast here, and the older ones, those that are 20 years old, like the Natural Gas Pipe Line Company of America, are doubling or quadrupling the capacity of their systems because their product now can be sold for less than the price of oil or coal.

They are a rule unto themselves financially. They have, after all, a perfect set-up from the view point of the investor. The line runs, say, from the Texas Gulf up to New York City, like Transcontinental Pipe Line, which is being built now. They contract for the gas at a fixed price down there and they contract to sell it at a fixed price up here. They get contracts down there for the supply of gas for 20 years and contracts up here to sell it to responsible buyers, like Brooklyn Union Gas and Consolidated Edison and Public Service of New Jersey, for 20 years. All they d is just run it through the pipe and that is the simplest process in the world. They have a very low labor ratio. They use the gas itself for fuel to drive compressors to push the gas along, and it is a duck-soup business. And from the viewpoint of the bond buyer it is pretty much duck soup, too It is a good product and it is sold under contract, and how can you lose?

The risk of the life of the supply down there must be undertaken, but the sale of the securities is always accompanied by geologists' reports stating that well established tests show that there is more than 20 years' supply of gas down there; and these bonds usually have a 20-year term. Usually the whole issue is paid off over the 20 years. There is nothing to it. So, just out o the price that they get up here they can pump the gas through and pay off the whole investment

Most of those issues have been sold privately. The insurance companies are rabid buyers. Because it is such a duck-soup operation, there has been a tendency to bond them up very high. And the one that meets the eye, if you open the paper this morning, is Texas-Illinois Natural Gas, which is going to run from the Gulf Coast up to Chicago and supplement the Chicago supply. Its financing was to be done with First 3½s of 1970 for 75% of the cost of the line, and 5% preferred for 10% of the cost; and common for 15% of the cost. It is a very shoestring kind of equity. That is a typical way the natural gas pipe lines are being financed.

There is a little wrinkle on this preferred which you might notice if you read that ad—I think it was in the paper this morning or yesterday—where these securities of Texas-Illinois were offered. They are sold in the form of notes and they are convertible into preferred when the line is built; by their terms, they then become preferred. If they sell them for preferred right now, they cannot pay any dividends because they are not earning anything. The line is only in construction and just being started. You cannot pay dividends except out of surplus. You cannot pay dividends out of capital. So that in order to be able to pay a return to the investor during this period of construction—these things have appealed to the individual investor who wants to get his return right away, not waiting a year or two—they say, "We will make them notes, and pay you interest." Of course, what they do is raise enough money so that they will be able to pay some of it back. As soon as the line is complete they change the notes over into preferred and pay you your 5% in the form of dividends, rather than interest.

There has been some evidence in the last couple of weeks that the Federal Power Commission is going to try to exert what pressure it can—it has jurisdiction over natural gas pipe lines—to keep this common equity ratio from becoming any more attenuated than it is now. This pipe line common equity is down to 15% and the debt is up to 75%, whereas I told you that for electric utilities 50-25-25 is the standard. The FPC has no jurisdiction over the issuance of securities by these pipe line companies. It is trying to get that jurisdiction through the Crosser bill, but the bill has not been passed. So, meanwhile, the FPC is somewhat restricted in regulating the financing of these companies.

Nobody else has jurisdiction. They are an interstate facility; they are not under any state jurisdiction. But the other day El Paso Natural Gas received approval to build a line from New Mexico over to California, and the FPC said, "We approve the line on condition that you change your financing plans, which call for reducing the common equity down to 10% and having a 90% senior structure, on condition that you have not over 75% of debt and at least 15% of common."

That is a kind of a dodge in the regulation of financing. The New York Commission used that for a number of years here. The company would go in to issue some securities and the New York Commission would say, "We approve the issuance of the securities on condition that you change your depreciation reserve from a 20% to a 35% reserve." The Commission knew it had jurisdiction of one but not the other. They made the other a condition of the issuance.

I do not say this is a legal precedent, but that was ultimately tested by Rochester Gas and Electric and it was voided by the courts. They were not permitted to attach a condition. That was a state decision. But the FPC is trying it in this other manner of not permitting the construction of the facility unless the financing conditions are met. So we will see what happens.

On the other hand, you can show by dollars and cents that the line will pay out. You may have difficulty in showing that on the preferred and common, if you run at too low a load factor on these lines. They have been running at 95% to 100% load factor, but if the price of coal or of oil ever gets down to a competitive level, natural gas pipe lines maybe will not run at a 95% load factor but fall off to 75%, which might be permissible under the contracts. This would still pay off the mortgage holders, but it might not do so well for the preferred. Usually pipe line preferred stocks have a sinking fund to clean it up

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Trends in Public Utility Financing

in twenty-five or thirty years. So much for natural gas.

The Telephone Industry

Now for the telephone industry: Just briefly the pattern of financing is for much longer terms. Thirty-five to forty years is quite frequent. I cannot tell you why that is. The life of the property is not any longer than electric utility, based on the amount they set aside for depreciation. If anything, it is shorter. Certainly, from the viewpoint of obsolescence, there has been greater improvement in telephone technique, and I would not want to bet that the technology will be any slower in developing in the telephone industry than the electric. But investors, institutional investors, have been content to go out much more than twenty-five or thirty years on telephone bonds. Because they are willing the telephone company is willing. So it borrows for longer periods.

The Bell System subsidiaries generally have financed, in recent years, not through mortgage bonds but through debentures. That is a new development and it is a little different from the electric company debentures we have been talking about, because there is no mortgage bond ahead of them in many, in fact, in most, cases.

Take a company like Southern Bell Telephone and Telegraph, which serves all the states down in the Southeast. I don't know how many hundreds of counties they serve and have property in. If they are to draw up a mortgage, as you know, if you ever had a mortgage on your house, it is advisable to register the mortgage with the county clerk. Well, Southern Bell would have to register the mortgage with hundreds and hundreds of county clerks and the mortgage would have to be three inches thick to spell out all the property under it, and every time a piece of property is sold and another piece bought it has to be cleared with the mortgage trustee. It is a very cumbersome instrument.

If you, as a buyer, know that no mortgage can be put ahead of you in your unsecured debenture position, you are in as good a position as a mortgage. And so the telephone company now just puts in what is called a negative pledge clause. "We hereby declare that we will not pledge any of our assets unless these debentures are equally secured." And that protects you. "We won't go out and hock the property from under you, from under your debenture position, but if we do you will come into a secured position, also." So that makes it a simple instrument to finance with and it gives it practically the same protection as a mortgage on the property.

Talking of the telephone leads us into the subject of convertible securities, of which the telephone company has been in the forefront.

A typical telephone convertible issue is made through rights to its stockholders. A recent one was a 10-year 3⅛ 1959, convertible into common stock on the basis of a price of 140. The way it works is a little different from the usual convertible security. Instead of just taking your debenture, your $1,000 debenture, and seeing how many shares you would get on the basis of a price of $140, they say, "We will give you 10 shares of common if you give us a $1,000 debenture and $400 in cash." So you have a $140 conversion price but you have to put up some cash to do it.

That is a very handy instrument to the phone company in this period. They, too, are spending billions of dollars for construction and this means that every time a debenture is converted some cash comes in to the company. They get $1,000 when they sell the debenture and another $400 when it is converted.

There is a constant tendency for those debentures to be converted. In general, the sharp traders are in there taking advantage of any difference in price between the common and the convertible, selling the common and buying the convertible, rushing over to the phone company, paying in the $400, getting it converted and delivering the stock that they bought to satisfy the sale of the common.

That pulls down the debt ratio, which is too high for the phone companies now. They feel that a 30% debt ratio is as high as they would like to go. They had a 30% debt ratio when they started this construction program in 1948 and it is very much more than that now, because they have not been able to sell enough common. With over 25 million shares of AT&T common outstanding, and with a typical rights offering in the utility common field on the basis of one new share for each 10 held, if the Telephone Company were to sell common 1 for 10, they would be selling 2½ million shares at $100 a share; that would be $250,000,000.

Every time they do a financing it is a very big transaction, and it is very difficult to find that kind of money. This way they sell the convertibles to their own stockholders to the extent that the rights are taken up, and to a very considerable extent to institutions who buy rights and exercise them and become owners of convertibles. And there has been a tremendous wave of conversions. Something like a billion dollars' worth of telephone convertibles have been converted.

Preferred Stocks

In the method of sale, the first six months there were 35 issues sold publicly; only three privately. That is for all utilities of all types, electric, natural gas, telephone. So the private sale is not much of a factor in the utility preferred field.

In preferreds, the appeal is somewhat to the institutional buyer, but when you begin to get into 4% and 4½% you can appeal somewhat to the individual buyer there, too, to individual trust funds, and you begin to sell to a little wider market.

The necessity of selling, particularly middle grade issues, to the individual buyers means that there must be a wider compensation to the underwriter. If he has to go out and sell 25, 50 and 100 share lots it is going to cost him some money and time, with salesmen making calls and so forth. So the spread on preferred sales tends to be very much wider than on bond sales, particularly in the lesser quality issues. The very highest grade preferreds can be sold fairly readily to institutions.

So the spread, which we found was a quarter of 1 per cent minimum up to a half per cent average on the bonds, ranges around 1½ to 2½ points on preferred, although mostly under 2%. But one recent issue, I believe it was the last preferred issue that has come out this year, except for this Texas-Illinois Pipe Line, was Rockland Light and Power, the utility across the Hudson. There was a $2.75 spread on that, 2.75%, approximately, which gives the underwriter enough compensation so that he can pay dealers pretty well. And it pays his salesmen to go out and find buyers for it.

What are the protective provisions in the preferred charter? They appear there in the corporate charter of the company, similar to the indenture. The answer is very little; there is not very much. There is one provision that has become quite common, called the "ABC Clause", another child of the Securities and Exchange Commission. It says, as I recall it, that the company will not declare more than 75% of the earnings on the common out in dividends, if the common equity is less than 25%—there is our rule of thumb—but over 20%. In other words, if a utility has let its common equity ratio deteriorate to the point where it is between 20% and 25% of total capitalization, they agree they will not pay out more than 75% of the earnings to the common and the balance of 25% of earnings will go into the surplus account and tend to build up this common equity ratio. As soon as they get up over 25%, then they can pay up 100% of the earnings or 110%, as long as they don't get under 25. Secondly, they covenant that under 20% they will not pay out more than half of the earnings. In other words, if they let the common equity ratio get down to under 20% of total capitalization, they agree to plow back an additional sum. So that is a little protection for the preferred stockholders.

There is often a clause that limits the unsecured debt that can be issued by the company to 10% of total capitalization. That was put in with the idea that temporary bank loans should not get out of hand; and it is of questionable merit because, the way it has been worded, it applied to debentures, also. Furthermore sometimes it gets pretty difficult to finance unless you resort to bank loans for a time. In a small company, particularly, 10% of the capital may not be a very large amount. A ten million dollar utility is limited to a million dollars and a million dollars is not very much of a financing operation. They might wait until they can do three millions, because several small financing operations are so expensive.

Some of these unsecured debt clauses have been modified to allow specific exemptions for longer-term debenture issues or temporarily for bank loans, so that this is of decreasing importance, I would say, and does not afford any too much protection, anyway. It may be to the best interest of the preferred to incur a little more unsecured debt.

Preferred sinking funds are rare. That was one of the frostings on the cake that had to be put on in order to sell a preferred issue in the 1948-1949 period, when the market was unreceptive, but now it is quite infrequent to see a preferred sinking fund unless you have a wasting asset business, like the natural gas pipe line, or a very second-rate sort of preferred, where every bit of dressing has to be put on it in order to make it saleable.

How much preferred financing has there been?

Well, there was only a couple of hundred million dollars in 1949. In the first six months of this year there was a couple of hundred million. There was 143 million of electric utility financing by preferred stocks for new money and 75 million for the purpose of refunding. So this year the utilities already have sold almost as much as they sold for new money last year. But in the last month that market has tended to dry out because it is pretty hard to sell them now, with a couple of issues that did not go over well and with a block of three issues, a rather sizable amount, that the company refused to accept bids on because they felt the yield was so high, and it is a dead market at the moment. It is not a feasible source of capital now.

Utility Common Stocks

For common stocks, let us refer now to the pamphlet I distributed to you, for a minute.

The electric utilities have common stocks with a market value, as distinguished from the value on the books, in the order of $6 billion. That is in public hands. Then there are some issues still held by holding companies which have not been disgorged yet, under the SEC jurisdiction, probably something in the order of half a billion there. That half billion will come out into public hands as holding companies are wound up under the jurisdiction of the Securities and Exchange Commission. Some of that will be sold for cash. The greater part of it will be distributed to holders of the holding company securities.

In other words, take the North American Company. It is going out of business. But it has only one sizable remaining subsidiary, Union Electric of Missouri, and the holder of North American will find that he is the holder of Union of Missouri common rather than North American common. There is not much of that sort of divestment yet to come.

Let us look at the very front part of this article that I wrote, on page 5, on the table there. You see the offerings in 1949.

This dealt with the method of selling. There were six principal methods which may be followed. First, offerings may be through rights to present holders, or offerings may not be through rights, where the present holders do not have any preemptive rights to purchase new issues, and the underwriter sells it in the open market to other investors or anybody who wants to buy.

Then, if it is a rights offering, it may or may not be underwritten. Clearly, if the offering price is set far below the existing price, the underwriting becomes a futile gesture. Pacific Gas and Electric always had a tradition of selling its common for par value, $25. The market might be up to $35. Well, the offering of the rights will dilute the market price down slightly, maybe to $34, but still, clearly, anybody who exercises the rights would get something at $25 that he could sell for $34. If he did not exercise it he would sell the right, which itself would have a value of a dollar or two. So that there wouldn't be any need or sense of an underwriting in that sort of situation.

On the other hand, if the price is $35 and you are the sort of company that needs every nickle you can get, you might price it at $33. In that event, a 10% decline in the stock market, or even a 6% or 8% decline would eliminate any value that the rights had and you would have no money at all. Nobody would exercise. There wouldn't be any sense in buying something at $33 if the market was $31 or $32.50. Better go out and buy at the market. So the necessity of underwriting varies with how close to the market the issue is priced.

If you look down at the little table here, you will see that the most popular method was rights offerings, underwritten and on a negotiated rather than competitive basis. In other words, the company went to an investment banker and said, "We would like to sell some common. Would you underwrite it, and what will you take?" The next in popularity was the same sort of rights offerings but probably priced well under the market, and no underwriting at all.

The rights offerings by competitive bidding were only 10 out of a total of 86 offerings. That was probably all by companies under the jurisdiction of the Securities and Exchange Commission, which required competitive bidding. But competitive bidding has not worked out well in the sale of common stocks. If you ever get around to reading this pamphlet you will see some reasons why: The time factor, the necessity of educating more people in buying common stock than in bonds. There are a lot of cumbersome problems in the sale of a common that are minimized if you negotiate it.

Generally, the commons are not sold competitively unless the company is forced to. You will see the total competitive sales here would be Method No. 3 and No. 5, only 16 out of 86 in 1949. The pattern was generally followed about the same way in the first six months of this year. By the No. 1 method, rights offerings not underwritten at all, there were eleven of those in the first six months compared to fifteen in all of the last year, just on the new money side of the picture.

There were five rights offerings not underwritten, but with a commission to dealers for subscriptions exercised, compared to eight in 1949. In that sort of deal there is no underwriting as such in that the investment bankers do not buy the issue and resell it. The company recognizes that the small investor is more likely to exercise a right if someone goes to him and explains, and tells him what it is all about. He says, "Sign this and give me a check," and it is all done. So they give the dealer twenty-five or thirty cents a share if he can go out and contact the stockholder and get him to exercise his right. They have found it a fairly effective way of getting in touch with the common holder, so that he comes through.

Rights offerings underwritten after competitive bid: Only one of those in the first six months of this year, and ten in 1949. As I told you, it is not a popular way, except when the SEC insists upon it.

Rights offerings underwritten on a negotiated basis: Thirteen compared to thirty.

Nonrights: First, a straight offering of common by the company underwritten on competitive bid, five in the first six months; six last year. And nonright offerings on a negotiated basis rather than competitive, nine of those out of a total of 44 offerings, in the first six months. In general, the pattern is about the same as in 1949.

The fourth method is the most popular and the first and sixth are next, and the other three have relatively few followers.

How much of this is there? In the first six months, again, we had, compared to our $340 million last year, $205 million. There was $80 million of divestments. A divestment is a sale by an existing stockholder, such as a holding company which is being forced to liquidate. A major divestment, this spring, was by the Philadelphia Company, which sold Equitable Gas for forty-odd million dollars. It used the proceeds to retire is own debt. So here, this year, the utilities have raised a couple of hundred million dollars in the first six months compared to 340 last year, and probably a need of 350 a year to finance this construction budget, so they were ahead of schedule in the first six months. But the way the market is now it would be impossible to do anything and it would be a question whether there is very much common sold from here on out for the remainder of this year, unless the market stabilizes or improves somewhat, and that is going to make it difficult for the industry.

It probably will tend to result in more bank loans, maybe a recurrence of the unsecured debenture method and heavier debt ratios; and that is what we will see until we have a good common stock market.

Continued from first page

Investment Companies on The Eve of World Crisis

effects persist long after the immediate emergency is past and eventually cause much higher commodity price levels. . . . It is the belief of the management of your fund that the present situation alters considerably the outlook for different industries. In general the heavy industries are likely to be favorably affected, and increased inflationary dangers emphasize the importance of holding stocks in the commodity industries, for example oil. The outlook for some types of consumers' goods, on the other hand, has been made more uncertain . . ." Mr. Axe also mentions the favorable position in a war economy of transportation stocks and the aircraft equities.

Carl A. R. Berg of the Mutual Fund of Boston also stresses the inflationary aspect of the present economy. In his quarterly report to stockholders, he states: ". . . Over the nearer term it may appear that there is considerable risk in owning common stocks. However, from a long range view point, it would seem equally hazardous to hold bonds or cash because a further depreciation in the purchasing power of the dollar appears to be inevitable. . . ."

A similar note is also sounded by the trustees of the Shareholders' Trust of Boston in their report to shareholders dated July 20: "The tense international situation and the inflationary forces at work in our economy have important considerations in the selection of the industrial common stock investments, with a result that a substantial proportion of these commitments is in companies operating in basic industries and controlling their own sources of raw materials. . . ."

A Contrary View

In contrast to the emphasis placed in this inflationary direction, it is of particular interest to note the statement of John H. G. Pell, President of the Wall Street Investing Corp. and Vice-President of Pell de Vegh Fund, in his quarterly letter to the stockholders of the former trust. Mr. Pell stresses the value of the fund's liquid reserves: ". . . From the inception of your corporation at the end of 1945 to the present time, your directors have followed the policy of holding a substantial reserve in short-term U. S. Treasury securities and cash. The logic back of this policy has been a conviction that the world has not shaken down to the kind of peaceful prosperity which justifies a fully invested position. Military, as well as economic, storms can develop suddenly and unexpectedly; in such times, both elasticity and safety are enhanced by maintaining a reserve in highly liquid securities and cash."

Sales Stepped Up

Investment companies stepped up their sales during the second quarter of the year, decreasing to 20% the margin by which such transactions were exceeded by purchases. During the second quarter of 1949, purchase transactions for trust portfolios were 85% greater than sales. Reports of over-all purchasing on balance during the last week of June, following the outbreak of the Korean conflict, would seem to indicate that much of the selling occurred before the market break of that period.

In addition to the utilities and oils, the building and chemical industries were again well liked. Purchases were double the number of sales in the electrical equipment issues and textiles were favored. Opinion was divided in the merchandising group, as in the previous period, but bearish sentiment now predominated slightly in the nonferrous metals.

Sales continued to outweigh purchases in the steel issues, although volume was not heavy. Managements were also inclined to dispose of companies in the food field. Volume of selling was heaviest in the utility and petroleum stocks as during the first quarter of the year, but, of course, was exceeded by the purchases in these groups. As in the total portfolio transactions, the gap between buying and selling transactions in the oil group narrowed considerably.

Although half of the open-end common stock funds and two-thirds of the closed-end companies covered in this survey decreased their cash reserves during the period, many were still able to maintain a relatively comfortable protective position. In certain instances, there were special reasons for this reduction in ultra liquidity. Affiliated Fund paid off its $24 million bank loan during the period and still only decreased its net cash position by $8 million. Lehman Corporation required an extra $4½ million to pay its capital gain distribution by its fiscal year-end date on June 30. Blue Ridge Corporation repaid a $2 million loan. Of course some open-funds used such cash along with new money to make purchases on balance of portfolio securities. State Street Investment Corp. used part of such cash reserves to buy on balance, but still maintained 20% of its assets in cash and governments.

Balanced Funds Add Cash

Certain of the open-end balanced funds added sizable amounts of cash and equivalents to their assets. American Business Shares increased liquidity by $4 million and Investors Mutual upped reserves by almost $3 million. The most sizable addition was made by Wellington Fund, however, which increased net reserves by $5½ million to $25 million.

Additions to portfolios of lesser known issues included the following: Dobeckmun Co. by Commonwealth Investment; Sprague Electric Co. by the Mutual Fund of Boston; Cincinnati and Suburban Bell Telephone Co. by Wellington Fund; Filtrol Co. of California and Globe-Union, Inc. by Wisconsin Investment Co.; Spencer Chemical also by Wisconsin and Bullock Fund; Clinchfield Coal Corp. by the Bowling Green Fund; Honolulu Oil Corp. by Lehman: Signal Oil and Gas "A" also by Lehman, Capital Administration, National Investors and Selected Industries; Mathieson Hydrocarbon Chemical by General Public Service; and Seeger Refrigerator Co. by Overseas Securities.

The Utilities

One of the top favorites among the utility issues during the period was American Telephone; seven trusts purchased 5,600 shares, two of which represented new commitments. A like number of funds added 47,440 shares of Virginia Electric and Power; there were no sales. Six managements added 28 000 shares of Central and Southwest Corp. This was partly counterweighted, however, by liquidation in four portfolios of 14,700 shares. Consolidated Edison continued its popularity of the previous quarter, five companies adding 35,000

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Balance Between Cash and Investments of 61 Investment Companies

End of Quarterly Periods, March and June, 1950

	Net Cash & Gov'ts Thous. of Dollars —End of—		Net Cash & Gov'ts Per Cent —End of—		Invest. Bonds & Preferred Stocks Per Cent * —End of—		Com. Stks. Plus Lower Grade Bonds & Pfds. Per Cent —End of—	
	Mar.	June	Mar.	June	Mar.	June	Mar.	June
Open-End Balanced Funds:								
American Business Shares	9,639	13,880	27.7	41.0	12.4	5.5	59.9	53.5
Axe-Houghton Fund	622	976	6.0	9.2	5.9	5.6	88.1	85.2
Axe-Houghton "B"	1,790	2,147	17.2	17.9	13.9	12.6	68.9	69.5
Boston Fund	7,551	7,253	14.8	13.8	25.6	27.0	59.6	59.2
Commonwealth Investment	1,486	1,737	10.1	10.1	18.7	19.8	71.2	70.1
Eaton & Howard Balanced	3,482	3,698	6.4	6.7	30.5	30.3	63.1	63.0
Fully Administered Fund	1,008	858	21.1	17.8	14.2	14.4	64.7	67.8
General Investors Trust	228	287	11.6	14.3	5.2	4.9	83.2	80.8
Investors Mutual	24,087	21,299	12.7	10.9	22.5	26.3	64.8	62.8
Johnston Mutual Fund	160	198	27.3	29.2	12.7	13.9	60.0	56.9
‡Mutual Fund of Boston	193	94	11.1	6.0	34.0	27.7	54.9	66.3
National Securities-Income	489	543	2.9	3.2	16.8	17.5	80.3	79.3
Nation Wide Securities	2,061	2,175	14.3	15.0	37.7	36.2	48.0	48.8
Nesbett Fund	109	107	19.4	19.0	24.8	23.2	55.8	51.8
George Putnam Fund	3,409	3,832	9.0	10.1	22.4	20.0	68.6	69.9
Scudder Stevens & Clark	†	6,551	†	21.2	†	25.8	†	53.0
Shareholders Trust of Boston	304	246	5.6	4.8	30.1	26.1	64.3	69.1
Wellington Fund	19,554	25,098	16.4	19.9	18.7	18.0	64.9	62.1
Whitehall Fund	109	32	8.8	2.6	41.4	44.9	49.8	52.5
Wisconsin Investment Co.	245	199	11.1	8.8	3.2	None	85.7	91.2
Open-End Stock Funds:								
Affiliated Fund	11,550	3,371	9.0	3.4	0.2	0.3	90.8	96.3
Bowling Green Fund	70	129	11.1	20.6	1.4	7.5	87.5	71.9
Broad Street Investing	397	511	3.0	3.8	5.0	4.5	92.0	91.7
Bullock Fund	829	1,345	10.8	17.5	1.1	0.8	88.1	81.7
§Delaware Fund	243	126	5.2	2.4	17.8	11.8	77.0	85.8
§Dividend Shares	8,402	8,665	10.7	11.1	2.2	2.1	87.1	86.8
Eaton & Howard Stock	710	670	17.9	14.8	1.0	2.4	81.1	82.8
Fidelity Fund	1,493	1,566	4.3	4.5	1.4	1.2	94.3	94.3
First Mutual Trust Fund	385	64	10.4	1.8	32.2	43.2	57.4	55.0
Fundamental Investors	3,723	3,039	6.0	4.7	None	0.4	94.0	94.9
General Capital Corp.	1,154	1,442	10.9	13.7	None	None	89.1	86.3
Incorporated Investors	5,224	4,030	3.8	5.3	None	None	93.2	94.7
Institutional Shs.—Stk. & Bd. Group	349	92	14.6	4.0	None	None	85.4	96.0
Investment Co. of America	1,437	1,304	17.8	15.4	None	None	82.2	84.6
Investors Management Fund	506	432	4.8	4.1	None	None	95.2	95.9
Knickerbocker Fund	747	1,176	6.7	10.6	None	None	93.3	89.4
Loomis-Sayles Mutual Fund	2,513	2,477	39.5	33.0	8.0	8.5	52.5	55.5
Loomis-Sayles Second Fund	3,798	3,559	38.5	36.5	6.5	6.5	55.0	57.0
Massachusetts Investors Trust	9,231	8,398	3.1	2.8	None	None	96.9	97.2
Massachusetts Investors 2nd Fund	314	436	1.6	2.2	None	None	98.4	97.8
Mutual Investment Fund	96	113	12.1	14.3	27.3	35.3	60.6	50.4
National Investors	296	283	1.5	1.5	None	None	98.5	98.5
New England Fund	524	711	16.6	22.3	3.5	3.5	79.9	74.2
Republic Investors	103	319	5.7	15.8	None	0.5	94.3	83.7
Selected American Shares	1,538	1,009	9.4	6.1	0.6	0.6	90.0	93.3
Sovereign Investors	11	22	2.9	6.1	18.5	10.7	78.6	83.2
State Street Investment Corp.	21,255	15,731	26.7	20.0	None	None	73.3	80.0
Wall Street Investing Corp.	413	414	23.9	21.7	1.8	2.7	74.3	75.6
Closed-End Companies:								
Adams Express	4,501	3,807	11.2	9.5	None	None	88.8	90.5
American European Securities	617	755	7.0	7.9	12.6	9.3	80.4	82.8
American International	2,053	1,782	10.9	9.4	None	None	89.1	90.6
Blue Ridge Corp.	7,758	6,798	21.5	20.6	0.4	0.4	78.1	79.0
Capital Administration	498	391	6.0	4.8	9.6	13.4	84.4	81.8
General American Investors	9,295	9,249	22.5	22.6	2.4	2.4	75.1	75.0
General Public Service	2,465	1,432	23.7	15.2	None	None	76.3	84.8
Lehman Corporation	19,671	12,813	18.5	13.0	0.2	0.2	81.3	86.8
National Shares Corp.	1,827	1,452	17.3	14.1	4.2	3.8	78.5	82.1
Selected Industries	2,185	1,861	4.4	3.8	10.4	11.8	85.2	84.4
Tri-Continental Corp.	3,393	3,656	5.2	4.9	10.8	12.8	84.0	82.3
¶U. S. and Foreign Securities	1,971	1,955	5.1	5.0	None	None	94.9	95.0
U. S. and International Securities	6,637	7,970	16.0	18.9	None	0.4	84.0	80.7

*Investment bonds and preferred stocks: Moody's Aaa through Ba for bonds; Fitch's AAA through BB and approximate equivalents for preferreds. †No interim reports issued to stockholders on this date. §March figures revised. ¶Portfolio exclusive of securities in subsidiary or associated companies. ‡Name changed from Russell Berg Fund.

SUMMARY

Change in Cash Positions of 62 Investment Companies

	Plus	Minus	Unchanged	Totals
Open-End Companies				
Balanced Funds	12	7	1	20
Stock Funds	11	14	3	28
Closed-End Companies	2	9	3	14
Totals—All Companies	25	30	7	62

Continued from page 29

Investment Companies on The Eve of World Crisis

shares, one of which represented a new commitment; there were two sales of only 2,600 shares. The same number of trusts increased holdings of New York State Electric and Gas Corp., and in this instance also two funds sold. Three initial purchases were made of Toledo Edison, totaling 26,800 shares. Brooklyn Union Gas was also bought by three managements. Other issues favored by the same number of funds were Kansas Power and Light, Northern States Power, Pennsylvania Power and Light and Wisconsin Power and Light. Several other issues were acquired in large part through rights. Iowa Power and Light was received as a liquidating distribution from United Light and Railways. (58,500 shares of this latter issue were sold by three trusts.)

American Gas and Electric and Consumers Power were the least popular issues among this group, five funds selling each; there were also two purchases of the latter utility, but none of the former. Four funds disposed of shares in Public Service Electric and Gas and St. Joseph Light and Power; in each instance three of these sales represented complete eliminations from portfolios. Issues to be sold by three managements were Cincinnati Gas and Electric, Detroit Edison, Florida Power and Light, Montana Power Co., Philadelphia Electric, Public Service of Indiana and Texas Utilities Co.

Oil Stocks

The three most popular issues in the petroleum group were the same stocks which were top favorites in the March quarter. Eight managements added a total of 10,050 shares of Continental Oil; one represented an initial purchase. Half as many funds, however sold the same total amount of stock. Gulf Oil, one of the other continuing favorites, was purchased by seven trusts; in this instance there were also offsetting sales by four companies. However, Standard of Indiana, likewise bought by seven managements, had liquidation of only one small lot of 125 shares. Atlantic Refining, too, maintained its previous quarter's popularity, six funds adding a total of 17,000 shares of which three represented new commitments. Five trusts purchased 12,600 shares of Standard of California; there was one sale of a block of 9,000 shares. The same number of managements committed themselves in Cities Service; 1,100 shares were eliminated from one portfolio. Chicago Corp., Sinclair Oil and Texas Pacific Coal and Oil were each bought by four trusts. There was surprisingly little concentrated selling in the group. Liquidation centered on Phillips Petroleum, seven funds disposing of 11,700 shares; these were offset by two purchases in small blocks. Selling also predominated in shares of Ohio Oil, six managements liquidating 22,600 shares. There were, however, four purchases, three of which represented initial commitments.

Mississippi River Fuel and Northern Natural Gas received most favorable attention among the natural gas issues, but their acquisition was facilitated through rights. Ten managements purchased 9,200 shares of Peoples Gas Light and Coke partly through rights; sales by two funds totaled 1,500 shares. American Natural Gas was added to five portfolios; there were three offsetting sales. United Gas was liked by six trusts and Panhandle Eastern Pipeline by four. Opinion was divided on Columbia Gas, there being five transactions on each side of the market. Even less concentrated liquidation was apparent in the natural gas issues than in the petroleum group.

The Building Issues

National Lead was the favorite among the building issues. Six managements purchased a total of 22,000 shares, of which three were new commitments. Next in popularity was Johns-Manville, 6,500 shares of which were bought by five funds; two managements, hower, sold a total of 21,800 shares. Flintkote was liked by four companies which added 14,700 shares to their portfolios; there was one small sale of a lot of 300. Three trusts made initial purchases of American Seating and a fourth added to shares already held. Offsetting liquidation was absent. Four funds also bought Holland Furnace while three made new commitments in Otis Elevator. Three managements also added 16,400 shares of American Radiator; there was one sale of a block of 10,600 shares. Recent enthusiasm had cooled down for the acquisition of additional holdings in the cement industry, there being only one concentrated purchase of 4,500 shares by two trusts in Alpha. In contrast, two funds sold 1,650 shares of Medusa Portland Cement, one of which eliminated the issue from its portfolio. Four companies also sold 7,900 shares of Mueller Brass.

Union Carbide received a prior rating among the chemical issues, seven funds adding a total of 35,190 shares; two made initial purchases. Sales were made by five other trusts. Also well-liked was American Cyanamid common, the convertible preferred issue of which was also added to several portfolios. Seven companies purchased this junior equity and the same number of trusts added to holdings of Dow Chemical; one of these represented a conversion from the preferred issue of the latter company. While there were some offsetting sales in the Cyanamid and Dow issues, five purchases of Monsanto totaling 9,600 shares were not counterbalanced by any liquidation in that stock. Three managements made purchases in Eastman Kodak and also Hooker Electrochemical. There were also two new commitments in Spencer Chemical. Some selling occurred in du Pont, although it was comparatively light. Five managements disposed of 13,150 shares; three others made additions of 7,000. Allied Chemical was lightened in two portfolios and eliminated from a third; there was one small initial purchase. Atlas Powder and Commercial Solvents were also each sold by two funds.

Electrical Equipments

Westinghouse was added to ten portfolios, making it the most desirable issue during the quarter among the electrical equipment manufacturers; 46,900 shares were purchased, five trusts making initial commitments. Five sales, however, totaled 53,000 shares. General Electric was also popular, six trusts adding 19,700 shares; there were four sales. By contrast there was no liquidation in Radio Corp. which was increased in four portfolios. Cutler-Hammer was also favored by purchasers. Three funds sold Philco and two liquidated 28,200 shares of Emerson Electric Manufacturing.

The two major finance companies were liked by trust managements but purchases were not in as heavy a volume as during the previous quarter. Five funds purchased a total of 3,800 shares of C. I. T. Financial Corp., one of which represented an initial commitment; there were two sales. 1,800 shares of Commercial Credit were added to three portfolios while there was one offsetting sale. Three companies also made purchases of Associates Investment, two of which were initial purchases. Household Finance and

Changes in Common Stock Holdings of 45 Investment Management Groups

(March 31-June 30, 1950)

Transactions in which buyers exceed sellers—or sellers exceed buyers—by two or more management groups. (For example, Johns-Manville is listed below as a purchase since five managements bought and only two sold, although volume of shares disposed of exceeded the amount acquired.) Issues which more managements sold than bought are in italics. Numerals in parentheses indicate number of managements making entirely new purchases or completely eliminating the stock from their portfolios.

—Bought— No. of Trusts	—Bought— No. of Shares		—Sold— No. of Shares	—Sold— No. of Trusts
		Agricultural Equipment:		
7(1)	39,800	International Harvester	500	1
2(1)	*2,200*	*Caterpillar Tractor*	*21,700*	*4(2)*
2(1)	*2,300*	*Deere and Co.*	*33,200*	*6(2)*
		Auto and Auto Parts:		
5	14,700	Doehler-Jarvis Corp.	3,600	3(1)
6(2)	11,200	Libbey-Owens-Ford Glass	7,800	2(1)
2(2)	7,500	Mack Truck	None	None
2(1)	1,200	Motor Products	None	None
2	5,000	Studebaker	None	None
None	*None*	*Briggs Mfg.*	*2,900*	*2*
5(3)	*6,900*	*General Motors*	*50,500*	*10*
		Aviation:		
7(4)	7,400	Bendix Aviation	12,000	3(2)
2(2)	12,000	Grumman Aircraft	None	None
4(1)	8,200	Lockheed Aircraft	15,000	1(1)
1	*2,000*	*Eastern Airlines*	*20,000*	*3(1)*
None	*None*	*Sperry Corp.*	*2,800*	*4(1)*
		Beverages:		
1	*900*	*Distillers Corp.-Seagrams*	*24,700*	*4(1)*
1	*1,000*	*National Distillers*	*12,700*	*4(2)*
		Building Construction and Equipment:		
2	4,500	Alpha Portland Cement	None	None
3	16,400	American Radiator	10,600	1
4(3)	3,000	American Seating	None	None
4(1)	14,700	Flintkote	300	1
4(3)	8,500	Holland Furnace	3,500	2(1)
5(2)	6,500	Johns-Manville	21,800	2(1)
6(3)	22,000	National Lead	30,300	2(2)
3(3)	3,200	Otis Elevator	None	None
None	*None*	*Medusa Portland Cement*	*1,650*	*2(1)*
None	*None*	*Mueller Brass*	*7,900*	*4(1)*
		Chemicals:		
7(5)	24,400	American Cyanamid	10,400	5(2)
7(3)	10,180	Dow Chemical [1]	5,200	3
3(1)	18,580	Eastman Kodak	2,500	1
2	3,500	Freeport Sulphur	None	None
3	9,600	Hooker Electro-Chemical	None	None
5	9,600	Monsanto Chemical	None	None
2(2)	4,400	Spencer Chemical Co.	None	None
7(2)	35,190	Union Carbide	15,100	5(3)
1(1)	*200*	*Allied Chemical & Dye*	*3,600*	*3(1)*
None	*None*	*Atlas Powder*	*1,110*	*2*
None	*None*	*Commercial Solvents*	*8,600*	*2(1)*
3	*7,000*	*DuPont*	*13,150*	*5(1)*
		Containers and Glass:		
3(1)	6,000	American Can	100	1
6(2)	21,900	Continental Can	6,200	4(2)
3(1)	4,500	Owens-Illinois Glass	500	1(1)
None	*None*	*Corning Glass Works*	*5,200*	*2(1)*
		Drug Products:		
4	3,150	McKesson and Robbins	None	None
4(4)	11,500	Merck and Co.	8,500	1
6(4)	18,900	Parke Davis & Co.	200	1
2(1)	400	Sharp and Dohme [2]	None	None
1(1)	*10,000*	*American Home Products*	*1,800*	*3(1)*
1(1)	*10,000*	*Chas. Pfizer and Co.*	*13,400*	*3(1)*

—Bought— No. of Trusts	—Bought— No. of Shares		—Sold— No. of Shares	—Sold— No. of Trusts
		Electrical Equipment:		
2(1)	2,100	Cutler-Hammer	None	None
6	19,700	General Electric	5,900	4(1)
4	15,400	Radio Corp. of America	None	None
3	6,600	Sunbeam Corp.	None	None
10(5)	46,900	Westinghouse Electric	53,000	5
None	*None*	*Emerson Electric Mfg.*	*28,200*	*2(1)*
1	*9,000*	*Philco Corp.*	*2,300*	*3*
		Financial, Banking and Insurance:		
3(2)	3,200	Associates Investment Co.	None	None
2(1)	35,250	Beneficial Industrial Loan	None	None
5(1)	3,800	C.I.T. Financial Corp.	6,500	2(1)
3(1)	1,800	Commercial Credit	3,500	1
3	967⅓	Fidelity-Phenix Fire Insurance	4,800	1(1)
2(1)	700	First National Bank of Chicago	None	None
3	700	Guaranty Trust of New York	450	1
2(1)	1,500	Home Insurance Co.	None	None
2	2,700	Household Finance	None	None
2(2)	4,350	Phoenix Insurance Co.	None	None
		Food Products:		
4(1)	3,400	United Fruit	2,000	2
None	*None*	*Borden's*	*3,800*	*2(2)*
None	*None*	*Continental Baking*	*7,800*	*2(1)*
		Machinery and Industrial Equipment:		
2	300	Bullard Co.	None	None
4(3)	8,800	Haliburton Oil Well Cementing	None	None
None	*None*	*Babcock & Wilcox*	*1,300*	*2*
1	*200*	*Combustion Engineering-Superheater*	*23,400*	*3(1)*
		Metals and Mining:		
5(2)	9,400	Aluminum Co. of America	4,400	3(1)
2(1)	4,200	Aluminum, Ltd.	None	None
4(8)	17,100	Kennecott Copper	14,100	4(1)
2	900	McIntyre Porcupine Mines	None	None
None	*None*	*American Metal Co., Ltd.*	*1,100*	*2(2)*
None	*None*	*American Smelting & Refining*	*5,300*	*2(1)*
2	*800*	*International Nickel*	*4,000*	*4(2)*
		Natural Gas:		
5	17,838	American Natural Gas	5,962	3(1)
7	31,450	Mississippi River Fuel Corp. [3]	3,250	2
9	33,375	Northern Natural Gas [3]	1,500	2(1)
3(2)	11,100	Oklahoma Natural Gas	1,900	1
4(3)	9,000	Panhandle Eastern Pipeline	1,800	1
10	9,207	Peoples Gas Light and Coke [3]	1,500	2(1)
6(2)	11,700	United Gas Corp.	1,000	1
		Office Equipment:		
6(4)	9,200	National Cash Register	17,500	3(1)
		Paper and Printing:		
2(2)	2,100	Container Corp. of America	None	None
2	1,500	Crown Zellerbach Corp.	None	None
7(4)	15,600	International Paper	8,000	4
4(1)	16,010.7	Kimberly Clark	200	1
None	*None*	*Scott Paper*	*3,800*	*2(1)*
		Petroleum:		
6(3)	17,000	Atlantic Refining Co.	1,700	3
4(3)	41,800	Chicago Corp.	None	None
5(2)	9,800	Cities Service	1,100	1(1)
8(1)	10,050	Continental Oil (Del.)	10,500	4
7(2)	6,625	Gulf Oil Corp.	9,850	4(1)

Beneficial Industrial Loan were also each bought by two trusts. Only light concentration was in evidence in the purchase of commercial bank equities. Three managements bought 700 shares of Guaranty Trust and two acquired 700 shares of the First National Bank of Chicago. Insurance purchases were as usual scattered, although three funds purchased Fidelity-Phenix Fire and two each bought Home and Phoenix. One management, Boston Fund, eliminated all insurance stocks from its portfolio during the period.

Auto Parts

Buying was concentrated among a relatively few auto parts concerns. Six trusts bought 11,200 shares of Libbey-Owens-Ford Glass, two representing new commitments; there were two sales. Doehler-Jarvis was added to five portfolios, but eliminated from one and lightened in two others. Opinion was divided on Thompson Products, four sales offsetting five portfolio additions. However, some of the latter resulted from a 20% stock dividend. There was also a division of opinion on Chrysler, although volume of shares favored the sellers. Seven managements disposed of 34,400 shares, one of which completely eliminated the issue from its portfolio. There were eight purchases, four of which represented initial commitments, but they totaled 6 800 shares. General Motors, by contrast, was not in good favor, ten trusts liquidating 50,500 shares. Five purchases totaled 6,900 shares; three were new additions. Briggs was sold by two funds, but 5,000 shares of Studebaker were bought by the same number of managements.

In spite of the outlook of the international situation during (and preceding) the final week of the quarter there was no stampede to acquire aviation issues. Four managements bought 8,200 shares of Lockheed, but another eliminated a block of 15,000 shares from its portfolio. Grummann Aircraft was initially purchased by two trusts in blocks totaling 12,000 shares. Opinion was divided on Douglas, four funds buying while five sold. Seven companies acquired 7,400 shares of Bendix, but three others disposed of 12,000 shares. Sperry was lightened in three portfolios and eliminated from another; there were no purchases. Among the transports, Eastern Airlines was sold by three managements; sales totaled 20,000 shares.

Liquors and Drugs

Sales of both National Distillers and Distillers Corp.-Seagrams featured the beverage issues. Four trusts disposed of 12,700 shares of the former and 24,700 shares of the latter issue. Purchases of the drug issues were about double sales but volume was light. Six companies bought a total of 18,900 shares of Parke Davis, four additions representing new commitments. There were also four initial purchases of Merck and Company while the same number of increases occurred in holdings of McKesson and Robbins. Sales were concentrated in Charles Pfizer and American Home Products.

Selling predominated slightly in the non-ferrous metals group. Liquidation was scattered, but the heaviest-sold issue was International Nickel. Four trusts disposed of a total of 4,000 shares of which two represented complete portfolio eliminations. American Metal and American Smelting were each sold by two managements, the former being eliminated. Half of the total purchases in this group were concentrated in three issues. Eight companies purchased a total of 17,100 shares of Kennecott, four making new commitments; there were also four sales. Aluminum of America was added by five funds, but sold by three others. Phelps Dodge was the third stock in which buying was concentrated. Four additions of the latter issue were offset by three sales. Aluminium, Ltd. and McIntyre Porcupine were each liked by two managements.

Selling was also scattered in the food group. Liquidation by two funds each in Borden's and Continental Baking was the only concentrated activity. United Fruit was the one stock to be favored four trusts adding 3,400 shares. In contrast to food issues, the two major can companies were well-liked by purchasers. Six funds acquired a total of 21 900 shares of Continental Can; there was liquidation in four portfolios totaling 6,200 shares. American was added to three portfolios but only a small lot of 100 shares was sold. Owens-Illinois Glass was also bought by three funds.

Rails Sold

Activity among the rail issues was light, with the bears having the edge. Southern Pacific was sold by six funds, but there were three offsetting purchases. Great Northern preferred and Louisville and Nashville were also sold by two trusts each. Purchasers favored Illinois Central and Louisville and Nashville. Among the rail equipments American Steel Foundries and National Malleable and Steel Castings were liquidated.

In spite of the over-all division of opinion on the merchandise group there was a certain amount of concentration in a few issues on both sides of the market. Seven funds purchased a total of 17,500 shares of Federated Department Stores, which has easily been top favorite for some time. Five trusts also added Allied Stores but two others eliminated the issue from their portfolios while a third lightened holdings. R. H. Macy was also bought by two companies. Montgomery Ward was easily the least popular stock in the group during the period, five funds lightening holdings while four others eliminated the issue from their folios. Woolworth was also removed from three lists while McCrory was sold by two trusts.

The steel issues continued their unpopularity of the previous quarter but volume was light. Four managements disposed of 4,400 shares of United States Steel; there was a new acquisition of a block of 1,500 shares. Inland Steel was eliminated from three portfolios and lightened in another. Two trusts sold Sharon Steel while Harbison Walker was completely eliminated from two other portfolios. Opinion was divided on Bethlehem, five sales offsetting four purchases. Similarly three sellers offset three buyers of Republic. Allegheny Ludlum was the only issue in the group definitely favored.

Textiles and Rubbers Bought

Celanese among the textile stocks was well liked, three funds adding shares and five others making initial commitments. Industrial Rayon was also increased, although some of the new stock was acquired as a result of a stock dividend. Burlington Mills and J. P. Stevens were also added to portfolios. Among the rubbers, Goodrich and Firestone were the favored issues, seven managements buying the former and four the latter. Outstanding addition to portfolios among the tobaccos in part through rights was made in Philip Morris. Selected American Shares, Tri-Continental, and Selected Industries bought this issue while selling American Tobacco. Liggett and Myers was also sold during the period.

Changes in Common Stock Holdings of 45 Investment Management Groups (Continued)

—Bought— No. of Trusts	No. of Shares		—Sold— No. of Shares	No. of Trusts
		Petroleum—(Concluded)		
3(2)	6,500	Mission Corp.	None	None
6(4)	37,700	Mission Development Co.[4]	None	None
4(2)	3,700	Shell Oil Co.	2,100	2
2(2)	25,800	Signal Oil & Gas "A"	None	None
4(4)	24,800	Sinclair Oil	3,600	1
14	83,021	Skelly Oil[5]	10,230	3
5(2)	12,600	Standard Oil of California	9,000	1
7(2)	6,000	Standard Oil of Indiana	125	1
4(2)	45,800	Texas Pacific Coal & Oil	15,500	2(1)
4(3)	*32,200*	*Ohio Oil*	*22,600*	*6(2)*
2(1)	*600*	*Phillips Petroleum*	*11,700*	*7*
		Public Utilities:		
7(2)	5,600	American Tel. & Tel.	None	None
3(1)	5,200	Brooklyn Union Gas	None	None
6	28,000	Central & Southwest Corp.	14,700	4(1)
5(1)	35,000	Consolidated Edison of N. Y.	2,600	2(1)
2	9,700	Dayton Power & Light[3]	None	None
10(9)	151,650	Iowa Power & Light[6]	19,000	1
5(4)	100,100	Kansas City Power & Light[7]	None	None
3	45,000	Kansas Power & Light	18,500	1
2(1)	26,500	National Fuel Gas	None	None
3(1)	8,550	New England Gas & Elec. Assn.	None	None
5	22,428	New York State Electric & Gas[3]	6,000	2(1)
2(1)	19,500	Northern Indiana Public Service	None	None
3	3,400	Northern States Power Co.	25,000	1
2(1)	2,000	Oklahoma Gas & Electric	None	None
4(1)	25,400	Pacific Gas & Electric[3]	None	None
3	22,672	Pennsylvania Power & Light	None	None
2	11,000	Potomac Electric Power	None	None
10(1)	67,350	Public Service of Colorado[8]	9,400	4
3	12,170	Rochester Gas & Electric	800	1(1)
3(3)	26,800	Toledo Edison	None	None
2	6,300	Utah Power & Light	None	None
7(1)	47,440	Virginia Electric & Power	None	None
6	43,038	Wisconsin Electric Power[3]	4,100	2(1)
3(1)	20,100	Wisconsin Power & Light	22,000	1(1)
2(1)	*900*	*American Gas & Electric*	*13,900*	*5*
1	*6,900*	*Cincinnati Gas & Electric*[3]	*3,900*	*3(3)*
None	*None*	*Commonwealth Edison*	*4,800*	*2(1)*
None	*None*	*Consumers Power Co.*	*6,500*	*5(3)*
None	*None*	*Detroit Edison*	*26,900*	*3(1)*
1	*25,900*	*Florida Power & Light*	*6,675*	*3(3)*
None	*None*	*Gulf States Utilities*	*15,000*	*2(2)*
None	*None*	*Montana Power Co.*	*6,400*	*3(2)*
None	*None*	*Niagara Hudson Power*[9]	*25,270*	*2(1)*
1	*10,000*	*North American*	*14,800*	*4(2)*
1	*2,500*	*Philadelphia Electric*	*9,500*	*3(1)*
2(1)	*8,300*	*Public Service Electric & Gas*	*62,100*	*4(3)*
1	*2,500*	*Public Service of Indiana*	*17,900*	*3(2)*
1(1)	*3,200*	*St. Joseph Light & Power*	*11,700*	*4(3)*
None	*None*	*Southwestern Public Service*	*3,775*	*2(2)*
1(1)	*1,300*	*Texas Utilities*	*2,215*	*3(2)*
None	*None*	*United Light & Railways*	*58,500*	*3*
		Radio and Amusement:		
6(3)	6,000	Columbia Broadcasting "A"	400	1
3(2)	4,200	Columbia Broadcasting "B"	None	None
1	*1,000*	*Loew's*	*8,600*	*3(2)*
1(1)	*2,000*	*Paramount Pictures Corp.*	*127,700*	*9(9)*
		Railroads:		
2	3,300	Illinois Central Railroad	None	None
3(1)	6,400	Seaboard Air Line	None	None
None	*None*	*Great Northern Preferred*	*4,200*	*2(1)*
None	*None*	*Louisville & Nashville*	*1,200*	*2(1)*
3	*4,600*	*Southern Pacific*	*7,500*	*6(1)*
		Railroad Equipment:		
None	*None*	*American Steel Foundries*	*2,000*	*2(2)*
None	*None*	*Natl. Malleable & Steel Castings*	*8,200*	*2(1)*
		Retail Trade:		
5(1)	32,400	Allied Stores	22,200	3(2)
7(1)	17,500	Federated Department Stores	400	1
2(1)	600	R. H. Macy & Co.	None	None
None	*None*	*McCrory Stores*	*1,800*	*2(1)*
2	*1,300*	*Montgomery Ward*	*16,000*	*9(4)*
1	*1,100*	*Woolworth*	*1,900*	*3(3)*
		Rubber and Tires:		
4(2)	2,800	Firestone	3,200	2
7(2)	4,700	Goodrich	9,800	2
		Steels:		
3(2)	22,100	Allegheny Ludlum Steel	400	1(1)
None	*None*	*Harbison Walker Refractories*	*16,900*	*2(2)*
None	*None*	*Inland Steel*	*12,900*	*4(3)*
None	*None*	*Sharon Steel*	*2,200*	*2*
1(1)	*1,500*	*United States Steel*	*4,400*	*4(1)*
		Textiles:		
3	700	Burlington Mills	None	None
8(5)	16,400	Celanese Corp.	21,000	2
5(1)	6,852	Industrial Rayon[10]	57½	2
2(1)	12,500	J. P. Stevens Co.	None	None
		Tobaccos:		
10(6)	55,876	Philip Morris[3]	3,500	3(1)
1	*200*	*Liggett and Myers*	*2,100*	*4(1)*
		Miscellaneous:		
2(1)	360	Singer Manufacturing Co.	None	None
None	*None*	*Greyhound Corp.*	*50.800*	*2(1)*
None	*None*	*International Silver*	*3,700*	*2(1)*

SUMMARY

Balance Purchases and Sales Portfolio Securities 62 Investment Companies

	Bought	Sold	Matched	Totals
Open-End Companies:				
Balanced Funds	12	2	6	20
Stock Funds	12	9	7	28
Closed-End Companies	3	5	6	14
Totals—All Companies	27	16	19	62

FOOTNOTES

1 700 shares received through conversion of preferred issue.
2 200 shares added on stock split-up.
3 Purchased in part through rights.
4 Distribution from Mission Corp. Basis: 1-for-2.
5 80,731 shares received as a result of stock split-up.
6 Exclusive of 3,000 shares, additions represent liquidating distribution on United Light & Railways. Basis: 1-for-2.
7 68,700 shares purchased with rights issued by United Light & Railways.
8 Most of these additions received as split-up.
9 In part exchanged for Niagara Mohawk Power.
10 1,852 shares declared as 5% stock dividend.

NOTE—This survey covers 62 investment companies, but purchases or sales of trusts sponsored by one management group are treated as a unit. For example, the several trusts sponsored by Calvin Bullock are considered as having the weight of one manager. Overseas Securities is included in addition to the companies listed in the companion table.

With Wulff-Hansen

(Special to The Financial Chronicle)

SAN FRANCISCO, Calif.—Ivan S. Harper has become associated with Wulff, Hansen & Co., Russ Building. He was formerly with Supple, Griswold & Co. for many years.

Rudolph Adds Three

(Special to The Financial Chronicle)

SAN JOSE, Calif.—Howard H. Barrow, Jr., Maxwell L. Johnston, and Robert D. Muscio have been added to the staff of Paul C. Rudolph and Company, 40-D South First Street.

Continued from first page

How Is the Stock Market?

as has been normal for the last 30 years, then the DJIA would be 388.

Next let us consider the subject of dividends. The average yield from dividends on industrial stocks has been 4.90% for the last 30 years; but the average yield today is 6.69%. At current dividend rates stocks would yield 4.90%, the average of the last 30 years, if the DJIA were 283.

Earnings and Stock Prices

Of course there is a general opinion today that current earnings (and dividends) are abnormal. In fact, there are some people in Washington who say that current earnings of corporations are excessive. This is not a fair statement. It would be just as reasonable to say that current wage rates are excessive. Average earnings of factory workers have risen from a minimum of $15.96 weekly 18 years ago to the current rate of $57.50 weekly, which is an increase of 260%. The increase in earnings of corporations has been roughly the same as the increase in Gross National Product of the United States. Before 1941 Gross National Product had never exceeded $107,000,000,000 but the current rate is $263,000,000,000. Gross National Product is 117% higher than the average of the last 30 years; and a decline of only 18% would bring corporation profits down to the same percentage of Gross National Product which has been normal for the last 30 years.

Changes in Gross National Product are roughly proportional to changes in the sales volume of corporations. Accordingly, it appears that profits of corporations are only a little larger in relation to sales volume than has been normal for the last 30 years. It appears unlikely that Gross National Product will be any smaller five or ten years from now than it is today; and accordingly, there probably will be no decline in the total sales volume of corporations. It is not possible to have a decrease in Gross National Product unless there is a decrease in employment or a decrease in output per man hour or a decrease in the price level. Actually it appears probable that all three of these factors will increase rather than decrease. Output per man hour will increase with increasing use of machinery. Total employment will probably increase because of the growth of population. The expense of military preparation points toward an increase in the price level.

Since the invasion of South Korea, investors have been worried about a possible reduction in corporation earnings caused by price controls and excess profits taxes. It appears that these factors will cause some reduction; but also it is interesting to notice that during the years when excess profits taxes applied, from 1940 through 1945, the average annual earnings of corporations were 5% greater than the average annual earnings of the four years 1936 through 1939, which were taken as the base period. Also, investors have been fearful concerning increased government controls and the trend toward socialization. These too are a serious problem; but it is interesting to notice that stock prices in European countries are considerably higher than they were 12 years ago even though those nations have traveled much further than the United States on the road to socialization.

The change in the level of stock prices can be compared with the change in the volume of liquid assets held by individuals. Unfortunately statistics on the amount of liquid assets are not available for the earlier years; but eleven years ago, in 1939, the liquid assets of individuals were only $50 billion, whereas today they are $177 billion an increase of 254%. By comparison, the increase of 48% in stock prices from 1939 up to today appears small.

Value of Corporation Assets

Another way to approach the question, "how high is the stock market," is to study the value of the assets back of these stocks. Corporations pay out in dividends only a part of earnings and the other part which is retained adds to the assets per share and increases the normal future earning power. This has caused the average net worth per share stated on the books of corporations to increase 76% in the last 15 years. The present book value per share is 46% higher than the average of the last 24 years. Furthermore because of the inflation which has occurred in the cost of buildings and machinery, the assets could not be replaced for the figures shown on the corporations' books. Based on earnings retained in excess of dividends and modified to allow for changes in the purchasing power of the dollar, the Templeton, Dobbrow & Vance index of replacement costs is given in Table II. The average for the index of replacement costs for the last 28 years was 161.6, whereas the current replacement cost is 282.3 a difference of 75%. Since replacement costs are 75% higher, it is not surprising that stock prices should be 45% higher as stated above.

Industrial stock prices were first publicly quoted in 1871, and since that time there has been a long-term upward trend in stock prices. In the 10 years before the First World War, 1905-1914 inclusive, industrial stock prices averaged 46.4. In the 10 years after that war, 1919-1928 inclusive, they averaged 85.3, an increase of 84%. Since the Second World War cost the United States about five times as much as the First World War, it could be logically argued that it should have caused an increase in the range of fluctuation of more than 84%. However, in the 10 years before world War II the average level of the market was 131 (in terms of the DJIA); and it is only 59% higher now.

Although the stock market is in high ground historically, the figures quoted above indicate that current stock prices are still below normal in relation to (a) earnings, (b) dividends, (c) national income, (d) liquid savings of individuals, and (e) the relatively permanent changes which have been caused in stock prices in the United States and also in other nations by previous great wars.

TABLE I

(Index of Earnings of Corporations in the United States)

1872	$4.55	1912	$4.22
1873	2.17	1913	4.90
1874	5.17	1914	3.26
1875	1.72	1915	7.23
1876	1.18	1916	16.93
1877	*0.03	1917	13.92
1878	1.72	1918	8.99
1879	2.90	1919	8.20
1880	3.04	1920	7.97
1881	2.35	1921	*0.31
1882	2.28	1922	4.70
1883	2.49	1923	7.13
1884	2.00	1924	6.52
1885	1.75	1925	9.92
1886	2.19	1926	9.56
1887	1.52	1927	8.53
1888	1.20	1928	10.83
1889	1.66	1929	11.95
1890	1.72	1930	6.33
1891	2.99	1931	1.88
1892	3.69	1932	*0.27
1893	3.28	1933	2.10
1894	2.15	1934	3.43
1895	2.56	1935	5.12
1896	1.42	1936	7.87
1897	1.68	1937	8.67
1898	2.06	1938	4.08
1899	4.57	1939	6.43
1900	3.06	1940	8.01
1901	3.06	1941	8.77
1902	5.93	1942	6.44
1903	3.28	1943	6.35
1904	2.30	1944	6.41
1905	4.46	1945	6.72
1906	6.53	1946	8.36
1907	5.80	1947	13.40
1908	2.85	1948	18.50
1909	4.86	1949	18.93
1910	4.98	1950	†19.90
1911	3.62		

*Decrease. †Estimated.

TABLE II

(Templeton, Dobbrow & Vance Index of Replacement Costs for Common Stocks)

(Based on earnings retained in excess of dividends and modified to allow for changes in the purchasing power of the dollar)

1922	170.2	1937	126.1
1923	170.0	1938	131.0
1924	168.2	1939	129.0
1925	172.0	1940	135.1
1926	172.6	1941	147.6
1927	174.5	1942	168.8
1928	172.0	1943	184.3
1929	174.0	1944	193.3
1930	169.4	1945	200.7
1931	146.0	1946	212.2
1932	125.0	1947	222.2
1933	111.2	1948	238.3
1934	114.0	1949	261.3
1935	119.0	1950	282.3
1936	118.0		

Marache Sims Adds

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Calif.—Frank J. Hardiman has joined the staff of Marache Sims & Co., 634 South Spring Street, members of the Los Angeles Stock Exchange.

Continued from page 5

The State of Trade and Industry

orders and the defense program probably won't hit the industry in a tonnage way until the fourth quarter.

Consumers are thinking more about the possibility of getting government orders. They are evaluating their production setup and facilities, remembering the kind of work they did during the last war. Most of them will have to continue making their regular line until they get something specific from Washington. Such orders are surprisingly slow in coming, "The Iron Age" points out.

The American Iron and Steel Institute announced this week that the operating rate of steel companies having 94% of the steel making capacity for the entire industry will be 99.9% of capacity for the week beginning Aug. 7, 1950, compared to 99.5% (revised) a week ago, or a rise of 0.4 points.

The percentage figure above, the estimated operating rate for this week, is calculated from the new, higher capacity reported as of July 1, 1950. As of July 1 the annual capacity of steelmaking furnaces in this country was 100,563,500 tons of ingots and castings, the result of an increase of 1,170,700 tons during the first half of this year.

Accordingly, the percentage for the present week, applied to the higher capacity in tons, is slightly lower than if it had been calculated on the Jan. 1, 1950, capacity.

This week's operating rate is equivalent to 1,926,800 tons of steel ingots and castings for the entire industry, compared to 1,919,600 tons a week ago. A month ago the rate was 94.9% (revised) and production amounted to 1,880,000 tons; a year ago it stood at 82.3% (revised), and 1,517,200 tons.

Electric Output Breaks Through to New High Record

The amount of electrical energy distributed by the electric light and power industry for the week ended Aug. 5, was estimated at 6,247,464,000 kwh., according to the Edison Electric Institute.

The above figure represented a new historical high record for the industry.

It was 57,366,000 kwh. higher than the figure reported for the previous week, 781,460,000 kwh., or 14.3% above the total output for the week ended Aug. 6, 1949, and 928,055,000 kwh. in excess of the output reported for the corresponding period two years ago.

Carloadings Continue Higher Trend

Loadings of revenue freight for the week ended July 29, 1950, totaled 844,849 cars, according to the Association of American Railroads. This was an increase of 14,965 cars or 1.8% above the preceding week.

The week's total represented an increase of 120,805 cars, or 16.7% above the corresponding week in 1949, but a decrease of 49,526 cars, or 5.5% below the comparable period in 1948.

Auto Output Decline Attributed to Steel Shortages, Heat Walkouts, etc.

According to "Ward's Automotive Reports" the past week, motor vehicle production in the United States and Canada dropped to an estimated total of 174,830 units, compared with the previous week's total of 191,978 (revised) units and 142,718 units a year ago.

Ward's attributed the decline to several factors, such as steel shortages, heat walkouts and minor labor disputes. The agency said that the industry will have to overcome these problems before it can achieve the near-record volume of 840,000 cars and trucks planned for U. S. plants in August.

Total output for the current week was made up of 144,483 cars and 27,919 trucks built in the United States and a total of 1,688 cars and 740 trucks built in Canada.

Business Failures Turn Slightly Upward

Commercial and industrial failures rose slightly to 168 in the week ended Aug. 3 from 160 in the preceding week, Dun & Bradstreet, Inc., reports. For the third consecutive week, casualties were below the similar 1949 level; they were below the 171 in that year but above the 116 which occurred in the comparable week of 1948. Failures continued to be less numerous than in prewar years and were 40% below the 277 recorded in the similar week of 1939.

Casualties involving liabilities of $5,000 or more increased to 141 from 125 a week ago and exceeded the 123 of this size which occurred last year. Small failures, those having liabilities under $5,000, dipped to 27 from 35 last week and compared with 48 a year ago.

Manufacturing failures rose 7 to 40 and retailing failures increased 25 to 92, while declines appeared in all other industry and trade groups. Both retail and construction failures exceeded their 1949 levels; manufacturing dipped mildly from last year, but wholesale and commercial service failures fell off sharply to less than one-half their totals a year ago.

Most of the week's increase in business casualties was in the Middle Atlantic and New England States. Declines occurred in the East North Central States where businesses failing were down to 20, the area's lowest number so far in 1950, and in the Pacific States where they were down to 31 from 45. Casualties were above a year ago in the Middle Atlantic, New England, Pacific and East South Central States. While a decline from 1949 appeared in the other five regions, it was mild except in the East North Central and West South Central States.

Food Price Index Makes Moderate Gains the Past Week

The Dun & Bradstreet wholesale food price index continued upward last week. The index went to $6.53 on Aug. 1, as compared with $6.49 a week earlier, and with $5.84 on the corresponding date a year ago. Although the week's rise of 4 cents brought the current figure to the highest level since Sept. 28, 1948, it was the smallest weekly gain recorded in six weeks.

The index represents the sum total of the price per pound of 31 foods in general use. It is not a cost-of-living index.

Commodity Price Index Closes Week Irregularly Lower

The daily wholesale commodity price index, compiled by Dun

& Bradstreet, Inc., rose to 282.81 last Friday, the highest level in two years, but subsequently turned irregularly lower to finish at 280.71 on Aug. 1. This was still slightly above the 280.22 of a week ago, and compared with 239.87 on the corresponding date last year.

Foods were generally higher but leading grains developed some weakness after touching new highs for the reason early in the week. With plentiful supplies in prospect, demand for most grains became less aggressive.

Part of the unsettlement that developed in all grains in late trading was due to talk of the possibility of government controls on prices and wages.

Good weather for harvesting and slow export demand for both wheat and flour were also factors in the decline. Available stocks of wheat for the 1950-1951 season, based on conditions as of July 1, indicate a total supply of 1,373,000,000 bushels, as compared with 1,454,000,000 bushels last season.

The new corn crop continued to make good progress under favorable weather conditions. Demand for corn was quite active with prices showing more resistance to selling pressure than wheat. Market receipts of new crop oats were relatively small for this time of year.

Bookings of hard Winter wheat bakery flours slowed down considerably during the past week with buyers showing little interest beyond nearby needs. Most mills, however, have comfortable backlogs as a result of expanded bookings over recent weeks. Cocoa futures prices reached new seasonal highs during the week but turned downward at the close on liquidation prompted by the possibility of price controls. Actual cocoa prices were up slightly for the week. Offerings from primary markets continued in small volume. Trading in coffee was less active in both futures and spot markets. Prices worked lower from recent peak levels as the result of hedge selling and profit-taking, prompted by talk of price regulation. Domestic and world markets for raw sugar were nervous and unsettled with prices holding firmly.

The Department of Agriculture announced over the week-end that it would purchase the surplus sugar supplies from Puerto Rico, Hawaii, and Virgin Islands amounting to 250,000 tons, in addition to the 600,000 tons bought from Cuba last week.

Lard was active with prices touching new highs for the current movement. Livestock prices generally were stronger under broad demand.

After touching new high levels for the season, domestic prices for cotton developed a slightly easier trend at the close. Strength in the market was largely influenced by active buying for mill and export account and the expectation of greatly enlarged needs for all cotton goods in the future. Current demand and inquiries for carded cotton gray cloths continued very active; prices for most constructions scored further advances during the week.

Trade Volume Shows Moderate Gains in Latest Week

There was a further rise in consumer purchasing in the period ended on Wednesday of last week, as a moderately increasing amount of durable goods was bought by shoppers. Retail dollar volume throughout the nation continued to be moderately above the level for the comparable week a year ago, Dun & Bradstreet, Inc., reported in its latest summary of trade.

Volume in apparel was sustained at a high level, although the heavy purchasing of hosiery and some linens which occurred in preceeding weeks slackened somewhat. The volume of women's coats and suits rose somewhat, while the interest in dresses was virtually unchanged in many localities. Of the men's wear bought last week, slacks, jackets and other sport clothing was in especial demand. There was a continued interest in children's apparel.

The dollar volume of food bought by housewives increased moderately in the week. Much of the rise was in the demand for dairy products and staples, like flour and cornmeal. There was a slight increase in the buying of canned and frozen foods; frozen fruit juices were particularly favored. The interest in fresh vegetables rose slightly.

The rise in the consumer buying of house-furnishings continued last week.

Much of the demand was for bedding, electrical appliances, housewares and television sets. The interest in outdoor furniture dipped appreciably in scattered communities. The dollar volume of floor-coverings and upholstered furniture bought was fairly steady with the previous week.

Total retail dollar volume in the period ended on Wednesday of last week was estimated to be from 5 to 9% above a year ago. Regional estimates varied from last year's level by the following percentages:

New England and East +4 to +8; South +3 to +7; Midwest and Pacific Coast +5 to +9; Northwest +2 to +6; and Southwest +6 to +10.

While an unseasonal increase in wholesale ordering continued during the week, the rate of increase was not so high as in the previous week. The total dollar volume of orders was moderately above the level for the corresponding week in 1949. There were slightly less buyers in attendance at various wholesale centers than in the previous week and the similar 1949 period and bookings for Fall apparel rose slightly the past week.

Department store sales on a country-wide basis, as taken from the Federal Reserve Board's index for the week ended July 29, 1950, rose 42% from the like period of last year. An increase of 46% was recorded in the previous week from that of a year ago. For the four weeks ended July 29, 1950, sales showed a rise of 30% from the corresponding period a year ago, but for the year to date register an advance of 2%.

Retail trade here in New York the past week continued to hold to a brisk pace, but buying as a hedge against possible war shortages appeared to be on the wane. Gains in department store sales over that of a year ago were reported in excess of 20%.

According to the Federal Reserve Board's index, department store sales in New York City for the weekly period to July 29, 1950, advanced 39% from the like period of last year. In the preceding week a rise of 32% (revised) was registered from the similar week of 1949. For the four weeks ended July 29, 1950, an increase of 20% was noted, which volume for the year to date showed a decrease of 2%.

Seaboard Finance Co. Pref. Stock Offered

The First Boston Corp. heads an underwriting group which offered to the public on Aug. 9 a new issue of 114,000 shares of Seaboard Finance Co. $1.35 convertible preferred stock, series B (no par value) at $23.25 per share. This stock has been issued to the underwriters in exchange for a like number of outstanding $1.35 convertible preferred shares sold by the company to the same underwriters on June 8, 1950 as a standby transaction, pending registration of the series B preferred with the SEC.

Proceeds of this sale were used by the company in connection with the recent acquistion of Employees Credit Corp., a small loan company having 29 offices, 10 of which were located in the State of New York where Seaboard had no offices prior to the acquisition.

Each share of the new stock is convertible, on the basis of its stated value of $23.25, into common stock at the initial conversion price of $17.375 per common share (that is, into approximately 1.34 shares of common stock). Dividends on the common stock are currently being paid at the rate of $1.80 per share.

The new series B preferred is redeemable at any time at prices scaled from $24.40 per share if redeemed on or before Dec. 31, 1951 to $23.25 per share after Dec. 31, 1957, plus accrued dividends.

Seaboard Finance Co., one of the largest consumer finance companies in the U. S., makes small loans to individual borrowers, and, to a lesser degree, purchases retail installment sales contracts originating with automobile, furniture and appliance dealers. At June 30, 1950 about 95% of its total consolidated assets consisted of cash and receivables.

Pierson Joins Staff Of Baker, Simonds

(Special to THE FINANCIAL CHRONICLE)

DETROIT, Mich. — Elwood T. Pierson has become associated with Baker, Simonds & Co., Buhl Building, members of the Detroit Stock Exchange. He was formerly with Moreland & Co. and in the past was an officer of Allman, Everham & Co.

Goodspeed With Smith, Hague & Co.

(Special to THE FINANCIAL CHRONICLE)

DETROIT, Mich.—Stuart Goodspeed has become associated with Smith, Hague & Co., Penobscot Building, members of the New York and Detroit Stock Exchanges. He was formerly assistant treasurer of Baker, Simonds & Co.

John Mullen Joins Hunt Spiller Mfg.

BOSTON, Mass.—John P. Mullen, formerly with the Investment Bankers Association and the Chicago Mercantile Exchange, has been named director of public relations, advertising and sales promotion for Hunt-Spiller Manufacturing Corp., Boston.

With Brush, Slocumb

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, Calif.—John A. Thomson has become affiliated with Brush, Slocumb & Co., 1 Montgomery Street.

With Spencer Trask

(Special to THE FINANCIAL CHRONICLE)

BOSTON, Mass. — Richard C. Swan is with Spencer Trask & Co., 50 Congress Street.

Continued from first page

As We See It

or against it turns much less on whether or not such controls accomplish what is demanded of them than on whether conditions will promptly develop the evils against which controls are directed. But in ordinary language, the question under debate is not whether controls would really present "disastrous inflation," but whether "disastrous inflation" is developing or would quickly develop. It is this element in the situation which seems to us to leave the current discussions so lacking in realism and so tenuously connected or related to the affairs of this very real world in which we all live.

It was commonly asserted, and many partisans still assert, that the extensive controls of the World War II years prevented ruinous inflation, adding usually that but for such controls heaven knows what would have become of us all. The fact of the matter is, of course, that so far as effects upon the economy are concerned, the most that such controls can be credited with is a postponement of the effect of the shortcomings of financial policies of those years. The deferred effects of these shortcomings now in full evidence are one of the basic reasons why current prices are so sensitive to any hysteria which touches the rank and file of the consumers of today. A brief review of some of the related facts may help to bring the current situation into reasonable perspective.

Untaxed Income

Despite all the boasting about taxing away individual income, and notwithstanding that levies imposed upon the higher backets fully matched the boasting, the fact remains that the great rank and file of the people of the country enjoyed income after taxes during the last two years of the war more than double that they received in the late prewar years. They did not at once increase their expenditures for the ordinary goods and services which make up the cost of living at the same rate, but even if they had, the margin over the necessaries would have been enormously enlarged. In point of fact, personal savings (or the excess of income after taxes over personal consumption expenditures) was in 1944 and 1945 some eight or ten times what it had been in prewar years—or for that matter any period for which we have acceptable data. An appreciable part of this excess was "sopped up" by the sale of government obligations to individuals, but larger amounts remained in the hands of individuals in the form of bank deposits and currency. Moreover, the larger part of that which was "sopped up" went into obligations redeemable by the Treasury upon demand of the holder, and much of the remainder, by reason of market rigging, was in effect redeemable at fixed prices at the demand of the holder.

Now a situation of this sort does not cure itself with the cessation of hostilities. On the contrary, its influence continues until such time as the steps which created it are reversed or until economic development in the form of higher prices or a permanently larger economy has eradicated it. In order, therefore, to gauge the full results of World War II financial policies and the ultimate effect upon the economy, it is essential that the developments of the later years be taken into account. During the last year of actual fighting, wholesale prices were reported officially at a point about 37% above 1939; during the last year of World War I these prices were 93% above 1914. Thus it might be argued (if one is prepared to accept official price indexes of either period at face value) that the more extensive controls of World War II had kept the price situation somewhat more in order.

But let us take another look. By late summer, 1948, just three years after the cessation of fighting, these prices were very considerably more than double their 1939 level; in the corresponding period in 1921, some three years after World War I had come to an end, wholesale prices were considerably less than half again as high as in 1914, and they did not very greatly exceed that figure again until World War II and its aftermath had inflated them. A moderate decline occurred from late 1948 to late 1949, but the index by June of this year (prior to Korea) was definitely moving upward again.

Nothing that has happened in Korea or as a result of Korea has laid the basis for higher prices; nothing that has happened in Korea or as a result of Korea has increased the buying power of the rank and file of the people. The present danger of inflation has its roots in World War II, controls and all.

Tomorrow's Markets Walter Whyte Says—

By WALTER WHYTE

The market's acting like it doesn't believe the news from the Korean battlefront, or at any rate doesn't like what it hears. When I use the phrase, "the market . . . doesn't believe . . ." I am well aware that the market is an inanimate object and can't believe or disbelieve anything. However, the market is a reflection of all of the hopes, fears and beliefs of people with surplus cash who back their hopes, etc., through purchase, or sale, of different securities. These activities are what we see in the market and it is therefore such a market that we speak about.

* * *

Having gotten that out of the way I'd like to have my little say about what stocks are worth, what and why. You are all familiar with earnings statements, balance sheets and dividend records. It is on such records that theoretical value is determined. Years ago, before SEC, a stock selling for less than ten times earnings was considered a good buy. Later the figure become 20 times earnings. I don't know what the current yardstick is, but whatever it is the chances are it is as misleading now as then. The fact of the matter is that no stock is worth more than it's selling for, or for that matter neither is it worth less than you can get for it at any given moment. If you doubt that try to float a loan on your securities at your bank and see how far your arguments that "so-and-so is worth X-dollars, therefore I should get more for it," will go.

* * *

At this writing, I believe that many stocks will go higher in the reasonably near future. This opinion is based on the belief that a latent demand appears underway that will result in price increases. But all this has nothing to do with times-earnings or any other statistical barometers.

* * *

With the war intensifying, you're probably looking for "war babies" capable of growing up into husky citizens. I know the accepted stocks commonly regarded as major beneficiaries of war orders—du Pont, Steel, Allied Chemicals, etc. But if you remember World War II you'll also recall that many companies not even remotely associated with the fighting of a war, got huge orders and showed tremendous profits. The point of all this, is that there are no cut and dried rules about choosing winners. Your dog of today may show you a larger profit tomorrow than your gilt-edged blue chip.

* * *

A couple of paragraphs back I said I thought stocks would go higher. Let me qualify that. Before they go really higher I think they'll go through another sinking spell, or maybe a series of them. The trend, however, is up.

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

Continued from page 2

The Security I Like Best

serve further to emphasize the attractiveness of these high coupon bonds.

Also, if we are to anticipate a military economy with controls and material shortages, the experiences of World War II when shortages of automobiles, gasoline and tires developed peak usage of public conveyances, may be repeated. In summary, the outlook for the Chicago Transit Authority bonds appears better today than at any time since they were originally offered, and the demonstrated ability of the Authority to establish an impressive record of earnings sufficient to pay bond interest and bond reserve fund accumulations should attract broader investment if the facts and figures were made more generally known.

LEO V. RYAN
Partner, Leo V. Ryan & Co., New York City
(Border City Mfg. Co. Stock)

The stocks which I like best at this time are the textiles, and one of the cheapest and most underpriced of all textiles is the stock of Border City Mfg. Co. of Fall River, Mass.

This company has outstanding at the present time 18,000 shares of capital stock. There is no other indebtedness. During the last war and immediately thereafter the majority of the textiles increased their capitalization through the issuance of stock dividends or splits, but the Border City made no changes. Needless to say the earnings during the boom were substantial, amounting to around $108 per share over a three-year period (1946, 1947 and 1948) and dividends amounting to about $22 per share were paid, which means that $86 per share was retained by the company. The figure of $108 per share is based on earnings before capital expenditures.

The last annual statement for the year ending Oct. 1, 1949, shows working capital of about $53.50 per share and a book value of approximately $130 per share. The year was a poor one from the standpoint of earnings, but the management must have a great deal of confidence in the future because they spent about $300,000 more than was previously earmarked for new equipment, necessitating a bank loan of $300,000. We have tried to ascertain when this bank loan will be liquidated without success, but it would seem to us that this bank loan could and should be liquidated within 18 months.

Dividends are now being paid at the rate of $4 per year. The first three quarterly payments have already been made and the fourth is due the early part of August. The fiscal year will end on or about Oct. 1.

The 1949 statement shows that the new rayon department has been established at a cost of $820,441 and other plant improvements (probably cotton mfg.) amounted to $448,413, making a total of $1,268,855 which has been spent since 1945. This figures out to $70 per share on 18,000 shares. This is interesting in view of the fact that stock can be purchased at less than $45 per share. With working capital of $53.50 per share (probably more as this is written), this stock is definitely on the bargain counter.

The stock has one great drawback from the standpoint of an investor and that is the stock is very inactive. The spread between the bid and asked is greater than in other stocks and the time consumed in the execution of an order is greater than in other stocks, but the value behind this stock is there in greater quantity than in most stocks. The investor will get a good return on his investment and if he is patient he will get a substantial profit because, in our opinion, this stock will be split in the not too distant future or the company will be merged.

This Border City situation is unusual and we believe it to be pregnant with possibilities. To begin with, the President and Treasurer of Border City are also President and Treasurer of Sagamore Mfg. Co. and Foster Spinning Co., all of Fall River, Mass. The Foster Spinning Co. has no stock outstanding, to the best of our knowledge, but the Sagamore Mfg. Co. has 30,000 shares outstanding. The company is well-known and the stock enjoys a reasonably good market in contrast to the stock of the Border City.

We are not familiar with the textile business itself, but it does not seem logical to us that these three companies should be operated separately by the same men. It also does not seem logical to us that a company so successful as the Border City should have only 18,000 shares of stock outstanding. In other words, we believe there will be a change some day in the present setup. This statement by us is not to be taken as a prediction, or as a rumor, but as an opinion by us based on facts and information which we have obtained.

We have made an exhaustive study of this situation, comparing the Border City with other textiles, and at no time during the last five years while we have been stockholders has the stock of Border City sold at or near its true worth, comparatively speaking, and now is the time to get aboard Border City before it catches up with the parade. We are stockholders of Border City and have been continuously for the past five years. Our stock is not for sale. We do not solicit orders for the purchase of our stocks. From time to time we do get orders from others and in this connection we usually act as an agent, but the point we wish to bring out is that we are not offering our stock at any price to anyone.

LAWRENCE F. SMART
New Orleans, La.
(Placer Development, Ltd.)

My nomination for "The Security I Like Best" goes to Placer Development, Ltd., a well-managed holding company, organized in 1926 in Vancouver, British Columbia.

Lawrence F. Smart

Placer is traded over-the-counter in this country and on the Montreal, London and Sydney Stock Exchanges. The capitalization is simple, 800,000 shares common stock outstanding. No bonds or preferred shares.

I like it because their wholly owned subsidiary, American Placers, Inc., has a new and important expansion program which will have a far-reaching effect on the earnings of the company and the value of its shares.

American Placers, Inc., incorporated in the State of Washington in the 1930s, acquired unimportant mining interests, but they also acquired oil and gas leases of great importance which they turned over to a wholly owned subsidiary. This company, Coronet Oil Company, incorporated in Nevada, June 6, 1947, now has over 35,000 acres of oil and gas leases in several states, the most important being a 49.4% interest in 1,295 acres located in the Andector Pool, Ector County, Texas, plus an interest in two other sections in the vicinity.

American Placers, Inc., also formed a Canadian subsidiary, wholly owned, incorporated in British Columbia in 1935 to develop mining properties in Canada. In 1947, this company, Canadian Exploration, Ltd., purchased the Emerald mining properties from the Canadian Government for $950,000, paying $50,000 cash, the balance to be paid out of one-half the net profits. As of Oct. 1, 1949, such balance amounted to $721,711.18.

While it is difficult to project earnings into the future, rapid developments since the early part of 1947 (requiring large outlays of cash, $1,432,500 being loaned by Placer Development, Ltd., to American Placers for these purposes) indicate equity in consolidated earnings of at least $3 per Placer share in 1951 and $4 to $5 in 1952.

On June 18, 1948, Coronet brought in their number one well in the Andector Pool, flowing 473 barrels in six hours through a ½-inch choke. Since then they have completed 10 producing wells to the Ellenberger formation with no dry holes. Equipment consists of two rigs which average one well about every six or eight weeks. Daily production of 191 barrels per day from each well was permitted in July for 21 days, but the allowable production for August has been increased to 250 barrels per well for 22 days. Since this is high-grade oil, 43 to 45 degrees gravity, the company estimates they get a return of $60,000 per well every 12 months. It is probable that 15 wells will be flowing by the end of 1950. Coronet's share of the cost approximates $80,000 per well. Very likely 10 wells will be paid for out of earnings by the end of 1950, paving the way for income to Placer.

Canadian Exploration, Ltd., started with a 300-ton daily tugsten operation in 1947 and made $178,000 net before depreciation, depletion and taxes. Then they switched to lead-zinc operations having 1,100,000 tons or more of ore available. From March 7, 1949, to March 31, 1950, 106,371 tons were milled containing 2.45% lead and 6.52% zinc, bringing net smelter returns of $1,174,000. The company has not released figures on the amount of profit brought down to net, but inasmuch as zinc has advanced 50% in price since the middle of March, today's figures may be substantial.

Placer also owns interests in gold dredging companies, one of which is located in Australian mandated New Guinea and the others in Colombia, South America. Net income from these companies has enabled Placer to pay uninterrupted dividends since 1933. From 1937 through 1941 dividends of $1.20 (Canadian) were paid, since then 50 cents per share (Canadian) has been paid.

In 1947, the company expressed a hope that increased dividends would soon be forthcoming to Placer shareholders from recently acquired interests. High dividends and rapid development of oil and mining properties seem to be in store for this company whose stock is available under 13, near its low since 1945, and less than half of its high of 30 in 1948, when the first oil well was completed. It could be headed back towards that high. Marketable securities, cash and advances to subsidiaries alone amount to $12 for each share of Placer Development. The 10 oil wells and the lead-zinc operation with their attractive future come almost as a gift at today's market price.

Placer shares are, in my opinion, a prudent speculation and a hundred or more shares should be included in a businessman's portfolio without undue risk. The company itself operates slowly but surely, taking no chance on the way. It looks as if the timing is right for purchasing this stock, which is decidedly cheap at current levels.

Harold B. Reed to Be Individual Dealer

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Calif.—Harold B. Reed will conduct an investment business as an individual dealer from offices at 215 West Seventh Street. Mr. Reed for many years has been President of Municipal Bond Co.

Harris, Upham Adds

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Calif.—Charles C. Irwin, Jr. has been added to the staff of Harris, Upham & Co., 523 West Sixth Street.

Indications of Current Business Activity

The following statistical tabulations cover production and other figures for the latest week or month available. Dates shown in first column are either for the week or month ended on that date, or, in cases of quotations, are as of that date:

		Latest Week	Previous Week	Month Ago	Year Ago
AMERICAN IRON AND STEEL INSTITUTE:					
Indicated steel operations (percent of capacity)	Aug. 13	99.9	99.5	94.9	82.3
Equivalent to—					
Steel ingots and castings (net tons)	Aug. 13	1,926,800	1,919,600	1,880,000	1,517,200
AMERICAN PETROLEUM INSTITUTE:					
Crude oil and condensate output — daily average (bbls. of 42 gallons each)	July 29	5,521,550	5,537,500	5,435,350	4,730,950
Crude runs to stills — daily average (bbls.)	July 29	¶5,870,000	5,757,000	5,854,000	5,187,000
Gasoline output (bbls.)	July 29	19,981,000	19,754,000	19,497,000	18,058,000
Kerosene output (bbls.)	July 29	2,293,000	1,848,000	2,169,000	1,478,000
Gas, oil, and distillate fuel oil output (bbls.)	July 29	7,266,000	7,166,000	7,582,000	6,293,000
Residual fuel oil output (bbls.)	July 29	7,870,000	8,056,000	7,841,000	7,205,000
Stocks at refineries, at bulk terminals, in transit and in pipe lines—					
Finished and unfinished gasoline (bbls.) at	July 29	109,076,000	108,915,000	114,139,000	109,964,000
Kerosene (bbls.) at	July 29	23,352,000	22,766,000	21,229,000	24,547,000
Gas, oil, and distillate fuel oil (bbls.) at	July 29	61,437,000	59,434,000	53,335,000	70,767,000
Residual fuel oil (bbls.) at	July 29	42,255,000	42,424,000	40,542,000	67,166,000
ASSOCIATION OF AMERICAN RAILROADS:					
Revenue freight loaded (number of cars)	July 29	844,849	829,884	783,357	724,044
Revenue freight received from connections (number of cars)	July 29	685,994	662,416	646,256	562,756
CIVIL ENGINEERING CONSTRUCTION — ENGINEERING NEWS-RECORD:					
Total U. S. construction	Aug. 3	$209,262,000	$252,489,000	$214,379,000	$239,245,000
Private construction	Aug. 3	116,094,000	120,259,000	107,171,000	100,250,000
Public construction	Aug. 3	93,168,000	132,230,000	107,208,000	138,995,000
State and municipal	Aug. 3	72,646,000	122,756,000	77,836,000	111,952,000
Federal	Aug. 3	20,522,000	9,474,000	29,322,000	27,043,000
COAL OUTPUT (U. S. BUREAU OF MINES):					
Bituminous coal and lignite (tons)	July 29	10,715,000	*11,240,000	10,250,000	7,653,000
Pennsylvania anthracite (tons)	July 29	965,000	855,000	1,125,000	966,000
Beehive coke (tons)	July 29	162,100	*138,300	133,700	7,200
DEPARTMENT STORE SALES INDEX—FEDERAL RESERVE SYSTEM—1935-39 AVERAGE=100	July 29	296	*303	263	209
EDISON ELECTRIC INSTITUTE:					
Electric output (in 000 kwh.)	Aug. 5	6,247,464	6,190,098	5,379,924	5,466,004
FAILURES (COMMERCIAL AND INDUSTRIAL) — DUN & BRADSTREET INC.	Aug. 3	168	160	138	171
IRON AGE COMPOSITE PRICES:					
Finished steel (per lb.)	Aug. 1	3,837c	3.837c	3.837c	3.705c
Pig iron (per gross ton)	Aug. 1	$46.38	$46.38	$46.38	$45.91
Scrap steel (per gross ton)	Aug. 1	$37.33	$36.83	$37.67	$19.92
METAL PRICES (E. & M. J. QUOTATIONS):					
Electrolytic copper—					
Domestic refinery at	Aug. 2	22.200c	22.200c	22.200c	17.325c
Export refinery at	Aug. 2	22.425c	22.425c	22.425c	17.550c
Straits tin (New York) at	Aug. 2	98.000c	97.500c	78.750c	103.000c
Lead (New York) at	Aug. 2	12.000c	12.000c	11.000c	14.750c
Lead (St. Louis) at	Aug. 2	11,600c	11.800c	10.800c	14.550c
Zinc (East St. Louis) at	Aug. 2	15.000c	15.000c	15.000c	10.000c
MOODY'S BOND PRICES DAILY AVERAGES:					
U. S. Government Bonds	Aug. 8	102.02	102.07	102.09	103.84
Average corporate	Aug. 8	115.82	115.63	114.85	114.27
Aaa	Aug. 8	120.84	120.63	120.02	120.43
Aa	Aug. 8	119.41	119.00	118.40	118.60
A	Aug. 8	115.43	115.04	114.66	113.50
Baa	Aug. 8	108.52	108.16	107.09	105.69
Railroad Group	Aug. 8	111.44	110.88	109.24	108.88
Public Utilities Group	Aug. 8	116.80	116.80	116.22	115.63
Industrials Group	Aug. 8	119.61	119.20	119.41	118.60
MOODY'S BOND YIELD DAILY AVERAGES:					
U. S. Government Bonds	Aug. 8	2.35	2.34	2.34	2.22
Average corporate	Aug. 8	2.86	2.87	2.91	2.94
Aaa	Aug. 8	2.61	2.62	2.65	2.63
Aa	Aug. 8	2.68	2.70	2.73	2.72
A	Aug. 8	2.88	2.90	2.92	2.98
Baa	Aug. 8	3.25	3.27	8.33	3.41
Railroad Group	Aug. 8	3.09	3.12	3.21	3.23
Public Utilities Group	Aug. 8	2.81	2.81	2.84	2.87
Industrials Group	Aug. 8	2.67	2.69	2.68	2.72
MOODY'S COMMODITY INDEX	Aug. 8	462.1	449.1	415.9	343.9
NATIONAL PAPERBOARD ASSOCIATION:					
Orders received (tons)	July 29	248,508	227,940	220,204	161,429
Production (tons)	July 29	215,909	213,031	211,058	162,831
Percentage of activity	July 29	96	95	94	80
Unfilled orders (tons) at	July 29	524,391	501,212	394,110	268,530
OIL, PAINT AND DRUG REPORTER PRICE INDEX—1926-36 AVERAGE=100	Aug. 4	126.7	125.1	121.0	128.2
STOCK TRANSACTIONS FOR THE ODD-LOT ACCOUNT OF ODD-LOT DEALERS AND SPECIALISTS ON THE N. Y. STOCK EXCHANGE—SECURITIES EXCHANGE COMMISSION:					
Odd-lot sales by dealers (customers' purchases)—					
Number of orders	July 22	40,021	43,206	24,425	16,162
Number of shares—Customers' total sales	July 22	1,182,756	1,255,795	766,220	462,012
Dollar value	July 22	$49,920,752	$54,157,514	$33,621,684	$17,148,809
Odd-lot purchases by dealers (customers' sales)—					
Number of orders—Customers' total sales	July 22	29,716	36,140	28,444	15,981
Customers' short sales	July 22	321	411	131	188
Customers' other sales	July 22	29,395	35,729	28,313	15,793
Number of shares—Customers' total sales	July 22	890,064	1,095,740	798,010	441,561
Customers' short sales	July 22	12,116	16,836	5,804	6,604
Customers' other sales	July 22	877,948	1,078,904	792,206	434,957
Dollar value	July 22	$33,474,526	$42,832,672	$30,963,978	$13,898,415
Round-lot sales by dealers—					
Number of shares—Total sales	July 22	209,540	279,460	268,280	141,010
Short sales	July 22	------	------	------	------
Other sales	July 22	209,540	279,460	268,280	141,010
Round-lot purchases by dealers—					
Number of shares	July 22	485,725	455,910	237,980	185,550
WHOLESALE PRICES NEW SERIES — U. S. DEPT. OF LABOR—1926=100:					
All commodities	Aug. 1	165.1	163.7	159.0	153.0
Farm products	Aug. 1	179.2	177.0	171.3	164.1
Grains	Aug. 1	169.5	175.0	173.8	152.6
Livestock	Aug. 1	246.4	241.0	237.1	210.5
Foods	Aug. 1	175.2	173.8	165.2	160.1
Meats	Aug. 1	257.9	259.4	246.6	222.2
All commodities other than farm and foods	Aug. 1	153.2	151.7	149.0	144.8
Textile products	Aug. 1	146.3	*140.7	137.4	137.2
Fuel and lighting materials	Aug. 1	134.0	133.8	133.4	129.9
Metals and metal products	Aug. 1	173.9	173.9	173.0	168.2
Building materials	Aug. 1	208.9	*207.3	202.1	188.4
Chemicals and allied products	Aug. 1	120.5	118.6	114.9	118.6

*Revised figure. ¶Includes 495,000 barrels of foreign crude runs.

	Latest Month	Previous Month	Year Ago
ALUMINUM (BUREAU OF MINES)—			
Production of primary aluminum in the U. S. (in short tons)—Month of May	61,929	58,024	56,909
Stock of aluminum (short tons) end of May	16,341	13,637	24,634
AMERICAN PETROLEUM INSTITUTE—Month of May:			
Total domestic production (bbls. of 42 gallons each)	173,687,000	163,068,000	166,622,000
Domestic crude oil output (bbls.)	159,441,000	149,052,000	154,146,000
Natural gasoline output (bbls.)	14,229,000	13,999,000	12,465,000
Benzol output (bbls.)	17,000	17,000	11,000
Crude oil imports (bbls.)	13,618,000	*15,336,000	12,669,000
Refined products imports (bbls.)	10,135,000	11,315,000	5,074,000
Indicated consumption—domestic and export (bbls.)	197,844,000	192,081,000	173,982,000
Decrease—all stocks (bbls.)	404,000	*2,362,000	‡‡10,383,000
BUILDING CONSTRUCTION PERMIT VALUATION IN URBAN AREAS OF THE U. S. —U. S. DEPT. OF LABOR—Month of May (000's omitted):			
All building construction	$1,054,932	*$920,983	$671,977
New residential	702,537	*596,073	395,054
New nonresidential	252,229	*237,412	189,101
Additions, alterations, etc.	100.166	*87,498	87,822
BUSINESS FAILURES—DUN & BRADSTREET, INC.—Month of June:			
Manufacturing number	167	197	215
Wholesale number	67	109	92
Retail number	363	426	372
Construction number	61	80	74
Commercial service number	67	62	75
Total number	725	874	828
Manufacturing liabilities	$7,244,000	$7,470,000	$13,500,000
Wholesale liabilities	2,569,000	2,949,000	4,089,000
Retail liabilities	5.154,000	8,650,000	6,234,000
Construction liabilities	1,533,000	2,129,000	2,476,000
Commercial service liabilities	1.572,000	1,474,000	1,862,000
Total liabilities	$18,072,000	$22,672,000	$28,161,000
CIVIL ENGINEERING CONSTRUCTION—ENGINEERING NEWS-RECORD—Month of July:	$	$	$
Total U. S. construction	1,175,138,000	1,254,389,000	619,442,000
Private construction	699,269,000	728,064,000	221,502,000
Public construction	475,869,000	526,325,000	397,940,000
State and municipal	360,214,000	420,392,000	292,101,000
Federal	115,655,000	105,933,000	105,839,000
COKE (BUREAU OF MINES)—Month of June:			
Production (net tons)	6,173,010	*6,317,627	5,524,800
Oven coke (net tons)	5,657,494	*5,868,380	5,259,600
Beehive coke (net tons)	515,516	*449,247	265,200
Oven coke stocks at end of month (net tons)	723,671	718,111	1,705,200
CONSUMER CREDIT OUTSTANDING—BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM — Estimated short-term credit in millions as of May 31:			
Total consumer credit	$19,091	$18,610	$15,843
Instalment credit	11,667	11,315	8,888
Sale credit	6,751	6,511	4,718
Automobile	3,615	3,470	2,386
Other	3,136	3,041	2,332
Loan credit	4,916	4,804	4,170
Noninstalment credit	7,424	7,295	6,955
Charge accounts	3,296	3,241	3,235
Single payment loans	3,114	3,048	2,739
Service credit	1,014	1,006	981
EDISON ELECTRIC INSTITUTE:			
Kilowatt-hour sales to ultimate consumers—month of May (000's omitted)	22,394,246	22,396,907	19,904,979
Revenue from ultimate customers—month of May	$407,411,300	$410,075,600	$368,669,800
Number of ultimate customers at May 31	43,684,250	43,478,939	41,561,494
FACTORY EARNINGS AND HOURS—WEEKLY AVERAGE ESTIMATE — U. S. DEPT. OF LABOR—Month of June:			
Earnings—			
All manufacturing	$58.89	*$57.72	$53.68
Durable goods	63.14	*61.72	57.57
Nondurable goods	53.74	*52.87	49.57
Hours—			
All manufacturing	40.5	*40.0	38.9
Durable goods	41.4	*40.9	39.3
Nondurable goods	39.4	38.9	38.4
Hourly earnings—			
All manufacturing	$1.454	*$1.143	$1.380
Durable goods	1.525	*1.509	1.465
Nondurable goods	1.364	*1.359	1.291
INTERSTATE COMMERCE COMMISSION—			
Index of Railway Employment at middle of June (1935-39 average = 100)	119.8	111.7	119.0
METAL PRICES (E. & M. J. QUOTATIONS)— Average for Month of July:			
Copper (per pound)—			
Electrolytic domestic refinery	22.200c	21.995c	17.059c
Electrolytic export refinery	22.425c	22.117c	17.140c
Lead (per pound)—			
Common, New York	11.660c	11.808c	13.562c
Common, St. Louis	11.460c	11.608c	13.378c
Silver and Sterling Exchange—			
Silver, New York (per ounce)	72.750c	72.750c	71.500c
Silver, London (pence per ounce)	63.500d	63.500d	43.500d
Sterling Exchange (Check)	$2.80000	$2.80000	$4.02513
Zinc (per pound)—East St. Louis	15.000c	14.647c	9.360c
Tin (per pound)—			
New York Straits	89.715c	77.688c	103.000c
New York, 99% min. (§§)	88.715c	76.688c	102.000c
Gold (per ounce U. S. price)	$35.000	$35.000	$35.000
Quicksilver (per flask of 76 pounds)	$73.440	$70.000	$78.160
¶Antimony (per pound), (E. & M. J.)	27.780c	27.780c	41.730c
Antimony (per pound), bulk, Laredo	24.500c	24.500c	38.500c
Antimony (per pound), in cases, Laredo	25.000c	25.000c	39.000c
Antimony (per pound), Chinese Spot	Nominal	Nominal	Nominal
Platinum, refined (per ounce)	$72.080	$66.000	$69.000
†Cadmium (per pound)	$2.15000	$2.08077	$2.00000
‡Cadmium (per pound)	$2.22500	$2.15577	$2.07500
§Cadmium (per pound)	$2.30000	$2.23077	$2.15000
Cobalt, 97%	$1.80000	$1.80000	Not avail.
Aluminum, 99% plus, ingot (per pound)	17.500c	17.500c	17.000c
Magnesium, ingot (per pound)	21.940c	21.500c	20.500c
**Nickel	48.000c	48.000c	40.000c

*Revised figure. †Based on the producers' quotation. ‡Based on the average of the producers' and platers' quotations. §Based on platers' quotations. ¶Domestic, five tons or more but less than carload lot packed in cases, f.o.b. New York. **F.O.B. Port Colburne, N. S., U. S. duty included. §§Tin contained. ‡‡Increase—all stocks (bbls.).

Continued from page 10

Functions and Operations of The Stock Clearing Corporation

whose sheets are not headed up, so they may copy the headings.

The "Sell" Exchange Sheet

The first sheet represents the "sell" contract. (See Figure I.) Now, in order to get the timing of this thing as to what happens in the Clearing House on the day of the transaction, before five o'clock in the evening, each selling broker submits to Stock Clearing Corporation a "sell" Exchange ticket. On that ticket, he shows the settlement date, the selling broker's number, the buying broker's number, the number of shares, the security, and the contract value.

That is the only information we receive from the broker, with the exception of a summary showing the total number of shares and the total money value of the tickets that he has submitted to us.

From these tickets, we prepare, through tabulating machine equipment — IBM, to be specific —these "sell" contract lists, and the "buy" contract lists. (Figure II.) On those lists, we show the settlement date, the firm name, the firm number, the transaction date, the selling broker's number, the buying broker's number, the number of shares, the security symbol, the settlement price, and the contract value. That is reading from left to right on this tabulated form or listing.

From the "sell" ticket, we also make the "buy" contract run, which is the second sheet and exactly the same except that it is the purchase side of each broker's transactions. They are then submitted to the Clearing members the following morning and they check them out — which is the method of comparison used today. They check them out and if they have any items on the sheets that we sumbit to them that they don't agree with and will not acknowledge, we have correction forms which are used from which the necessary corrections are made. Now, bear in mind that is the only thing that the Clearing members submit to us—a ticket covering every one of their "sell" transactions. The buyer does not send a ticket to the Clearing House.

The Settlement Price

The item I mentioned on the sheet here, the settlement price, is developed by taking the mean between the bid and an offer at the close of the market on the date of the transaction, to the nearest even dollar. As an example, let's assume that the offer on a stock was 34½ at the close, and the bid was 32. We take the mean between the two, and we have a price of 33. We have 34½ and 32, which is 1¼ added to 32, or 33¼. The nearest even dollar would make it 33.

The Clearance Operation

After the sheets have been acknowledged to the Clearing House at being correct, we then can proceed with the clearance operation. In the clearance operation, all we do is resolve the net position in each security for each broker, as I explained to you a few moments ago. We take their purchases in each security and their sales in the same security, and arrive at a net balance. All we want to do is find out what their balance is to receive or deliver, and then go through the allocation process.

During this process of ascertaining the net position, we are automatically accomplishing the pair-off of like sales and purchases in the same security. The next step is the allocation which I outlined to you a few moments ago. We use that for the purpose of reducing the number of deliveries.

To give you an idea of what the pair-offs amount to, on a 5,000,000-share day, the share pair-offs are, roughly, 42%, but the elimination of items through the clearance operation, where we take that 500 broker and give him the name of another 500 broker, is approximately 70%. You readily can understand, then, that, if you can eliminate or reduce 50,000 deliveries by **70%, the clearance is a** worthwhile operation.

Now, in that clearance process, I refer you to the last sheet. (Figure III.) We have black and red sheets in the balance orders which we have completed here for you. That is the ticket that we prepare for each balance, in each security, for each broker. The black one is for the "receive" balances and the red one for the "deliver" balances. At the time we print these balance orders to receive and deliver, we take off totals on the account, the total shares and the money value to receive and deliver, and at the time we made the contract listings, we took off totals of shares and money values.

Then I refer you to the settlement statements. (Figure IV.) There are four of them. We have four accounts in this sample clearance. You will notice the first account, No. 642, Smith & Company, purchased 700 shares of stock and sold 700 shares of stock. His debit money value on his purchase contract was $16,312.50, and his credit money value on the 700 shares was $20,687.50, and after we had resolved the net position for each security, he had a "deliver" balance of 100 shares and a "receive" balance of 100 shares. The "deliver" balance is a debit of $5,400; the "receive" balance is a credit for $1,100—and you will notice that we have, on the first line, under the settlement statement, a cash adjustment. That cash adjustment represents the difference between the settlement price and the contract value; in other words, when we issue a balance order and we mark all these contracts with the settlement price, we are marketing all contracts in the same security to one price.

The reason for that is that we most certainly could not ask Broker No. 1, who sold 100 shares of Steel for $1,650, to make a delivery to a broker who had purchased it for $1,625. We ignore, in the clearance operation, the contract money values, because we supply this settlement price, and we mark all contracts to a settlement price. The clearance adjustment represents the net additions and subtractions from the contract value to the settlement price. Is that clear to you? That is the statement which we send to the Clearing members as a result of the clearance operation.

Following Through a Transaction

Now, suppose we follow one transaction right through. Let's go to the first sheet, under Smith & Company, No. 642. Smith sold to Jone, No. 658, 100 "A," which is Anaconda, at a price of 32⅛, or $3,212.50. You will notice that the item appears on Smith's sheet as a credit on the "sell" contract and it appears under the "buy" contract on Jones' sheet. No. 658 purchased from No. 642, 100 Anaconda for 32⅛, and it appears as a debit on his account.

Now, in the case of Smith & Company, you will notice under the Smith & Company "buy" contracts, he has purchased 200 Anaconda, and he also has another "sell" contract with Brown, No. 673. In the clearance operation, the 200 Anaconda that he has purchased and the two single hundreds that he sold will pair off. There will be no balance order. Therefore, you refer back to the balance orders and you will not find a balance to receive or deliver Anaconda for the firm of Smith & Company. However, with Jones & Company, he did not sell any Anaconda; therefore, his purchase will resolve itself into a balance to receive.

If you will look back under Account No. 658, you will see a balance to receive in Anaconda, and the firm he has received it from is 673, or Brown & Company. The settlement price in Anaconda Copper is 32. so the balance order is extended for $3.200. Even though the original contract was $3,212.50, the balance order will be issued for $3,200. The net difference between that $3,200 and the original purchase price of $3,212.50 will be part of the clearance adjustment, and on the settlement date, if Jones & Company received those 100 shares of Anaconda Copper from Brown & Company, they would be debited with $3,200.

The Settlement Statement

I would like to refer you again to the settlement statement, and we will carry on from there to show you exactly what happens in order to accomplish this settlement.

Let us take the account of Smith & Company, which is the first settlement statement we have here. Let us assume that Smith & Company are ready to make their deliveries on the settlement date. They have a balance to deliver of 100 Chrysler Corporation and they have a balance to receive of 100 Baldwin Locomotive. On the settlement date, what happens is this: Let us assume that they have the item ready for delivery; they will take a certificate for 100 Chrysler and put it in this envelope, the brown envelope that you have there, and address the envelope. You will notice that there are many spaces for brokers' numbers, and the envelopes are used as many times as there are spaces on it. On the settlement date, they will insert the 100 shares of Chrysler in the envelope and they will mark, assuming it is a new envelope, 658 in the first space, because they are delivering the Chrysler, according to this balance order, to Broker No. 658. Then they will prepare a list, this blue list, a duplicate list, and mark on that list, at the top, as the delivering member, "Smith & Company, No. 642," and in the first column, they will write in the number, "658," for Jones & Company, and adjacent to that, they will put $5,400." That is the only delivery they have to make on that date, so that is what would be on that sheet. They will show a total of $5,400 on the sheet.

The envelope will be attached to the list in duplicate and sent to the central delivery department. The central delivery department will take the list and check to see whether there is an envelope addressed to No. 658. We don't know the contents of the envelope. We are not interested in the contents of the envelope. If, as an example, Smith & Company had several other deliveries, perhaps an over - the - counter transaction or a bond transaction, which is not a clearance item or a cleared security, they might insert that in the envelope as well, so there might be three or four items in the envelope. They would take the sum total, the money total of the items in the envelope, and mark it adjacent to No. 658 on the list.

This list and the envelopes are then delivered to the central delivery department and they check to make certain there is an envelope for Firm No. 658. If there is, they receipt the duplicate and return it to Smith & Company as their receipt that the envelope has been received. The No. 1 copy is forwarded to the settlement department, where the bookkeeping is done. The firm of Smith & Company will be credited with the money value of the contents of the envelope, and the firm of Jones & Company, No. 658, will be debited with a like amount. In theory, at the end of the day, the Stock Clearing Corporation net balance is zero. We debit and we credit for each delivery that we have received.

Now, bear in mind that on this 5.000,000-share day. we have 50,000 transactions and 70% of them are eliminated. As an example, on a 5.000.000-share day. with 50,000 transactions, we would handle approximately 9,000 envelopes, and that would include bond deliveries or over-the-counter deliveries and everything else, because of the flexibility of the envelope system, permitting the broker to put as many deliveries in one envelope as he has going to the same broker.

We get a further reduction, besides the reduction and the obviation that we accomplished in the clearance operation. This envelope permits further obviation by inclusion of more than one item in any one envelope.

As I said, the original copy goes to our settlement department for bookkeeping. and in the office of the broker. Smith & Company, if they just delivered the one item to No. 658 for $5.400, where it says. "Member to member," on the credit side, they are preparing this settlement statement. they would post a credit of $5,400. Now, assuming that they also received their Baldwin Locomotive from Brown & Company for $1.100, on the debit side they would debit themselves with $1,100.

Non-Member Bank Deliveries

The next item on the settlement sheet is non-member bank to member deliveries, which are debits to

FIGURE I—**"Buy" Exchange Ticket** (printed in black)

STOCK CLEARING CORPORATION

RECEIVE BALANCE ORDER
TO BE RETAINED IN RECEIVER'S OFFICE

SETTLEMENT DATE MO	DAY	YR	REC NO.	DEL NO.	SECURITY	QUANTITY	FAIL PRICE	AMOUNT
2	14	49	642	673	BALDWIN LOCOMOTIVE	100	11	1100 00

FORM 06

1

FIGURE II—**"Sell" Exchange Ticket** (printed in red)

STOCK CLEARING CORPORATION

DELIVER BALANCE ORDER
TO BE RETAINED IN DELIVERER'S OFFICE

SETTLEMENT DATE MO	DAY	YEAR	DEL NO	REC NO	SECURITY	QUANTITY	SETTLEMENT PRICE	AMOUNT
2	14	49	642	658	CHRYSLER CORP	100	54	5400 00

CERTIFICATE NUMBERS

1

FIGURE III—**Clearance Statement to Members**

SETTLEMENT DATE MO.	DAY	YR.	CLEARING MEMBER NAME	NO.
02	14	49	SMITH	642

STOCK CLEARING CORPORATION
8 BROAD ST. — NEW YORK

CLEARANCE STATEMENT	SHARES		AMOUNT DEBIT	AMOUNT CREDIT
TOTAL CONTRACTS: PURCHASES (DR) SALES (CR)	PURCHASED 700	SOLD 700	16312 50	20687 50
TOTAL BALANCE ORDERS: DELIVER (DR) RECEIVE (CR)	DELIVER 100	RECEIVE 100	5400 00	1100 00
			DO NOT INCLUDE THE	ABOVE IN TOTALS.

SETTLEMENT STATEMENT	DEBIT	CREDIT
CASH ITEMS:		
01 CLEARANCE ADJUSTMENT		75 00
03 MEMBER TO MEMBER		
05 NON-MEMBER BANK TO MEMBER		XXXXXXXXXXX
15 MEMBER TO NON-MEMBER BANK	XXXXXXXXXXX	
60 FEDERAL TAX		XXXXXXXXXXX
61 N. Y. STATE TAX		XXXXXXXXXXX
71 MARKS TO MARKET (ESCROW)		
80		
81 MONTHLY CHARGES — COMMISSION BILLS		
87 SPECIAL CLEARANCE		
SUB TOTALS		
97 SUSPENSE		
98 DRAFT (DR) CHECK (CR)		
TOTAL		

AUTHORIZED SIGNATURE

FORM 086
REV. 2-49

the Clearing member. Besides the Clearing members in the Corporation, we have thirteen of the large downtown banks as members of the Clearing House for the purpose of making deliveries between themselves and our members. The bank may do that through the Clearing Corporation, and have such items included in the settlement operation.

Let us assume that the firm of Smith & Company received some deliveries from a bank and they would receive them with a yellow ticket attached.

On these deliveries between brokers and banks, we do not handle any securities. We just handle the ticket. The bank will send a ticket to us, and we will turn the ticket over to the representatives of the Clearing member and he in turn will go to the bank cage, right on the premises of the Stock Clearing Corporation, and pick up and receipt for the securities. We will then take that ticket and, in the case of a delivery by a bank to a Clearing member, we will credit the account of the bank and charge the account of the Clearing member.

Now, let us assume that Smith & Company received an item from a nonmember bank for $500. They would then debit themselves with $500. If they made any deliveries to a non-member bank, they would accumulate those deliveries to a nonmember bank, they and post them as a credit to their account. Let us assume they had $1,000 credit.

The next item on the settlement statement is the Federal and New York State Transfer Tax. You have a form there. The broker files this form with us each morning, showing a total of his Federal and state tax. We do not have any means of checking the calculations that the brokers have made in arriving at this tax. We merely accept their figures as they post them on the form as the Federal and state tax due on that settlement date. Let us assume that their Federal tax was $10. They would post $10 under "Federal Tax," and if the New York State tax were $10, they would post that.

The "Mark to Market in Escrow"

Now, the next item on the settlement statement is the mark to market in escrow. An escrow mark to market is a charge made against any Clearing member for the protection of another Clearing member as in the case of a when-issued security. Let us assume that you have purchased a when-issued security at a price of 10. The stock skyrocketed in price, from a price of 10 to a price of 20, or double its value. You, as the purchaser, in order to assure yourself that the broker from whom you purchased it would make delivery, or in the event that he could not make delivery, if you had to buy them in, the money would be available for you to do the buying in, you would mark him to the market. If it were 100 shares, the mark would be $1,000.

Now, as the buyer, you would not receive that $1,000. That $1,000 would be held, in escrow for your protection at Stock Clearing Corporation. We would charge the broker, the selling broker, with the $1,000 and he would settle for it and pay it to us, but we would not pass that money to the broker being protected because the security is not in existence.

Under monthly charges and commission bills, the charges for services rendered by the Stock Clearing Corporations are these: We have a basic service charge of $40 a month for every Clearing member. For the clearance operation, we charge a rate of five cents a hundred shares for each item on the purchase and sale contract lists, and a charge of five cents a hundred shares for each balance order that we issue. For the settlement and delivery operation, we charge five cents per envelope. That is the only charge. At the end of the month, we accumulate the number of shares, purchased and sold, and the balance to receive and deliver, and also the number of envelopes received and delivered, for each clearing member, and we charge at the rates that I just mentioned. When the bills are submitted to the Clearing members, we automatically post the total of those bills in that space as a debit to the firm's account on that settlement date.

Clearing Commission Charges

Now, the commission bills are something else. We have a list here, and a little red ticket, a commission bill ticket. As I explained to you before, there are 1.375 members of the New York Stock Exchange and only 191 Clearing members. We have another membership in the Clearing Corporation that we call a Commission Bill Clearing membership. By that, we mean this: The brokers on the floor who are doing nothing else but executing orders for other firms, naturally, are paid for their services when they do. They make out for each one of those transactions that they execute for the account of somebody else, this little red ticket, with the amount of commission, and they send it as a bill to the firm for whom they executed the transaction. That firm will acknowledge it by stamping it and then sending it to the Clearing House with this list. The payee submits the ticket to the payer, and the payer, if he acknowledges it, will list it on this list, along with this ticket, and submit it to the Clearing Corporation. (See Figure V.)

To give you an idea of what the volume of these tickets may be, we have an average of approximately 25,000 tickets per month, or 25,000 commissions cleared per month. The Clearing Corporation takes this ticket and resolves a net money position for each broker, whether he is going to be paid money or he is going to pay money, from these tickets. At the end of the month, we do not have 25,000 checks again going through the "Street," but we have one check or one draft for each firm, depending on whether he is in debit or credit. (Figure VI.) In the case of Clearing members, it is just an item that they include in their settlement. Their commission bill debit may be $40,000 per month. The $40,000 would appear on their settlement statement on the date that the commission bill will be settled. For the brokers on the floor who are not members of the Clearing House, in most instances they have money coming to them, and we have a check prepared for them and we submit it to them. In the event that they owe money, we simply contact their office, let them know the amount, and they forward a check to us a day before the actual settlement.

In the case of the Clearing member, all he does is just take the total money value of his commission, which he gets from the statement that we prepare on the commissions, which is the last form that you have there. You will notice that the form says, "Commissions Debited," "Service Charge," "Total Debit," "Commissions Credited," and "Net Balance." He receives that form, completed, from the Clearing Corporation, and whatever the net value is there, he will post it under "Commission Bills," on that particular date. Now, let us assume, just to complete a settlement statement, that there is, again, $1,000 as a debit.

There is one remaining item; that is, a special clearance. That again comes from "when-issued" securities, where securities have not been issued and deliveries cannot be consummated, but there has been a lot of activity in the stock and we want to get a mark to market through the clearance operation. We ask each firm to submit its deliver or sell contracts, and we hold a special clearance in that particular security and resolve their net positions, moneywise, and that is the item that would be posted there as a debit or credit to the account of each firm.

Now, let us assume that we have a credit there of $1,000. On that particular settlement date, we would then receive the original copy of these settlement statements from the Clearing members, total it up, and we show a total debit of $3,620 and a total credit of $7,475, which means that the Clearing House would make a check payable to the firm of Smith & Company for the net difference between $3,620 and $7,475, or $3,855.

We do not draw the actual check. When the Clearing member is in credit and he wants to draw down money because of that credit, he will make up a draft in this case for $3,855. At the time he is going through this operation, preparing this settlement statement on the basis of his figures, we are doing exactly the same thing in the Clearing Corporation, and we are preparing a duplicate statement. We are doing it mechanically with the use of IBM equipment.

When the Clearing member submits this to us, he has also his draft accompanying it. You see, we can take his figure and check it with our figure, and if they are the same, we endorse the draft and release it to the Clearing member. If we do not agree, we retain the draft until we find out what the difference is in the account.

That completes the clearance operation, the settlement operation, and the delivery operation.

FIGURE IV—**Sample Clearance Sheet**

SALES CONTRACT LIST

Trade Date	Seller No.	Buyer No.	No. Shares	Security Symbol	Sett. Price	Contract Value
	642			SMITH		2 14 49
2 09 49	642	658	100	A	32	321250 CR
2 09 49	642	673	100	A	32	322500 CR
2 09 49	642	658	300	B	11	345000 CR
2 09 49	642	673	200	C	54	1080000 CR
4		0	700			2068750
	658			JONES		2 14 49
2 09 49	658	642	400	B	11	445000 CR
2 09 49	658	673	100	B	11	112500 CR
2 09 49	658	673	100	C	54	542500 CR
3		0	600			1100000
	673			BROWN		2 14 49
2 09 49	673	642	200	A	32	647500 CR
2 09 49	673	658	200	B	11	227500 CR
2 09 49	673	642	100	C	54	538750 CR
2 09 49	673	658	200	C	54	1087500 CR
4		0	700			2501250
No. Items			No. Shares			Contract Value
Tot. 11			2000			0005670000

PURCHASE CONTRACT LIST

Trade Date	Buyer No.	Seller No.	No. Shares	Security Symbol	Sett. Price	Sett. Date / Contract Value
	642			SMITH		2 14 49
2 09 49	642	673	200	A	32	647500
2 09 49	642	658	400	B	11	445000
2 09 49	642	673	100	C	54	538750
3		0	700			1631250
	658			JONES		2 14 49
2 09 49	658	642	100	A	32	321250
2 09 49	658	642	300	B	11	345000
2 09 49	658	673	200	B	11	227500
2 09 49	658	673	200	C	54	1087500
4		0	800			1981250
	673			BROWN		2 14 49
2 09 49	673	642	100	A	32	322500
2 09 49	673	658	100	B	11	112500
2 09 49	673	642	200	C	54	1080000
2 09 49	673	658	100	C	54	542500
4		0	500			2057500
No. Items			No. Shares			Contract Value
Tot. 11			2000			0005670000

BALANCE RECONCILIATION

Code	Security—	Sett. Price	Code	Contract Purch.	Contract Sold	Bal. Shs. Rec.	Bal. Shs. Del.	Total Bal.	Difr.	
10	Anaconda Copper	32	778	4	4	1	1	2	*	CR
1197	Baldwin Loco. ---	011	1025	10	10	1	1	2	*	CR
2710	Chrysler Corp.---	54	2029	6	6	1	1	2	*	CR

*If figures print in this column security balances are in error.

FIGURE V—**Commission Confirmation Slip**

699 ACCOUNT OF COMMISSION BILL

Bill submitted by ....
Name and Number of S. E. firm or member (PAYEE)

STOCK CLEARING CORPORATION

To .... **Date** .... 19......
Name of S. E. firm or member (PAYER) (Month in which payable)

Please certify as correct the following amount due in accordance with the Commission Bill submitted herewith.

To STOCK CLEARING CORPORATION
Credit the within mentioned amount to the account of the Payee, and charge to the account of the undersigned.

Amount Due

....
Name and Number of PAYER

FIGURE VI

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STOCK CLEARING CORPORATION
COMMISSION BILL SETTLEMENT STATEMENT

Name	No.	Date

Commissions Debited	Service Charge	Total Debit	Commissions Credited	Net Balance

Clearing Members will include net balance in their day's settlement.

Non-Clearing Members Account will be settled by check. □

With Waddell & Reed

(Special to The Financial Chronicle)

TAMPA, Fla.—Earl F. Ainsworth is with Waddell & Reed, Inc.

With Shillinglaw, Bolger

(Special to The Financial Chronicle)

CHICAGO, Ill.—Ralph G. Davis has become associated with Shillinglaw, Bolger & Co., 120 South La Salle Street.

S. A. Sandeen Adds

(Special to The Financial Chronicle)

ROCKFORD, Ill.—Murney M. Lazier has been added to the staff of S. A. Sandeen & Co., Talcott Building.

Joins Wilson Trinkle

(Special to The Financial Chronicle)

LOUISVILLE, Ky.—Linn Boyd has joined the staff of Wilson-Trinkle Co., Inc., Louisville Trust Building.

Joins King Merritt

(Special to The Financial Chronicle)

BANGOR, Me.—Robert H. Dodd is now connected with King Merritt & Co., of New York.

With Hodgdon & Co.

(Special to The Financial Chronicle)

Boston, Mass. — Frederick W. Ricker has become affiliated with Hodgdon & Co., 10 State Street.

With E. F. Hutton Co.

(Special to The Financial Chronicle)

LONG BEACH, Calif.—Donald E. Leedom is with E. F. Hutton & Co., 219 East Broadway.

Joins Waddell-Reed Staff

(Special to The Financial Chronicle)

FREMONT, Neb.—Riley C. Harriss is with Waddell & Reed, Inc., of Kansas City.

McDaniel Lewis Adds

(Special to The Financial Chronicle)

GREENSBORO, N. C.—George O. Rogers has been added to the staff of McDaniel Lewis & Co., Jefferson Building.

Securities Now in Registration

• INDICATES ADDITIONS SINCE PREVIOUS ISSUE

• Aetna Life Insurance Co.
Aug. 4 (letter of notification) not to exceed 451 shares of capital stock. **Underwriter**—None. **Proceeds**—To pay holders of fractional scrip certificates upon their surrender.

Alabama Power Co., Birmingham, Ala.
July 28 filed 64,000 shares of 4.20% preferred stock (par $100) to be offered in exchange for a like number of outstanding 4.20% preferred shares of Birmingham Electric Co. No underwriter.

Alberta-Canada Oils, Inc. (Del.) (9/1)
July 18 filed 1,000,000 shares of common stock (par 50 cents). **Price**—$2.50 per share. **Underwriter**—Thomas G. Wylie Co., New York. **Proceeds**—For general funds.

Allen Organ Co., Allentown, Pa. (9-1)
July 19 (letter of notification) 1,500 shares of 6% preferred stock (par $100) and 750 shares of common stock (par $100). **Price**—At par. **Underwriter**—None. **Proceeds**—For expansion of plant and development of other electronic products. **Office**—8th and Pittston Streets, Allentown, Pa.

American Diamond Mining Corp. (8/10)
July 28 (letter of notification) 299,000 shares of common stock. **Price**—At par ($1 per share). **Underwriter**—F. W. MacDonald & Co., New York. **Proceeds**—For exploration and development of property operated in Murfreesboro, Ark. **Office**—99 Wall St., New York, N. Y.

American Fire & Casualty Co., Orlando, Fla.
July 21 (letter of notification) 11,100 shares of common stock (par $10). **Price**—$27 per share. **Underwriter**—Guardian Credit Corp., Orlando. **Proceeds**—For working capital. **Office**—American Bldg., Orlando, Fla. Expected this week.

American Motorists Insurance Co., Chicago
June 28 filed 100,000 shares of capital stock (par $5) being offered to stockholders of record July 25 at rate of one new share for each three held. **Price**—At par. **Proceeds**—For general corporate purposes. **Business**—Casualty insurance. Statement effective July 26.

• American Natural Gas Co., New York (8/24)
Aug. 4 filed 334,934 shares of common stock (no par), of which 304,486 shares are to be offered to common stockholders of record Aug. 24 on basis of one new share for each 10 shares held; rights to expire Sept. 14. **Price**—To be filed by amendment (proposed maximum offering price $24.25 per share. **Underwriter**—None. **Proceeds**—To increase investments in stock of Michigan Consolidated Gas Co. and Milwaukee Gas Light Co.

• American Patent & Trade-Mark Bureau of Washington, D. C., Inc. (8/15)
Aug. 7 (letter of notification) 49,000 shares of common stock. **Price**—At par ($1 par share). **Underwriter**—None. **Proceeds**—For publishing three books and a monthly newspaper and for working capital. **Office**—62 William Street, New York 5, N. Y.

American Radio & Television, Inc., North Little Rock, Ark.
June 16 (letter of notification) 301,686 shares of common stock (par 10 cents). **Price**—75 cents per share. **Underwriters**—Gearhart, Kinnard & Otis, New York City. **Proceeds**—For additional working capital. **Office**—Fifth and Cornish Streets, No. Little Rock, Ark.

Arkansas Power & Light Co.
May 23 filed 155,000 shares of cumulative preferred stock (par $100). **Proceeds**—To be applitd to (a) redemption on Aug. 1, 1950, at $110 per share plus dividend accruals, of all the 47,609 shares of outstanding $7 preferred and 45,891 shares of outstanding $6 preferred; and (b) the carrying forward of the company's construction program. **Bids**—Received by company up to noon (EDT) on June 19, but rejected. Only one bid was made of $100.003 per share, with a $4.95 dividend from Lehman Brothers, Equitable Securities Corp. and White, Weld & Co. (jointly). Statement effective June 12. No further decision reached.

Associated Natural Gas Co., Tulsa, Okla.
March 14 (letter of notification) 2,500 shares of common stock at $100 per share. No underwriter. **Proceeds** to build a natural gas transmission line. **Office**—105 N. Boulder, Tulsa, Okla.

Avco Manufacturing Corp., N. Y. City
July 14 filed 1,500,000 shares of common stock (par $3) offered in exchange for shares of Bendix Home Appliance Inc., at the rate of two Avco shares for each Bendix share. **Dealer-Managers**—Emanuel, Deetjen & Co. and Lehman Brothers.

Benson (N. P.) Optical Co.
July 11 (letter of notification) $150,000 of 4% debenture, series D, due 1965. **Underwriter**—None. **Proceeds**—For working capital. **Office**—450 Medical Arts Bldg., Minneapolis, Minn.

• Big Bear Markets of Michigan, Inc., Detroit, Mich. (8/22)
Aug. 3 filed 100,000 shares of common stock (par $1). **Price**—To be filed by amendment. **Underwriter**—J. G. White & Co., Inc., New York. **Proceeds**—To three selling stockholders who own approximately 69% of the outstanding shares. **Business**—Supermarket.

Broadway Angels, Inc., N. Y. City
July 20 (letter of notification) 570,000 shares of common stock (par 1c). **Price**—50 cents per share. **Underwriter**—John E. Blair, Vice-President and a director, 310 East 66th Street, New York, N. Y. **Proceeds**—For working capital. **Office**—29 West 65th Street, New York 23, N. Y.

Canadian Superior Oil of California, Ltd.
June 27 filed 2,150,000 shares of common stock (par $1). **Price**—To be filed by amendment. **Underwriter**—Dillon, Read & Co. Inc. **Proceeds**—For geological and drilling operations in Canada. Temporarily postponed.

Caspers Tin Plate Co., Chicago, Ill. (8/10)
June 16 filed 150,000 shares of common stock (par $1), of which 50,000 shares are to be sold by company and 100,000 shares by three stockholders. **Price**—$8.75 per share. **Underwriters**—F. Eberstadt & Co. Inc. and Shillinglaw, Bolger & Co. **Proceeds**—Proceeds to company, together with term loan of $1,000,000 from insurance firm, will be used to pay existing long-term obligations and the balance to be used as working capital. Statement effective Aug. 9, with offering made publicly today.

• Central Finance Corp., Denver, Colo.
Aug. 1 (letter of notification) $100,000 of 6% debentures, of which only $50,000 will be issued at this time. **Price**—At par (in units of $500 and $1,000 each). **Underwriter**—None. **Proceeds**—To increase capital and lending power. **Office**—1724 Stout St., Denver 2, Colo.

Central Louisiana Electric Co., Inc.
July 19 (letter of notification) 9,888 shares of common stock (par $10) being offered to stockholders of record July 14 on basis of one share for each 12½ shares held; rights expire Aug. 16. **Price**—$30 per share. **Underwriter**—None. **Proceeds**—For construction and property additions. **Office**—528 Monroe St., Alexandria, La.

• Central Telephone Co., Lincoln, Neb.
Aug. 2 filed 97,000 shares of common stock (par $10) to be offered to common stockholders of Central Electric & Gas Co., the parent, of record about Aug. 25, at the rate of one new share for each 13 shares of Central Electric comomn stock held. **Price**—To be filed by amendment. **Dealer-Managers**—Paine, Webber, Jackson & Curtis and Stone & Webster Securities Corp., New York. **Proceeds**—To pay unsecured note held by International Telephone & Telegraph Co.

Citizens Credit Corp., Washington, D. C.
June 2 (letter of notification) 3,000 shares of class A common stock (par $12.50) and 1,000 shares of class B common stock (par 25 cents), to be sold in units of three shares of class A stock and one share of class B stock. **Price**—$44.50 per unit. **Underwriter**—Emory S. Warren & Co., Washington, D. C. **Proceeds**—For general funds. **Office**—1707 Eye St., N. W., Washington, D. C.

Citizens Telephone Co., Decatur, Ind.
April 27 (letter of notification) 3,000 shares of 4½% preferred stock, non-convertible. **Price**—At par ($100 per share). **Underwriter**—None. **Proceeds**—For plant additions and conversion to dial operations. **Office**—240 W. Monroe St., Decatur, Ind.

City Stores Co.
July 17 filed an unspecified number of shares of common stock (par $5) to be offered in exchange for common stock (par $10) of Oppenheim, Collins & Co., Inc., and for the 4½% convertible preferred stock (par $50) and common stock (par $1) of Franklin Simon & Co., Inc., in ratios to be determined by the directors of City Stores Co. when registration becomes effective. The exchange offer is expected to expire around Sept. 15, 1950. **Dealer-Manager**—W. E. Hutton & Co., New York.

Coca-Cola Bottling Co. of St. Louis.
July 27 (letter of notification) 4,000 shares of common stock (par $1), to be offered to employees. **Price**—$25 per share. **Proceeds**—To benefit employees for services. **Office**—2930 N. Market St., St. Louis, Mo.

Commonwealth Springfield Drive-In Theatre Corp.
July 10 (letter of notification) $100,000 of debentures and 1,000 shares of common stock (par $1) to be sold in units of one $100 debenture and one share of stock. **Price**—$101 per unit. **Underwriter**—None. **Proceeds**—To reimburse George W. Fuller, Kansas City, Mo., for expenses in completing the Sunset Drive-In Theatre, Springfield, Mo. **Office**—215 W. 18th St., Kansas City, Mo.

Consumers Power Co., Jackson, Mich.
June 23 filed 499,903 shares of common stock (no par) to be offered present holders at the rate of one new share for each 10 held, with an oversubscription privilege. **Underwriter**—To be named in an amendment, along with offering price. Five months ago an offering of 454,457 shares of common stock to common stockholders was underwritten by a group headed by Morgan Stanley & Co. **Price**—Expected to be not less than $33 per share. **Proceeds**—For construction. **Offering**—Postponed.

Continental Refrigeration Corp., N. Y.
July 28 (letter of notification) $250,000 of 6% 5-year income notes dated June 1, 1950 in multiples of $1,000. **Price**—At 100 and interest. **Underwriter**—National Investors Service, New York. **Proceeds**—To pay expenses incurred in prosecuting infringement actions under patent and for commercialization of patent. **Office**—50 Broadway, New York, N. Y.

• Credit Finance Services, Inc., Akron, O.
Aug. 4 (letter of notification) $300,000 of 2% to 4% certificates of investment. **Price**—$50 and up per unit. **Underwriter**—None. **Proceeds**—For working capital. **Office**—316 South Main Street, Akron, O.

Cristina Mines, Inc., N. Y. City
May 24 filed 400,000 shares of common stock (par 50 cents). **Underwriter**—Max Wolberg, a director of company. **Price**—$1 per share. **Proceeds**—For development of tonnage and mining and shipment of ore.

• Crown Drug Co., Kansas City, Mo.
July 31 (letter of notification) $300,000 of 4½% convertible debenture notes (in denominations of $60, $100, $500 and $1,000) to common stockholders. **Price**—At par. **Underwriters** — Roger W. Babson, Wellesley Hills, Mass.; H. J. Witschner, Kansas City, Mo.; and Statistics Organization, Inc., Babson Park, Mass. **Proceeds** — To retire short term banking debt and for working capital.

• Detroit Hardware Manufacturing Co.
Aug. 4 (letter of notification) 100,000 shares of common stock (par $1). **Price**—$3 per share. **Underwriter**—None. **Proceeds**—To expand facilities. **Office**—1320 Mt. Elliott Avenue, Detroit, Mich.

Diamond Lil Corp., Las Vegas, Nev.
July 13 (letter of notification) 50,000 shares of common stock (par $1). **Price**—$6 per share. **Underwriter**—None. **Proceeds** — To build a casino and theatre-restaurant. **Office**—114 N. 3rd St., Las Vegas, Nev.

Diesel Power, Inc., Pittsburgh, Pa.
July 28 (letter of notification) 25,000 shares of common stock to be offered only to common stockholders during a 10-day period, up to 100 shares each. **Price**—At par ($1 per share). **Underwriter**—Graham & Co., Pittsburgh, Pa. **Proceeds**—To expand production and for working capital. **Office**—601 Granite Bldg., 6th Ave. and Wood St., Pittsburgh 22, Pa.

• Dravo Corp.
Aug. 2 (letter of notification) an undetermined number of $1 par common shares (not exceeding 6,000) to be purchased by company and reoffered to employees of company and its subsidiaries. **Price**—Based on "Over-the-Counter" market (approximately $26 per share). **Underwriters**—The following will act as brokers: First Boston Corp.; Reed, Lear & Co.; McKelvy & Co.; Glover & MacGregor; Singer, Deane & Scribner; Preston, Watt & Schoyer; Kay, Richards & Co.; Moore, Leonard & Lynch; Frederick Hatch & Co., Inc.; Stroud & Co., Inc.; C. S. McKee & Co.; and S. K. Cunningham & Co., Inc. **Proceeds**—Any net gains will be added to working capital. **Office**—Neville Island, Pittsburgh 25, Pa.

Duquesne Light Co. (8/22)
July 25 filed $12,000,000 first mortgage bonds due 1980. Underwriters—To be determined by competitive bidding. Probable bidders for bonds: Halsey, Stuart & Co. Inc.; Kuhn, Loeb & Co., Union Securities Corp. and A. C. Allyn & Co. (jointly); Harriman Ripley & Co., Inc.; White, Weld & Co.; Drexel & Co. and Equitable Securities Corp. (jointly); First Boston Corp.; Glore, Forgan & Co. **Bids** — Expected at 11 a.m. (EDT) on Aug. 22. **Proceeds**—To repay bank loans and finance construction.

• Eastern Corp., Bangor, Me.
Aug. 4 (letter of notification) 2,500 shares of common stock (par $10). **Price**—$15.12 per share. **Underwriter**—None. **Proceeds**—To The Central National Corp., New York City, selling stockholder.

Eastern Stainless Steel Corp. (8/10)
June 7 filed 100,000 shares of capital stock (par $5) to be offered to stockholders of record Aug. 10 at the rate of one new share for each three held, with oversubscription privilege; rights are to expire Aug. 23. **Underwriter**—Allen & Co., New York. **Price**—To be filed by amendment. **Proceeds**—To pay bank loans and for working capital. Information may be amended.

• Eltura Mining Corp., Spokane, Wash.
Aug. 1 (letter of notification) 50,000 shares of common stock. **Price**—At par ($1 per share). **Underwriter**—None. **Proceeds**—For development of mining properties. **Office**—711 Hutton Bldg., Spokane, Wash.

• Equipment Finance Corp., Chicago, Ill.
Aug. 7 filed 10,000 shares of 4% cumulative preferred stock, to be offered to officers and employees of this corporation and of Curtis Candy Co., parent. **Price**—At par ($100 share share). **Underwriter**—None. **Proceeds**—To acquire equipment and real estate for its parent.

Fedders-Quigan Corp.
June 21 filed 103,402 shares of series A cumulative convertible preferred stock (par $50) to be offered to common stockholders on basis of one preferred share for each 12 shares held. **Price**—To be filed by amendment, along with dividend rate. **Underwriter**—Smith, Barney & Co., New York. **Proceeds**—To pay promissory note, to complete purchase of a new plant at El Monte, Calif., and for additional working capital. Offering postponed.

Federal Services Finance Corp., Washington, D. C.
July 21 (letter of notification) 3,000 shares of 5% convertible preferred stock, series B, to be offered initially in exchange, par for par, for 6% preferred stock. **Price**—At par ($100 per share). **Underwriter**—Mackall & Coe, Washington, D.C. **Proceeds**—To redeem 6% preferred stock and for working capital.

First Springfield Corp., Springfield, Mass.
May 29 (letter of notification) 5,471 shares of common stock. **Price**—$15 per share. **Underwriter** — Springfield Mortgage Corp., Springfield 3, Mass. **Proceeds** — For working capital.

Fleetwood Airflow, Inc., Wilkes-Barre, Pa.
April 20 (letter of notification) 79,050 shares of common stock (par 50 cents) to be offered first to common stockholders. **Price**—$1 per share to stockholders and $1.25 to public. **Underwriter**—None. **Proceeds**—For working capital, remaining $28,000 being offered to six creditors in payment of debt. **Office**—421 No. Pennsylvania Ave., Wilkes-Barre, Pa.

Fleetwood-Airflow, Inc., Wilkes-Barre, Pa.
July 19 (letter of notification) 8,965 shares of common stock (par 50 cents). **Price**—At market. **Underwriter**—Howard O'Connor, 302 Cliff Avenue, Pelham, N. Y. **Proceeds**—To selling stockholder.

Florala (Ala.) Telephone Co.
June 29 (letter of notification) 1,200 shares of 4% cumulative preferred stock. **Price**—At par ($25 per share). **Underwriter**—None. **Proceeds**—To extend and modernize plant, lines and other telephone facilities.

Frontier Leather Co., Sherwood, Ore.
July 8 (letter of notification) 1,000 shares of 6% cumulative preferred stock (par $100) and 10,000 shares of common stock (par 20 cents) to be offered in units of one preferred and ten common shares. **Price**—$101 per unit. **Underwriter**—George Patton & Co., Portland, Ore. **Proceeds**—To pay off mortgages and for additions, plant facilities and equipment.

General Plywood Corp., Louisville, Ky.
July 17 (letter of notification) 101,500 shares of common stock (par 50 cents). **Price**—$2.11 per share. **Underwriter**—None. **Proceeds**—For working capital. **Office**—334 East Broadway, Louisville, Ky.

General Radiant Heater Co., Inc.
May 3 filed 170,000 shares of common stock (par 25¢) **Price**—$3 per share. **Proceeds**—For plant and warehouse, advertising research, working capital, etc. Temporarily postponed. Amendment may be filed.

General Shoe Corp., Nashville, Tenn.
June 30 filed a maximum of 32,885 shares of common stock (par $1) to be offered on a share-for-share basis in exchange for outstanding preferred stock of W L Douglas Shoe Co. No underwriter. Statement effective July 25.

Georgia-Pacific Plywood & Lumber Co.
July 27 (letter of notification) 4,000 shares of common stock (par $1). **Price**—$14 per share. **Underwriter**—Reynolds & Co., New York. **Proceeds**—For benefit of Julian North Cheatham, Winnetka, Ill., the selling stockholder. To be placed privately.

Globe Hill Mining Co., Colorado Springs, Colo.
May 26 (letter of notification) 5,885,000 shares of common stock. **Price**—At par (one cent per share). **Underwriters**—George C. Carroll Co., Denver; Inter-Mountain Shares, Inc., Denver; and M. A. Cleek, Spokane, Wash. **Proceeds**—For mining equipment.

Granite City (Ill.) Steel Co. (9/6)
July 31 filed 99,446 shares of common stock (no par) to be offered common stockholders on basis of one new share for each four shares held. **Price**—To be filed by amendment. **Underwriter**—Merrill Lynch, Pierce, Fenner & Beane, New York. **Proceeds**—For general corporate purposes.

Granville Mines Corp., Ltd., British Columbia, Canada
Feb. 16 filed 100,000 shares of common non-assessable stock (par 50c). **Price**—35c per share. **Underwriter**—None. **Proceeds**—To buy mining machinery and for working capital. Statement effective May 10.

Gulf Atlantic Transportation Co., Jacksonville, Florida
May 27, 1949, filed 620,000 shares of class A partic. ($1 par) stock and 270,000 shares (25c par) common stock **Offering**—135,000 shares of common will be offered for subscription by holders on the basis of one-for-two at 25 cents per share. **Underwriters**—Names by amendment and may include Blair, Rollins & Co., Inc.; John J. Bergen & Co. and A. M. Kidder & Co. on a "best efforts basis." **Price**—Par for common $5 for class A. **Proceeds**—To complete an ocean ferry, to finance dock and terminal facilities, to pay current obligations, and to provide working capital. Statement withdrawn July 31, 1950.

● **Haddon Bindery, Inc. (N. J.)**
Aug. 2 (letter of notification) 10,000 shares of management stock to be offered to officers and employees. **Price**—At par ($10 per share). **Proceeds**—For working capital. **Office**—c/o S. Lewis Davis, 330 Market Street, Camden, N. J.

● **Hydroway, Inc.**
Aug. 4 (letter of notification) 800 shares of preferred stock (par $100) and 600 shares of common stock (par $10). **Price**—At par. **Underwriter**—None. **Purpose**—To be used in connection with experimentation, manufacture and sale of the company's vacuum cleaner. **Office**—"A" and Lippincott Streets, Philadelphia, Pa.

NEW ISSUE CALENDAR

August 10, 1950

American Diamond Mining Corp. — **Common**
Caspers Tin Plate Co. — **Common**
Eastern Stainless Steel Corp. — **Common**

August 14, 1950

Middletown & Royalton Water Co. — **Bonds & Pfd.**

August 15, 1950

American Patent & Trade-Mark Bureau of Washington, D. C. — **Common**
Industrial Stamping & Mfg. Co. — **Bonds & Common**
Seaboard Air Line RR. noon (EDT) — **Equip. Trust Ctfs.**

August 16, 1950

Maine Central RR. noon (EDT) — **Equip. Trust Ctfs.**
Pacific Petroleums, Ltd. — **Common**

August 18, 1950

Transvision, Inc. — **Common**

August 22, 1950

Big Bear Markets of Michigan, Inc. — **Common**
Duquesne Light Co. 11 a.m. (EDT) — **Bonds**

August 23, 1950

Kansas City Southern Ry. — **Equip. Trust Ctfs.**

August 24, 1950

American Natural Gas Co. — **Common**

August 29, 1950

Indiana Gas & Water Co., Inc. — **Bonds**

September 1, 1950

Alberta-Canada Oils, Ltd. — **Common**
Allen Organ Co. — **Pfd. & Com.**

September 6, 1950

Granite City Steel Co. — **Common**

September 12, 1950

Utah Power & Light Co. — **Common**

September 14, 1950

New Hampshire Electric Co. — **Bonds**

September 27, 1950

Delaware Power & Light Co. — **Bonds**

October 9, 1950

Utah Power & Light Co. — **Bonds**

OFFERINGS TEMPORARILY POSTPONED

American Natural Gas Co. — **Common**
Canadian Superior Oil of California, Ltd. — **Common**
Consumers Power Co. — **Common**
Fedders-Quigan Corp. — **Common**
General Radiant Heater Co., Inc. — **Common**
Middlesex Water Co. — **Common**
Northwestern Public Service Co. — **Common**
Public Service Co. of Colorado — **Debs. & Pfd.**
Rochester Telephone Corp. — **Common**
Safeway Stores, Inc. — **Pfd. & Com.**
Southern Co. — **Common**
Tele-Tone Radio Corp. — **Class A & Com.**
United States Plywood Corp. — **Preferred**

Indiana Gas & Water Co., Inc. (8/29)
July 28 filed $9,500,000 of first mortgage bonds, series A, due Sept. 1, 1980. **Underwriter**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; First Boston Corp.; Harriman Ripley & Co., Inc. and Blyth & Co., Inc. (jointly); Kidder, Peabody & Co.; Lehman Brothers and Bear, Stearns & Co. (jointly). **Proceeds**—To redeem $9,440,000 outstanding bonds. **Offering**—Expected late this month.

Industrial Stamping & Mfg. Co. (8/15)
July 6 filed (by amendment) $500,000 of first mortgage 5% bonds due 1967 (with warrants to purchase 60,000 shares of common stock) and 400,000 shares of common stock (par $1). Of the latter, 272,000 shares will be publicly offered and 28,000 shares will be offered to certain officers and directors of the company; 60,000 shares to be reserved for stock options; and 40,000 shares to be optioned to the underwriter of the bonds. **Price**—of bonds, 100; and of stock to public and employees, $1 per share. **Underwriters**—For bonds, P. W. Brooks & Co., Inc.; for stock, Baker, Simonds & Co. **Proceeds**—To pay mortgage and certain debts, and balance added to working capital, part of which will be used to reduce bank loans. **Offering**—Expected middle of this month.

Interstate Finance Corp., Dubuque, Iowa
June 14 (letter of notification) 4,000 shares of common stock (par $5) and 2,000 shares of B common stock (par $5). **Price**—$25 per share. **Underwriter** — None. **Proceeds**—To increase working capital. **Office** — 1157 Central Ave., Dubuque, Ia.

Kauai Engineering Works, Ltd., Lihue, Hawaii
June 23 (letter of notification) 98,000 shares of common stock (par $1). **Price**—$1.10 per share. **Underwriter**—Ross & Co., Box 2665, Honolulu, T. H. **Proceeds**—For working capital. **Co.'s Address**—Box 1589, Lihue, T. H.

Kaye-Halbert Corp., Culver City, Calif.
July 28 filed 100,000 shares of class A common stock (par $1). **Price**—$5 per share. **Underwriter**—Sills, Fairman & Harris, Inc., Chicago, Ill. **Proceeds**—For working capital.

● **Kennebunk Industrial Corp., Portland, Me.**
Aug. 4 (letter of notification) $60,000 of 4% sinking fund debentures due 1971 (in denominations of $50, $100 and $500 each. **Underwriter**—None. **Proceeds**—For land and construction. **Office**—120 Exchange Street, Portland, Me.

Leigh Foods, Inc. (N. Y.)
June 30 (letter of notification) 300,000 shares of capital stock (par 10 cents). **Price**—$1 per share. **Underwriter**—None. **Proceeds**—For working capital and general corporate purposes. **Office**—630 Fifth Avenue, New York 20, New York.

Louisiana Power & Light Co.
May 23 filed 90,000 shares of preferred stock (par $100). **Proceeds**—To be used to redeem, at $110 per shart plus dividend accruals, the 59,422 shares of outstanding $6 preferred stock, and for construction and other purposes. **Bids**—Received by company up to noon (EDT) on June 19, but rejected. Three bids were made as follows: Union Securities Corp., $100.40 per share with a $4.65 dividend; Blyth & Co., Inc., and Equitable Securities Corp. (jointly), $100.10 with a $4.65 dividend; and W. C. Langley & Co. and First Boston Corp. (jointly), $100.30 with a $5.80 dividend. Statement effective June 12. No further decision reached.

Loven Chemical of California, Newhall, Calif.
May 31 (letter of notification) 282,250 shares of capital stock. **Price**—At par ($1 per share). **Underwriter**—Floyd A. Allen & Co., Inc., Los Angeles, Calif. **Proceeds**—To buy land, build a plant and equip it to produce so-called "impact" plastics. **Office**—244 S. Pine St., Newhall, Calif.

● **McCarthy Oil Co., Elko, Nev.**
July 31 (letter of notification) 600,000 shares of common stock. **Price** — 50 cents per share. **Underwriter**—None. **Proceeds**—To purchase and develop lands. **Office**—Hunter Theatre Bldg., Elko, Nev.

Mercantile Credit Corp., Wichita, Kansas
June 30 (letter of notification) 200,000 shares of common stock (par $1). **Price**—$1.50 per share. **Underwriter**—None. **Proceeds**—For general corporate purposes. **Office**—609 Scott St., Wichita, Kan.

Merry Brothers Brick & Tile Co., Augusta, Ga.
June 15 (letter of notification) 1,250 shares of 5% cumulative preferred stock. **Price**—At par ($100 per share). **Underwriter**—Johnson, Lane, Space & Co., Inc. **Proceeds**—To Ernest B. Merry, Jr., Vice-President and General Manager, the selling stockholder.

● **Metropolitan Music School, Inc.**
Aug. 4 (letter of notification) $30,000 of 3% 10-year debentures. **Underwriter**—None. **Proceeds**—To repay obligations incurred by purchase of building. **Office**—18 West 74th Street, New York, N. Y.

Middle South Utilities, Inc.
June 1 filed 400,000 shares of common stock (no par) to be offered to preferred stockholders of three subsidiaries—Arkansas Power & Light Co., Louisiana Power & Light Co. and Mississippi Power & Light Co. **Underwriter**—Equitable Securities Corp will serve as "dealer-manager." (See also listings of Arkansas, Louisiana and Mississippi companies elsewhere in these columns.)

Middlesex Water Co., Newark, N. J.
Feb. 9 (letter of notification) 5,200 shares of common stock offered to common stockholders at $50 per share on a one-for-five basis. **Underwriter**—Clark, Dodge & Co. **Proceeds**—To pay notes and for additional working capital. Indefinitely postponed.

● **Middletown & Royalton Water Co. (8/14)**
Aug. 4 (letter of notification) 10,000 shares of 5½% preferred stock (par $50) and $30,000 of 5% refunding and improvement mortgage bonds. **Price**—At par. **Underwriter**—Blair F. Claybough & Co., Harrisburg, Pa. **Proceeds**—To repay notes payable and pay capital additions and improvements. **Office**—Mill Street, Middletown, Pa.

Miles Laboratories, Inc., Elkhart, Ind.
June 23 (letter of notification) 2,500 shares of common stock (no par). **Price**—$16.50 per share. **Underwriter**—Cohu & Co., New York City. **Proceeds**—To two selling stockholders. Offering date indefinite.

Miller (Walter R.) Co., Inc.
March 6 (letter of notification) 1,000 shares of 6% cumulative preferred stock at par ($100 per share). **Underwriter**—George D. B. Bonbright & Co., Binghamton, N. Y. **Proceeds**—To assist in acquisition of 1216 shares of company's common stock.

Mission Appliance Corp., Hawthorne, Calif.
July 24 filed 50,000 shares of 6% cumulative convertible preferred stock. **Price**—At par ($20 per share). **Underwriter**—Lester & Co., Los Angeles, Calif. **Proceeds**—To retire bank loans and install machinery and equipment in a proposed new plant to be located east of the Rocky Mountains. **Business**—Manufacturer of gas and electric water and space heaters.

Mississippi Power & Light Co.
May 23 filed 85,000 shares of cumulative preferred stock (par 100). **Proceeds**—To be used to redeem at $110 per share plus dividends, the outstanding 44,476 shares of $6 preferred stock and for construction and other corporate purposes. **Bids**—Received by company up to noon (EDT) on June 19 but rejected. Four bids were made as follows: Union Securities Corp., $100.10 per share with a $4.80 dividend; Lehman Brothers, $100.551 with a $4.85 div.; W. C. Langley & Co. and First Boston Corp. (jointly), $100.30 with a $4.90 dividend; and Blyth & Co.,

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Inc., Equitable Securities Corp., Shields & Co., White, Weld & Co. and Kidder, Peabody & Co. (jointly), $100.19 with a $4.90 dividend. Statement effective June 12. No further decision reached.

Modern Supply Co., Inc., Pittsburgh, Pa.
July 28 (letter of notification) 2,000 shares of 5% preferred stock (par $100) and 50,000 shares of common stock (no par—$1 declared value), of which 145 preferred and 15,055 com. shares were sold in Pennsylvania. **Price**—For preferred, $100 and for common, $1 per share. **Underwriter**—None. **Proceeds**—For expansion and development. **Office**—837 W. North Ave., Pittsburgh 12, Pa.

Mt. Carmel (Ill.) Public Utility Co.
July 24 (letter of notification) 3,000 shares of 4% preferred stock being offered to common stockholders of record July 31 in ratio of one preferred for each six common held; rights to expire Aug. 30. **Price** — At par ($100 per share). **Underwriter**—None. **Proceeds**—To retire short-term notes and expand facilities. **Office** — 316 Market St., Mt. Carmel, Illinois.

Mutual Telephone Co., Honolulu, Hawaii
July 27 filed 100,000 shares of preferred stock, series C (par $10), the new preferred stock being offered initially to common stockholders of record July 7 (with rights to expire Aug. 15) at rate of one preferred share for each 7.5778 common shares held with employees entitled to subscribe for unsubscribed shares. **Price**—At par. **Underwriter**—Kidder, Peabody & Co. **Proceeds**—To pay for 1950-1951 construction.

New Hampshire Electric Co. (9/14)
Aug. 2 filed $3,600,000 of first mortgage sinking fund bonds, series A, due 1975. **Underwriter**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; The First Boston Corp.; Kidder, Peabody & Co., and White, Weld & Co. (jointly). **Proceeds**—To retire (a) $1,880,000 first mortgage bonds, series A and B, due 1963, and (b) $1,250,000 of bank loans due Dec. 31, 1952; and the balance for construction purposes. **Bids**—Expected to be invited around Sept. 2 and opened on Sept. 14.

Norlina Oil Development Co., Washington, D. C.
March 28 filed 600 shares of capital stock (no par.) To offer only sufficient shares to raise $1,000,000 at $5,000 per share. No underwriter. Proceeds to be used to explore and develop oil and mineral leases. Statement effective May 22

Northern Illinois Coal Corp., Chicago
May 10 (letter of notification) up to 2,000 shares of common stock (no par) to be sold at the market price (between $20 and $22 per share) by T. Howard Green, a Vice-President of the company. **Underwriter**—Faroll & Co., Rogers & Tracy and Shields & Co., Chicago.

Northwestern Public Service Co., Huron, S. D.
June 9 filed 49,200 shares of common stock (par $3) to be offered to present stockholders at rate of one share or each 10 held. **Underwriter**—A. C. Allyn and Co., Inc., New York. **Price**—To be filed by amendment. **Proceeds**—For construction expenditures. Postponed temporarily.

Ohio Oil & Gas Co.
May 5 (letter of notification) 1,100 shares of common stock now held in treasury. **Price**—50 cents per share **Underwriter**—None. To be offered through Preston, Watt and Schoyer. **Proceeds**—Toward repayment of bank loans.

Orchards Telephone Co., Orchards, Wash.
March 16 (letter of notification) 500 shares of common stock. **Price**—At par ($100 per share). **Underwriter**—None. **Proceeds**—To modernize plant.

Pacific Petroleums Ltd. (8/16)
June 30 filed 900,000 shares of common stock (par $1-Canadian). **Price**—To be filed by amendment. **Underwriter**—Eastman, Dillon & Co. **Proceeds**—To pay bank loan and for corporate purposes, including development of oil and gas lands.

Pan American Gold Ltd., Toronto, Canada
July 20, 1948 filed 1,983,295 shares of common stock (par $1). Underwriters may be brokers. **Price**—45 cents per share. **Proceeds** — Mainly for development. Statement effective April 10, 1950.

Parks Air Lines, Inc., East St. Louis, Ill.
July 26 (letter of notification) 100,000 shares of common stock (par $2). **Price**—$3 per share. **Underwriter**—None. **Proceeds**—For operating purposes. **Office**—Parks Metropolitan Airport, East St. Louis, Ill.

Power Petroleum Ltd., Toronto Canada
April 25, 1949, filed 1,150,000 shares ($1 par) common of which 1,000,000 on behalf of company and 150,000 by New York Co., Ltd. **Price**—50 cents per share. **Underwriters**—S. G. Cranwell & Co., New York. **Proceeds**—For administration expenses and drilling. Statement effective June 27, 1949.

Public Service Co. of Colorado
June 26 filed $7,000,000 of convertible debentures, due 1960, and 100,000 shares of cumulative preferred stock (par $100). **Underwriters**—To be determined by competitive bidding, along with prices, interest rate on debentures and dividend rate on preferred stock. Probable bidders for bonds: Halsey, Stuart & Co. Inc.; Blyth & Co., Inc., and Smith, Barney & Co. (jointly); Lehman Brothers; First Boston Corp.; Harris, Hall & Co., Inc.; Kidder, Peabody & Co. Probable bidders for preferred: Glore, Forgan & Co. and W. C. Langley & Co. (jointly); Lehman Brothers; First Boston Corp., Boettcher & Co. and Bosworth, Sullivan & Co.; Kuhn, Loeb & Co. and Harris, Hall & Co., Inc. (jointly.) **Proceeds**—For construction. Temporarily postponed. It was stated on Aug. 1 that company plans to reduce new financing to $10,000,000 preferred stock which may be placed privately, the bonds probably being withdrawn.

Raysol, Inc., Washington, D. C.
July 24 (letter of notification) 10,000 shares of 6% preferred stock (par $10) and 5,000 shares of common stock, to be offered in units of two shares of preferred and one share of common stock. **Price**—$20 per unit. **Underwriter**—None. **Proceeds**—To install bottling plant in Niagara Falls, N. Y., and develop foreign markets. **Office**—415 Butternut St., N.W., Washington, D.C.

Raytheon Manufacturing Co.
July 12 filed 289,459 shares of common stock (par $5), being offered to holders of common stock of record July 31 at rate of one share for each five shares held; rights will expire on Aug. 14. **Price**—$6.75 per share. **Underwriters**—Hornblower & Weeks and Paine, Webber, Jackson & Curtis. **Proceeds**—For working capital. **Business**—Electronic tubes and equipment for television and radio sets. Statement effective July 31.

Resort Airlines, Inc., Pinehurst, N. C.
June 19 (letter of notification) 13,547 shares of common capital stock. **Price**—At par ($1 per share). **Underwriter**—None. **Proceeds**—For working capital.

Rochester (N. Y.) Telephone Corp.
June 29 filed 125,000 shares of common stock (par $10) to be offered to present stockholders at rate of one new share for each four held. **Price**—To be filed by amendment. **Underwriter**—The First Boston Corp., New York. **Proceeds**—For general corporate purposes, including construction and repayment of a loan. Offering postponed.

Rocky Mountain Textile Mills, Inc., Denver, Colorado
July 11 (letter of notification) $150,000 of 5% convertible sinking fund debentures, due 1960, and 15,000 shares of common stock (par $10), to be sold separately or in units of one $1,000 debenture and 100 shares of stock. Price—Separately, at par, and in units, at $2,000 each. Underwriters—Boettcher & Co. and Peters, Writer & Christensen, Inc., Denver, Col. **Proceeds**—For new machinery, equipment and working capital. May be placed semi-privately.

● **Roper (George D.) Corp., Rockford, Ill.**
Aug. 3 (letter of notification) 4,500 shares of common stock (par $5). **Price**—$22 per share. **Underwriter**—Merrill Lynch, Pierce, Fenner & Beane, Chicago, Ill. **Proceeds**—For benefit of Grace Y. Roper, a stockholder.

Royal Television & Electronics, Inc., Washington, D. C.
June 22 (letter of notification) 600,000 shares of common stock (par 10 cents). **Price**—50 cents per share. **Underwriter**—None. **Proceeds**—To buy television set components. **Office**—714 Fifth St., N. W., Washington, D. C.

Safeway Stores, Inc.
June 8 filed 321,000 shares of cumulative preferred stock (par $100) and 257,064 shares of common stock (par $5). The common will be offered to common stockholders at the rate of one new share for each 10 shares held. Of the preferred 205,661 shares will be offered in exchange for 186,965 shares of outstanding 5% preferred stock, along with an unspecified cash payment. **Underwriter**—Merrill Lynch, Pierce, Fenner & Beane will offer the unsubscribed common shares as well as 85,114 shares of preferred not needed for the exchange and 30,225 shares which will be created by converting that many of the old 5% shares brought in under the exchange into new preferred stock. Any old preferred not exchanged will be redeemed on Oct. 1. **Price**—To be filed by amendment, along with the dividend rate on the new preferred. **Proceeds**—To redeem the unexchanged 5% stock, make cash payments on exchange, and toward the prepayment of $20,000,000 in bank loans. **Offering**—Temporarily postponed.

Seneca Oil Co., Oklahoma City, Okla.
April 27 (letter of notification) 225,782 shares of class A stock (par 50¢). **Price**—$1.25 per share. **Underwriter**—Genesee Valley Securities Co., Rochester, N. Y. **Proceeds**—To acquire properties and for working capital

● **Showers Brothers Co., Bloomington, Ind.**
July 27 (letter of notification) 300 shares of common stock (no par). **Price**—$7 per share. **Underwriter**—Barclay Investment Co., Chicago, Ill. **Proceeds**—To selling stockholder. **Offering**—Subsequently withdrawn.

Simmel-Meservey Television Productions, Inc.
June 29 (letter of notification) 150,000 shares of common stock (par $1). **Price**—$2 per share. **Underwriter**—Koellmer & Gunther, Newark, N. J. **Proceeds**—To complete films in progress and for general corporate purposes. **Office**—321 So. Beverly Drive, Beverly Hills, Calif.

Snoose Mining Co., Hailey, Ida.
July 17 (letter of notification) 250,000 shares of common capital stock. **Price**—At par (25 cents per share). **Underwriter**—E. W. McRoberts & Co., Twin Falls, Ida. **Proceeds**—For mining development.

● **Sonic Research Corp., Boston, Mass.**
Aug. 1 (letter of notification) 2,000 shares of common stock (no par). **Price**—$20 per share. **Underwriter**—None. **Proceeds**—For working capital. **Office**—15 Chardon St., Boston, Mass.

Southern Co.
July 28 filed 818,415 shares of common stock (par $5) to be offered in exchange for 545,610 shares of common stock of Birmingham Electric Co. No underwriter.

Southern Co., Atlanta, Ga.
June 23 filed 1,000,000 shares of common stock (par $5). **Underwriters**—To be determined by competitive bidding. Probable bidders are: Morgan Stanley & Co., Kidder, Peabody & Co. and Merrill Lynch, Pierce, Fenner & Beane (jointly); Blyth & Co., Inc. and Bear, Stearns & Co. (jointly); Lehman Brothers; Union Securities Corp. and Equitable Securities Corp. (jointly); Harriman Ripley & Co., Inc. **Proceeds**—To purchase shares of subsidiaries in order to assist them in financing new construction. Temporarily postponed.

Southwest Natural Gas Co., Shreveport, La.
June 26 (letter of notification) 13,500 shares of common stock to be sold by Ronald M. Craigmyle, at market (about $7.37½ per share) through Craigmyle, Pinney & Co., New York City.

Sprague Devices, Inc., Michigan City, Ind.
July 27 (letter of notification) $100,000 of first mortgage sinking fund convertible 5% bonds (in denominations of $500 and $1,000 each). **Underwriter**—City Securities Corp., Indianapolis, Ind. **Proceeds**—For working capital. **Office**—Huron St., Michigan City, Ind.

Standard Oil Co. (New Jersey)
July 14 filed 293,333 shares of capital stock (par $25), offered in exchange for 500,000 shares of outstanding capital stock of Creole Petroleum Corp. at rate of eight Standard Oil shares for 15 Creole shares. Offer expires Sept. 22. **Purpose**—To increase holdings of Creole stock to 95% from present 93.12%. Statement effective Aug. 2.

Sudore Gold Mines Ltd., Toronto, Canada
June 6, 1949, filed 375,000 shares of common stock. **Price**—$1 per share (U. S. funds). **Underwriter**—None. **Proceeds**—Funds will be applied to the purchase of equipment, road construction, exploration and development.

Tele-Tone Radio Corp., N. Y. City
June 22 filed 135,000 shares of common stock (par $1). **Price**—$6 per share. **Underwriters** — Sills, Fairman & Harris; Straus & Blosser. **Proceeds**—To 15 selling stockholders. Temporarily postponed.

Tele-Tone Radio Corp., N. Y. City
June 22 filed 100,000 shares of cumulative convertible class A stock. **Price**—At par ($10 per share). **Underwriters**—Sills, Fairman & Harris; Straus & Blosser. **Proceeds** — For additional plant facilities and for working capital. Temporarily postponed.

Texas Consolidated Oils (formerly Texmass Petroleum Co.)
July 24 filed voting trust certificates representing 25,500 shares of $5 cumulative preferred stock, class A (no par). **Voting Trustees**—John F. Chase, Lindsey Hooper and Forrester A. Clark. **Office**—Dallas, Tex.

Transvision, Inc. (8/18-21)
June 13 filed 300,000 shares of common stock (par $1). **Price**—2.75 per share. **Underwriter**—Blair F. Claybaugh & Co., New York. **Proceeds**—To increase working capital and repay loans from RFC and Croydon Syndicate, Inc.

Treesdale Laboratories & Textile Process'g Co.
July 27 (letter of notification) 100,000 shares of 5% cumulative preferred stock, convertible into common stock share for share, on or before Oct. 1, 1959. **Price**—At par ($3 per share). **Underwriter** — Graham & Co., Pittsburgh, Pa. **Proceeds**—To pay indebtedness, to acquire and install additional equipment and for working capital. **Office**—223 Fourth Ave., Pittsburgh 22, Pa.

● **United Merchants & Manufacturers, Inc.**
Aug. 7 (letter of notification) 302 shares of common stock (par $1). **Price**—At market (about $14.50 per share). **Underwriter**—None. Shares to be sold on New York Stock Exchange. **Proceeds**—To retire scrip certificates issued in connection with payment on July 30, 1948, of a 10% stock dividend.

United States Plywood Corp.
June 19 filed 60,000 shares of series B cumulative convertible preferred stock (par $100). **Underwriter**—Eastman, Dillon & Co., New York. **Price**—To be filed by amendment along with dividend rate. **Proceeds**—To increase working capital and for other corporate purposes, including the erection of a new plant at Anderson, Calif. Temporarily postponed.

Upson-Walton Co., Cleveland, Ohio
July 12 (letter of notification) 28,584 shares of common stock (par $1), of which 24,284 shares are offered to common stockholders of record July 7 at rate of one new share for each five held, with rights expiring Aug. 10, and 4,300 shares are offered to employees. **Price**—$5 per share. **Proceeds**—To erect new office building. **Office**—700 Perry-Payne Bldg., Cleveland, O.

● **Utah Power & Light Co. (10/9)**
Aug. 2 filed $8,000,000 first mortgage bonds due 1980. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Lehman Brothers and Bear, Stearns & Co. (jointly); Union Securities Corp. and Smith, Barney & Co. (jointly); First Boston Corp. and Blyth & Co., Inc.; Harriman Ripley & Co., Inc.; Kidder, Peabody & Co.; White, Weld & Co.; Salomon Bros. & Hutzler. **Proceeds**—For construction program.

● **Utah Power & Light Co. (9/12)**
Aug. 2 filed 166,604 shares of common stock (no par) to be offered to common stockholders of record Sept. 12 on basis of one new share for each eight shares held. **Underwriters**—To be determined by competitive bidding. Probable bidders: Blyth & Co., Inc.; Union Securities Corp. and Smith, Barney & Co. (jointly); Lehman Brothers; W. C. Langley & Co. and Glore, Forgan & Co. (jointly); Kidder, Peabody & Co. and Merrill Lynch, Pierce, Fenner & Beane (jointly). **Proceeds**—For construction program.

Vanadium-Alloys Steel Co.
Aug. 1 (letter of notification) 3,000 shares of capital stock (no par) to be offered employees. **Price**—$31 per share. **Underwriter**—None. **Proceeds**—To be added to general working capital.

Vieh Co., Columbus, Ohio
May 8 (letter of notification) 19,500 shares of common stock at $10 per share. **Underwriter**—The Ohio Co. **Pro-**

ceeds—To buy the assets of Brodhead-Garrett Co. and for working capital.

● **Virginia Electric & Power Co.**
Aug. 9 filed $20,000,000 first and refunding mortgage bonds, series H, due 1980. **Underwriter**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Union Securities Corp.; Kuhn, Loeb & Co.; White, Weld & Co.; Stone & Webster Securities Corp.; Salomon Bros. & Hutzler. **Proceeds**—To pay bank loans and for construction program. Expected this Fall.

West Disinfecting Co.
July 25 (letter of notification) 3,000 shares of common stock (par 50 cents). **Price**—At market (about $10 per share). **Underwriter**—Coffin & Burr, Inc., New York. **Proceeds**—To selling stockholder. **Office**—42-16 West Street, Long Island City, N. Y.

Western Carolina Telephone Co., Franklin, N. C.
June 22 (letter of notification) 1,406 shares of capital stock to be offered to stockholders at rate of one share for each two shares held. **Price**—At par ($50 per share). **Underwriter**—None. **Proceeds**—To pay bank loans.

Western Uranium Cobalt Mines, Ltd., Vancouver, B. C., Canada
Feb. 28 filed 800,000 shares of common capital stock (par $1). **Price**—35 cents per share. **Underwriter**—None **Proceeds**—Exploration and development work. Statement effective May 23.

Prospective Offerings

Aetna Finance Co.
June 3 it was reported company may do some financing later this year. Traditional underwriter: Goldman, Sachs & Co.

Alabama Power Co.
May 12 company reported to be considering issue in late summer of about $10,000,000 preferred stock. Probable bidders: Morgan Stanley & Co.; Blyth & Co., Inc.; Union Securities Corp. and Equitable Securities Corp. (jointly); First Boston Corp.; Drexel & Co. Proceeds will be used for construction expenditures.

American Investment Co. of Illinois
May 24 announced company is planning to file shortly a registration statement covering 160,000 shares of prior preferred stock (par $50). **Price**—To be filed by amendment. **Underwriters**—Glore, Forgan & Co.; Kidder, Peabody & Co., and Alex. Brown & Sons, and others. **Proceeds**—For additional working capital.

Anton Oil Corp., Fort Worth, Tex.
July 31 it was rumored that a registration statement will be filed covering $10,500,000 of preferred and common stock.

Associated Natural Gas Co.
June 14 it was announced company plans issuance of $234,000 common stock and $450,000 of 18-year 4½% first mortgage bonds, plus a 5-year bank loan of $250,000, to finance construction of a new pipe line project in southeastern Missouri, authorized by FPC, to cost $934,000.

Associated Telephone Co., Ltd.
June 15 it was announced that the company's present intention is to raise approximately $10,000,000 of additional funds by selling, in the fall of the current year, 50,000 additional shares of cumulative preferred stock (par $20), a like amount of common stock (par $20) and $8,000,000 of first mortgage bonds, series G. **Underwriters**—For preferred stock, probably Paine, Webber, Jackson & Curtis, Stone & Webster Securities Corp. and Mitchum, Tully & Co. For the bonds, to be determined by competitive bidding. Probable bidders for bonds: Halsey, Stuart & Co. Inc.; Kuhn, Loeb & Co. and Salomon Bros. & Hutzler (jointly); Lehman Brothers; Paine, Webber, Jackson & Curtis and Stone & Webster Securities Corp. (jointly); White, Weld & Co. and Kidder, Peabody & Co. (jointly); Equitable Securities Corp. and Harris, Hall & Co. (Inc.) (jointly). **Proceeds**—For construction program.

● **Associates Investment Co., South Bend, Ind.**
July 26, it was announced stockholders will vote Aug. 29 on authorizing an issue of 200,000 shares of preferred stock. May be placed privately. Traditional underwriters: F. S. Moseley & Co.; Glore, Forgan & Co.; and Merrill Lynch, Pierce, Fenner & Beane.

Canada (Dominion of)
July 25 it was reported that registration is expected about the middle of September of a new issue of $100,000,000 bonds, the proceeds of which are to be used to refund on Oct. 1, next, a like amount of 4% external bonds, due Oct. 1, 1960, which are payable in U. S. dollars. Probable underwriter—Morgan Stanley & Co.

Central Maine Power Co.
July 24 New England Public Service Co. applied to the SEC for authority to sell 260,000 shares of its holdings (1,315,181 shares) of the common stock of Central Maine Power Co. at competitive bidding prior to Oct. 1, 1950. Probable bidders: Blyth & Co., Inc., and Kidder, Peabody & Co. (jointly); Coffin & Burr, Inc.; First Boston Corp.; Harriman Ripley & Co., Inc. and Goldman, Sachs & Co. (jointly). The proceeds would be used to pay outstanding notes of NEPSCO.

Central States Electric Corp.
March 1 it was announced that under an amended plan of reorganization it is proposed to issue to holders of all classes of 6% preferred stock for each old share the right to buy a unit consisting of eight shares of new common stock and $14 principal amount of new 4½% income debentures for a package price of $18. The common stock, except for approximately 4,600,000 shares held by Harrison Williams and associates, would be offered the right to buy a unit of one new common share and $1.75 of new income debentures for a package price of $2.25 for each five common shares held. The issue of new stock and debentures would be underwritten by Darien Corp. and a banking group headed by Hemphill Noyes, Graham, Parsons & Co., Shields & Co., Blair, Rollins & Co., Drexel & Co. and Sterling Grace Co.

Central Vermont Public Service Corp.
May 4, it was announced that if offer to acquire Green Mountain Power Corp. becomes effective, it plans to refund outstanding $7,715,000 first and refunding 3¾% bonds due 1963 of Green Mountain by the issue and sale for cash of first mortgage bonds of a new series and of a new series of preferred stock, $100 par value. Probable bidders for bonds: Halsey, Stuart & Co. Inc.; probable bidders for preferred: W. C. Langley & Co. and Hemphill, Noyes, Graham, Parsons & Co. (jointly).

Chenango & Unadilla Telephone Co.
July 17 company applied to New York P. S. Commission for authority to issue $1,000,000 of mortgage bonds, $357,000 of preferred stock and $300,000 of common stock.

Chicago & Western Indiana RR.
Jan. 31 reported company will probably issue in the near future some bonds to refund the 4% non-callable consolidated first mortgage bonds due July 1, 1952. Refunding of the first and refunding mortgage 4¼% bonds, series A, due Sept. 1, 1962, is also said to be a possibility. Probable bidders: Halsey, Stuart & Co. Inc.; Morgan Stanley & Co.; Lee Higginson Corp.; Harris, Hall & Co (Inc.); Drexel & Co.; Kuhn, Loeb & Co. and Salomon Bros. & Hutzler (jointly); Harriman, Ripley & Co., Inc., First Boston Corp.; Lehman Brothers; Paine, Webber, Jackson & Curtis; Kidder, Peabody & Co.

● **Cleveland Electric Illuminating Co.**
Aug. 1 it was reported that company this fall may issue and sell an issue of preferred stock, of which 495,011 shares of no par value are presently available, stockholders on April 25 having increased the authorized amount to 750,000 shares from 500,000 shares. The proceeds are to be used for construtcion program. Probable underwriter: Dillon, Read & Co., if negotiated sale.

Commercial Credit Co.
March 30 stockholders approved creation of 500,000 shares of cumulative preferred stock (par $100) of which company plans to sell 250,000 shares. A group of underwriters, headed by Kidder, Peabody & Co. and The First Boston Corp., are expected to offer the stock.

Consolidated Edison Co. of New York, Inc.
May 15, Ralph H. Tapscott, Chairman, said the company will require approximately $90,000,000 of "new money" through the sale of securities. No permanent financing is contemplated before this fall, however, and current expenditures are being financed by short-term loans, of which $16,000,000 are now outstanding. It is anticipated that $257,000,000 will be needed for the construction program over the next four years. Probable bidders: Halsey, Stuart & Co. Inc.; Morgan Stanley & Co.; First Boston Corp.

● **Delaware Power & Light Co. (9/27)**
Aug. 1 it was reported that company plans to issue this fall approximately $12,000,000 to $14,000,000 of new bonds to complete its 1950 financing program. Probable bidders: Halsey, Stuart & Co. Inc.; Kuhn, Loeb & Co. and Salomon Bros. & Hutzler (jointly); First Boston Corp.; Union Securities Corp.; Lehman Brothers; Morgan Stanley & Co.; White, Weld & Co. and Shields & Co. (jointly); W. C. Langley & Co. Expected Sept. 27.

Duquesne Light Co.
July 27 it was announced that the company plans the sale at competitive bidding of $7,500,000 of new preferred stock (par $50), following sale of $12,000,000 of first mortgage bonds due Aug. 1, 1980 (registration statement for latter issue was filed with SEC on July 25). Probable bidders: W. C. Langley & Co.; Kuhn, Loeb & Co. and Smith, Barney & Co. (jointly); First Boston Corp.; Kidder, Peabody & Co., Merrill Lynch, Pierce, Fenner & Beane and White, Weld & Co. (jointly); Lehman Brothers. Proceeds will be used for construction program.

Eastern Utilities Associates
May 23 it was announced that under a plan filed with the SEC a new company will be formed to acquire the assets of Eastern, and of the Brockton Edison Co., Fall River Electric Light Co. and Montaup Electric Co. and will issue and sell $22,000,000 of first mortgage and collateral trust bonds and $8,500,000 of preferred stock.

El Paso Electric Co., El Paso, Tex.
July 19 it was announced company plans to refund $3,500,000 bank loans (authority for which is sought from FPC) with permanent financing prior to March 31, 1951, their maturity date. The last issue of debentures was placed privately last September with the John Hancock Mutual Life Insurance Co. Previous financing underwritten by White, Weld & Co.

Elliott Co.
May 26 it was reported that between 47,000 and 48,000 shares of this company's common stock may be offered some time in the near futuer through F. Eberstadt & Co.

Emerson Radio & Phonograph Corp.
May 29, Benjamin Abrams, President, announced that company may use unissued 1,240,390 shares of capital stock (par $5) to acquire additional plant facilities if needed. Traditional underwriter: F. Eberstadt & Co.

● **Florida Power Corp.**
July 31 the company was said to be considering new financing in the form of bonds, preferred stock and common stock, the proceeds to be used to continue its construction program. Previous financing handled by Kidder, Peabody & Co.

Florida Power & Light Co.
June 9 stockholders approved creation of 50,000 shares of $4.50 cumulative preferred stock (par $100). These shares are soon expected to be offered to finance part of construction program which is expected to require approximately $25,000,000 new capital through 1952.

● **Georgia Natural Gas Co., Albany, Ga.**
Aug. 2 filed new application with FPC for authority to construct a 335-mile pipeline system in Georgia and Florida to cost about $5,100,000, which would be financed through issuance of first mortgage pipe-line bonds and the sale of common stock. Previous application was withdrawn.

Holeproof Hosiery Co.
June 22 it was announced that registration statement is expected to be filed shortly covering not less than 25% and not exceeding 33⅓% of the stock held by principal stockholders following proposed 7½-for-1 stock split up to be voted upon Aug. 16.

Houston Lighting & Power Co.
April 14, S. R. Bertron, President, estimated construction expenditures for 1950 between $19,000,000 and $20,000,000. This estimate may be raised to accommodate increased power demands on the system. If this is the case, more financing will be necessary, he added. This may be done through additional common or preferred stock financing.

Iowa Southern Utilities Co.
April 26 company said to plan sale of first mortgage bonds to finance part of its $3,200,000 construction program for 1950. Probable underwriter: The First Boston Corp.

● **Kansas City Southern Ry. (8/23)**
Aug. 3 it was announced that company plans to issue $2,700,000 of equipment trust certificates, series K, due Sept. 1, 1951-1965, with bids to be received on Aug. 23. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; Harris, Hall & Co. (Inc.); R. W. Pressprich & Co.; Lee Higginson Corp.; Blair & Co., Inc. and L. F. Rothschild & Co. (jointly).

La Crosse Telephone Co.
June 6, company announced that it has advised the Wisconsin P. S. Commission that it expects to sell $1,000,000 of long-term bonds and not less than $600,000 additional common stock. Proceeds will be used to repay $1,300,000 bank loans, due in September, 1951, and the remaining $300,000 will go to Central Telephone Co., parent, to repay temporary advances for construction. Probable underwriter: Paine, Webber Jackson & Curtis.

Long Island Lighting Co.
May 18 it was reported company's construction program in 1950 will cost $20,000,000 which is currently being financed by up to $12,000,000 bank loans pending permanent financing which may be done following effectiveness of consolidation plan. Probable bidders for any new securities include Smith, Barney & Co.

Lorillard (P.) Co.
April 4, Herbert A. Kent, President, said: "It may be necessary to do some financing" before Aug. 1, 1951 to redeem $6,195,450 of 5% bonds due on that date and for additional working capital to meet expanded sales volume. He added that company plans to pay off its bank loans in full by July, 1950. These loans now amount to $12,000,000. Traditional underwriters: Lehman Bros. and Smith, Barney & Co.

Macy (R. H.) & Co.
May 8 it was reported that company is considering issuance of $10,000,000 of new securities, either debentures or preferred stock. Traditional underwriters — Lehman Brothers: Goldman, Sachs & Co.

Maine Central RR. (8/16)
July 27 it was announced that bids will be received at the company's office, 222 St. John Street, Portland 4, Me., at or before noon (EDT) on Aug. 16 for the purchase from it of $5,600,000 equipment trust certificates dated Sept. 1, 1950 and to mature in 20 semi-annual instalments from March 1, 1951 to and including Sept. 1, 1960. Probable bidders: Halsey, Stuart & Co. Inc.; Harriman Ripley & Co., Inc. and Lehman Brothers (jointly); Salomon Bros. & Hutzler.

Market Basket, Los Angeles, Calif.
May 25 company announced it plans sale of 4,452 shares of authorized but unissued, preferred stock, series C, (par $15) and an additional 30,000 shares of preferred stock, (par $15) to be authorized. Further details not available.

Meck Industries, Inc., Plymouth, Ind.
July 29 it was reported company plans sale of approximately 250,000 shares of common stock, subject to market conditions. **Underwriter**—Otis & Co. **Proceeds**—For working capital.

Michigan Bumper Corp., Grand Rapids, Mich.
July 20 stockholders voted to increase authorized common stock (par $1) from 250,000 shares to 500,000 shares, with holders of present outstanding stock to have no preemptive rights.

● **Michigan Consolidated Gas Co.**
Aug. 7 it was announced company contemplates permanent financing will be consummated before maturity (Feb. 20, 1951) of proposed $25,000,000 bank loans which will include, during 1950, $20,000,000 of first mortgage bonds and $6,000,000 of common stock, and the sale, in 1951, of about $10,000,000 of preferred stock. **Underwriters for Bonds**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; White, Weld & Co. and Lehman Brothers (jointly); Smith, Barney & Co. **Proceeds**—To pay off short-term bank loans and for new construction costs. The addi-

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tional common stock will be sold to American Natural Gas Co., parent.

Michigan-Wisconsin Pipe Line Co.
July 25 company received SEC authority to borrow not more than $20,000,000 from banks. A permanent financing program provides for the elimination of these bank loans prior to their maturity, July 1, 1951, and such program will include the issuance and sale of $12,000,000 additional bonds and $3,000,000 of additional common stock. Previous debt financing was placed privately.

MidSouth Gas Co.
July 31 it was announced that this newly organized company may issue and sell publicly $2,800,000 of common stock and place privately with institutional investors $6,900,000 of 20-year 3⅝% first mortgage bonds, the proceeds to be used in connection with the acquisition of the gas distribution properties of Arkansas Power & Light Co. Probable underwriter for stock: Equitable Securities Corp.

Milwaukee Gas Light Co.
June 21 it was announced that the company's permanent financing program, expected to be consummated prior to October, 1950, will involve refinancing of $13,334,000 of first mortgage 4½% bonds due 1967, $2,000,000 of 7% preferred stock and bank loans (about $8,500,000) through the issuance of new senior securities and common stock (American Natural Gas Co. now owns 97.7% of presently outstanding common stock). Probable bidders for bonds: Halsey, Stuart & Co. Inc.; Glore, Forgan & Co., and Lehman Brothers (jointly); Kidder, Peabody & Co.; Harriman Ripley & Co.; Smith, Barney & Co., Kuhn, Loeb & Co. and Blyth & Co., Inc. (jointly).

Mountain Fuel Supply Co. of Utah
June 6 company announced plans to create a new firm to take over its exploration and development of natural gas and oil operations. It will be financed, in part, through public sale by the new unit of 1,000,000 shares of capital stock (par $8). Financing plan submitted by First Boston Corp. Expected this Fall.

Mountain States Power Co.
May 17 the stockholders voted to increase the authorized preferred stock (par $50) from 75,000 to 150,000 shares. There are presently outstanding 72,993 shares. Probable underwriter: Merrill Lynch, Pierce, Fenner & Beane.

New England Power Co.
April 24 it was estimated that about $37,000,000 new financing will be required to pay construction costs estimated at $40,000,000 for 1950 to 1952. Present plans are to issue in late summer or early fall $10,000,000 bonds and 50,000 shares of preferred stock. Probable bidders: (1) For bonds—Halsey, Stuart & Co., Inc.; (2) for bonds and preferred: Harriman Ripley & Co. Inc.; Lehman Brothers; Kidder, Peabody & Co.; First Boston Corp.; Merrill Lynch, Pierce, Fenner & Beane; (3) for preferred:—W. C. Langley & Co.

● **New Orleans Public Service, Inc.**
Aug. 2 company applied to SEC for authority to issue and sell 160,074 additional shares of common stock (no par) to be offered to common stockholders at rate of 0.168 share for each share held. Middle South Utilities, Inc., parent, and owner of 906,671.823 shares of New Orleans stock, proposes to purchase 152,320 of the 160,074 shares to be offered. **Price**—$25 per share. **Proceeds**—For construction program.

New York State Electric & Gas Corp.
May 24 it was reported company expects to sell $14,000,000 of bonds and $6,000,000 of new preferred stock in June, 1951, with an additional $10,000,000 of new securities to be sold in 1952, the proceeds to be used to pay, in part, cost of new construction estimated to total $55,800,000 in the next three years. Probable bidders for bonds and preferred: Blyth & Co., Inc., and Smith, Barney & Co. (jointly); First Boston Corp. and Glore, Forgan & Co. (jointly); Harriman Ripley & Co. Inc. Probable bidders for bonds only: Halsey, Stuart & Co. Inc.

Niagara Mohawk Power Corp.
Jan. 19 announced that construction program will necessitate in 1950 not more than $25,000,000 of additional debt or equity financing, including short-term bank loans. Probable bidders for bonds: Halsey, Stuart & Co. Inc.; Morgan Stanley & Co.; The First Boston Corp.; Kuhn, Loeb & Co.

Northern States Power Co. (Minn.)
July 29 it was reported that the company will be in the market probably this fall with an offering of $17,500,000 new preferred stock. Probable bidders: Lehman Brothers and Riter & Co. (jointly); Smith, Barney & Co. Proceeds would be used for new construction.

Pacific Northwest Pipeline Corp.
June 30 company sought FPC authority to build a 2,175 mile pipeline system—from southern Texas to Washington—at a cost of $174,186,602. Negotiations for major financing requirements are now in process of being completed.

Pacific Power & Light Co.
April 13, Paul McKee, President, disclosed that a group of 16 purchasers who acquired company's 500,000 shares of common stock from American Power & Light Co. on Feb. 6, last, had informed him of their intention to make a public distribution of these shares at earliest practical date, which may be sometime in October. A. C. Allyn & Co., Inc. and Bear, Stearns & Co. headed this group. The 500,000 shares of common stock are being split-up on a 3½-for-1 basis, all or part of which will be publicly offered. Company also expects to raise $3,000,000 in new money later this year and a similar amount in 1951. Registration of new 1,750,000 expected next month.

● **Packard-Bell Co.**
Aug. 2 it was stated that following approval on Aug. 25 of an increase in the authorized common stock from 500,000 shares, par $1, to 1,200,000 shares, par 50 cents, to be followed by a two-for-one split-up, the company may issue additional common stock for the purpose of raising additional working capital. Traditional underwriter: Cruttenden & Co.

Pennsylvania RR.
July 12 company reported planning issuance and sale early in September of $10,005,000 additional equipment trust certificates, series Z, to mature annually April 1, 1951 to April 1, 1965. Probable bidders: Halsey, Stuart & Co. Inc.; Harriman Ripley & Co., Inc. and Lehman Brothers (jointly); Salomon Bros. & Hutzler.

Philadelphia Electric Co.
May 5 it was said that there will be additional financing later this year, with probably some common stock to be underwritten by Drexel & Co. Bond financing would be competitive, and preferred stock would be either negotiated or competitive.

Plantation Pipe Line Co.
July 6, it was reported that this company, an affiliate of Standard Oil Co. (New Jersey), is contemplating financing of about $50,000,000, part of which is expected to be placed privately and the balance sold to the public. **Underwriter**—May be Morgan Stanley & Co. **Proceeds**—To be used to build new pippe line, with construction to begin early next year and completion scheduled for early 1952.

Public Service Electric & Gas Co.
April 17 stockholders approved the issuance of $90,000,000 new bonds for the purpose of refunding $50,000,000 3⅛% bonds due 1965; $10,000,000 3¼% bonds due 1968; $15,000,000 3% bonds due 1970 and $15,000,000 bonds due 1972. Probable bidders: Halsey Stuart & Co. Inc.; Morgan Stanley & Co. and Drexel & Co. (jointly); Kuhn, Loeb & Co. and Lehman Brothers (jointly); First Boston Corp.

● **Reading Co.**
July 31 it was reported that company may in near future sell an issue of equipment trust certificates, series T. Probable bidders: Halsey, Stuart & Co., Inc.; Salomon Bros. & Hutzler; Harris, Hall & Co. (Inc.).

Reynolds Metals Co.
June 7 company announced stockholders will vote Aug. 9 on increasing authorized common stock from 1,500,000 shares to 2,500,000 shares. The increase is being sought to make additional shares available for any future need. Probable underwriter: Reynolds & Co.

● **San Diego Gas & Electric Co.**
July 31 it was reported that the company's original plan to issue between $8,000,000 and $10,000,000 of bonds late in September or early October may be changed to preferred stock, depending upon market conditions. If negotiated, Blyth & Co., Inc. may handle financing. If competitive, probable bidders are: Blyth & Co., Inc.; Lehman Brothers and Bear, Stearns & Co. (jointly); First Boston Corp.; White, Weld & Co. and Shields & Co. (jointly); Merrill Lynch, Pierce, Fenner & Beane; Union Securities Corp.; Salomon Bros. & Hutzler. Proceeds would go toward construction program.

Schering Corp.
May 4, it was announced that the company's entire common stock issue (440,000 shares) was expected to be registered with the SEC in the near future and offered for sale to the highest bidder by the Office of Alien Property. Probable bidders: A. G. Becker & Co. (Inc.), Union Securities Corp. and Ladenburg, Thalmann & Co. (jointly); Merrill Lynch, Pierce, Fenner & Beane; Kidder, Peabody & Co.; F. Eberstadt & Co.; Allen & Co.; new company to be formed by United States & International Securities Corp.; Dillon, Read & Co.; F. S. Moseley & Co.; Riter & Co.

Seaboard Air Line Ry. (8/15)
Bids will be received at the office of Willkie Owen Farr Gallagher & Walton, 15 Broad Street, New York 5, N. Y., up to noon (EDT) on Aug. 15 for the purchase from the railroad company of $3,570,000 equipment trust certificates, series H, to be dated Sept. 1, 1950, and mature annually from 1951 to 1965, inclusive. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; Lee Higginson Corp. and Harris, Hall & Co. (Inc.) (jointly); Harriman Ripley & Co., Inc. and Lehman Brothers (jointly).

Sierra Pacific Power Co.
June 2 company announced it plans to finance and permanently refund $2,200,000 of bank loans by the sale of debentures and common stock prior to Oct. 31, 1950. Probable bidders for bonds: Halsey, Stuart & Co. Inc.; Stone & Webster Securities Corp.

South Carolina Electric & Gas Co.
May 11 it was announced company plans to spend in the next four years $34,000,000, of which $11,600,000 will be spent in 1950. It is estimated that $6,000,000 of new money will be required this year, to be raised by the sale of $3,000,000 of bonds and 60,000 shares of preferred stock (par $50). Probable bidders include Lehman Brothers.

South Jersey Gas Co.
June 15 United Corp. proposed, under its amended plan filed with SEC, to sell its holdings of 154,231.8 shares of South Jersey Gas Co. common stock as to which an exemption from competitive bidding is requested.

Southern California Edison Co.
March 3 it was reported that company expects to issue this summer $55,000,000 of bonds. Probable bidders: The First Boston Corp. and Harris, Hall & Co. (Inc.) (jointly); Halsey, Stuart & Co. Inc.; Blyth & Co., Inc.; Shields & Co. Proceeds would be used to refund $30,000,000 3¼% bonds and for construction costs.

● **Southern Natural Gas Co.**
July 31 it was reported proposed financing on a permanent basis has been increased from $10,000,000 to $24,000,000 first mortgage bonds, although company may decide to take this in two pieces, viz: $10,000,000 to $12,000,000 initially and the balance later on. On June 21 SEC approved temporary bank borrowings of up to $20,000,000 to mature July 1, 1951, the proceeds to be used for construction program which is estimated to cost $32,520,000 for 1950-1951. Probable bidders: Halsey, Stuart & Co. Inc.; Blyth & Co., Inc. and Kidder, Peabody & Co. (jointly); First Boston Corp.

Southern Utah Power Co.
June 8 SEC authorized trustee of Washington Gas & Electric Co. to undertake negotiations with "all interested parties" for the sale of its common stock interest (62,910 shares) in Southern Utah Power Co. for not less than a $550,000 base price, plus adjustments.

Southwestern Public Service Co.
Aug. 1 it was announced by Herbert L. Nichols, Chairman, that the company expects to raise between $17,500,000 and $18,000,000 through the sale of securities during the fiscal year beginning Sept. 1, 1950. This may include bonds to be placed privately and the balance to be offered publicly as preferred and common stock with Dillon, Read & Co. Inc. underwriting. The proceeds are to pay for construction costs.

Standard Coil Products Co.
July 31 it was reported company plans sale publicly of 367,500 shares of common stock, with registration expected in mid-August. **Price** $15.25 per share. **Underwriter**—F. Eberstadt & Co., New York. **Proceeds**—Major part to selling stockholders and partly for working capital.

Tampa Electric Co.
April 25 it was announced company plans to raise $4,700,000 in new money through sale of additional securities, the proceeds to finance in part 1950 construction expenditures.

Tide Water Power Co.
May 4 stockholders have approved an increase in the authorized common stock to 1,000,000 shares from 500,000 shares. It was understood that 125,000 shares may be sold. Traditional underwriters: Union Securities Corp.; W. C. Langley & Co.

Toronto (Ont.), Canada
July 25 the Board of Control authorized the sale in the United States of $15,000,000 debentures to provide funds for construction of Toronto's subway. The proposal provides for borrowing at an average interest rate of 2.84%. The new debentures were placed privately last week with institutional investors through a banking group headed by Dominion Securities Corp. and Harriman Ripley & Co., Inc.

United Gas Pipe Line Co.
July 25 filed with FPC for authority to build 1,130 miles of new lines in Texas, Louisiana and Mississippi at a cost of about $110,000,000, including new facilities. It is probable that the bulk of this new capital will be raised through the public sale of new securities.

Utah Natural Gas Co.
June 5 it was announced company plans to build a 325-mile 22-inch pipe line in Utah to cost approximately $25,000,000. Hearings will be held before the Utah P. S. Commission in August or September, after a study of the project.

Valley Gas Pipe Line Co., Inc., Houston, Tex.
June 27 company sought FPC authorization to construct a $144,500,000 pipeline project to carry natural gas from the Gulf Coast and off-shore fields in Louisiana and Texas to markets in Indiana, Ohio and Michigan. Company is now in process of completing negotiations for its major financing requirements.

● **Victor Chemical Works**
Aug. 1 it was announced company will build a new electric furnace phosphate plant at Silver Bow, Mont., to cost $5,000,000. Financing may be placed privately. Traditional underwriter: F. Eberstadt & Co., New York.

Vulcan Detinning Co.
July 18, A. C. Buttfield, President, announced that, following approval of proposed two-for-one split-up of the common stock to be voted upon Aug. 17, Continental Can Co., Inc., contemplates public offering of part of its Vulcan common stock holdings (which now total 59.2%). Early registration with SEC expected. **Underwriters**—Goldman, Sachs & Co. and Lehman Brothers.

Warner (William R.) & Co., Inc.
June 12 Elmer H. Bobst, President, announced that corporation proposes recapitalization and change in name to Warner-Hudnut, Inc.; also to file a registration statement with the SEC covering the sale of approximately 325,000 shares of new common stock (par $1) to the public through a nation-wide group of underwriters headed by F. Eberstadt & Co., Inc.

Western Pacific RR.
July 17 it was reported company plans issuance and sale of $22,000,000 mortgage bonds. Probable bidders: Halsey, Stuart & Co. Inc.; Blyth & Co., Inc.; Lehman Brothers and Bear, Stearns & Co. (jointly); Union Securities Corp. and Glore, Forgan & Co. (jointly). **Proceeds**—To retire first mortgage 4% bonds and convertible income 4½% bonds due 2014, and over $5,000,000 "new money." Expected about middle of November.

Wilcox-Gay Corp.
July 14 it was announced that in connection with proposed acquisition of Garod Radio Corp. and Majestic Radio & Television, Inc., Wilcox-Gay-Majestic Corp., the new company plans public offering of 500,000 shares of new stock. **Traditional Underwriter**—Gearhart, Kinnard & Otis. **Proceeds**—For working capital.

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Observations . . .

us of the answers). At what levels are the declining growth stocks again "a buy"?

Just How Important the Rotting Dollar?

The fundamental question today facing the investor is the relative importance of the force of long-term dollar depreciation on the one hand, and the infliction on him of wartime corrosions as taxes and controls (with virtual confiscatory powers apparently to be added this time) on the other hand. And which of these conflicting forces is to be considered of the longer term? While it is true that this conflict has been existing as a continuing element in peacetime as well, and that recognition of the inflation force has always fouled up the investing public because of its faulty *timing* in recognizing this long-term situation; now the problem is made much more acute because of the greatly-accentuated degree of the adverse political elements attacking profits and capital values. Just how safe is the bet that the dollar will be irretrievably sacrificed to political expediency? Or that a cheapened dollar will be needed to repair a demolished world?

How Much Shelter From the Rails—and How Permanent?

The now popular railroad securities, even the bond obligations, actually typify some of the important difficulties currently facing the investor. As is being emphasized to the public, the reverse side of the medal of the carriers' long-term investment disadvantages furnishes certain protections in a war economy—as from the diversion to other forms of transport and from wartime tax imposts. The equities would suffer comparatively little from excess profits taxation; and the debt issues of the fixed and when-earned interest variety, whose payment of interest is a pre-tax charge, are presumably protected both from the rise in the flat corporate tax as well as from the excess profits device.

But—tempting as wartime flight into rail securities may be, the investor cannot shut his eyes to the long-term fundamental flaws in the status of that industry. Previously existing elements of long-term deterioration, including overhanging labor unionism, of course remain, and make the speculator's adept timing of his withdrawal indispensable to the final success of his "hiding operation" in the carriers.

"War" vs. "Peace" Stocks?

The difficulty of classifying "war" and "peace" industries is demonstrated in chemicals. During World War II stocks of chemical companies performed the third worst of all industry groups, only tobacco and gold mining shares acting more poorly. Post-Korea also the chemical shares have fared poorly in comparison with other groups. Reasons ascribed have included the impact of excess profits taxation on growth, and skepticism about the use and profitability of their products for re-armament. But the fact is that most of the products of the leading chemical companies do have wartime uses—either directly or indirectly. The heavy chemicals so used include creosote oil, sulphuric and nitric acid, coke and its by-products, chlorine, oil distillates, etc. The competitive pricing being very tight on these products in peacetime, there is no extra squeeze imposed by virtue of indirect government use.

War Orders A Liability

This brings up the general "War Baby" question of whether perhaps it is not a disadvantage to have the government as one's customer. Today company officials are becoming more and more discouraged, if not disgusted, with the methods of Administration officials in the placing of armament orders—quite in addition to profit-curtailment all along the line. Contrary to the demagogic credo, war is no boon to business. Here the imponderable whether the World War II experience will be repeated wherein reconversion was accompanied by sizable accretion of reserves and balance sheet strength, even if not by actual net income.

The imminent course of interest rates is just another element that the portfolio planner must estimate. This will to some extent influence his choice between bonds and stocks, and between stock categories. Thus the earnings of banks and life insurance companies are importantly affected thereby.

The only constructive and effective escape from the complexities and imponderables in this wartime investment world is afforded by following the simple principle of DIVERSIFICATION. In a spirit of long-term objectivity purchases must be diversified among investment categories; in bonds between tax-exempts and taxables; in stocks, among industries including both anti-inflation and anti-deflation hedges, among issues representing growth as well as defensive situations, and among issues within industries.

No—an overall "outlook" for the securities market surely is non-existent!

Our Reporter's Report

Observers who have been through this phase of the investment market cycle before are pretty well convinced that the element of "scarcity" value is rapidly running its course as an influence on investors, particularly institutions.

And, they contend this probably will be found true in the municipal market, which has been on a veritable rampage in recent weeks, as well as of the corporate section of the list.

They pointed to the current behavior of the markets as evidence that the "gravy train" for shrewd speculators soon may be found to have passed the "red light." In the case of municipals, it was noted, short maturities of recent new issues have moved to investors readily enough. But the longer portions of such issues have turned decidedly "sticky."

In other words, institutions, admittedly somewhat bewildered by current developments such as the Korean upheaval and the worldwide uncertainties that it has created, are disposed to adopt a "wait and see attitude" before doing anything marketwise.

One thing is certain. Taxes are going to be higher for some years to come. The unknown quantity here is "how much," and indications are that until large investment interests get a better line on this phase of things they are going to be tough and, among other things, conserve their cash in larger quantities.

Backward Issues Sought

The new corporate issue market has been on thin fare for several weeks and appears destined to continue in that condition for a considerable period unless there is a sudden clearing of the skies.

The seasoned market has been reflecting this state of affairs recently and has been developing into a decidedly selective affair which has redounded to the benefit chiefly of older issues that have been outstanding for goodly periods.

Many such obligations have been lagging by reason of neglect while the more favored issues have been pushing ahead since early summer taking their cue from the municipal market. Now potential buyers have been inclined to seek out such situations with the result that there has been marked levelling out with a number of such issues being "rolled up to rather fancy prices" as one observer puts it.

Cue to Price Ideas

That institutional buyers, particularly the big insurance companies are really getting their backs up, seems apparent from the experience marketwise of the latest Columbia Gas System's issue of $90,000,000 new debentures with a 25-year maturity.

Offered in competitive bidding a week ago, this issue brought a top tender of 101.88 with only $1.73 a bond separating two bids received, both naming a 3% coupon.

Repriced at 102.308 for reoffering, to yield 3.87%, latest reports indicate that the issue is only about 25% sold. A previous similar issue, involving $110,000,000, brought to market in June at 102.488 to yield 3.86% worked off well until the Korean outbreak. Then a small portion of the issue, still in dealers' hands, had to be turned loose by ending of the syndicate agreement. But at that time the balance moved out readily enough.

Curb on Private Deals

The current uncertainty marketwise, that is from an institutional viewpoint, is tending to curb the renewed trend toward private placements which had been noted in recent months.

Moreover, these large organizations are less inclined to take on new mortgage financing via the direct route. They are frankly disposed to bide their time and see what may be ahead.

Feeling in dealer circles is that that they probably will be found leaning toward corporate obligations when the time comes that they again can see something in the way of a stabilized market in sight.

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Criticizes Census Bureau's Figures On Employment

jobs. This monthly shift of eight million individuals goes on irrespective of the state of business. All this is revealed when attention is turned to data on gross changes in labor force status.

"In addition to its regular 'Monthly Report on the Labor Force,' the Bureau of the Census publishes a separate monthly release on 'Gross Changes in the Labor Force.' Although these figures seldom receive much attention, they are highly instructive, since they show that the comparatively small month-to-month changes in the number of employed and unemployed are merely the net resultant of movements back and forth between those categories which involve comparatively large number of persons. The gross figures also illustrate the very slippery and unstable nature of such concepts as 'labor force' or 'unemployment' since millions of persons every month cross and recross the lines which separate the several categories. . . .

"Economists have called attention to the fact that the American labor force has been increasing at a rate of about 100,000 persons per month. It is not generally understood, however, that this results from about 2,800,000 persons entering the labor force every month and about 2,700,000 persons leaving it. (These are averages for the year 1949.) Thus at any given time about 5,500,000 persons have either just joined the labor force or just left it. In other words, almost 10% of our labor force consists of persons who are in it on such a transient basis."

Washington . . . And You

Behind-the-Scene Interpretations from the Nation's Capital

WASHINGTON, D. C.—This extraordinary dither which attended the opening of the controls show in Congress is merely symptomatic of the underlying disorganization and planlessness which attended the beginning not only of the Korean war the government never expected but the kind of war which was unexpected.

So far nobody has thought anything through very far. For the most part the so-called "10-billion dollar" supplemental military program seems to have been pulled out of an old hat. Industry people have been scurrying around frantically trying to find out what the Armed Services expected to buy from them in what quantities out of this new program, so they could gauge the depth of the diversion from their civilian production, and plan to get set for whatever was needed in war production.

Almost universally, these representatives report that they cannot find out what in the way of war production is wanted of them, whether it be cantonments or packing cases, tanks or trucks, or parachutes or nylons for sale in officers' PX's. The Defense Department did order some aircraft. Of course the overhead of pay, travel, and allowances is known, but not how many of what weapons of war.

As to what has been announced of a program so far, one of the keenest industry observers estimates, and others agree with him, that the maximum amount of steel which could be required under all programs once they got into full production, is 5,000,000 tons of finished steel, about one-thirteenth of U. S. capacity. This, they assert, could be handled relatively painlessly by a voluntary program. A compulsory allocations and control program might foul it up no end.

There is very little in sight which is going to chew up much in the way of industrial raw materials for some months to come. It is a long, long trail between going through the many stages of procurement planning to letting contracts, to retooling, to getting into actual production. It is a safe bet that tank production, when and if it gets under way, will not show up in volume for at least a year. Then, too, some of the big steel-consuming items of the last war, Navy and merchant ships, are not likely to be on the order books for a long time.

All in all, the consensus is that only in a small way is the $10 billion program related to the Korean war. It is related to that particular theatre only in some relatively small replacement for materials expended on the Korean peninsula.

Most of the $10 billion program is a preparation for the Administration knows not what. There is an uneasy realization that Russia has demonstrated that she has the military initiative, and that she can extend the war perhaps as much as she wants geographically and when she wants, and that the U. S. ought to get set to do something about it. The $10 billion request is a recognition of this.

Yet the $10 billion is only a starter. The great military brains suddenly realize every day that here is a new hole that should be filled and there is another, and it is altogether likely that even before the first Tuesday after the first Monday in November, or whenever national election day is, it will be a very much broader program.

As many Congressmen saw it, Bernard Baruch's message was not so much an argument for all-out controls of the civilian economy *per se* as for all-out mobilization of America's military potential, so that the U. S. could at some day have some initiative and decision. They express the opinion that Baruch's philosophy was that all-out controls of the civilian economy were necessary to all-out mobilization.

It is reported that some Republicans got the cute idea that if they could force Truman into price control and rationing, they could "pull another 1946" on him; i.e., win on the dissatisfaction which would attend the inevitably clumsy attempts of mediocre administrators to apply these controls. It is even said that the initiative for calling Mr. Baruch to Washington was to set a dramatic stage for this strategy.

Everybody was surprised to find that there was a large popular following for this idea, although the alleged backing of American businessmen, reported sent in letters and telegrams for all-out controls, is hard to confirm.

Then Mr. Truman out-foxed those smart little GOP boys who figured this strategy by asking for completely blanket discretion, and the boys began to back away from that, for they knew not how these powers might be used to put them in a hole. So they tried to figure out formulae which would show some light ahead. Hence the desultory performance. It might be noted that this GOP strategy was more of a "rank and file" than a leadership strategem. Senator Taft kept to his guns against controls.

As far as the Administration is concerned, its control bill was broad and as loosely worded as though written in a notebook on somebody's knee at 3 a.m. of the morning before a projected Congressional hearing.

So the snafu which has prevailed since the start of the Korean war will last for a long time to come. If the Reds engage the U. S. in open war that will settle one thing—whether or not there will be total war. But it will not settle what bureaucracy is going to administer what controls in which way.

* * *

Secretary of Labor Tobin is slated initially to get manpower controls, when, as and if these are legislated. Some observers close to this front say that (1) they expect the normally politically-minded Tobin to be fairer to industry than most people expect, and that (2) if Tobin is later relieved of manpower control powers, there is hovering in the background a probable successor who may be expected to be far more anti-industry than Tobin. The word has gone out privately that the Administration will consent to wage control simultaneously with any price controls.

* * *

If U. S. sugar consumption were at the highest per capita figure ever chalked up, U. S. consumers might eat 8.5 million tons of sugar. With the 600,000 tons the government has just bought from Cuba, the supply (consumption estimate) under the sugar act of 7,850,000 tons, 145,000 tons more in Puerto Rico, and additional supplies available elsewhere, it is believed that the industry can take care of any reasonable hoarding demand. The only things delaying the shipment of sugar to grocers' shelves are refining capacity and transportation. Incidentally, by buying at $5.38 per hundredweight in Cuba, the Secretary of Agriculture may have, after refining, fixed the price in effect for the next few months at about $8.40 wholesale, versus $8.10, before this deal if hoarding does not diminish sharply. Next year the industry thinks that there will be a 12 million ton supply available for this market.

* * *

Rep. John Bell Williams of Mississippi, a sharp young lad who lost part of his arm in World War II, is heading up a careful, studious inquiry which possibly in several months could lay the groundwork for the first thorough-going attack made on overstaffing of government agencies.

Williams heads up a subcommittee of the House Civil Service Committee which is studying "utilization" of government employees; i.e., overstaffing, and he has collected a small elite corp of investigators who are doing a bang-up job which ultimately will encompass civil agencies employing half the civil employees of the government.

Appropriations committees are admittedly helpless in determining whether all the employees are needed. The government agencies send down appropriation "justifications" which list the supposedly many and important duties performed by all the employees. The two appropriations committees combined have a staff of only 24, and many of these are occupied with a mass of routine detail. It is seldom a Congressman gets inside a Federal agency except to look for a favor for a local constituent, and there is practically no way of checking to determine whether these employees are sitting on their hands or are merely pushing papers around in a sort of permanent bureaucratic WPA. It would probably take a detective force of 500 trained investigators with experience in government operations to ferret out idleness and overstaffing, it is believed.

The chief job of the Williams subcommittee is to lay the groundwork for a further and comprehensive study next year. For the first time the probable loss to the government from overstaffing will be estimated, and its causes evaluated and related.

It will probably require a year or so of expert study by a large staff to really pin down the countless cases of overstaffing and the Williams report, likely to be made at the end of 1950 or early in 1951, will probably sound the gong for such a study.

* * *

Congress is providing for government largely as usual, even if both the House and Senate have tentatively made a dent of from $500 million to a billion in Truman's request for non-war agencies. Congress either is completing action on, or getting well along with, proposals to broaden social security pensions, build a parkway between Baltimore and Washington, and give Washington policeman a 5-day week, build a $14-million airport in D. C., and pay transportation costs on distributing price-supported perishables given away.

(This column is intended to reflect the "behind the scene" interpretation from the nation's Capital and may or may not coincide with the "Chronicle's" own views.)

BUSINESS BUZZ

"Thirty-five years ago, G. H., when I started in business, I netted eighteen dollars a week—exactly what I get today after taxes!"

With Wesley Hall

(Special to THE FINANCIAL CHRONICLE)

SAN DIEGO, Calif.—Joseph A. Bjornstad has become affiliated with Wesley Hall & Co., First National Bank Building.

With Dayton & Gernon

(Special to THE FINANCIAL CHRONICLE)

Minneapolis, Minn.—Arthur D. White, previously with M. F. Leighton & Co. of St. Paul, is now connected with Dayton & Gernon, Rand Tower.

Gilbert Burdett

Gilbert Underhill Burdett died at his home after an illness of several months. He was a partner in Laidlaw & Co., of New York.