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The Inflation Impact on Investment Industry

By PETER KILBURN
Retiring President, Investment Dealers' Association of Canada
Vice-President, Greenshields & Co., Inc., Montreal

PROMINENT Canadian investment banker reviews inflation progress in Canada, and the strong monetary measures that have been adopted to curb it. Points out effects of changes in monetary policies on investment values, and notes significant trend toward U.S. of Canadian provincial and municipal borrowing. Praises educational activities of Investment Dealers' Association of Canada.

In reviewing the 12 months since June, 1950, which I have chosen to do, rather than the calendar year of 1950, already well-reviewed and now far off, the fact of inflation rises so far above all other financial events that I propose devoting most of my time to it—since it looks to an investment dealer and how it affects our merchandise and our industry.

I assume that the main harm from inflation is the inordinate reduction in the purchasing power of currency and its main cause the excess of demand for goods and services over their supply, which condition can be produced by a great variety of causes—national and international—which I shall not attempt to catalog here.

To the extent that World War II increased the money supply with an offsetting increase in the demand of production, prices had not unnaturally risen. Furthermore, until recently, Canadian business throughout the postwar period had been operating against a background of easy money. Despite phases of marked inflationary pressure, it was apparently felt by the national monetary authorities that a tight money policy might be undesirable and not suited to then-existing conditions. Broadly, the same situation prevailed in the United States, although not a single country a mild recession developed in 1949, from which it emerged unscathed in October.

In June, 1950, the Dominion Bureau of Statistics cost of living index was 177.1 as against 100.5 in 1939, and 65.4 in 1935. The Canadian economy was throbbing with vitality flowing from mineral developments on the prairies and in Quebec, and a widespread new capital investment program on the part of Canadian business generally. United States' investment in the development of Canada's resources was going on at an active rate, encouraged by the fixed discount of 10% at which the Canadian dollar had stood since its devaluation in September, 1949, as was the accumula-
tion, by U.S. nationals, of Canadian Government bonds, in part as a means to speculate on the return of the Canadian dollar to parity. On June 26, 1950, growing international tension burst into flame in Korea and the productive machinery of the United States and Canada moved into high gear. The term "preparativeness" took on new significance. Furthermore, the movement of capital from the United States was accelerated as these events appeared to underwrite the further development of Canadian oil, iron, wood, hydro-electric power, and other resources, which became one of the supreme assets in the United Na-
tional balance of payments.

Here was a financial problem of major consequence. On an econ-
omy already full out and dynamic in its own right was imposed the urgent need of preparation for another war; after 15 years of monetary expansion, the last 10 years of which were of unprecedented economic activity, another prolonged national productive effort was in sight. The heavy influx of United States dollars aggravated the trouble. Pressures on the Canadian dollar were extreme, and the stage could not have been more clearly set to test the skill and resourcefulness of Canadian monetary management.

The inflow of United States dollars into Canada, which principally took the form of purchase of government bonds (official es-

timates are $300 million in the third quarter), and therefore had an influence on the bond market as well as the money supply, was partially offset by the sale of securities from the portfolio of the Bank of Canada. This, itself, was an operation of unprecedented magnitude for Canada and tested the dimension of the bond market. Furthermore, on Oct. 1, after consulting with the International Monetary Fund, the government cancelled the official rates of exchange and, unfixed, the Canadian dollar rose to a discount of 5% against the U.S. dollar.

Effective Oct. 17, the Bank of Canada's rediscount rate was increased from 1% to 2%, a traditional warning signal, and the long-term bond market started its decline from 2.70% to 3% in almost 3%. These convulsions, drastic enough in government bonds, have been even more severe in other classes of securities, and have placed heavy burdens on our industry. Periods of readjustment are always difficult and this one has been particularly so because of its abruptness and scope. It might have been softened by monetary steps taken earlier, but the pressures were now violent, and the time had come to act boldly.

On Feb. 22, 1951, the Bank of Canada announced the conclusion of an agreement with the chartered banks, the effect of which was to limit the aggregate amount of bank credit and to curtail specific loans for non-essential and non-productive projects. For some time prior, the cash reserves of the banking system had been held under close check through the open-market operations of the Bank of Canada. Meanwhile, inflationary financing terms which had been limited in November, 1950, were drastically altered in March, 1951, by reducing the maximum term from 18 to 12 months and by increasing the down payment from one-third to one-half. These measures, taken together, had the effect of reducing the availability of credit to individuals, corporations, municipals and other borrowers with a view to lessening the ultimate demand for goods and services. Their results were bound to be uneven, and in some cases inequitable, and it is to be hoped that care will be taken to alleviate special distress and to restore freedom of action as soon as possible. Meanwhile, most Cana-
dians will applaud the government's bold and constructive ac-

position.

Let us now look at the position of life insurance companies who are the main custodians of long-
term credit. During the war, they, like all other lending insti-
tutions, had been substantial buyers of Victory bonds, with the result that their portfolios became disproportionately invested in Government of Canada bonds. Since the war the position had been adjusted by a process of sell-
ing Governments to buy corporate bonds and mortgages, which had been left unclaimed. However, inasmuch as neither the banking system nor the public was an active buyer of long-term Gov-

ernments at that time, this process, logical under different conditions, became highly inflationary by providing long-term credit to corporate borrowers through the sale of Governments. This flow, by the nature of the market, was to some extent finding its way into the Bank of Canada, and

-Address of the retiring President at the 39th Annual Convention of the Investment Dealers' Association of Canada, 35th Annual Convention of the Investment Dealers' Association of Canada, held in Montreal, Quebec, June 13, 1951.

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Securities Regulation in U.S. as It Affects Canadian Issues

By ARTHUR H. DEAN
Sullivan & Cromwell, Attorneys, New York City

Prominent corporation attorney describes working of the Securities and Exchange Acts as they are applied to Canadian securities issues offered in the United States. Points out application of U.S. Laws to securities offered in Canada and sold privately in the United States without public solicitation or through direct placement. Outlines processes of working out registration statements for Canadian Government, provinces and municipalities, and warns a law which works well in one country may not be suitable for another.

The registration statements must be signed by the issuer, by its executive officers, and by a majority of its directors, though all are made liable.

Registration Statement Differs from Prospectus
At this point, let me say a word about the difference between a registration statement filed with the Commission and a prospectus or offering circular. No written offer or sell or confirmation or document may be sent or given with respect to a security registered under the Securities Act of 1933 unless accompanied or preceded by a prospectus meeting the requirements of the Act. The prospectus itself, under appropriate rules of the Commission, may omit the detailed schedules of inventories, securities investments, reserves, property accounts, etc., and the multitude of exhibits filed as a part of the registration statement, such as the issuer's charter, by-laws, stock certificate, the underwriting agreement and related instruments, the material business and financial data, any trust indentures, specimen stock certificates, and opinions of counsel as to the legal existence of the issuer and the validity of its securities being offered, and may be in condensed or summarized form.

After the registration statement is filed with the Commission the issuer and its underwriters are not, so far, free to sell. The statement is examined carefully by a staff of examination officers as the Commission administrators so many Acts, and of has become organized somewhat along the lines of these Acts. There is a Public Utility Division for the United States. There is a Public Utility Holding Company Act; the Securities Exchange Division for handling the stock exchanges and the like; and the Public Utility Holding Company Act; the Securities Exchange Division for handling the stock exchanges and the like; and the National Association of Securities Dealers, Inc., which has established standards for the exchanges and the issuers thereon and in the over-the-counter market and dealing with the NASD and its affiliated exchanges and dealers, and the Corporation Finance Division for making registrations under the Securities Acts and Securities Exchange Act and certain other problems. The registration statement of a corporation is filed with the Commission and thereafter, if the issuer is a registered corporation, the registration statement is filed with the states in which it is registered so as to have the statement in all the states where its securities are sold.

Continued on page 13
British Columbia’s Wood Resources

By L. R. ANDREWS
Executive Vice-President, British Columbia Lumber Manufacturers Association

After reviewing statistics and estimates of British Columbia’s vast timber resources, and measures taken for forest conservation, Mr. Andrews gives arguments for and against private ownership of forest lands. Sees taxation, despite allowances still adversely affecting business of growing tree crops, but points out progress in British Columbia forestry in last decade and its favorable factors as field of investment.

The total stand of merchantable timber is given at roughly 255 billion feet in the Province. 155 billion feet, or 60% is estimated for the Coast Region Forests.

The present drain or in other words, the annual cut of the Province is approximately 3/4 billion feet. R. M. per annum. 3/4 billion feet of this, or 80% is presently harvested in the Coast Region.

This official inventory was published in 1937 and, of course, is now 14 years out of date. The inventory however, was not made in the year 1937 but was accumualted over a period from 10 to 15 years prior to that date. The inventory was not made by detailed aerial survey or intensive ground cruises but was compiled from a great number of sources, including commercial surveys, some ground cruises extensive reconnaissance over large areas, together with a small percentage of original and check cruises.

Forest inventories are anything but static. Mature or old growth timber is subject to annual drain due to cutting. Growth is more or less static as regards increase in volume and the various factors largely cancel out the gain. In this respect the growth data are of less importance than the loss due to removal under lands. The report states that 80% of all the land in British Columbia over 1 acre has been sold for agricultural purposes.

In accordance with the report, in 1937, there were 60,000,000 acres of land owned by the federal and provincial governments in British Columbia, 1937, for the purpose of forest preservation and control.

In conclusion Mr. Andrews states that the present inventory, published in 1937, is not satisfactory and the only way to get better results is to make the inventory periodically and to check the results after a few years. If this is done the results will be more reliable than those of the 1937 inventory.
Alberta: Its Booming Oil Industry

By N. E. Tanner*
Minister, Department of Mines and Minerals, Alberta, Canada

Minister Tanner describes rapid rise of oil exploration and development in Alberta, and points out if Canada should be able to produce all its oil requirements, it would reduce Dominion’s debt in U.S. dollar area and give Canada a much more favorable trade position. Says efforts are made to keep oil developments orderly and are carried on according to best engineering practices.

Upholds private exploration and investment in oil development on royalty basis, under conservation principles.

The production for 1950 reached 27 million barrels, the value of the production being approximately $82 million. At present there are 79 active oil and gas developments, covering over 40 million acres. The companies are exploring for oil and gas. Besides this, we have over 100,000 acres, as of April of this year, covering an area of 6½ million acres.

To give you some idea of the work being done and the money being spent in exploration and development, I mention that it is true that in 1947 there were $38 million spent, and in 1948, $100 million, and in 1950, $150 million. This is for exploration and production alone, and does not include the money spent for pipe line, transportation, refinery and so on. From these figures it is quite evident that development is going ahead rapidly; in fact, the highest daily production for any one month in 1950 was 100,000 barrels, while our daily average for June of this year is 155,000 barrels, with a potential of 200,000. This is made possible, of course, by the oil pipe line, which was built from Edmonton to Sarnia, a distance of 1,150 miles, at a cost of $90 million, and which has a carrying capacity of 150,000 barrels. The oil flowing through this pipe line is consumed in the province, where it is able to compete with other markets. In fact, some oil is being exported to Superior, Wisconsin, and is able to do so.

Though there is a duty on oil going into the United States, the Alberta government is taking the stand that as long as we are importing from the United States as we are exporting to the United States, our oil should be free. If, or you might say, on an exchange basis, which I think is a fair question to ask, it is possible to say that some arrangement is worked out along these lines.

During the past few months there has been quite a bit of talk. Continued on page 18
Canadian Engineering Achievements

By J. CALVIN BROWN*
President, American Society of Mechanical Engineers

Prominent American engineer reveals activities and progress of Canadian engineering, particularly in scientific research, aviation and other forms of transportation, hydroelectric power and developments in mineral and forest industries. Points out, in space of relatively few years Canada has become a major industrial power.

The CONVENTION NUMBER

In my talk today, I will consider numerous aspects of Canada's engineering achievements, the first of which will be Remarks. Canada has an organization known as the National Research Council, and two of their noted men, Clarence D. Howe, and General Andrew L. McNaughton are Honorary Members of ASME, and have served as President of the National Research Council of Canada. The present President, Mr. C. J. MacKenzie, will deliver the Roy W. Wright lecture at 12:15 p.m. on Tuesday, June 12.

The National Research Council of Canada reports that on the Canadian atomic energy project, the Chalk River pile has the highest neutron flux ever recorded among the world's known nuclear reactors, and it thus offers unique facilities for collection of fundamental data on atomic energy. The neutron flux of the reactor is used to conduct various materials to produce the radioactive isotopes that are finding increased uses in medicine.

Fundamental research in radar and radiophysics and applications of radar techniques to peace-time problems, as well as radio projects for the Canadian Army comprises a major portion of the NRC program.

The scope of the Division of Mechanical Engineering includes research in aeronautics and hydrodynamics, as well as phases of mechanical engineering. The Aeronautical Laboratories provide the Canadian aviation industry, both constructors and operators, with data developed by the laboratory. This represents activity in one of the world's foremost pioneers in wind-tunnel and aeronautical research.

Aviation

This leads us to what undoubtedly proves that Canadians are fully capable of accomplishing great engineering works — the Canadian jet achievement. By successfully producing a unique jet fighter, a jet fighter, and a turbojet engine, Canada can rightfully take her place with the world leaders in jet development. The jet fighter, produced by Avro Canada, Ltd., is the CF-100. A 150 jet fighter and the Orenda turbojet engine, has flown more than 500 m.p.h. in level flight, establishing a new North American speed record for its type. Its cruising speed is 100 to 150 m.p.h. faster than the present contemporary turbojet in service. The jet fighter has made numerous flights over the past year and its serviceability and performance are said to be excellent.

The CF-100 fighter is the first of a new breed of post-war jet fighters. It is exceptionally large in size, its length and wingspan being about the same as the height of a five-story building. It carries an unusual amount of new and navigational aids to enable it to operate at long distances from base in all types of weather. It is very heavily armed and carries ample fuel for extremely long-range operations. Despite its powers and performance, the CF-100 can land on and take off from very short runways. In the era of climb is outstandingly good for interception purposes. Many of the aircraft's features are of original design, its particular operational role.

In developing and producing the Orenda engine, Avro Canada has designed one of the most powerful turbojets in the world. These engines are fitted to the CF-100 fighter. Production of these engines has set a new pattern for Canadian engineering enterprise. A few components have been made by Canadian subcontractors, a few engine auxiliaries are previously developed units, but the vast majority of the engine parts have been made at Avro's own shops. This means the design for work has been considered a few years ago. However, Canada's aviation achievements are not confined to the post-war era. During World War II, it should be remembered, the Montreal Longueuil project of de Haviland Aircraft of Canada, gave an excellent account of itself.

While and on the subject of aviation, we must mention Wallace Turnbull, an outstanding Canadian Engineer, an Honorary Member of the Engineering Institute of Canada, and one of the world's foremost pioneers in wind-tunnel and aeronautical research. Today, every propeller-type aircraft aloft uses his invention — the stall detector, a control device for changing the pitch of the blades.

Hydroelectric Power

When it comes to electric power production, we find that Canada has extensive sources of energy in its known reserves of coal, oil, and natural gas. However, a great amount of the electric energy used is derived from its great water-power resources. In the development of which Dominion is one of the outstanding countries in the world.

With a total of 962,275 h.p. of new capacity coming into operation, the year 1950 was outstanding, as this amount has previously been exceeded only by the war years 1942-43 when the huge Shipshaw Hydroelectric plant was completed on the Saguenay River in Quebec. H. C. G. Pittfield, Vice-President of EIC, will be remembered for his engineering work on this project. A large portion of this new capacity is located in Ontario and represents the culmination of the great post-war construction program. This taken by the Hydroelectric Power Commission of Canada, and represents plants and extensions which are under active construction are tentatively rated at 1,000,000 h.p. and those under preliminary construction or definitely planned, at about 1,500,000 h.p. Although the demand for hydroelectric energy continued to grow during 1950, being more than greater than in 1940, power production was, in general, keeping pace with the increased demand and construction was very active in the fields of transmission and distribution.

Since the beginning of the present century, following the inception of long-distance transmission of electricity, water-power development in Canada has undergone remarkable growth, the total installed capacity at 177,822 h.p. at the end of the year 1900 being increased in comparison with the 12,562,750 h.p. installed by the end of 1950. Of the 12,562,750 total installed horsepower, central electric station capacities which develop power for sale, total 11,070,714 h.p., representing 89% of the complete total of all water-power developments.

An outstanding example of Canadian engineering is to be found in the Windsor steam power station of the Ontario Hydro development.

Pulp-and-Paper Industry

This is just the same industry, which operated at above rated capacity during 1950, leads all other manufacturing industries in Canada in net value of production and it is also the only one further expanded. The industry has long been characterized as presidents and managers of plants. It ranks as one of the world's great industrial enterprises. Canada's total mill capacity has increased by more than 8% and the total newspaper is less than five millions tons a year. This is much greater than that of any other country. In the production of wood pulp, Canada is second only to the United States. More than 92% of manufactured newspaper is exported, so the industry

Continued on page 12

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SUN LIFE ASSURANCE COMPANY OF CANADA
Canada's New Oil Resources

By OLIVER P. HOPKINS*

Vice-President, Imperial Oil Ltd., Canada

Executive of leading Canadian oil producer reveals recent expansion of Canada's new petroleum resources, through discovery and exploration of oil fields. Points out these developments perk up Dominion's economy, benefiting vast railroad industry, and raising Canada's petroleum output to about one-half of its current needs. Foresees new Canadian industries and substantial improvement in Canadian Government revenues.

The discovery of oil in the Canadian west could not have occurred in a place more suitable to the needs of the railway man desirous of increasing his operating efficiency by the use of petroleum. And the aid given by the railways to oil men, especially in a part of the world where distance is so great a handicap, has undoubtedly greatly accelerated the development of the Canadian oil industry. Railways and oil are, indeed, an excellent example of the way in which one industry's development benefits another. A year ago, the railways were carrying material to help build the Interprovincial pipe line transport system, which was to carry a sizable volume of traffic, part of which had previously moved by rail. This year the pipe line is returning the compliment by delivering crude oil to refineries in the prairies which will help to provide lower cost fuel for the railways.

As I mentioned, one of the most significant features of our recent oil development was that the oil was discovered in a region which the railways had already called the driest spot of a very thirsty country. In 1947, the year in which the discovery of the Ledelive oil well revolutionized the Canadian outlook, Canada was consuming an average of 255,000 barrels of petroleum daily. But the principal source of domestic production, Turner Valley, was on the decline and other sources were either too small or too remote to contribute substantially. The result was that of our 255,000 barrels of requirements, only 18,000 barrels were being provided by Canadian wells. Domestic production, at 7% of requirements, was a little below the pre-Ledelive average, which usually ran at 10% of requirements.

Moreover, demand was increasing rapidly. The 255,000 barrels required in 1947 has since risen to 55,000, an increase of some 37%. Demand was vigorous in the prairies as a result of the mechanization of western agriculture. Yet the prairies were the most difficult area to supply and imported crude at some refinery centres rose to as high as $5 a barrel, about half the cost being freight from increasingly distant sources of supply. And in addition to making the heavy drain on the high cost petroleum area, Canada's dependence on imported petroleum placed a heavy drain on the country's foreign exchange position.

Exploratory Work

The desirability of locating domestic sources of crude resulted in a great deal of exploratory work being carried out in widely separated districts of the Canadian North. Of this work produced some discoveries, a great deal of geological information and enough production of oil to confirm the oil seekers in their belief that Canada's sedimentary areas would ultimately yield surprising reserves of crude oil.

But it was not until Imperial Oil completed its 14th well wildcat well at Ledelive in February, 1947, that the expected large reserves became a reality. The adjoining Woodpool well is estimated to contain some 395 million barrels of recoverable crude oil, not far short of twice the total recoverable reserves from the historic Turner Valley field.

The discovery of this large reserve in a setting that was known to be generally favorable to the accumulation of oil, and in an area where crude oil was so much in demand that it was desired, initiated a tremendous wave of exploration. In 1947, the year of the Ledelive discovery, expenditures on exploration and development in western Canada had been in the neighborhood of $15 million. In 1945, the figure rose to $50 million; to $100 million in 1946; $150 million in 1950 and currently the expectation is that some $200 million will be spent during the current year.

In the field, these expenditures were reflected in an increase in the number of new fields and the addition of more than a billion barrels of oil to Canada's petroleum reserves. Ledelive was not only the latest discovery but the result of the long unbroken sequence of disappointing exploration efforts. At first, that time, Canadian discoveries had been found mainly in the Rundle townships of Turner Valley and in the lower Cretaceous coals at Wainwright, Vermilion and Lloydminster. The

Quebec's Industry and Labor Progress

The Province of Quebec, originally a trading and farming area, has developed into a vast manufacturing center, one of the world's leading industrial nations. To its predominance as a pulp and paper producer, there has been added mining and fisheries, which are contributing to Canada's industrial potential.

Four thousand new industries were located in the province in the post-war period, 1945-50.

There are now in Quebec about 1,500,000 people, with a labor force of 1,400,000 people and a capital expenditure of over $4,000,000,000. This progress in the development of Quebec's industrial potential has, in large measure, contributed to the prosperity of the province. A notable gain is in the world's leading industrial nations.

At the outset, Quebec was essentially a trading community. The French pioneers who came over in the 16th century traded with the Indians of the St. Lawrence Valley. Later, the Province became, above all, a land of farmers. But in succeeding generations the industry and evolution took place, based on Quebec's great store of hydro-electric power, forest wealth, base and precious metals, and transportation facilities in the St. Lawrence and industry of French-Canadian workmen.

In all this development, Quebec has been aided by its peerless geographical location. Quebec is one of the great transportation hubs on the St. Lawrence river system. It is situated 800 miles from the sea and harboring its port in the metropolitan area of Montreal, one of the leading transportation centers of the world. Here, cargoes from the Great Lakes and from various parts of the United States are loaded and unloaded. The St. Lawrence River, linked by good highways with the transcontinental railways of both Canada and the United States.

Large Area of Diversified Industries

La Province is vast—more than 597,000 square miles in area. Naturally there is wide diversification of industry and of manufacturing. Greatest density of population is in the St. Lawrence river valleys, the oldest-settled portion of Quebec. Here are located the leading elements of heavy industry—railway shops, locomotive works, steel foundries, aero engines, etc.

Nonetheless Quebec industry is not woefully fringes on main shipping ways. Gold and copper in Abitibi industry, Statia's coal, John "empire" and Saguenay valley coal, and nickel moves, are b r o a d e n e d Quebec's industrial base. With this spread, of course, Quebec has gone still further diversification of population.

For generations industry and manufacturing have been located in the main centers of Montreal, Quebec, Trois Rivieres and Sherbrooke; and the turn of the present century saw a widening out to such points as Valleyfield, St. Leonard, Laval, Drummondville and Hull. But Quebec has gone still further, with decentralization of industry. Government stimulation of hydro-electric power has opened the door to a large number of industries. These young industries now employ more than 100,000 workers. Quebec's manufacturers now are making more than 50% of the volume produced in Canada, and the size of this industry in Quebec is increasing. Quebec has 55 major pulp and paper plants, 27 sawmills, 13,000 miles of railway lines, 40,000 miles of waterways, 990,000 horses and much paper. Concentration is towards 2,000,000 horsepower; a single plant has a capacity of 1,200,000 horsepower and is one of the world's leading hydro stations.

At no time has Quebec been obliged to ration consumers, industrial or domestic; for total production today reaches 6,000,000 horsepower. And the production of hydro power is expected to reach 10,000,000 horsepower strategically located so that there is hydro galore for the users of the Province. Demand for electricity is expected to exceed 1,000,000 horsepower, and for the unfulfilled supply of good labor, both male and female; to the abundant resources, and to the facility for transportation which goods to all parts of the world.

Hydro power, particularly, has benefited. In Quebec there are many hydro projects, and one has been completed in the Lower St. Lawrence Valley. At no time has Quebec been obliged to ration consumers, industrial or domestic; for total production today reaches 6,000,000 horsepower. But Quebec has been able to save the consumers and manufacturers of this capital wealth, and to keep the hydro power flowing just as it should flow. To the newspapers of the world, Quebec supplies a high proportion of newspaper. Since all Canada has few newspapers, each one produced a great deal of paper, as each one produced a great deal of paper, as each one produced a great deal of paper, as each one produced a great deal of paper.
Investment banker, in commenting on growth of mutual investment funds in Canada and United States, estimates Canadian mutual funds assets at end of 1950 as over $61 million, a development since 1932, when first Canadian fund was established. Finds ownership well diversified and calls mutual fund investment an inflation hedge.

Canadian Mutual Funds

The first mutual fund was marketed in Canada and began operations in December, 1932. A second Canadian fund was formed in April, 1934, by reorganizing an existing closed-end company and it had assets of approximately $1,500,000. After that three other mutual fund companies were organized to make its shares redeemable and at the end of last year it was the third largest.

Of an estimated total of $61,000,000 of Canadian mutual investment fund assets at the end of 1950, over $39,000,000 was in the first such company formed, and slightly over $10,000,000 in the second. The third largest was in mutual fund assets of approximately $6,500,000. All of these three funds experienced substantial growth in the past two years. The balance of approximately $8,000,000 was spread over six new mutual funds which had been offered in Canada in the last two years.

Canada's total mutual fund assets at present are too small when compared with the U. S. total of $3,500,000. It should be remembered that Canada and begun upon the flotation of national income of the United States compared with Canada is approximately 18 to 1 and adjustment of the Canadian total by that ratio would bring its figure at approximately $1,000,000. In Canada it demonstrates wide spread nature of mutual funds. As members of the mutual fund family it is possible to name certain types of mutual funds which are particularly interesting in their ownership.

Who Owns Mutual Fund Shares?

Just about every conceivable type of fund is represented among Canadian mutual fund shareholders. Men, women, children, farm and business executives, doctors, lawyers, judges, real-estate agents, members of the clergy, dentists, physicians, railway clerks, financial men, office workers in all the armed services, and many others. Shares are owned also by many types of organizations: public pension funds, churches, libraries, hospitals, and colleges. Other types of holders include corporations.

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PRIVATE WIRES
Continued from page 7

Canadian Engineering Achievements

is a particularly important contributor to Canada's export trade balance.

The pulp-and-paper industry also ranks highest in Canada in the use of hydraulic and hydro-electric power, consuming about 25% of the total output of the country.

Mineral Industries

Hydraulic installations also produce power for use in special industries such as the mineral industries, together with the installations of electrochemical, pumping, electric-railway, and general-manufacturing plants; also the large number of small mills used for sawing and grinding throughout Canada.

The incidence of large water-power resources in those regions of Canada in which the more important mineral discoveries have been made has greatly facilitated mining development. Metal mining forms an important part of the mining industry in Canada.

Outstanding in the mineral industry is the Consolidated Mining and Smelting Company, of Canada, whose President, H. E. Stavert, and Vice-President, R. W. Dikmen, are well-known Canadian engineers.

Important iron-ore discoveries were made, since the war, in Northern Quebec, at Steep Rock in Northern Ontario, and at Sault Ste Marie.

Canada is also an important producer of thorium and is now in the process of increasing plutonium production.

Canada produces most of the world's nickel and is also an important supplier of beryllium, copper, lead, zinc, aluminium, and titanium, metals materials, particularly in the light of the present world crisis.

The mining production has a value of close to $1,000,000,000.

In the last war, Canada was largely dependent on the United States for petroleum. Since then, however, discoveries in Alberta and Saskatchewan have made it possible for Canada to approach self-sufficiency in oil.

Transportation

Canada has made great strides in the field of transportation, and has initiated many developments and undertaken new projects. These are, of course, too numerous to enumerate, but the following are just a few:

The Government-owned Canadian National Railway pioneered in the application of Diesel motive power in North America, complementing with Diesel-electric railway cars in 1910. In 1928, the first road Diesel-electric locomotive was placed in service in Canada.

The privately owned Canadian Pacific Rail Road has as its President, W. A. Mather, an Honorary Member of the Engineering Institute of Canada, and as its executive vice-president, Norris Roy Crump, recently elected an Honorary Member of ASME.

Highway departments have built up Canada's existing road systems with definitely limited funds, but have made rapid advances in the art of road construction. Examples are the Quebec-Saguenay Lake St. John highway, and the proposed Trans-Canada highway.

In the field of air transportation, there is, of course, the Avro jetliner.

In constructing the world's first all-aluminium highway bridge across the Saguenay River at Arvida, Quebec, Canada, a project of the Dominion Bridge and Alumnum Company of Canada, has dramatized the present-day trend toward the replacement of iron and steel by the lighter metals.

Defense

Turning now to present world conditions, we find that, today, defense has become the biggest single business in Canada. This is shown in the marked increase in defense expenditures. The expenditures four years ago were $104,000,000. This year, Canada has appropriated $567,000,000 for its own defense, plus $300,000,000 for mutual aid. In addition, other Government departments are spending well over $100,000,000 on matters related to defense.

Besides the military plans, which are now getting fully underway, however, one can sense Canada's accelerated effort in the field of production, in general. In the space of a relatively few years, Canada has truly become a major industrial power.

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BRANCHES IN THE PRINCIPAL CITIES OF CANADA
Securities Regulation in U. S. as It Affects Canadian Issues

and officers', directors' and 10% stockholders' reports of listed securities bought and sold) under the Securities Exchange Act of 1934. The Corporation Finance Division is headed by BALDWIN WA. Byrd, a man of wide experience and great helpfulness, who has held this position for nearly 20 years. Under Mr. Bane there are various experienced and capable associates and assistant directors, each of whom heads a staff group which includes analysts, accountants and lawyers.

As registration statements come into the Commission, they are handled by specialists within a particular staff group. If the issuer is a mining or oil company, the Commission has on its staff expert engineers or geologists in these fields who review the technical statements made in the registration statement, or, in the case of mining companies, deficiencies, they check with experts in other governmental departments, such as the Bureau of Mines or the Bureau of Standards, comparable registration statements, annual reports, etc.

After the registration statement has been in the hands of the staff for 10 days to two weeks, the Commissioner personally sends the issuer a deficiency letter stating in detail the reasons which the staff, in its opinion, believes should be corrected or expanded in the registration statement and prospectus. These deficiencies are explained in person or on the telephone between the issuer and its counsel, and the members of the SEC staff, and if not dropped or satisfactorily explained, are customarily corrected by the filing of a deficiency amendment to the registration statement designed to meet the criticisms of the staff. This amendment includes a revised prospectus. After it is filed, the issuer or its counsel keep in close contact with the Assistant Director of the Corporation Finance Division in charge to be sure that the deficiency amendment has satisfied the staff's objections and to make sure they have no further suggestions.

The use of the deficiency letter and the machinery for correcting deficiencies is entirely informal and is not something specifically based on any law or rules and regulations. The Act itself provides for a more formal, administrative proceeding if it appears to the Commission that the registration statement is incomplete or inaccurate. This consists of personal service of a notice on the registrant, followed by a formal hearing and the issuance of an order prior to the effective date of the registration statement to become effective until it has been amended in accordance with the order. As a practical matter this procedure is rarely used. The Commission feels that the issuer has intentionally overlooked facts or omitted material facts.

The Securities Act provides that a registration statement becomes effective 20 days after it is filed and that no offering of securities subject to the Act may be made until the statement has become effective. Although the Act does not prevent oral offers to sell once a registration statement is effective, any prospectus (a written offer to sell) transmitted to a prospective buyer by means of interstate commerce or the mails must meet the requirements of the Act, and the delivery of any such prospectus by an underwriter or dealer, whether or not he participates in the offering, for a year after the offering must be accompanied or followed by a prospectus meeting the requirements of the Act. Even after one year, offerings constituting a part of an original unsold underwriting must be accompanied by an up-to-date prospectus.

By reason of provisions in our state laws forbidding insurance companies to underwrite and the requirement in our Securities Exchange Act of 1934 that persons engaged in the business of underwriting must be registered as dealers, it is the practice in the United States, and I understand in Canada, for underwriters to act largely as distributors of securities. Normally, they do not purchase issues for long-term investment; rather, they purchase with a view to immediate resale, and depend for their profit on the "spread" between the price which they pay to the issuer and the current market price for comparable securities at which they hope to sell, barring unforeseen market contingencies.

Accordingly, it is impossible, as a practical matter, for the underwriters' purchase price to be paid to the issuer and the public offering price to be included in the registration statement when originally filed. The market may change, for instance, a great deal in 20 days. The practice is to foreclose the underwriting agreement with the issuer on the day before or two days before the proposed public offering and file the final price amendment with the Commission immediately thereafter. The price amendment contains the offering price, the price to the issuer, the underwriter's spread or commission, the concession, if any, to be allowed dealers, and the holdings of members of the NASD, terms of offering, conversion rates, if any, and other data pertinent to price, yield, etc. In the case of an issue of bonds or preferred stock, it also contains the interest or dividend rate, the redemption price, the sinking fund prices and requirements and other matters which have a bearing on price or yield in the case of serial mortgages.

The Securities Act of 1933 permits the Commission, in the case of an amendment filed with its consent, to regard such amendment, if in the public interest, as having been filed at the time of the original registration statement was filed. As a practical matter, if the Commission agrees with the way the issuer has handled the deficiency letter, and in the advance circulation of the so-called "red herring" prospectus during the waiting period when information may be circulated to dealers, but offers to buy or solicitation of offers to buy may not be made, it will regard the deficiency amendment and the amendment supplying price data, if otherwise satisfied, as having been filed when the original statement was filed. This, it is easy to see, is a very powerful weapon of the Commission which may be used to compel...
Securities Regulation in U.S. as It Affects Canadian Issues

Insurers to comply with the staff's ideas of how material should be presented in the prospectus, but in all fairness it has been very rare to find a member of the staff or Commission uncooperative or unreasonable and the Commission itself has the final say.

Furthermore, the Commission now has authority (since 1940) to accelerate the effective date so that it may fall within the 20-day period. Thus, registration statements are sometimes made effective at 12:30 p.m. or 5:00 p.m. on the 19th day or sooner to assist the underwriting group in carrying out its proposed time schedule.

The Commission is more likely to accede to a request for such acceleration in the case of a company which has previously registered underwritten securities under the Securities Act of 1933 or whose securities are listed on a national securities exchange, and about which, therefore, information has previously been available to the public, than it is in the case of a new or unknown company, but there is no set rule other than consideration of the public interest.

Scope of Securities Act

In general, the Securities Act applies to the sale in interstate or foreign commerce of the United States or through the aid of the mails of the United States of any securities of a private corporation or of a foreign government or foreign governmental subdivision. Thus, it applies to the distribution of Canadian municipal and other Canadian government bonds in the United States. Exempted from the registration requirements of this Act are securities issued by the United States or a political subdivision or public instrumentality of a state or any national or state bank in the United States, certain short-term forms of indebtedness, and the securities of religious, educational, charitable and like organizations, and the securities of railroads subject to regulation by the U.S. Interstate Commerce Commission.

There are also excepted the exchange of securities by an issuer with its existing security holders exclusively where no commission or other remuneration is paid for soliciting such exchange, and the sale of securities by an issuer in the state in which it was organized and is doing business if no—sales or offers for sale are made to persons residing outside such state. In cases where a securities issue involves an aggregate sales price of less than $300,000, the issuer may be exempted from registration by the filing of a form of notification with the Commission as to what it intends to do.

In addition to sales by an issuing company itself, the Securities Act in some cases requires registration before sales can be made by controlling persons. Although the problem of whether control exists in the case of a particular person or group is often difficult to resolve, and presents interesting questions of law and fact, I shall not have time today to discuss the numerous opinions and decisions which have been made in administering this important phase of the Act. However, if a controlling person sets any number of its shares to someone else, whether or not the buyer is a person regularly dealing in securities, and the buyer buys with a view to distribution, rather than long-term investment, then the transaction is regarded the same as if the issuer had publicly offered the securities.

This is handled in the statute by defining the term "underwriter" as a person who has purchased from an issuer with a view to distribution, with the refinement that, as used in such definition, the term "issuer" includes a controlling person. Thus, a buyer from such a person may be an "underwriter" as defined in the Act, and may not be able to resell to the public unless there is a registration statement in effect.

The Securities Act of 1933 also provides that it does not apply to sales by certain persons, namely, persons other than the issuer, or an underwriter (defined as discussed above), or a dealer (selling more than one year after the date upon which the security was first offered to the public by an underwriter unless the dealer is selling securities on a continuing basis, and has not been a controlling person) or an "underwriter," or an issuer (defined by the Commission). It also excepted are sales by an issuer not involving a public offering.

In general, the SEC has used as a rule of thumb the figure of 25 persons or institutions buying for investment in determining whether or not a public offering requiring registration takes place, but the figure may be increased if all of the buyers are institutional type investors or if they are officers or employees of the issuer. If you offer to more than any 25 (regardless of how many you may sell to), it may be a public offering requiring registration; if you offer to less than 25, you are probably buying for long-term investment and they have the funds and customarily buy for investment, it is probably a private placement and no registration is necessary. An immediate reselling, if the market should increase, might cause trouble if the bona fide character of the investment could not be established. The figure 25 has been increased in cases where the offerings were special types of investment such as institutions, banks, officers and directors of the issuer, investing firms, etc., but prior to deciding whether any particular proposed offering to more or less than 25 persons involves or does not involve a public offering, one must sift most carefully and con-
sider all the facts involved, espe-
cially beneficial ownership, trusts, options and holdings in the same family or officer-director group.

In considering both questions of control and questions of private placement, it is possible for the issuer, or its counsel, to set forth the pertinent and relevant facts in a letter to the Commission or its general counsel and secure a re-
turn letter from the Commission's
general counsel in the event that he does not disagree with the con-
clusions expressed by the issuer or its counsel, or, in some cases, that
while he refuses to express any opinion on the conclusions of the
Commission in the event that he or in fact disagrees with such con-
clusions, the Commission never-
theless has authorized him to state
that it will not be inclined to take
any proceedings if the transaction is carried out as outlined. While
these return letters do not neces-
sarily bar subsequent action by the SEC or purchasers, I have never heard of any issuer or its counsel ever subsequently allowing a subsequent action to be taken by the Commission when the facts were correctly stated and the transaction as outlined was fol-
lowed. Omission to state mate-
rial facts may cause trouble and in fact, such rulings are valid only to the extent that the facts are accu-
rate and complete.

Liabilities Under Securities Act
Nothing in the Act specifies the
liabilities imposed by the Securities Act of 1933. If there is an
omission or a misstatement, any fact in the registration state-
ment, or any material fact, which is
required to be stated to make the
statements therein not mis-
leading, any person acquiring the
securities, whether or not he re-
lied on such statement, may sue
to recover damages based on his
losses from buying the security. The
plaintiff need not tie his loss to the
particular misstatement or omission in the registration state-
ment, but if the defendant proves that any of the damages resulted from the defendant's actions rather than the mis-
statement, he can reduce the dam-
ages accordingly. The person
who may thus be sued under the
Act for damages may make a claim for
omissions either to the issuer, or
to certain others who could be
liable, such as accountants, engi-
neers or appraisers and the
Commission is authorized to take
such action as may be necessary
or desirable to enforce the rights
of any person
who may have been
harmed by
misrepresentations.

In the case of the liability of any
person under Section 12(a) for sell-
ing a security by means of a
false prospectus, such action must
be brought within one year of the
sale. An issuer can shift the
burden of proof with respect to
actions under Section 11 by mak-
ing generally available to its
security holders an earnings state-
ment covering a period of at least
12 months beginning after the ef-
fective date of the registration
statement. Thus, under Section 11
of the Act, persons who sign the
registration statement, directors,
accountants and other experts and
underwriters, cannot be held after such an earn-
ings statement has been made
available unless the plaintiff can
prove that in acquiring the securi-
ty he relied upon the untrue state-
ment, in the registration state-
ment, or that he relied upon the reg-
istration statement without know-
ing of an omission therein.

The complaint can establish such
reliance, however, without prov-
ing that he read the registra-
tion statement. This means, in effect,
that instead of the burden being
on the defendant to prove that
the plaintiff knew of the untrue
statement, the burden of proving that
the plaintiff knew of the untrue
statement is on the plaintiff. The
plaintiff must prove that he knew of
an untrue statement if the com-
terminal of the registration state-
ment to all stockholders not
sooner than 15 or 16 months after
the effective date of the reg-
istration statement.

Sales of Securities of Canadian
Companies

I should now like to speak
briefly on the application of the
Act to the sale in the United
States of securities of a Canadian
company.

All of you probably know that
the sale of stock of certain Cana-
dian mining companies (generally
of a rather speculative character) is
being carried on by mailing
literature directly from cities in
Canada to prospective purchasers
in the United States and asking
them to pay by the remittance of
the purchase price to the office in
Canada.

There is no direct solicitation in
the United States. How do the
United States statutes apply? One
of the favorable cases of professors
in Conflicts of Law is about a
man standing entirely in Canada
and shooting a man across the
border. Has he committed the
murder across the border when
he has never been there? As this
Continued on page 17

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Mutual funds are broad diversification. And diversification is an acknowledged cardinal principle for successful investing needed by all income, and more.

Such a diversity of investor interest in mutual funds is, of list of individual securities to course, quite normal and logical. A cornerstone principle of all mutual - greater problem of constant obviation after purchase. This is a complicated world in which sudden - and far reaching development affecting investment values are in seemingly endless occurrence and frequency in conflict. More and more thousands of investors are clearly the way from very modest amounts to a quarter of a million dollars, and more.

Then too, there is the problem of investor funds shareholders, perhaps their greatest testimonial is the fact that so very many of their shareholders make repeat purchases. Some funds report as many as fifteen to twenty separate purchases by a single investor.

Cost
Shares of mutual funds are sold to the public at their asset values plus fees ranging from 7% to 9% of the public offering price. This "fee" or "acquisition cost" covers the round trip buying and selling cost to the investor. It is necessary to cover underwriting and selling costs of the underwriter and dealer or broker and to provide fair profit. A thoughtful purchaser usually concludes that the mutual fund has the situation justifies his purchase. It may reasonably be said that the cost is more a dollar than sell as compared to the alternative of buying and immediately reselling a group of individual stocks on stock exchanges. There are spreads between bids and asks on an exchange, plus necessary broker's commissions both for buying and selling, as well as probable market price penalty resulting from the pressure of one's own buying and selling in competition with others, especially in large dollar amounts. Such transactions could be as costly as to purchase an equivalent dollar amount of shares of a mutual fund and immediately resell them. This is not to mention the advantages that the investment company offers by way of supervision of holdings, convenience of owning one security instead of many; and, especially to the wealthy, a much less complicated situation as related to death duties.

A purchaser may buy all of the shares of a mutual fund he wishes at the public offering price on any day without affecting the price he pays for it. Likewise he may dispose of his holdings through the redemption feature provided by the Fund with little or no effect on the price he receives for it in most cases. The redemption feature of a mutual fund is not magic. It cannot provide a market for the shares at prices higher than the value of the underlying securities if the general market has declined. However, it does provide for effective and prompt marketability which is a highly important consideration for any investment today.

Inflation
Second only to the 'errors of armed conflict,' probably the most serious problem of the day to most people is inflation. For several generations prior to World War II, people in Canada and the United States gave little or no thought to pronounced or long-lasting inflation. To save money or equivalent was to effectively save purchasing power for later use when required. Inflation was the bogy that happened in other places in time to time, but it couldn't happen here. True, we had some important inflation during World War II, but most of it was cancelled out by deflation in the immediate postwar years. When serious price inflation again developed during World War II, it was widely believed that most of it would be cancelled out shortly after the war ended.

Unfortunately such was not the case. Five years later, not only had the price level not declined from the end of World War II, it had risen materially, and then spiralled further after the outbreak of the war in Korea. Where we go from here nobody knows, but the prospects are not reassuring.

This unfortunate problem is nobody's fault in particular except that of our enemies who have forced war and threats of war upon us. It is an almost inevitable result of unavoidable participation in large scale war and defense effort.

Inflation has shattered even that most conservative concept of investment, that to hold only cash or highest grade fixed income securities was the only way to avoid serious loss. Not only has income from such a policy been very low but substantial losses of both income and capital have occurred over the last ten years or more through declines in purchasing power.

This has been distressing to many of the traditionally most conservative investors in industrial and organizations alike, those not seeking profit but only security - who are largely dependent upon investment income and accumulated savings.

Many such investors have turned to mutual funds. Not because they afford any guarantee of protection against inflation, but because their large holdings of common stocks afford at least an opportunity of such protection. Records of Canadian mutual funds, while varied, show that over a period of years they have partially or completely offset the rise in the cost of living both through increased dividend payments and appreciation in the value of their shares.
Securities Regulation in U.S. as It Affects Canadian Issues

main solicitation results in a sale

would be a use of interstate or foreign commerce as occurs in

use securities Act, it is a violation of the Act it done without a regis-

tration statement, unless otherwise exempt.

It is also deemed by some of our states to violate their blue

law. As a practical matter, it is, of course, extremely difficult for

Canadian or U.S. issuers or the underwriters

who have no offices or salaried person-

nel in the United States and no attempt,

so far as I am aware, has ever been

made to enforce the Securities Act

of 1933 in the Canadian courts. I have no

formality to the matter, without regis-

tration. Or a pur-

chaser in the United States may

purchase outstanding securities in

Canada with respect to which the

original distribution is completed

and bring them into the United

States and sell them without regis-

tration.

One must be very careful not to

engage in rinking and monkey busi-

ness along these lines may well lead to trouble.

Problems sometimes arise as to

the authority of United States

underwriters firms to form under-

writing groups which include

Canadian firms, and the right to

permit Canadian dealers to take

part in a distribution along with

American dealers.

Under Section 15 of the Sec-

urities Exchange Act of 1934, no

broker or dealer can use the mails

or interstate commerce to in-

duce the sale of a security—except

if the security is registered as a broker

or dealer under that Act. As a re-

sult, participation by non-regis-

tered Canadian underwriting

houses with American firms, in

sales or as sales in the United States

are concerned, is prohibited. Thus,

if they are underwriters with

American firms, Canadian firms

do not participate in sales in the United

States to institutions for account of

the several underwriters. They

can, of course, sell their share

of an underwriting commitment en-

tirely in Canada.

The rules of the National Asso-

ciation of Securities Dealers, Inc.,

in the United States, organized

pursuant to Section 15A of the

Securities Exchange Act of 1934,

its rules must be approved by the

SEC, do not permit members to

join with non-members in an

underwriting group or give con-

cessions to non-members except

on the same basis as they deal

with the public. There is no pro-

hibition, however, on the forma-

tion of an underwriting group or

dealer group which includes

underwriters or dealers resident

outside the United States who are

ineligible for membership in the

NASD provided each such non-

member agrees that in making

sales to United States purchasers

of securities acquired at a concess-

ion he will conform to the NASD

rules as though he were an

NASD member. However, under

the statute it would seem that

Canadian firms which are not

registered under the Securities

Exchange Act of 1934 or which do

not have American subsidiaries

or brokers to which they can be

registered can become members of

United States dealer accounts

only so long as their selling ac-

tivities are confined to Canada.

Suppose that a Canadian under-

writer desires to carry on a pub-

lic offering of a United States or

Canadian issuer entirely in Can-

ada without the use of U. S.

interest or foreign commerce or

the mails (which would, assuming

no mail is sent across the border

and no messages or securities are

delivered across the border, not

in itself be subject to the

Securities Act) and at the same

time the issuer desires to offer

another portion of the same secu-

rity to a limited number of institu-

tional investors in the United

States each buying for investment.

Would the fact that a public

offering is simultaneously carried

out entirely in Canada mean that

the sales in the United States are

to be deemed part of the public

offering, thereby requiring regis-

tration under the Securities Act

as a necessary precedent to the

United States sales?

The Commission says "yes," and

under the literal wording of the

Act, I believe this is right. See

Continued on page 18
Securities Regulation in U.S. as It Affects Canadian Issues

By like reasoning, an issuer would probably place preferred stock privately with a limited number of institutional type investors in the United States without registration under the Securities Act at the same time underwriters were carrying out a public offering of the issuer's common stock entirely in Canada. When these deals are set up, the Canadian underwriters and issuers attempt to protect themselves from any of the Canadian offering reaching the United States by covenanting in the underwriting agreement to the effect that none of the securities will be offered or sold to or in any resident of the United States, and that the underwriters will obtain like agreements from members of the dealers participating in the offering.

Likewise, the offering circular often contains a hedge to the effect that the securities are being offered exclusively in Canada. Strict adherence to these covenants is in good faith and careful selection of participating underwriters and dealers is essential to ensure that there is no violation of the Securities Act. Failure to observe these requirements might require the adding of the limited number of offerings in the United States for, in fact, to the public offering in Canada, so that the sales in the United States would be deemed part of the public offering, and not therefore exempt as private placements.

Note that under Section 4 of the Securities Act, as above mentioned, transactions by any dealer on registered security are not exempt from the requirement that a registration statement be in effect and a prospectus complying with the Act be used, until the passage of a full year after the public offering.

If construed literally, a public offering could be carried on entirely in Canada, the Act might preclude sales of the security by dealers in the United States for a full year after the initial Canadian offering, but the Commission has ruled that where the public offering is itself not covered by the Act (i.e., solely in Canada, or in a principal amount less than $300,000) the one-year period normally applicable to dealers on transactions in the United States is not considered to apply. It is extremely difficult, however, to determine whether the United States investor is not acting as part of the original distribution or is acting as a principal transaction. Suppose an offering entirely in Canada—a Canadian investor buys the securities and they are delivered and paid for in Canada—then suppose he telephones an American broker to sell the securities for him in the United States, the brokerage transaction being unscreened, while the American broker might not violate the law in an isolated transaction, if it took as part of a succession of repeated transactions of this type, obviously distribution has not been completed in Canada and he may be held to be participating in the original distribution in the United States, without registration. He had better watch his step.

Therefore, as a practical matter, assuming no registration in the United States, American dealers should not purchase securities from Canadian underwriters for resale in the United States nor act as brokers for American buyers, unless the syndicate account has been really terminated and the distribution in Canada has really been completed. Whether and when distribution is completed is frequently a difficult question of fact, but common sense and not casuistry will help.

In the working out of the registration statements for Canadian Government, provinces and municipalities and in the presentation of the entire overall economic picture of Canada and its balance of payments, the Commission has been most cooperative, helpful and understanding to our problems. As have all the Dominion officials at Ottawa, and great thanks are due your splendid public officials such as Graham Powers, Governor of the Bank of Canada, J. B. Abbott, K.C., Minister of Finance, and Dr. W. C. Clark, Deputy Minister of Finance, to mention only a few.

Over the years we have been able with the help of the staffs of the American underwriters, who knew the pertinent economic information, that large numbers of securities of Canadian banks, railroads, mining companies and other enterprises have been made available to the Canadian public and that fact has been of great service. It is possibly true that this factor has been underestimated.

From the above figures it is evident that capital investment is being shown in the oil development here in the Province of Alberta.

Revenue collected from the oil pipeline to the West Coast and, it looks as though such a pipe line will be undertaken some time during the next year or two, in fact, engineering studies are being conducted and a new route is being under consideration. This will give us another outlet for the potential market in the United States with the added hope that the oil which will be sold in British Columbia can possibly be brought to the West Coast and drilled.

Besides the revenue which the Province receives as a result of the oil development, there are many other benefits to the country. If the oil were to flow from Canada to the United States, those in the United States would be able to produce all of the oil required, it would result in greatly reducing the present debt in the U. S. dollar area. The oil which could be produced in Canada in a much more favorable position, and I might say, this without prognosticating, or in any way trying to predict the future, that if development were carried on at the accelerated rate during the next five years, it has since been happening for the past three years, Canada should be able to produce sufficient oil to meet its petroleum requirements from her own production.

It may not be generally known that in Western Canada we have the northern portion of one of

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the greatest sedimentary basins known, or what remains of it. The area extends from 1,300 ft. by from the International Boundary to the Arctic Ocean, and from the Pre-Cambrian shield on the East to the Rocky Mountains on the West; though this mass and will not be productive throughout the area, it does offer the greatest unexplored area on the continent today.

Another benefit which results from the development of the oil industry is that many associated and ancillary industries, such as supply house, repair facilities, etc., always follow development, and too, here in Alberta today we have petro-chemical industries being started, where the gas will be used for raw materials as well as fuel.

Some of the people of the Province maintain that they receive no benefits from the oil development. I might point out that in the price of gasoline alone there is a great saving to the average citizen. In 1947 the price of gasoline in Alberta was 30¢ above the average price of five cities across Canada, while in 1951 the price of gasoline is 85¢ below the average price in the same cities. This results in a savings to the consumers of Alberta of approximately $15 million per year, and on a per capita capital amounts to $7. The greatest benefit from the production results in the depletion of a capital asset, and the Government takes the stand that the money derived from this source should be used to build up other capital assets. This money is used for such things as the building of good public buildings, roads, the payment of debt, and other capital investments.

The Government has followed consistently a policy which has been designed to assure the orderly development of Alberta’s oil resources in the best interests of the people of the Province and of Canada as a whole. It embodies five major points to which the Government is committed. Though they have been repeated many times, and have appeared in different articles, I should like to repeat them:

1) Take all the steps necessary to encourage orderly development for the ever-increasing demand for petroleum products, and to make Canada less dependent on other countries for these essential products.

2) Insist that all development is carried on according to the best known engineering practices, thereby preventing waste and preserving the greatest ultimate recovery.

3) Establish prospecting and leasing regulations designed to effectively prevent monopoly and encourage individual enterprise. Only by the existence of wholesale rivalry, where free and competitive enterprise is carried on, can we expect to get the most active development.

4) Obtain for the people of the Province as a whole a fair share of the returns resulting from the production of oil.

5) Assure the owner of surface rights fair treatment and full and proper compensation for any loss, damage and inconvenience.

The Question of Royalties

There is a small minority in Canada who feel that the government should undertake the enormous task of doing the prospecting and drilling itself, and there are also countries throughout the world, as you know, which have been seen fit to nationalize the oil industry. This is diametrically opposed to the plan adopted by the Alberta Government. We are determined to carry on with the policy of individual enterprise, where the companies are required to take all the risk in the search for oil, with the understanding that they will get a good run for their money, and all receive fair treatment. If the risk capital which is necessary in the oil development does not feel that it is getting a good run for its money, or stand to make a fair profit if successful, in finding oil, it will not continue to be available for that purpose. On the other hand, it is essential that the interests of the people be protected and that they get a fair share of the results returning from the development.

Here I should like to make a brief explanation of the increase in royalty which took place last week. As I mentioned previously, in order to encourage development, the government saw fit in 1941 to make its regulations such as to give the companies a real opportunity to come in and search for oil, with the understanding that they would be able to lease fairly large tracts of land and that the royalty would be on a graduated scale from 5% to 15%. This royalty rate was set as of June 1, 1941, and was to be in effect for a period of ten years. The result was that the industry paid just less than 10% average royalty, which was very helpful to the industry during the early stages of development. On June 1, 1951, the royalty was set at 12½% on a production of 50 to 60 barrels, with a graduated reduction to a minimum of 5% on 20 barrel production and under, and a graduated increase from 60 barrels to over 135 barrels, reaching a maximum of 16½%. This will result in an average of between 13 and 14½%, if our calculations are correct.

The result is that those who are producing less than 50 barrels have some advantage or concession, while those who are producing more than 60 barrels pay more than 13¼%, while in fluid production, to offset any reduction that might be given when the wells are producing less than 50 barrels, and when they are probably in need of some concession. This present schedule is effective until June 1, 1961, and from then until changed by the government.

Under the program which we are following, the Government spends no money, takes no risk and shares in the production when oil is discovered.

I am pleased to be able to report that we have a very competent Conservation Board, which is given the responsibility of seeing that all drilling and production is done according to the best known engineering practices, and to see that there is no undue waste in the production of petroleum and natural gas. The Board is recognized by all in the industry.

Continued on page 20

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Alberta: Its Booming Oil Industry

try as being one of the most efficient and carrying on a number of the best conservation programs on the American continent.

Will Canada Export Oil? Owing to the fact that so much interest is being shown throughout the Province—and in fact throughout Canada and northwestern United States—on the question of gas export, I thought I should like to discuss this question briefly for a few minutes today, in an endeavor to answer some of the questions which have been raised since the gas report has been made public.

As you all know, the Petroleum and Natural Gas Conservation Board was asked to inquire into the proven reserves of deliverable natural gas in this Province, and to inquire into the needs of the Province for domestic and industrial use; also, to advise the Province as to whether or not there was a surplus of gas available for sale outside the Province. As a result of the hearing it was found that Alberta’s present established gas reserves are approximately equal to the amount of gas the Board estimated it was necessary to insure the present and future requirements of this Province, and accordingly recommended that these reserves should be further increased before the export of gas is approved. On the other hand, the Board concluded that as quickly as adequate additional reserves were established, it would be in the best interests of the people of Alberta to make surplus gas available for sale outside the Province.

The Government concurs fully with the Board’s conclusions, believing that it would result in the encouragement to develop the petroleum and natural gas reserves, as well as to make it possible to produce fields which otherwise would not be produced, and, therefore, encourage and make possible greater and more rapid industrial development within Alberta. The Pincher Creek field is a good example of this condition. It is a condensate of wet gas fields, and has the largest known gas reserves in the Province today; the producing zone is at a depth of approximately 15,000 feet and it is estimated that some one and a quarter trillion feet of marketable pipe line gas will be recovered from the field. The high capital expenditures involved in the drilling of wells in that field, and building the necessary processing plants, would require a minimum of about 100 million cubic feet per day, with an 80% load factor, if the resulting products, including the residue dry gas, are to be produced at a price which would be attractive to the prospective consumer. For every 100 million cubic feet of residue gas produced, over 2,000 barrels of natural gasoline, 500 barrels of butane and 500 barrels of propane would also be recovered, together with some 450 tons of sulphur, which is so badly needed throughout the world.

The reason the field is not being produced today is that there is no market for the residue gas, and you can see what it would mean to the Province, and Canada, if the field were producing. Any other advantage that might make it possible for some of our communities in the Province to get gas which otherwise would be deprived of it for years and years to come. It is also evident that the expansion of the oil and gas industry would result in building up associated and incidental industries, and result in a continued acceleration of our population growth. Since the report was written great accelerated search for gas has been made, and the greatly accelerated search for gas has been particularly directed towards the areas where there is known gas reserves. As a Government we are determined to follow a policy in the development of our natural resources, which, to the best of our ability, will prove to be in the best interests of the people of the Province and Canada, and throughout the world, and to follow out a good sound conservation program which will prevent any unnecessary waste, and will give the greatest benefit to the greatest number of people, over the longest period of time.

Quebec’s Industry and Labor Progress

Quebec’s industry is indicated by an important trend in industries of the province’s industrial economy—the processing in Quebec of raw materials produced by Quebec. Meanwhile there has been a development of the new Quebec iron ore field, with more than 300,000,000 tons proven, located in the northern hinterland of the province by water, railways, excellent highways and airlines.

Asbestos production, centered around Thetford Mines and Asbestos (with more prospecting going on in the eastern townships) makes a major contribution to Quebec’s economy.

Gold mining in western Quebec is of the utmost importance. The production is approaching a million ounces each year. A major development program is under way and a considerable influx of people is in progress. In 1949, production of precious and base metals reached an all-time high.
Recent discoveries are largely in the Upper Devonian formations, and interestingly enough it is in these same formations which are overlain by the famous tar sands above.

The combined market indicated this year for prairie crude — including the movement to Ontario, to the refining centers served by the pipe line plus the prairie refineries not served by the pipe line — will be in the neighborhood of 115 to 120 thousand barrels daily. This represents about one-third of Canada's current petroleum requirements, and as of 1951, we can say that we have gone one-third of the way to achieving self-sufficiency.

But already our crude reserves are of sufficient size to meet nearly one-half of Canada's total requirements, and there is in excess of 30,000 barrels of daily production which should and could be marketed if there were adequate facilities for the purpose.

So for 1952 Interprovincial plans to expand the throughput of its pipe line through the addition of six new pumping stations and the construction of 2,000,000 barrels of additional storage capacity of the major line is due. The construction of an additional large tanker which is under way will permit the movement to Ontario to increase to roughly 15 million barrels in 1952 as compared with 12 millions for 1951. The net effect of this will be to raise output in the prairies to 145,000 barrels daily in 1952, an increase of some 25,000 barrels a day over the 1951 average.

Under present conditions, it is probably of little value to carry one's thoughts past the end of 1952, since so many uncertainties exist. We cannot be sure of the rate of increase in western Canada's oil reserves, or the changes that may take place in other conditions. However, it might be worth the Athabaska Rivermen of the anticipated progress would bring the production and distribution facilities roughly into balance by the end of 1953 on the assumption that the nation's requirements of petroleum continue to increase at the same rapid rate as they have in recent years, and that no large new discoveries are developed in the meantime.

"...much better or worse than this forecast the actual conditions in 1953 will be I cannot say. However, an estimate of 40% of self-sufficiency is a reasonably conservative one, and it could well be that further large discoveries of crude oil will call for an upward revision. Large discoveries or defense needs may justify the construction of refineries on the Pacific Coast and the building of a pipe line to serve that area. If this proves to be the case further markets for western crude would be found in this area or alternatively, still further expansion to the east might prove the logical direction for widening the market.

In the meantime, the rapid development of the last 4½ years has had very marked effects on the Canadian economy. As I mentioned earlier, the discoveries were made in an area where the laid-down cost of crude was high, yet where the demand for petroleum products was steadily increasing and where petroleum has an extremely important job to play in the mechanized agriculture of the west.

But if transportation adds to the cost of delivered to distant points, it has an equally beneficial effect on areas close to the source of crude supply. The pricing mechanism through which this works will probably be familiar to most specialists in transportation, since it undoubtedly applies to virtually all commodities which have to be carried over great distances.

Over the Dominion as a whole, the progress toward self-sufficiency has greatly reduced one of the heaviest drains on the country's dollar reserves. The reduction in imports of crude oil is currently saving Canada some $150 million annually. From the foreign exchange point of view, the petroleum industry is already contributing an amount roughly equal to the entire output of the gold mining industry of Canada.

These advantages of price reductions and foreign exchange savings have been augmented by the vast capital investment that has taken place. By the end of this year, some three-quarters of a billion dollars will have been invested in crude oil exploration and development, in transportation and in manufacturing facilities. For the greater part of this investment has occurred in western Canada where they combined with the benefits of low prices and plentiful petroleum supplies to provide a very powerful economic stimulus.

New Industries

In Alberta there has been a marked increase in population, a widespread development of new industries allied with oil production, and a substantial improvement in government revenues. This year it was announced that the Cenelene Corporation would construct a $40 million chemical plant at Edmonton, a development which may work a turning point in the prairie road to industrialization.

For many years it has been hoped that the rich natural resources of the Canadian west would bring industry to the prairies. The addition of diversified industries will supplement the agricultural strength of the area by providing new and nearby markets.

Such a development would bring a well-earned reward to the railways which have done so much to develop the west. From the time the first steel was laid across the western plain, the railways have striven to aid western progress by encouraging industry and colonization. I can speak from personal experience of the way in which the railways helped speed the completion of the Interprovincial pipe line. They gave us the fullest co-operation not only in the movement of materials for the line, but in assistance with our problems of right-of-way and similar matters. The whole-hearted co-operation of Canada's railroad men saved us weeks, perhaps months of precious building time.

It is most pleasing to record such examples of wise and generous co-operation. And it is, if possible, even more pleasing to find that such policies appear to be bringing an appropriate reward. Certainly, the growing prosperity and industrialization of the west, bringing as it does the promise of more traffic, more diversified traffic, even perhaps, more remunerative traffic, is a most fitting reward for the efforts of Canada's railroad men.

The development of Canada's oil industry will not only bring prosperity to the west, but will contribute materially to the prosperity of Canada as a whole. In that prosperity, the railroads, like all other companies operating in Canada, will also share.
British Columbia’s Wood Resources

was made up from scattered commercial cruises of private timber holdings, scattered timber sales, and reconnaissance by Forest Service officers. In addition, technological advances in logging and towing methods, during the interval between estimates, have revolutionized West Coast utilization standards. 1

On cut-over areas changes in inventory are indicated by another check on the Coast Region in 1949 on Quadra Island. 2

"Quadra Island (60,100 acres) was surveyed previously in 1939 and, although little new industrial development has taken place in the interval between surveys, forest conditions in general show considerable improvement. The 1939 survey found that 15,870 acres (25%) were undrilled. However, subsequent regeneration has been exceptionally good, and the present examination showed that 84% of the cut-over land was satisfactorily stocked. Further, a large part of the area currently understood may be expected to restock naturally; consequently, Quadra Island is one area on the Lower Coast where there is no problem in regeneration." 3

An appraisal of the position with regard to reforestation and perpetuation of the crop, is obviously dependent on a reliable, up-to-date inventory. In the absence of such information, comparison of the rate of drain and the rate of replacement are substantially matters of opinion, and at best what might be called "educated guesses." The only starting point would be the 1937 inventory and this was the basis of the findings of the Royal Commission on the Forest Resources of British Columbia of 1944 and 1945. At that time the Commissioner accepted the evidence of Forest Branch officials and private foresters on roughly the following basis:

That the area of productive forest land on the Coast was approximately 10 million acres. To date, about 2.5 million acres had been cut-over and that approximately 7/10% million acres of virgin timber still remained untouched on the Coast. That the remaining stands of virgin timber contained approximately 180 billion (1837 inventory showed 155 billion) feet board measure. Further, that of the 1% million acres cut-over, about 1.3% million acres could be taken as carrying satisfactory regeneration on which increment was being secured at the rate of 350 to 400 board-feet per acre per year. 1/1% million acres were not satisfactorily re-stocked and therefore producing no increment.

On the basis of these assumptions, the Commissioner gave as his opinion that the safe allowable cut for the Coast Region was approximately 3.3 billion feet per year. His findings were as follows, and here I quote Chief Justice Sloan, the Commissioner:

"Assuming a close recovery in logging, successful regeneration and reforestation, and promotion of our young stands from fire, it is his opinion that the following round figures indicate the extent of the allowable annual cut on the Coast over that growing period of 60 years:

<table>
<thead>
<tr>
<th>Board Feet</th>
<th>Standing Interior mature timber (350) 180 billion</th>
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<tbody>
<tr>
<td>Divided by 3</td>
<td>2 billion</td>
</tr>
<tr>
<td>Product annual fire and Except losses (approx.) ...</td>
<td>17 million</td>
</tr>
<tr>
<td>Lone — stock — growing</td>
<td>3.4 million</td>
</tr>
<tr>
<td>Lone — stock — cut</td>
<td>2,150,000 acres at 350-400 feet per acre per year</td>
</tr>
<tr>
<td>Total allowable annual cut:</td>
<td>1,843 billion</td>
</tr>
</tbody>
</table>

"This estimate of an allowable annual or periodic Coast cut of about 3 billion feet a year for 60 years is, however, subject to a further qualification, and I do not consider it a safe guide for any greater period than for the next 10 years."

"My conclusions are based upon opinions which are in part conjectural due to the lack of precise data upon many important aspects of our forest problems. It is therefore a manifest necessity that there be an examination of our entire forestry situation at a period not later than 10 years hence. By that time exact information concerning our forest resources not now available ought to be known and our forest policy should then be reviewed in the light of the known facts and be guided by the interim developments that have taken place in methods of utilization, marketing, and other relevant factors affecting our forest economy. As a basis for present forest regulation, it is my firm opinion that the annual cut on the Coast should not be permitted to exceed 35 billion feet during the next ensuing 10-year period. If the exigencies of the future so demand, Crown timber may have to be withheld from the market to effectuate this purpose. The average annual Coast cut, it will be recalled, is 3.3 billion feet, and in the peak year of 1946 did not exceed 2 billion feet. My estimate, therefore, should take care of the heavy postwar demand for lumber over the next five years it is expected to continue. I do not recommend that the annual cut be not permitted to exceed 3% billion feet if the exigencies of the postwar market demand a greater production. I do, however, stress the importance of not permitting a greater depletion by cut in excess of 3 billion feet over the next 10-year period." 4

The Commissioner, of course, recognized that the formula which might be applied had many variables and that the whole basis of any calculation as to allowable cut in order to provide perpetual raw material for existing forest industries at present levels of production and employment, is dependent on a reliable inventory. It is my opinion that these findings, and the official attitude and policy of the Provincial authorities based thereon, in respect to the allowable cut for the Coast Region is open to serious question. It is significant, however, that the actual cut on the Coast Region since 1945 has never exceeded 3% billion feet.

No doubt the members of your organization have from time to time certain alarming statements in the press in regard to the forestry situation in British Columbia. I might just list a few headlines that have been taken at random from our local B. C. papers:

"Report Squandering B. C. Forests"

"Wasting Our Inheritance"

"Living Beyond Our Means"

Some of these statements purport to be quotations by reputable and responsible public officials, others are presumably taken from unprintable reports. Many such statements are quoted by the press in eastern and American and Australian periodicals, and it seems that the public believes all they read in the newspapers. We feel that this is not the case in eastern Canada, and we have decided to test this point. A gentleman went into the newspaper office and wrote out an article for the Lost and Found Column, offering a $100 reward for the return of a pet cat. The clerk expressed surprise at the fabulous reward for the return of a cat and quoted the amount of $100 as a reward. She asked the gentleman if he didn’t think that it was altogether too much to risk. His reply was, "I also didn’t think that it was my wife’s pet cat and I drowned it yesterday."

If these statements were made by responsible public officials, how can the record of short-term timber sales in the Coast Region each year be justified? In 1950 the Forest Branch sold some 750 million feet of government timber in short-term and three-year sales. The cut from these short-term timber sales in 1950 represented about 25% of the total cut of the Coast. In addition, the Coast Forest Licence Board covering 700,000 acres is justified in 1948, involving as it does, an annual cut of upwards of 100 million feet a year for a new growth virgin timber which probably would not be opened up otherwise for many years.

You will infer, of course, that in my personal judgment the ex-
listing inventories for the Coast Region are underestimated to the extent of at least 25% in volume and that the area of productive forest lands on the Coast is more in the nature of 12 million acres than 10 million acres.

With the technological changes in logging methods, the introduction of truck logging and the very substantial increase in recovery and utilization, I believe it is safe to assume that by the time the old-growth virgin timber is seriously depleted, and always assuming that adequate fire protection of second growth lands is assumed that a second crop will be available in sufficient volume for at least the present rate of consumption. Many of the present owners will of course have cut out their present holdings and will be dependent either on reserve stumpage placed on the market by the Crown or will merge with others to consolidate their holdings. The no ghost towns on the Coast Region because the substantial timber of the whole of this region is accessible to the majority of the existing conversion plants located at tidewater. Logs are now being towed from Vancouver Island up to Coquihalla, from the west coast of Vancouver Island to the mainland and from the mainland down to the lower coast. This natural protected water transportation is of tremendous value for stability in our Coast Industry.

Ownership and Tenure

And now we come to a most important factor in the forestry situation in British Columbia, the question of ownership and occupancy of productive forest lands. British Columbia, along with most other countries during the pioneer stage, threw open its forest lands for settlement by private enterprise. The object, of course, was to create employment, convert the virgin forests into payrolls and revenue, and induce capital to build up industries and open up the country. This is the history of the forests of Scandinavia and the whole of North America. This period terminated about 1900 when the federal government purchased the original 15 million acres of temporary allotments, about 3½ million remain under timber and pulp licenses and leases. The Province, therefore, owns 93% of the productive forest lands, subject to temporary cutting rights on about 5%, all of which revert to the Crown when cut-over.

The situation in the Coast Region is somewhat different in that privately owned timber lands represent 19% of the productive forest lands, in including Indian Reserves, small holdings and the million-acre Esquimalt and Nanaimo Railway lands grant. Of the 95% Crown-owned balance, 30% of the area is temporarily alienated under Timber Sales, Timber and Pulp Licenses and Leases. This situation of ownership of the productive forest lands is in direct contrast to Scandinavia where 75% of the productive forest lands are in private ownership. Some 270,000 smallholders own 50% of these lands and estates 25%. The government owns and administers only 25%. In the United States, also, over 75% of the productive forest lands are owned privately. 4½ million owners hold small tracts averaging 82 acres. Less than 50 million acres out of 461 million are in ownerships of more than 50,000 acres.

According to many advocates of government ownership, British Columbia is to be congratulated on not having dissipated its forest resources by disposing of them to speculators, homesteaders, lumber men and others. I am of the opinion, the wisdom of this policy is open to serious question and experience of older countries does not support any such conflicting assumptions for the future welfare of British Columbia’s forests.

The best forest practices in all Forest protection Tax they may be subject to a Severence Tax when the crop is harvested. The Management License system is at best a compromise, but, I believe, a recognition of the fact that the government cannot hope to manage all the forests in the possession in the best public interest. This legislation is admittedly the most advanced forest legislation on the statutes of any of the Provinces of Canada, but it personally believe its limitations are serious in that too much discretion is retained by successive government officials and the terms are too much one-sided and too cumbersome to induce large scale private participation to keep productive anything like a satisfactory proportion of the huge areas of vacant Crown lands available. To date some eight Management Licenses, covering about two million acres, have been issued. The alternative to the imposition of a 1½% Severence Tax is the payment of full stumpage tax at harvest. No such conception is applied to farm crops here, or elsewhere. Why do Canadian Provincial and Federal government view productive forest lands any different from productive farm lands in their tax treatment and land tenure treatment? Agricultural lands are invariably provided, at public expense, with permanent main access roads and other facilities by way of services and subsidies to enable and encourage the land to be kept productive. You cannot legislate good forest practice in any country. That has been the experience in Scandinavia. As a result of trial and error of 100 years or more, the essence of successful forestry in Scandinavia has been co-operation between government and private enterprise. Administration in Scandinavia is through regional forest boards and not a Chief Forester or a Deputy Minister. Private industry has representation on these Boards. Private ownership is not considered a bad thing and private enterprise is eligible for substantial subsidies for silviculture and other management costs. All cost of forest management are written off as expenses before tax. Taxation in other words is geared to a forest economy and the profit motive is recognized in principle in all regulations. In regard to the recent Farmers’ Woodlot legislation, I would like to Continued on page 24

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to quote an eminent British au-
thority, H. R. Blandford, O.B.E.,
Editor of the "Empire Forestry Review," on Farm Woodlot Li-
censes under the British Colum-
bia Forest Act:

"The regulations seem to be
well designed to assist the farmer
in managing his woodlot, but one
difficulty seems to be the estab-
lishment, in perpetuity, of a large
number of small woodlots in
which the Forest Service will
have not only to control the man-
agement but to collect small sums
for stumpage and royalty. Surely
it would have been better to have
allowed the outright sale of
the small areas of Crown Lands,
to be paid for by instalments of
the purchase price from annual
or periodic pollings. The agreement
to manage the woodlot on the cor-
correct lines, with confiscation
on failure to do so, should be suf-
cient to ensure the preservation of
the forest. Surely it is far better
to leave the Government of British
Columbia to try and own all their
crop lands, the management of
which seems to be far beyond
their capability? The great suc-
cess of "tree farms" in the U.S.A.
should prove the advantages of
allowing the private owner more
scope."

If British Columbia is to build
a forest population, with its
roots in the forest soil, it is my
opinion that provision must be
made for a form of tenure and a
tax system which will encourage
induce forest owners, large
and small, to grow trees and
build up enterprises in forest
properties which they can acquire
and own. Otherwise I think we
can envisage either totally inade-
quate management of the huge
area under government owner-
ship and administration or alter-
natively a huge bureaucratic con-
trol system with an economy of
transient shareholders instead
of prosperous, stable industries.

In growing tree crops the ele-
ment of time is a governing fac-
tor. It takes from 60 years or
more to bring even pung wood
to maturity. Taxation therefore,
has a fundamental impact on the busi-
ness of growing tree crops.

Until this year, timber land was
taxed in British Columbia on the
basis of double the rate on
improved farm land and the crop
added in to the assessed value.
Fortunately, with certain reser-
vations, this was changed by leg-
elation in 1951 whereby a 1% rate
was established on the bare
land, still twice as much as farm
lands. This was undoubtedly a
progressive and constructive step,
which, for the first time, adjusts
forested land tax to a tree growing
economy on private land.

Other forms of taxation, how-
ever, still adversely affect the
business of growing tree crops.
For one thing, the Federal In-
come Tax, contrary to all equity,
requires that certain forestry ex-
penses, i.e. expenses for planting,
silage, culture, management and
improvements, etc., must be capi-
talized. The reason given for this
is that such expenses are not in-
curred directly in the production
of income. That, of course, is ob-
viously wrong because no one
plants trees or cultivates forests
on the immediate area from
which the current logging opera-
tions are producing income. Such
forestry operations are not under-
taken for some years after cutting
and on an area that is not directly
connected with current logging.
A further tax anomaly is in
the matter of depletion allowances.
Most forest operations have to
carry out extensive reseeding of
future timber in order to justify
heavy investment in plant and
equipment. These reserves are
covered over many years and many
operators have standing timber
reserves purchased at low costs
many years ago. When these
stands are cut, the income tax

Forest Fire Protection
No appraisal of the forestry sit-
uation in British Columbia would
be complete without special ref-
ence to forest fire protection.
What profit to ensure natural re-
generation or to spend $30 an acre
in planting, if your crop does not
become an insurable risk? On
Tree Farms in the United States
as much as $120 per acre is in-
vested in plant and equipment
for detection and suppression of
fire, and annual expenditures
range up to 30 cents per acre per
year. In the United States, private
enterprise, the State and the Fed-
eral government all share the
load of this protection, and no
insurance on young growing stock
is yet available to my knowledge,
some of the larger tree farmers in
British Columbia are now starting
to approach the position through
efficient fire control, where it will
be possible to secure insurance for
all age classes within defined areas as
the forest becomes more
prosperous, and the insurance for
years in below the loss ratio of
one-quarter of 1% per annum, which
would justify an economic premium.
In Sweden, fire pro-
tection has now reached the stage
where most of the forests are
covered by insurance and one of
this country is in
scribed in Scandinavia was that most
firms would write off as a
complete loss and partly pay
up insurance policies on
the Fire Insurance of
the Mines and Forests areas.

It was in the fast changing picture of the
Canadian situation that
Canadian Forestry Act
Agreements with
the Federal govern-ment for the various natural re-
sources of Canada, in
which the Federal government has a vital
interest, reveals that Agriculture,
Mining and Fisheries annual ap-
propriations are many times the
appropriations for Forestry and
this a country with surely a
considerable land area of
700,000 square miles of produc-
tive forest lands against 400,000
square miles of productive agri-
cultural lands. It is of very con-
venient that the Federal
legislation was passed for the first
time in Canada creating a Federal
Forest Act. Previously appropri-
ations for research in Forest Pro-
tection, Agrometeorology, Forest
Ecology came under the Mines
and Resources Appropriations and
Forest Insect Control Appropri-
ations came under the
Department of the Interior.
It is also of interest to note that in
1951 the sum of $1,000,000 was
allocated for Protection at the
second year, for the first time, to assist the
Provinces in taking a forest in-
ventory. It is hoped that from
this start appropriations will be
made for fire protection, and other phases
of forest research and administra-
continued from page 23
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Federal Reserve Bank of St. Louis
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The wood for many years has been a large field for investment in the past, sometimes in the low past unfortunate, with not too satisfactory results to the investor. However, there is every evidence that the highly speculative elements have now largely passed out of the picture. Pressure of forced liquidation of large stands of virgin timber on this continent which resulted in cut-throat competition for markets are a thing of the past. Also has gone the generally held conception of inextinguishability. This has given way to the realization that tree crops can be grown at a profit under a new wood economy and an insatiable world demand and a long range shortage of supply. Canada's future in the field of forest products depends largely on the bright and Canadian forest industry and the Royal Canadian Forestry Institute is taking the lead in this challenge by large scale investments in a perpetually renewable resource and also integrated conversion plants incorporating scientific development in wood.

The future, as far as investment in new forest enterprises in British Columbia is concerned, lies largely in the Interior, in the opinion of many. As mentioned earlier, I have confined my remarks to the Coast. Interior Forests, however, are very vast and comparing large areas in the far north of the Province to similar forests in Scandinavia, which industries of the various Provinces and paid to the Federal government in Income Tax, it is also hoped that the Provincial governments will themselves divert more direct forest revenue back into keeping their productive forest lands productive, instead of treating it as profit.

Canadian Forest Industries, particularly pulp and paper, have of course been very large fields for investment in the past. Sometimes in the long past unfortunate, with not too satisfactory results to the investor. However, there is every evidence that the highly speculative elements have now largely passed out of the picture. Pressure of forced liquidation of large stands of virgin timber on this continent which resulted in cut-throat competition for markets are a thing of the past. Also has gone the generally held conception of inextinguishability. This has given way to the realization that tree crops can be grown at a profit under a new wood economy and an insatiable world demand and a long range shortage of supply. Canada's future in the field of forest products depends largely on the bright and Canadian forest industry and the Royal Canadian Forestry Institute is taking the lead in this challenge by large scale investments in a perpetually renewable resource and also integrated conversion plants incorporating scientific development in wood.

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The Inflation Impact on Investment Industry

hence increasing the money supply. Life insurance companies through the agency of the Life Insurance Officers Association, therefore, and only one and only the net amount of their income, to forego the selling of Government and to screen their loans to give preference to those for productive purposes, as not to feed the inflationary fire.

Finally, during the last year the government brought down two budgets: the "baby budget" in September, 1946, and the budget for the current fiscal year in April, 1951. In summary, these budgets limited federal and provincial income taxes from 33% to 46%, resulting in a smaller net controllable tax in all provinces of over 50%.

The general sales tax was increased from 5% to 10%, and luxury taxes of 15% were imposed on a wide range of consumer durable goods, and of 25% upon certain products such as automobiles.

From the above recital it will be concluded that a variety of strong monetary measures have been adopted to curb inflationary pressures. The expectation is not only to be sure of their ultimate success, but as fast as possible, that if they prove unsuccessful, more and stronger remedies will be applied. Clearly, this problem extends beyond our boundaries, and without wise restraint in the United States our best efforts could be seriously jeopardized.

There is satisfaction in considering the extent by which inflation has been limited in Canada through the offsetting influence of the net retirement, by the Government of Canada, of direct and guaranteed bonds. For the nine-month period ended March 31, 1951, such retirement was $56 million, while for the five calendar years 1946 to 1950 it was in the aggregate $940 million. Reflecting the rapid capital expansion of Canadian business, the total net increase in corporate bonds outstanding for the same periods was $896 million, the government restraint thus helped corporate expansion. It the nature of things, there is not the same compulsion on individuals as on debtors to pay off debt, but in the long run, with few exceptions, that homely virtue liquid debt regardless of place or season. To the extent that debt reduction can be extended by governmental economies, the gratitude of the people of Canada will be doubly earned.

It is plain that the struggle for self-preservation and world freedom could be lost if the cause of monetary stability were abandoned and inflation allowed to run wild.

Investment Conditions Altered

Meanwhile, as providers of capital to government and industry, and as dealers in outstanding securities, the members of this association have found their market conditions changing widely in value and their operating conditions drastically altered.

A year ago, Government of Canada three-month Treasury bills sold to yield 1 1/2%, and now yield 4 1/2%; five-year Government yields 2.88% around 2.10%, and 15-year Government yields 3.90%. Because credits are related to one another, these changes have been extended. In general, the net result is that yields have been reduced, while credit limits have been increased.

The Government of Canada has at times re-opened the market for its six-month issues, and has also been supplying dollar credits to the long-term market.

The Canadian Savings Bond Corporation, through its bond and loan department, has been active in the market, and has been able to supply long-term credits at lower rates of interest.

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The primary function of the investment dealer is to convey the savings of the people in Canada into the active capital of government, municipalities and corporations. To do this, he uses the conventional instruments of bonds and stocks. To the extent that most bonds and preferred stocks represent fixed amount of dollars without protection against a declining purchasing power, his main line of merchandise is at stake in the struggle against inflation. Beyond that, he knows that the future of Canada would be impaired and could be destroyed if the rampant inflation is not successfully checked.

During the 12 months just ended, the government was on balance a repayer of debt, and new issues, other than Treasury bills and deposit certificates, were with the exception of Series Five of Canadian Savings Bonds made for refunding purposes. In June, 1950, $395 million 2% Dec. 15, 1954, and $350 million 3% June 15, 1949, were issued, to retire an equivalent aggregate amount of 3% 1951 and 3% 1955 called for prior redemption, and in November, $300 million 1 1/2% Nov. 1, 1952, and $400 million 2 1/2% Nov. 1, 1949, were issued, to retire a bond of a slightly larger issue of 3 1/4% Nov. 1, 1950.

Canadian Savings Bond Organization, following the pattern of the unique National War Finance Committee which so successfully mobilized public savings during World War II, draws heavily on members of the Investment Dealers' Association for personnel. Individual sales in the 1950 issue, amounting to $1,904 million, produced an aggregate of $394 million. The wisdom of maintaining the continuity of this valuable instrument of thrift seems doubly evident, in view of present conditions. Pro vincial borrowing for the period has been relatively light and net issuance would appear to be the lowest for the past several years. The most significant trend in both provincial and municipal borrowing has been the revival of issues placed in the United States, payable as to principal and interest in United States dollars, recent such borrowers being Quebec, Ontario, Manitoba, Saskatchewan, Toronto and Edmonton. Corporation bonds issued for the nine months ended March 31, last, exceeded retirements by nearly $200 million, and the combined effect of the limitation of bank credit and the continuing capital expansion of Canadian business has brought about a spate of corporate issues in the last quarter. In view of the drastically changed credit background, rates of 4% and 4 1/4% have succeeded 3% and 3 1/2%, but on these altered terms the machinery provided by the investment dealer has successfully found capital for productive enterprises when it would not otherwise have been available.

Educational Activities

I would like to say a word on a phase of the association's activities from which we take great satisfaction. Five years ago, we decided to explore the fields of educational classes for young men in or entering our business and public relations. Under Mr. P. W. Clark, as Executive Assistant to the President, and later Mr. H. L. Czasnik, as Director of Education, we have made strides in both directions. Elementary and advanced training courses, written by specialists in our own ranks, have been taken by 600 and 400 students, respectively, and there is now an aggregate enrollment of 178. Furthermore, in the last two years, representative men attached to our: speakers' panel have made over 100 speeches to service clubs and similar organizations throughout the country. We have organized and developed nine public lecture courses on investment throughout Canada in the past year, usually in cooperation with educational authorities, reaching directly thereby an estimated 1,000 Canadi ans in different walks of life.

We are working with six universities on various projects, ranging from the preparation of a textbook on corporate finance to the development of an undergraduate course on investments. I mention these accomplishments and objectives only to illustrate the action we are taking to ensure the good performance of our industry, and to contribute what we can to the proper understanding by the public of our segment of the economic system under which we are proud to operate, and which we must strive to protect.
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