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The Inflation Impact on Investment Industry

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—as it looks to an investment dealer, and how it affects our merchandise and our industry.



Peter Kilburn

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.

index was 171.1 as against 100.5 in 1939, and 95.4 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 accumulation, 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 "preparedness" 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 Nations' balance sheet.

Here was a financial problem of major consequence. On an economy 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 ef-

fort 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 cleverly 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 estimates are \$363 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.

In June, 1950, the Dominion Bureau of Statistics cost of living

*Address of the retiring President at the 35th Annual Convention of the Investment Dealers' Association of Canada, Jasper Park Lodge, Alberta, June 13, 1951.

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 discourage 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, instalment 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, municipi-

Effective Oct. 17, the Bank of Canada's rediscount rate was increased from 1½% to 2%, a traditional warning signal, and the long-term bond market started its decline from 2.70% to 3% at the year-end, and now almost 3¼%. 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

palities 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 Canadians will applaud the government's bold and constructive action.

Position of Life Insurance Companies

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 institutions, 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 selling Governments to buy corporate bonds and mortgages, which process was still going. However, inasmuch as neither the banking system nor the public was an active buyer of long-term Governments 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

Continued on page 26

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

By ARTHUR H. DEAN*

Sullivan & Cromwell, Attorneys, New York City

It is not my purpose today to outline in detail the history of the Securities Act of 1933 and the difficulties which were encountered in its early administration. It is rather my intent to tell you briefly how it works today and how it affects the rights of Canadian issuers or their underwriters to sell securities in the United States.

As you are aware, securities issued by Canadian corporations, having par values expressed in Canadian dollars, or in the case of indebtedness, payable in Canadian or American dollars, may be listed on the stock exchanges in the United States, and may be registered under the Securities Exchange Act of 1934 in exactly the same manner as the securities of American corporations. This is not so in the case of equity securities of issuers incorporated in other countries. If they want to have their shares listed on the New York Stock Exchange, at least, they must set up a complicated depository arrangement with an American banking institution under which so-called "American shares" are issued against the deposit of the foreign shares. The

*Part of an address by Mr. Dean before the 35th Annual Convention of the Investment Dealers' Association of Canada, Jasper Park Lodge, Alberta, Canada, June 13, 1951.

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.

"American shares" may then be listed on an American stock exchange. The shares of foreign corporations, on the other hand, on original issue or "control" shares can be registered under the Securities Act of 1933 for sale in the United States, but such shares, if interest or dividends are payable in francs or pesos, unlike your good Canadian dollars, aren't, presently at least, very attractive to United States investors.

The registration procedure under the Securities Act of 1933 for new issues of securities or "control" securities to be publicly offered, in the case of both American private issuers and Canadian private issuers, requires the filing of a prescribed form of registration

statement and form of prospectus and financial statements with the SEC.

There is no prescribed form for Canadian governmental or municipal issues or the issues of other foreign governments. It is quite a task for counsel and underwriters to work out a form giving appropriate information in these cases for your government, its provinces and municipalities, but over the years these have been worked out and the SEC has accepted them.

However, the normal registration statement form under the 1933 Act describes the issuer's history and organization, its business, property and assets, capital structure, patents and management, purpose of issue and use of proceeds, gives information as to the holdings of its outstanding securities by the management group and other large stockholders, as to the remuneration of directors and officers, and as to the underwriting arrangements and the commissions or other fees being paid to underwriters in connection with the proposed offering, including proceeds to the issuer, proposed public offering price, concessions to dealers, whether the issuer or the underwriter has the right to stabilize, or the right to cancel selling concessions on securities repurchased, the closing date, the life of the syndicate, etc.

In addition, it contains detailed financial statements of the issuer on forms prescribed by, and made up pursuant to, accounting prin-

ciples and depreciation policies satisfactory to the Commission. These normally include a balance sheet as of a date within 90 days (or within six months if the issuer has securities listed on an exchange and has assets of more than \$5,000,000), prepared and certified by independent public or chartered accountants. Or if such statement is not certified, there must also be included a certified balance sheet as of a date within one year. Profit and loss statements for each of the three preceding fiscal years, likewise certified, and for any period subsequent thereto down to the most recent balance sheet, plus an analysis of capital and earned surplus, and schedules showing in detail the investments in other securities, a breakdown of property accounts, reserves, depreciation rate, etc., must also be included.

The preparation involves very careful, thoughtful and detailed work by the issuer, its staff, counsel and independent public accountants and by the underwriters and their staff and counsel. For a statement of some of the problems involved I refer you to an article of mine in the January and April, 1937, issues of the Duke University Law School's "Law and Contemporary Problems," entitled "The Lawyer's Problems in the Registration of Securities," and to my pamphlet, "An Inquiry into the Nature of Business Income under Present Price Levels," published by the Study Group on Business Income.

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 to 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 contracts, any trust indentures, specimen stock certificates and opinions of counsel as to the legal existences of the issuer and the legality of the securities being offered, and may be in condensed or summarized form.

After the registration statement is filed with the Commission the issuer or underwriters are not, as yet, free to sell. The statement is examined carefully by a staff of experts. Inasmuch as the Commission administers so many Acts, it has become organized somewhat along the lines of these Acts. There is a Public Utility Division for matters arising under the Public Utility Holding Company Act; a Trading and Exchange Division for handling the stock exchanges and transactions thereon and in the over-the-counter market and dealing with the NASD and stabilization problems, and a Corporation Finance Division for handling registrations under the Securities Act and Securities Exchange Act and certain other problems (e.g., proxy solicitation

Continued on page 13

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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 alleviations 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.



L. R. Andrews

My subject is a very big one and one about which there is all too little exact information available. Therefore the information which I may be able to give you must of necessity be based largely on a somewhat lengthy professional experience in B. C. (since 1912), and on my personal analysis of available official information, rather than on the type of exact quantitative, qualitative, or value appraisals which members of your organization are accustomed to deal with in underwriting or presenting a prospectus to investors.

I should therefore preface my remarks with the reservation which I believe is used frequently in your industry that, "The information contained herein is based on statements and statistics which I believe to be reliable." I might add too, "that I have not yet filed this statement with officials at Victoria as some of the statements contained herein may be somewhat controversial."

At best, in the time available, we can take only a quick look at a very big subject, British Columbia's wood resources. In order to get as simple an over-all picture as possible, I will quote as few statistics as possible.

British Columbia's Forest Products

The total value of all forest products produced in British Columbia in 1950 was estimated at around \$350,000,000 of which sawn lumber represents 60% and pulp and paper 20%.

In view of the limited time at my disposal I intend to confine myself to the Coast Region largely, with just a passing reference

*An address by Mr. Andrews at the 35th Annual Convention of the Investment Dealers' Association of Canada, Jasper Park Lodge, Alberta, Canada, June 14, 1951.

to the Interior Forests. A breakdown of the usage of the 3½ billion feet of raw logs produced on the Coast is something on the following scale:

	Feet B. M.
Sawn Lumber.....	about 2,500,000,000
Pulp and paper.....	475,000,000
Shingles.....	300,000,000
Plywood.....	135,000,000
The balance, 90 million feet, in miscellaneous forest products.	

The Sawn Lumber production on the Coast of British Columbia represents nearly 40% of the total for Canada and the Pulp & Paper production at around one million tons, represents over 10% for the whole of Canada. Of the Coast Sawn Lumber production, about 75% was exported out of Canada in 1950 and 67% of the pulp and paper found markets in foreign countries. 90% of the shingles went to the United States while practically all of the plywood was marketed in Canada in 1950.

In regard to resources there is no reliable up-to-date inventory of British Columbia's wood resources. The only existing inventory is the so-called Mulholland Report, known officially as the Forest Resources of British Columbia, 1937, published by the Minister of Lands. This inventory shows the total area of productive forest lands in British Columbia as 75 million acres (65 million in the Interior and 10 million on the Coast). This is about one-third of the total land area of the Province. For comparison the total area of productive agricultural land is given at 4,700,000 acres, or about 2% of the land area, of which half a million acres only, are located in the Coast Region.

The total stand of merchantable timber is given at roughly 255 billion feet B. M., for 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 4½ billion feet B. M. per annum. 3½ 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 accumulated 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 buying or selling 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 through cutting. Growth is more or less static as decadence and damage by fire, insects, and fungus largely cancel out increment. Huge areas of regenerated, cut over lands support vigorous young growing stock on which annual increment is building up future supplies and present a continually changing picture.

In Scandinavian countries which were visited last year by a group of government and private foresters from British Columbia, including myself, and which country, by the way, has a somewhat

comparable area of productive forest land to British Columbia, forest inventories are taken every 10 years and represent complete statistical appraisal of all growing stock, all site classes, current increment less current drain, down to the last detail. Between these 10-year inventories, running inventories keep the official figures up to date by deducting annual drain and adding annual increment.

No such reliable information is available in British Columbia in spite of the fact that to the extent personnel and appropriations are available, efforts are being made to check cruise the 1937 inventory and bring it up to date. The 1949 Forest Service Report indicates that in that year about 4,000,000 acres were inventoried and that the objective for 1950-51 was at least 5,000,000 acres per year. At this rate of course, it would take 15 years to check cruise the 75,000,000 acres of productive forest lands, at the end of which time the then existing inventory would again be out of date.

Competent, experienced technical foresters are in very short supply and the Forest Service has lost to industry many of their top-level experienced men in the last few years. The government is not attracting sufficient graduate foresters from the University of British Columbia for their needs. An analysis of the employment of graduate foresters from the University of B. C. was made recently. This shows that 48% of all the graduates since 1923 have gone into the forest

industries. Of a total of 146 in private employ, 41 are employed on straight forestry work by private enterprise; the balance are in logging, manufacturing and merchandising services. 41% only have gone into government service. The reason for this of course is that the Civil Service restrictions and government salaries are not attracting the young graduates. They can make more money in industry, advance much quicker and appear to consider they have a wider scope for their training and abilities.

The recent check inventories, as published in Forest Branch Reports, indicate in many instances a very wide discrepancy between 1937 and 1949 inventories. Since 1937, there has been substantial drain through normal cutting operations, probably exceeding one-half million acres on the Coast. This must be deducted from the 1937 inventory of mature timber. At the same time many cut-over areas on the Coast reported as not satisfactorily restocked in 1937, have within the past 10 years of very favorable fire weather, coupled with a number of prolific seed years, become satisfactorily restocked. I would like to quote from the official reports on just two areas to illustrate. These two areas are not picked out as horrible examples, but I believe indicate the changes which have taken place during the interval, both in respect to mature timber and second growth.

In regard to Virgin Stands the report of the Forest Service, 1949 shows for the Kyuquot region (1¼ million acres) the following:

"The estimates and forest cover maps for the Kyuquot region have been completed and are available upon request. This heavily timbered region is now estimated to carry more than 19 billion board-feet of merchantable timber, which compares with the 1937 inventory of 8½ billion board-feet. The reason for the large increase is that the early estimate was not based on a detailed survey, but

Continued on page 22



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Alberta: Its Booming Oil Industry

By N. E. TANNER*

Minister, Department of Mines and Minerals, Alberta, Canada



Hon. N. E. Tanner

We, as Albertans, know that we live in a Province of opportunity, and we are always proud to tell our friends about it. I am convinced that only to the extent that people are proud of their town, province or country, and are prepared to get behind it, will it progress and be a good place in which to live, and again I say that we are proud to be Albertans. As

you all know, Alberta is less than fifty years old. Though we as a Province are still in our infancy it is our determination to grow up and to take our proper place among our sister provinces, and to contribute all we can in making this Canada of ours even a greater country.

As it will not be possible in the limited time at my disposal to deal with all of the natural resources, and, further, owing to the fact that the oil development has been in the limelight for the past three or four years, and, further, on the suggestion of some of your officers, I shall talk about the oil and gas development for a few minutes today. Before doing so, however, I should like to give you a bird's-eye view of the Province.

Though our Province is referred to, and is one of the Prairie Provinces, over 40% of it is covered with forest growth. An aerial survey has been undertaken of the whole province at a cost of over a million dollars, and at present we are co-operating with the Dominion Government in an endeavour to get a complete inventory of our timber reserves; in the

*An address by Minister Tanner at the 35th Annual Convention of the Investment Dealers' Association of Canada, Jasper Park Lodge, Alberta, Canada, June 13, 1951.

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.

meantime 88 million acres of forest covered land have been reserved for timber and as a protection to the watersheds. Settlement is not permitted in these acres, but rather is encouraged in areas where the soil is suitable for agricultural purposes, and where social services, such as roads, schools, hospitals, etc., can be made available as economically as possible.

In Alberta we have a population of approximately 900,000 out of which we have some 90,000 farm families, which produced and sold over \$450,000,000 of farm produce. Here we have access to some of the finest fishing and hunting of big game, upland and migratory birds, as well as having available some of the finest parks in the world, where a vacation and recreation can be enjoyed. Today we have hard surfaced highways extending from boundary line north to far beyond Edmonton, and from centres of population they extend in every direction. Our schools and University offer the very best in education to all who wish to attend.

For years Alberta has produced a good share of all of the coal produced in Canada, and has marketed it from the west coast to central Ontario. The coal industry, however, is having its problems today, due to the very high freight rate and the competition of oil and gas. Every effort is being put forth by the industry and the government here to try to find a solution of this problem.

I must not take time to talk about the cattle and other industries in the Province, but think I should mention the debt situation. As most of you know, Alberta is the one Province in Canada where the Provincial debt has been consistently reduced, and the Province which enjoys the lowest rate of interest on its provincial debt of all the Provinces of Canada. Since 1936 the debt has been reduced from \$167,000,000 to \$110,000,000, reducing the per capita debt from \$216.00 to \$127.00. This debt reduction program was underway before the Leduc field was brought into production, and has been somewhat accelerated since. The present program provides for the retirement of the debt in twenty-three years.

Alberta's Oil Development

During World War II the importance of oil to the economy of a country, and particularly in case of war, was brought to our attention more forcefully than at any other time. At that time Canada was dependent on other countries for more than 90% of her oil requirements. This was anything but a healthy state for a country the size and importance of Canada to be in. The government of Alberta realized that, inasmuch as Alberta was the only Province in which oil had been found in any quantity, it had a great responsibility. To improve this condition we modified our regulations so as to encourage development. Large tracts of land were made available

to oil companies at very little cost for exploration purposes, with the understanding that the company holding the reservation would have the right to lease the oil rights if oil were found.

On June 1, 1941, it was decided to set the royalty on a sliding scale for a period of ten years, ranging from 5% to 15%, so as to encourage the drilling for and production of oil. The result was that the search was undertaken and continued by the oil companies then in Alberta, as well as by others which came into the Province. Though some small fields were brought in, it was not until the bringing in of the Leduc field in February, 1947, that any major production was discovered. Shortly after this discovery the Redwater and Woodbend fields were brought in, and today we have some 17 fields, together with 13 other areas in which oil has been found.

During the year 1950 we had over 1,000 wells drilled, 753 of which were oil producers, which means that an average of more than two oil producing wells were brought in every day during the year; also, 40 gas wells were brought into production, which makes a total to Dec. 31, 1950, of 3,926 wells being drilled, 2,205 of which were oil wells, 401 gas wells and 1,320 dry holes. Development is going ahead at a very satisfactory rate; some 153 geophysical crews are in the field as of March 1, 1951, and also 140 drilling rigs.

The production for 1950 reached 27½ million barrels, the value of the production being approximately \$82 million. At present there are approximately 560 reservations, covering over 40 million acres, on which oil companies are exploring for oil and gas. Besides this, we have over 10,600 leases 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 may say that in 1947 there were \$36 million spent, and in 1948, \$50 million; 1949, \$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, refineries 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 allowable 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 Superior, a distance of 1,150 miles, at a cost of \$90 million, and which has a carrying capacity of some 75 to 90 thousand barrels daily. The oil flowing through this pipe line goes by tanker to Sarnia, where it is able to compete with other oil available to that market; in fact, some oil is being exported to Superior, Wisconsin, and is able to compete there.

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 as much or more oil from the United States as we are exporting to the United States, our oil should be free of duty, or, you might say, on an exchange basis, and it is our intention to do all possible to see 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

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Canadian Engineering Achievements

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

In my talk today, I will consider numerous aspects of Canada's engineering achievements, the first of which will be Research.



J. Calvin Brown

Canada has an organization known as the National Research Council, and two of their noted men, Clarence D. Howe, and General Andrew G. L. McNaughton, are Honorary Members of ASME, and have served as Presidents

of the National Research Council of Canada. The present President, Mr. C. J. MacKensie, will deliver the Roy V. 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 bombard various materials to produce the radioactive isotopes that are finding increased uses in industry.

Fundamental research in radar and radiophysics and applications of radar techniques to peacetime problems, as well as radar projects for the Canadian Army comprise 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 research, develop-

*Part of an address by Mr. Brown before the Convention of the American Association of Mechanical Engineers, Toronto, Canada, June 11, 1951.

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.

ment, and testing facilities, and the laboratories also provide research for the Royal Canadian Air Force. Provision is made for work in almost all fields of aeronautics, including aerodynamics, gas dynamics, power plants, structures, and fuels and lubricants.

Other work includes design of wind tunnels, jet engine studies, icing of turbines, transonic flights and the like.

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 transport, a jet fighter, and a turbojet engine, Canada can rightfully take her place with the world leaders in jet development. The Jetliner, produced by Avro Canada, as are the CF-100 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 conventional air transports now in service. The Jetliner 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 postwar 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 radar 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 power and performance, the CF-100 can land on and take off from very short runways. Its rate of climb is outstandingly good for interception purposes. Many of the aircraft's features are of original Canadian design for 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 in Avro's own shops. This has meant techniques and operations of which Canadians were considered incapable a few years ago.

However, Canada's aviation achievements are not confined to the postwar era. During World War II, it should be remembered, the Mosquito airplane, produced by deHavilland Aircraft of Canada, gave an excellent account of itself.

And while 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 re-

search. Today, every propeller-type aircraft aloft uses his invention—the variable-pitch propeller, 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 the 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 wartime year of 1943 when the huge Shippaw hydroelectric plant was completed on the Saguenay River in Quebec. H. G. Acres, a former Vice-President of EIC, will be remembered for his engineering work on this project. A large proportion of this new capacity is located in Ontario and represents the culmination of the great postwar construction program undertaken by the Hydroelectric Power Commission of Ontario. Other new 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 8% greater than in 1949, 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 installation of 177,323 h.p. at the end of the year 1900 being insignificant 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 88% 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

The pulp-and-paper industry, which operated at above rated capacity during 1950, leads all other manufacturing industries in Canada in net value of production and it is at present being further expanded. The industry has long been guided by Canadian engineers acting as presidents and managers of plants. It ranks as one of the world's great industrial enterprises. Canada's total mill capacity for the production of newsprint paper is more than five million 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 newsprint is exported, so that the industry

Continued on page 12

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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 north-western area, 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 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 railroads!

As I mentioned, one of the most significant features of our recent oil development was that the oil was discovered in what you might call the driest spot of a very oil-thirsty country. In 1947, the year in which the discovery at Leduc revolutionized the Canadian outlook, Canada was consuming an average of 255,000 barrels of petroleum daily. But the principal

*Part of an address by Dr. Hopkins at the Semi-Annual Meeting of the American Society of Mechanical Engineers, Toronto Railway Group, Toronto, Canada, June 14, 1951.

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 provided by Canadian wells. Domestic production, at 7% of requirements, was a little below the pre-Leduc average, which usually ran at 10% of requirements.

Moreover, demand was increasing rapidly. The 255,000 barrels required daily in 1947 has since risen to 350,000 barrels, 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 agricultural prairies a 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 parts of Canada. This work produced some discoveries, a great deal of geological information and enough production of oil and gas to confirm the oil seekers in their belief that Canada's sed-

imentary areas would ultimately yield large reserves of crude oil.

But it was not until Imperial Oil completed its 134th wildcat well at Leduc in February, 1947, that the expected large reserves became a reality. Leduc and the adjoining Woodbend pool are estimated to contain some 200 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 to be desired, initiated a tremendous wave of exploration. In 1947, the year of the Leduc discovery, expenditures on exploration and development in western Canada had been in the neighborhood of \$5 million. In 1948, the figure rose to \$50 million; to \$100 million in 1949; \$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 geophysical survey parties from 15 in 1946 to 123 such parties in 1950. Wildcat or exploratory wells increased from 75 in 1947 to 261 in 1950. Last year alone, 1,017 wells were completed involving over 2.9 million feet of drilling—or some 530 miles.

The wave of exploration since Leduc has resulted in the discovery of a number of new fields and the addition of more than a billion barrels of oil to Canada's petroleum reserves. Leduc had not only broken the long sequence of disappointing exploration efforts, but by disclosing oil in Devonian formations it had given the oil prospector a new horizon to shoot for. Before that time, Canada's discoveries had been found mainly in the Rundle limestones of Turner Valley and in the lower Cretaceous sands as at Wainwright, Vermilion and Lloydminster. The

Continued on page 21

Quebec's Industry and Labor Progress

The Province of Quebec, originally a trading and farming area, has now developed into a vast industrial and shipping section of one of 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 located in la Province de Quebec in the post-war period, 1945-50.

There are now in Quebec about 12,000 manufacturing enterprises, with a labor force of 1,400,000 people and producing annually goods worth \$4,000,000,000. This progress in the development of the Province's industrial potential has, in large measure, contributed to the prosperity of Canada, today one of 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 for furs. Later, the Province became, above all, a land of farmers. But in succeeding generations, great industrial evolution took place, based on Quebec's great store of hydro-electric power, forest wealth, base and precious metals, fine water transport, and the skill and industry of French-Canadian workers.

In all this development, Quebec was aided by its peerless geographic position, which makes it one of the great transportation hubs of the western world. Montreal, located 800 miles from the sea and harboring in its metropolitan area nearly 2,000,000 people, is one of the leading transshipping ports of the universe. Here, cargoes from the Great Lakes and from the seven seas are trans-shipped. Here, more grain is handled annually than in any other port. Montreal and the other St. Lawrence ports—Sorel, Trois Rivieres, Quebec—and the Saguenay ports of Chicoutimi and Port Alfred are mere overnight runs from the great railroad networks of the United States; and, of course, are in direct communication with the rest of Canada. With the advent of air transport, Montreal has become one of the outstanding air centers. Canadian, British, American, French and Dutch airlines use it for services which span the globe. Finally, all points in the Province are directly linked by good highways with the transcontinental systems 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 and Ottawa valleys, the oldest-settled portions of Quebec. Here are located the leading elements of heavy industry—railway shops, locomotive works, shipbuilding yards, iron foundries, steel works, etc.

Nonetheless Quebec industry by no means fringes on main waterways. Gold and copper in Abitibi, industrial growth in the Lake St. John "empire" and Saguenay valley and, more recently, the discovery of huge beds of iron and titanium along the north shore of the lower St. Lawrence have broadened Quebec's industrial field. With this spread, of course, has gone still further dissemination 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. Hyacinthe, Shawinigan Falls, Sorel, Drummondville and Hull. But a feature of the last 50 years has been decentralization of industry. Government stimulation of hydro-electric production and construction of first-class highways have led industry and manufacturing to locate in every corner of the Province.

Home of Wood Pulp and Paper Industry

In this impressive development Quebec has long been known as the home of wood pulp and newsprint paper; it is the leading producer in Canada (shoes, manufactured tobacco (some produced inside the Province); ready-made clothing; cotton textiles; rayon; and many specially processed woods. But the range of Quebec production is infinite. It runs from pins to Diesel locomotives; from perfumes to ships; from cod liver oil to turbines. That range has been lengthened enormously since the end of the war in 1945 through investment in Quebec by businessmen of Britain, the United States, the Continent of Europe, and South America. With this investment have come specialists of many varieties to add their skills to the industrial economy of Quebec; producing such things as precision instruments and distinctive potteries. Location by these thousands of investors in the Province has been due to the unrivalled supply of cheap hydro power; to the unending supply of good labor, both male and female; to the abundance of Quebec's raw materials; and to the facility for transport of goods to all parts of the world.

Hydro power, particularly, has been all-important in late years. At no time has Quebec been obliged to ration consumers, industrial or domestic; for total production today reaches over 6,000,000 horsepower, while undeveloped streams and rapids hold in reserve more than 10,000,000 horsepower strategically located, so that there is hydro galore for the users of the immediate as well as of the far future. Shipsaw, on the Saguenay River, produces in all more than 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. Another plant on the Beauharnois Canal, near Montreal, already produces millions of horsepower and is constantly being enlarged to raise output. And the St. Maurice, running into the St. Lawrence at Trois Rivieres, is the most intensely developed river in the world; six times over the same water runs through turbines to feed hydro power to Quebec. Finally the Province enjoys a unique system of interconnection between its hydro companies which can pool production and thus meet peak demands anywhere.

To the newspapers of the world, Quebec supplies a high proportion of newsprint. Since all Canada produces more than five times as much paper as any other country and Quebec manufactures more than 50% of the volume produced by Canada, the size of this industry in la Province can be gauged. Quebec has 55 major pulp and paper plants. Concentration of the Trois Rivieres and Shawinigan Falls districts, and mills elsewhere

Continued on page 20



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Mutual Funds—Their Growth in Canada

By ALAN CHIPPINDALE

Vice-President and General Manager, Calvin Bullock, Ltd.

In Canada, as in the United States, the growth of mutual investment funds in recent years has been one of the outstanding



Alan Chippindale

developments in the realm of finance. This is causing more and more investors to examine this form of investment and to ask what the mutual fund can do for them. This is the paramount question and one which every thoughtful

investor should ask.

To begin with, the mutual fund cannot provide everything to all investors for all purposes at all times. But it can definitely provide something desirable to nearly all investors most of the time.

It can provide a sound and convenient program for that portion of an investor's capital available for longer term employment on an investment basis primarily in the field of common stocks, where potential capital growth and income rewards are attractive, but where the risks in individual issues are high.

A mutual fund is not a "get rich quick" scheme. There is no royal road to wealth. It is essentially a conservative medium of investment providing for broad diversification under constant experienced supervision, with exceptionally high marketability.

Every investor should have some high grade bonds, and cash in the bank for emergency purposes. The amount will vary according to the circumstances of each investor. Many investors will also want, and some should have, individual stocks. In such circumstances, the mutual fund fits nicely in between as a conservative backlog program. There are many investors, of course, who are in no position to assume the risks inherent in one or a few individual stocks selected at random, and would be well advised to select a good mutual fund for

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.

all of that portion of their savings which they wish to place in stocks.

A properly organized and administered mutual fund combines higher degrees of security, income, marketability, and potential appreciation—those four important investment considerations combined—than probably any other type of security.

History

Investment companies fall under three broad classifications: "Closed-end"; "mutual" or "open-end"; and "unit" or "fixed trusts." The latter type were originated in the United States in the middle Twenties, gained favour for a brief period there from 1930 to 1932 (as they did in the United Kingdom at about the same time), but today are little heard of and form by far the smallest group. They had a marketability advantage over closed-end companies but experience found the rigidity of their investment holdings less satisfactory under constantly changing investment conditions.

The birthplace of the first closed-end investment company resembling the modern version was Scotland in 1873. In the next few years a number of additional Scottish and English investment companies were organized. The popularity of the investment trust idea spread; but the field became over-crowded with organizations which employed superficial methods of investing and the eventual day of reckoning came in the "Baring Panic" of 1890. The stronger and more conservative companies came through; others bore names unknown today. It is estimated that investment company assets in the United King-

dom now total in the neighborhood of £500,000,000.

Three decades ago investment companies were virtually unknown in North America. By the middle Twenties a few had been organized, and in the late Twenties they came in with a rush. Some were formed and operated for purposes far afield from conservative diversified investment. The aftermath of 1929 brought about an early and drastic weeding out process of investment companies in North America similar to that which had occurred in Britain 40 years earlier. This situation brought unpopularity to the field as a whole both in Canada and the United States.

But there has existed in Great Britain for half a century, and there has grown up in North America, over the period of a generation, a group of investment fund managers who are knowledgeable and seasoned, and who possess a high sense of fiduciary responsibility and professional ethics.

Mutual Funds

"Mutual funds" is the term commonly applied to investment companies whose shares are redeemable at the option of the holder at current asset value. With rare exception, they are incorporated companies. The redemption feature of mutual funds is their most distinguishing characteristic compared with closed-end companies. Shares of a closed-end company are not redeemable at the option of the shareholder and consequently, whether listed or unlisted, the market for the shares is apt to be narrow and depends upon finding willing buyers. Nearly all closed-end company shares have sold at substantial discounts

below prevailing asset values, and most still do.

Not only do mutual funds have the exceptional marketability at asset value as provided by the terms of their redemption features, shares of the more popular ones also enjoy an active over-the-counter market because of the widespread interest in them by investors and dealers.

The vast majority of American and Canadian investment companies formed in the Twenties were of the closed-end type. But not more than a handful have been formed since 1929. Fixed trusts grew in popularity for a brief two or three years starting in 1930, but interest soon slackened. Closed-end investment companies have the desirable feature of management flexibility in choosing and changing investment holdings, but their marketability is uncertain. Fixed trusts have better marketability but lack flexibility in making portfolio investment changes to meet changing conditions. Experience with those two types of investment funds resulted in the development of mutual funds which incorporate the desirable management flexibility feature of the one and a greatly improved version of the better marketability feature of the other.

It was about 1932 that investor interest swung importantly to modern mutual investment funds in the United States and they have been earning increased popularity ever since. Of an approximate \$3,500 million of investment company assets in the United States at the end of 1950, over \$2,500 million was in mutual funds who had close to 1 million investor shareholders.

Canadian Mutual Funds

The first mutual fund was formed in Canada and began operations in December, 1932. A second mutual fund was formed in April, 1934, by reorganizing an existing closed-end company and making its shares redeemable. After that three other mutual funds were formed but soon became inactive. In 1938, another existing closed-end company reorganized 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 had assets of approximately \$4,250,000. All three of these funds experienced substantial growth in the past two years. The balance of approximately \$8,000,000 was spread over six new mutual funds formed and offered in Canada in the last two years.

Canada's total mutual fund assets of \$61 million may look small when compared with the U. S. total of \$2,500 million. It should be remembered however, that the ratio 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 place the Canadian figure at approximately \$1,098 million. Although still proportionately lower than the huge U. S. total, it demonstrates the substantial and growing widespread interest in this type of investment fund in Canada also.

Who Owns Mutual Fund Shares?

Just about every conceivable type of investor is found among Canadian mutual fund shareholders. Men, women, children, farmers, lawyers, clergymen, judges, business executives, doctors, housewives, widows, engineers, stenographers, financial men, officers in all the armed services, and many others. Shares are owned also by many types of organizations such as pension funds, churches, libraries, hospitals, and lodges, just to name a few. Other types of holders include commer-

Continued on page 16

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W. C. Pittfield & Co. Ltd.,
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Kippen & Co. Inc., Montreal | MATHER, A. K.
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Continued on page 27



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STEEL is the basic metal of modern civilization—in times of peace as well as war and defense against aggression.

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The critical need for steel, which has been sharpened by the international emergency, places added emphasis on the growing dependence of the steel industry on Canadian supplies of high grade, direct shipping ores.

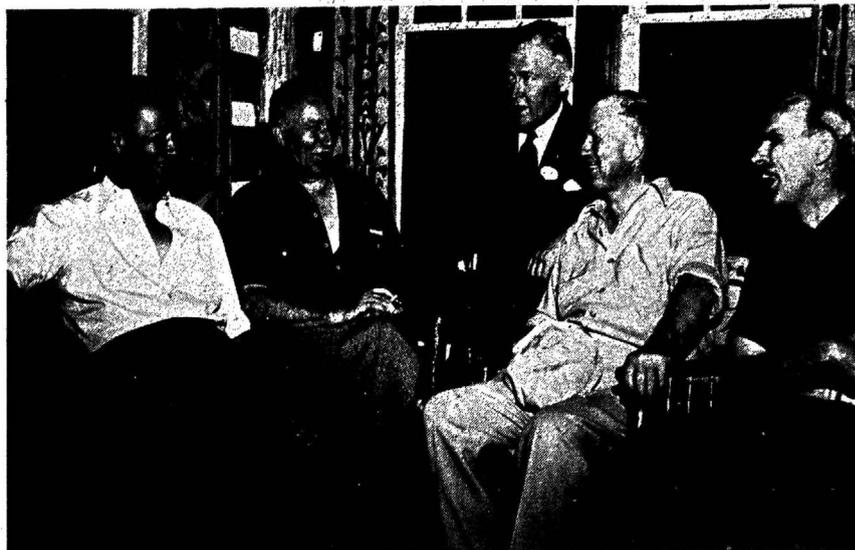
We at Steep Rock are proud of the increasingly important position we occupy in the great iron ore and steel industries of North America.

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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, R. Ewart Stavert, and Vice-President, R. W. Diamond, 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 uranium 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 copper, lead, zinc, aluminum, and titanium, all vital 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 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, commencing with Diesel-electric railcars in 1925. In 1928, the first road Diesel-electric locomotive was placed in service in Canada.

The privately owned Canadian Pacific Railroad 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 sys-

tems 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-aluminum highway bridge across the Saguenay River at Arvida, Quebec, Canada, a project of the Dominion Bridge and Aluminum Company of Canada, has dramatized the present-day trend toward the replacement of iron and steel by the lighter metals.

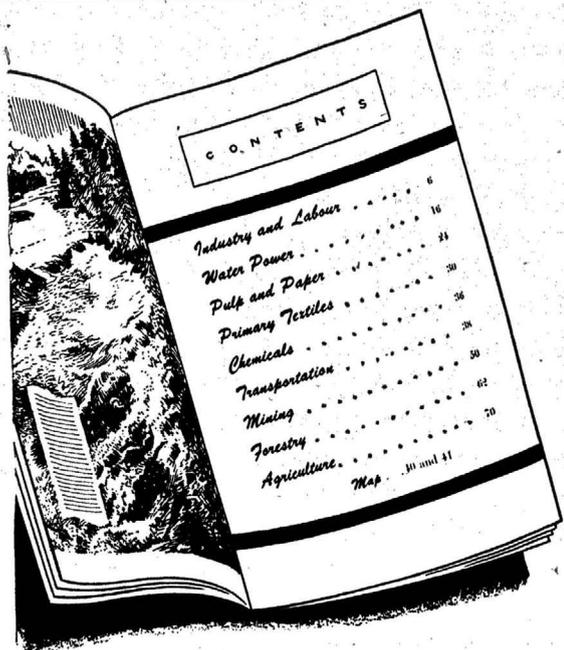
Defense

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 \$194,000,000. 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.

◆
**GIVE
TO CONQUER
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Continued from page 4

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 Bane, 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 associate 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 order to prepare their memorandum of 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 Commission customarily sends the issuer a deficiency letter stating informally the items which the staff, in its opinion, believes should be corrected or expanded in the registration statement and prospectus. These deficiencies are often discussed in person or on the telephone between the issuer's accountants and 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 refusing to permit 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 unless the Commission feels that the issuer has intentionally misstated 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 security by an issuer, 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 the issuer and the public offering price to be included in the registration statement when originally filed. The market may change a great deal in 20 days. The practice is to sign 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 underwriters' spread or commission, the concession, if any, to be allowed dealers, the allowances to 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 prices, the sinking fund prices and requirements and other matters which have a bearing on price or yield in the case of serial maturities.

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 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

Continued on page 14



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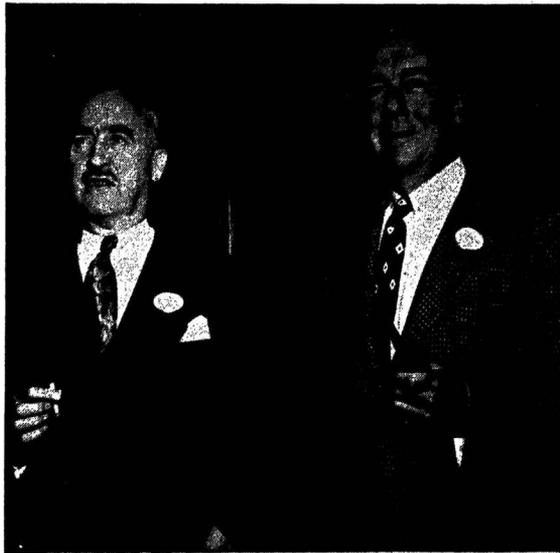
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J. E. Coyne, Bank of Canada, Ottawa; Hon. N. E. Tanner, Minister of Lands & Forests, Edmonton

Continued from page 13

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

issuers 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 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 municipals 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, 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—repeat, 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 sells any number of his 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.

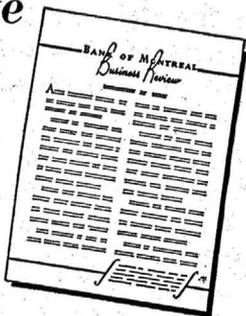
The Securities Act of 1933, in addition to exempting certain securities, provides that it does not apply to sales by certain persons, namely, persons other than the issuer, or an underwriter (defined as discussed above), or a dealer (selling more than one year after the date upon which the security was first offered to the public by the issuer by an underwriter unless the dealer is selling securities constituting part of an unsold allotment to such dealer as a participant in the original distribution by the issuer or by an underwriter).

Also excepted are sales by an issuer not involving a public offering. This is the category in which so-called "private placements" fall.

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 say 25 (regardless of how many you may sell to), it may be a public offering requiring registration; if you offer to less than 28 persons really 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 reoffering, 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 offerees were special types of investors 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-

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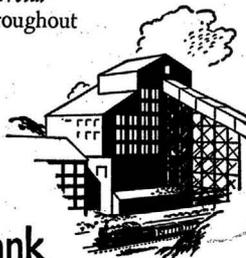
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Alan S. Gordon, Royal Securities Corporation, Ltd., Montreal; Ross Wilson, A. E. Ames & Co., Limited, Vancouver; Bill Spragge, A. E. Ames & Co., Limited, Toronto

consider all the facts involved, especially 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 return letter from the Commission's general counsel to the effect that he does not disagree with the conclusions expressed by the issuer or its counsel, or, in some cases, that while he refuses to express any opinion on the conclusions reached, or in fact disagrees with such conclusions, the Commission nevertheless 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 necessarily bar subsequent action by the SEC or purchasers, I have never known of a case where any such subsequent action was taken by the Commission when the facts were correctly stated and the transaction as outlined was followed. Omissions to state material facts may cause trouble and, in fact, such rulings are valid only to the extent the facts are accurate and complete.

Liabilities Under Securities Act

Next, I should like to mention the liabilities imposed by the Securities Act of 1933. If there is an untrue statement of a material fact in the registration statement, or the omission to state a material fact required to be stated to make the statements therein not misleading, any person acquiring the securities, whether or not he relied on such fact, 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 statement, but if the defendant proves that any of the damages resulted from factors other than the misstatement, he can reduce the damages accordingly. The persons who may thus be sued under the Act for misstatements or omissions include each person who signed the registration statement (the directors and certain officers of the issuer), each director of the issuer, each expert (such as accountants, engineers or appraisers) who has been named in the statement as having prepared or certified a part of it and such part contains the misstatement or omission upon which the action is based, and each underwriter regardless of whether he sold the plaintiff his particular security. The aggregate liability of a particular underwriter for damages under Section 11 is limited to the total price at which the securities underwritten by him were offered to the public, although he may

still be liable in actions brought under Section 12 by someone who purchased from him. This is the prime reason, plus the saving of transfer taxes and the avoidance of undue limitations on capital, for the severalty of American underwriting agreements. The liability of others, except the issuer, contains additional limitations, but in general it may be said that the liabilities imposed are very large and very difficult to protect oneself against except by the exercise of the utmost diligence in the preparation of the registration statement and prospectus.

In addition to the above liabilities, any person who sells a security without delivering a prospectus, or who uses interstate commerce or the mails to transmit a prospectus which fails to comply with the Act, or any person who sells a security by means of a prospectus or oral communication which includes an untrue statement of a material fact or which omits a material fact necessary to make the statements therein not misleading, and who fails to sustain the burden of proving that he did not know and in the exercise of reasonable care could not have known of such untruth or omission, is liable to the person purchasing the security either to refund his money or to compensate him for his damages.

Any of the actions mentioned above must be brought within one year of the discovery of the untruth or omission or after such discovery would have been made by the exercise of reasonable diligence; and in no event can an action be brought more than three years after the security was *bona fide* first offered to the public. In

the case of the liability of any person under Section 12(a) for selling 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 making generally available to its security holders an earnings statement covering a period of at least 12 months beginning after the effective date of the registration statement. Thus, under Section 11 of the Act, persons who sign the registration statement, directors, accountants, engineers and other experts, and underwriters, cannot be held after such an earnings statement has been made available unless the plaintiff can prove that in acquiring the security he relied upon the untrue statement, in the registration statement, or that he relied upon the registration statement without knowing of an omission therein.

The plaintiff can establish such reliance, however, without proving that he read the registration statement. This means, in effect, that instead of the burden being on the defendant to prove that the plaintiff knew of the untruth before defendant can establish a good defense, defendant has a good defense unless plaintiff proves that he relied on the untrue fact or on the registration statement without knowing that an untrue fact had been omitted. To take advantage of this shift in the burden of proof, underwriters require that underwriting agreements provide that the issuer will furnish such an earnings statement to its stockholders not sooner than 15 or 16 months after the effective date of the registration 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 Canadian 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 favorite 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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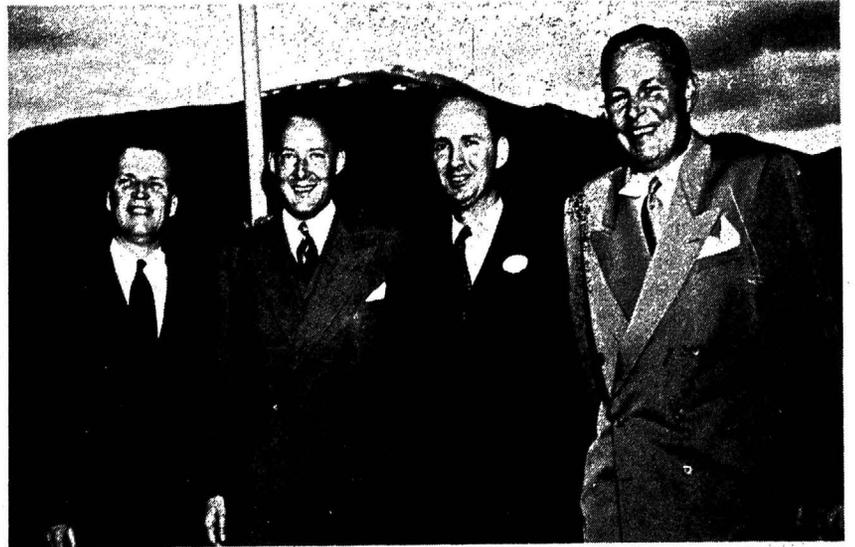
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Continued from page 9

Mutual Funds—Their Growth in Canada

cial and financial corporations and insurance companies. The investments of shareholders range all the way from very modest amounts to a quarter of a million dollars, and more.

Such a diversity of investor interest in mutual funds is, of course, quite normal and logical. A cornerstone principle of all mu-

tual funds is broad diversification. And diversification is an acknowledged cardinal principle for successful investing needed by all investors.

Then too, there is the problem of intelligent selection of a broad list of individual securities to provide diversification, and the even greater problem of constant su-

pervision after purchase. This is a complicated world in which sudden and far reaching developments affecting investment values are in seemingly endless occurrence and frequently in conflict. More and more thousands of investors obviously are reaching the conclusion that mutual funds offer better opportunity for a satisfactory investment experience in the field of equity securities than they can provide for themselves, to say nothing of the convenience, time saving, and freedom from constant worry which they afford.

Not only are many more thousands of investors becoming mutual fund 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 mere arithmetic of the situation justifies his purchase. It may reasonably be said that the cost is more apparent than real 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 even 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.

Inflation

Second only to the terrors 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 bogey that happened in other places from time to time, but it couldn't happen here. True, we had some important inflation during World War I, 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 too 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.

Now 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.

This situation has shattered even that most conservative concept of investment, that to hold only cash or highest grade fixed income securities, was about 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 — individuals 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.

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Continued from page 15

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

mail solicitation results in a sale through the use of interstate or foreign commerce as defined in the Securities Act, it is a violation of the Act if done without a registration statement, unless otherwise exempt.

It is also deemed by some of our states to violate their Blue Sky laws. As a practical matter, it is, of course, extremely difficult for the Commission or the State Blue Sky authorities or purchasers to do anything about activities of this kind unless they can find the seller in the United States or attach assets belonging to him in the United States. United States courts have no jurisdiction over the issuer or the underwriters who have no office or salesmen 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 although there have been many conversations between our Securities and Exchange Commission and various Provincial officials on this matter. Recently, the Hon. O. E. Lennox, Chairman of the Ontario Securities Commission, stated that all persons, either Canadian or American, who purchase stocks in Ontario have every opportunity to avail themselves of Canadian law if they feel they have been defrauded.

Although some Canadian solicitors have expressed the view that Canadian courts might well enforce civil liabilities created by the Act, these activities must for the most part be controlled by Canada itself, and by the pressure resulting from subsequent inability on the part of such an issuer actually to carry out an offering in the United States. What I have in mind is the possibility of a subsequent refusal of the SEC to accelerate effectiveness of the registration statement of such an issuer under the Securities Act if the issuer refusing to recognize the civil liabilities should later desire to sell an issue of securities in the United States through American underwriters.

Once it is decided by a Canadian issuer to offer its securities in the United States, it is clear (unless one of the exceptions previously mentioned should exist) that registration under the Securities Act is required.

If securities are completely offered on original issue in Canada and the facilities of U. S. interstate or foreign commerce or the mails are not used at all, a bona fide purchaser of the securi-

ties not connected with the original distribution and not in control of the issuer may bring them in the United States and sell them without registration. Or a purchaser in the United States may purchase outstanding securities in Canada with respect to which the original distribution is complete and bring them into the United States and sell them without registration.

One must be very careful not to engage in rinkydink, and monkey business along these lines may well lead to trouble.

Problems sometimes arise as to the authority of United States underwriting firms to form underwriting 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 Securities Exchange Act of 1934, no broker or dealer can use the mails or interstate commerce to induce the sale of a security—except on a national stock exchange—unless he is registered as a broker or dealer under that Act. As a result, participation by non-registered Canadian underwriting houses with American firms, in so far as sales in the United States are concerned, is prohibited. Thus, if they are underwriters with American firms, Canadian firms theoretically, at least, cannot 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 entirely in Canada.

The rules of the National Association of Securities Dealers, Inc., in the United States, organized pursuant to Section 15A of the Securities Exchange Act of 1934, whose rules must be approved by the SEC, do not permit members to join with non-members in an underwriting group or give concessions to non-members except on the same basis as they deal with the public. There is no prohibition, however, on the formation 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 concession 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 so registered, can become members of United States dealer accounts only so long as their selling activities are confined to Canada.

Suppose that a Canadian underwriter desires to carry out a public offering of a United States or Canadian issuer entirely in Canada without the use of U. S. interstate 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 security to a limited number of institutional 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 registration 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. Sec-

Continued on page 18

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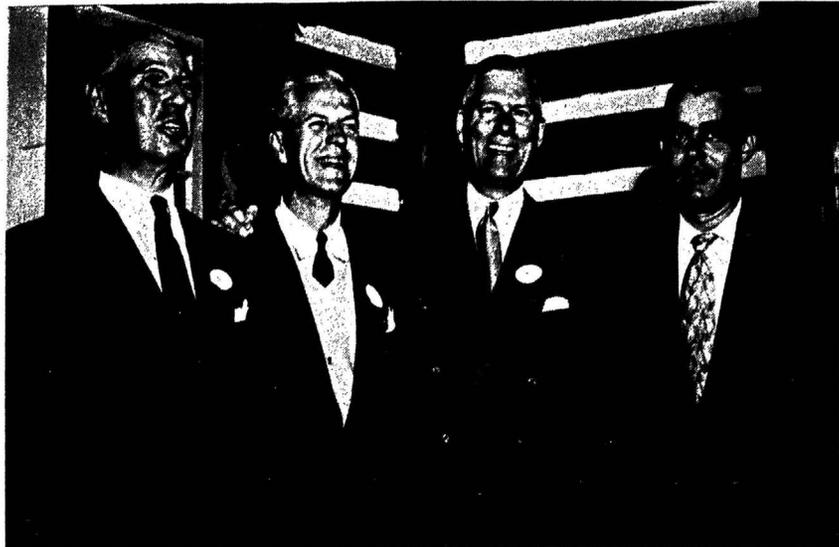
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Continued from page 17

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

tion 4 of the Act does not put any geographical connotation on the term "public offering." Therefore, if there is a public offering of the same security anywhere in the world as a part of the overall offering, the limited offering to institutional investors in the United States might be regarded as a part of the overall public offering, with a resulting requirement of registration before they can be made.

An entirely different case is presented if the securities of the same issuer, sold simultaneously to private institutions for investment in the United States, are of a different type or class.

For example, we have obtained a ruling from the SEC that registration under the Act was not required in the case of a private placement of convertible debentures (issued by a Delaware corporation) where the interest rate, maturity and sinking fund differed from a simultaneous public offering in Canada by the same issuer of Canadian dollar debentures convertible into the same number of shares (the conversion rate actually being slightly different because of the non-parity of the Canadian and American dollar).

By like reasoning, an issuer could 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 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 covenants in the underwriting agreement to the effect that none of the securities will be offered in or to any residents 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 in good faith and careful selection of participating underwriters and dealers is essential to assure 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 investment, 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 I have mentioned before, 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, should a public offering 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 dealer is or is not acting as part of the original distribution organization. If he is, he is making an illegal public offering in the United States and this would apply to brokerage transactions for purchasers, unless completely unsolicited, as well as to principal transactions. 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 his account in the United States, the brokerage transaction being unsolicited, while the American broker might not violate the law in an isolated transaction, if it took a part in successive and 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; Hon. Douglas Charles 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 know the pertinent economic information large buyers of securities will want, to work out data satisfactory to our Commission.

I feel sure this attitude of complete cooperation upon the part of your and our officials will continue, and if you are ever in doubt I am sure the SEC will be most willing to help you.

In adopting legislation people make a great mistake if they assume a law which will work in one country will necessarily work in another. You must study the banking and currency systems, insurance laws, pension systems,

restrictions on investments, investment habits and methods of security distribution. The system of underwriting in England is very much misunderstood in our country and it would work well only in a country having the financial facilities and habits which England has. If underwriting is to be confined to the securities of well-established companies, then new industries may not develop, cartels may thrive and a new and relatively undeveloped country would have to turn to other forms of capital.

Continued from page 6

Alberta: Its Booming Oil Industry

of an oil pipe line being built 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 continued and possible routes are under consideration. This will give us another outlet for the potential not now being produced, plus the oil which will be made available as a result of continued exploration and drilling.

From the above figures it is quite evident that keen interest is being shown in the oil development here in the Province of Alberta.

Revenue collected by the Province from the oil industry during the year 1950-51 amounted to \$44 million; of this \$5.2 million was received from royalty, \$9.7 million from rentals, and \$29 million from the sale of leases; of course these figures are all in round numbers.

Besides the revenue which the Province receives as a result of the oil development, there are many other benefits to the country and to individual citizens. If Canada were able to produce all of its oil requirements, it would result in greatly reducing the present debt in the U. S. dollar area; in fact, it should place Canada in a much more favorable position, and I might say here, without prognosticating, or in any way trying to predict the future, that if development were carried on at the same accelerated rate during the next five years, as it has been during 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 for 1,800 miles from the International Boundary to the Arctic Ocean, and from the Precambrian shield on the East to the Rocky Mountains on the West; though this cannot 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 8½% below the average price in the same cities. This results in a saving to the consumers of Alberta of approximately \$15 million per year, and on a per capita basis it amounts to \$17. The greatest benefit, however, which could accrue, would be for Canada to be in a position where she would be able to produce all of her oil requirements and thereby be less dependent on other countries for the supply of such an essential product.

What Is Done With the Money

I have outlined very briefly some of the progress that has been made in the oil industry, particularly in the development here in the Province, and also some of the benefits which accrue. The question has been asked as to just what the Province does with the oil dollar, or the moneys received from the oil development. You all know that oil production results in the depletion of a capital asset, and the Government takes the stand that the moneys derived from this source should be used to build up other capital assets. The money is used for such things as the building of good public buildings, university 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 assuring the greatest ultimate recovery.

(3) Establish prospecting and leasing regulations designed to effectively prevent monopoly and encourage individual enterprise. Only by the existence of wholesome 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 pol-

icy 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 returns resulting 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 daily production of from 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 135 barrels, reaching a maximum of 16%. This will result in

an average of between 13 and 14%, 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 12½%, while in flush 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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Continued from page 19

Alberta: Its Booming Oil Industry

try as being one of the most efficient and carrying on one 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 of 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 field, and has the largest known gas reserves in the Province today; the producing zone is at a depth of approximately 12,000 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 nec-

essary 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 3,000 barrels of natural gasoline, 700 barrels of butane and 550 barrels of propane would also be recovered, together with some 430 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. Another advantage is that it would 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 ancillary industries, and result in a continued acceleration of our population growth. Since the report was made public there has been a greatly accelerated search for gas, while heretofore the gas reserves which had been established were almost entirely incidental to the search for and production of oil.

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 of Canada as a whole, 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.

Continued from page 8

Quebec's Industry and Labor Progress

down to Baie Comeau, on the north shore of the St. Lawrence, made Quebec the pulp capital of the world.

Preeminent Position in Mining and Minerals

The position of Québec in the field of mining and minerals is preeminent. One-quarter of the world's aluminum is produced by the Aluminum Company of Canada at its smelter at Arvida. Deep-water transportation and unlimited power attracted the aluminum refining industry to the Saguenay Valley. Freighters carry bauxite ore from South America to Port Alfred on the Saguenay, near Chicoutimi, 600 miles from the Atlantic. From the same port hundreds of ships transport overseas cargoes of abrasives, alumina, aluminum ingots, aluminum fluoride, fluorspar, magnesium, newsprint and sulphite wood pulp. The area is connected with the other parts 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 Québec'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.

Prospecting is intense along a very promising mineral belt north of the transcontinental line of the Canadian National Railways.

Also, in 1949, the Chibougamu district, roughly 200 miles northeast of Lake St. John, was opened for developments through construction of a road which links the new copper-gold fields with the rest of the Province. In the same year work progressed on a large ilmenite deposit located on the north shore of the St. Lawrence. Electric smelters are located at Sorel, on the south shore below Montreal, and there the precious titanium will be separated from the iron content of the ore. This new titanium industry in Quebec is indicative of an important trend in the Province's industrial economy—the processing in Quebec of raw materials produced by Québec. Meanwhile there has been development of the new Quebec iron ore field, with more than 300,000,000 tons proven, located in the northern hinterland of the lower St. Lawrence. This field is expected to feed Canadian, American and British smelters for generations to come and is one of the world's great mineral "finds" of this century.

Commercial Fisheries

The economic treasure of the Province, however, is not confined to land. Commercial fisheries, both ocean and lake, contribute handsomely to annual revenue. Descendants of hardy pioneers from Brittany and Normandy who settled 400 years ago, still fish waters around the Gaspé Peninsula; they place upon North America's tables some of the finest of salmon, lobster, cod, mackerel, herring, flounder, etc. Northern lakes produce quantities of rich trout which is highly regarded throughout the northern United States.

Quebec fishing industry is a mixture of tradition and modernism. Sixteenth century customs blend with 20th century gear and equipment. The Gaspé fleets include the latest in refrigerated vessels, while ashore are refrigerator warehouse trucks and railroad cars to insure that Gaspé fish goes to market in perfect condition. More than that, biological stations and institutes are hard at work constantly increasing their assistance to the industry.



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Continued from page 8

Canada's New Oil Resources

recent discoveries are largely in the Upper Devonian formations, and interestingly enough it is these same formations which are overlain by the famous tar sands along the Athabaska River.

The combined market indicated this year for prairie crude — including the movement to Ontario, to the prairie refineries served by the pipe line plus the prairie refineries not served by the pipe line—will be the 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 2,600,000 barrels of additional storage at Superior. The construction of an additional large tanker which is under way will permit the movement to Ontario to increase to roughly 18 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 noting that a continuation 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 as they have in the last several years, and that no large new discoveries are developed in the meantime.

How 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 4 1/4 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 had an extremely important job to play in the mechanized agriculture of the west.

But if transportation adds to the cost of oil 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. Far 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 Celanese 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 railroads have striven to aid western progress by encouraging industry and colonization. I can speak from personal experience of the way in which the railroads helped speed the completion of the Interprovincial pipe line. They gave us the fullest co-operation not only in the movement of ma-

terials 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 the Canadian 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.

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Continued from page 5

British Columbia's Wood Resources

was made up from scattered commercial cruises of private timber holdings, scattered timber-sale cruises, 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."

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

"Quadra Island (68,190 acres) was surveyed previously in 1930 and, although little new industrial development has taken place in the interval between surveys, forest conditions in general show considerable improvement. The 1930 survey found that 15,670 acres (25%) were understocked. 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 understocked may be expected to

restock naturally; consequently, Quadra Island is one area on the Lower Coast where there is no problem in regeneration."

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 2½ million acres had been cut-over and that ap-

proximately 7½ million acres of virgin timber still remained untouched on the Coast. That the remaining stands of virgin timber contained approximately 180 billion (1937 inventory showed 155 billion) feet board measure. Further, that of the 2½ million acres cut-over, about 1¼ 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. 1¼ million acres were not satisfactorily restocked and therefore producing no increment.

On the basis of these assumptions, the Commissioner gave it as his opinion that the safe allowable cut for the Coast region was approximately 3½ 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 protection of our young stands from fire, it is my opinion that the following round figures indicate the extent of the allowable annual cut on the Coast over that growing period of 60 years:

	Board Feet
Standing accessible mature timber	180 billion
Divided by 60	3 billion
Deduct annual fire and insect net losses (approx.)	17 million
Leaving	2,983 million
Add increment on growing stock, 1,253,000 acres at 350-400 feet per acre per year	500 million
Total allow. annual cut	3,483 million

"This estimate of an allowable annual or periodic Coast cut of about 3½ 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 2¾ billion feet, and in the peak year of 1940 did not reach 3½ 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 the average annual cut be not permitted to exceed 3½ 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 35 billion feet over the next 10-year period."

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 safe 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 3½ billion feet.

No doubt the members of your organization have noted 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:

"Industry Squandering B. C. Forests"

"Wasting Our Inheritance"

"Living Beyond Our Means"

Some of these statements purport to be quotations by responsible officials, others are presumable opinions of editors and reporters. Many such statements are copied by the press in eastern Canada, the United States, and even abroad.

I don't think the public believes all they read in the newspapers. This reminds me of a recent item in the local paper. A gentleman went into the newspaper office and wrote out an item 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 questioned 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 do not think so, as this 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 government timber sales on the Coast Region each year be justified? In 1950 the Forest Branch sold some 750 million feet of government timber on short-term two 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, how could a Management License covering 700,000 acres be justified in 1948, involving as it does, an annual cut of upwards of 100 million feet a year for a new industry and from an area of old-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-

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isting 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.

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 stands is assured, that a second crop will be available in sufficient volume for at least the present rate of consumption. Many of the present operators 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 other companies. There should be no ghost towns on the Coast Region because the merchantable timber of the whole of this region is accessible to the majority of the existing conversion plants located at tide water. Logs are now towed from Vancouver Island up to Ocean Falls, from the west coast of Vancouver Island to the east coast and to the mainland and from the Queen Charlotte Islands down to the lower coast. This natural, protected water transportation is one of the greatest factors 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 purchase and lease by private enterprise. The object, of course, was to create employment, convert the virgin forests into pay-rolls 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 1906 when, by way of land grants for railway subsidies and outright purchase, some 5 million acres of the most accessible and productive forest lands out of the 75 million were disposed of outright and some 15 million acres were leased under various timber and pulp licenses and leases in the Province.

The present position is that approximately 5 million acres, or 7% only, of the productive forest lands, are owned outright by private enterprise and out of the original 15 million acres of temporary alienations, 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 reverts to the Crown when cut-over.

The situation in the Coast Region is somewhat different in that privately owned timber lands represent 15% of the productive forest lands, including Indian Reserves, small holdings and the million-acre Esquimalt and Nanaimo Railway land grant. Of the 85% 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 small holders own 50%; large companies 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 barons and what have you. In my opinion, the wisdom of this policy is open to serious question and experience of older countries does not support any such comforting assurance for the future welfare of British Columbia's forests.

The best forest practices in

Europe have been developed by private enterprise on privately owned forest lands. In the United States, the Tree Farm Movement, where over 20 million acres are now dedicated to sustained yield, exemplifies the leadership and initiative of private enterprise in managing the forest lands of these older countries.

That the traditional policy of public ownership is still most active in British Columbia is evidenced by the amendment to the Land Act of 1947 which prohibits the outright sale by the Crown of any forest lands under any circumstances.

The only concessions to private industry under our present British Columbia forest policy and laws has been the enactment in the last few years of the so-called Management Licenses legislation and the Farmers' Woodlot legislation and revision of land taxes on Crown granted tree farms. Management Licenses are a variation of the Timber Licenses on a perpetual basis whereby operators may apply for vacant Crown land to establish a sustained yield unit, managed in accordance with government regulations. These Management Licenses vary in size and are designed to supply raw material to an existing or projected conversion plant, or to make available additional acreage of Crown lands to augment present holdings and provide the necessary quantity of raw material for existing conversion plant requirements in perpetuity. They involve surrendering of existing equities in privately held existing licenses and leases when cut over. They also involve strict regulation of cut. In addition to a nominal rental and Forest protection Tax they

may be subject to a Severance 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.

The alternative to the imposition of a 16½% Severance 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 governments view productive forest lands any differently than 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' Woodlots legislation, I would like

Continued on page 24

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Continued from page 23

British Columbia's Wood Resources

to quote an eminent British authority, H. R. Blandford, O.B.E., Editor of the "Empire Forestry Review," on Farm Woodlot Licenses under the British Columbia Forest Act:

"The regulations seem to be well designed to assist the farmer in managing his woodlot, but one difficulty seems to be the establishment, in perpetuity, of a large number of small woodlots in which the Forest Service will have not only to control the management 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 fellings. The agreement to manage the woodlot on the correct lines, with confiscation on failure to do so, should be sufficient to ensure the preservation of the forest. Surely it is time the Government of British Columbia ceased trying to own all their forest lands, the management of

which seems to be far beyond their capability? The great success 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 up 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 set-up which will encourage and induce forest operators, large and small, to grow trees and freely build up equities in forest properties which they can acquire and own. Otherwise I think we can envisage either totally inadequate management of the huge area under government ownership and administration or alternatively a huge Bureaucratic control system with an economy of transient sharecroppers instead of prosperous, stable industries.

In growing tree crops the element of time is a governing factor. It takes from 60 years or more to bring even pulp wood to maturity. Taxation therefore, has

a fundamental impact on the business 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 reservations, this was changed by legislation 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 forest land tax to a tree growing economy on private land.

Other forms of taxation, however, still adversely affect the business of growing tree crops. For one thing, the Federal Income Tax, contrary to all equity, requires that certain forestry expenses, i.e. expenses for planting, silviculture, management and improvements, etc., must be capitalized. The reason given for this is that such expenses are not incurred directly in the production of income. That, of course, is obviously wrong because no one plants trees or cultivates forests on the immediate area from which the current logging operations are producing income. Such forestry operations are not undertaken for some years after cutting and on areas that are not directly connected with current logging.

A further tax anomaly is in the matter of depletion allowances. Most forest operations have to carry substantial reserves of mature timber in order to justify heavy investment in plant and equipment. These reserves are carried over many years and many operators have standing timber reserves purchased at low cost many years ago. When these stands are cut, the income tax

regulations now require that only original cost without interest, is recoverable from income before tax. This, by the way, means that the difference in the value of the standing timber at the time it is cut and the original cost is considered current profit in the tax year. Actually it is capital gain and some of this capital being liquidated should be made available to the operator to regenerate and establish a new crop. In the United States this has been recognized under the so-called Bailey Amendment, which provides that the difference between original cost and current market value at the time the timber is cut is considered capital gain and so taxed. Original cost is allowed as a straight depletion. A recent survey of the 20 million acres of tree farms established in the last 10 years in the U.S. showed that this progressive forest tax legislation was a vital factor in encouraging rational forest management on private timber lands for profit.

In connection with taxation it is of interest to note that instead of deferred depreciation which has recently been put into effect in Canada, Forest Operators in Sweden have most elastic depreciation allowances. An operator can write off a new plant as fast as his profits permit. This is a fixed tax policy in Sweden as the government considers that such tax treatment is most desirable in the fast changing picture of the chemistry of wood and developments in cellulose and other technical fields. This means that plant or process obsolescence can be overcome and their forest industries kept in the forefront of developments. This is surely in the best public interest.

Forest Fire Protection

No appraisal of the forestry situation in British Columbia would be complete without special reference to forest fire protection. What profit to ensure natural regeneration 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 \$1.00 per acre is invested 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 Federal government all share in the cost of protection and while no insurance on young growing stock is yet available to my knowledge, some of the larger tree farmers in the U.S. are rapidly approaching the position through efficient fire control, where it will be possible to secure insurance on all age classes within defined areas as the experience for the past number of years is below the loss ratio of one-quarter of 1% per annum, which would justify an economic premium. In Sweden, fire protection has now reached the stage where most of the forests are covered by insurance and one of the surprising things we discovered in Scandinavia was that most forest owners now have perpetually paid up insurance policies on which there are no further premiums to be paid and that the policies were issued originally by privately owned insurance companies who are themselves in business to make a profit.

Canadian Federal Forestry Act

A glance at the annual Appropriations by the Federal government for the various natural resources of Canada, in which the Federal government has a vital interest, reveals that Agriculture, Mining and Fisheries annual appropriations are many times the appropriations for Forestry and this in a country with surely a predominant Forest economy with 700,000 square miles of productive forest lands against 400,000 square miles of productive agricultural lands. It is of very considerable significance that in 1950 legislation was passed for the first time in Canada creating a Federal Forest Act. Previously appropriations for research in Forest Protection, Forest Genetics, Forest Ecology came under the Mines and Resources Appropriations and Forest Insect Control Appropriations came under Agriculture. It is also of interest to note that in 1951 the sum of \$1,000,000 was voted by Parliament at Ottawa, for the first time, to assist the Provinces in taking a forest inventory. It is hoped that from this start appropriations will be voted to assist the Provinces in fire protection, and other phases of forest research and administra-

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tion; this money to come from the huge revenues originating in the forest 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 unfortunately, 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 inexhaustibility. This has given way to the realization that tree crops can be grown at a profit under a new wood economy to meet an insatiable world demand and a long range shortage of supply. Canada's future in the field of forest products indeed appears bright and Canadian forest industries appear to be meeting this challenge by large scale investments in a perpetually renewable resource and in new integrated conversion plants incorporating the latest scientific developments 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 mostly to the Coast. Interior Forests, however, are very vast and comparing large areas in the far north of the Province to similar forest areas in Scandinavia, which are still further north from the point of view of latitude, the present horizon I believe, must be extended far beyond the 65 million acres so far inventoried. The 1937 Inventory and the findings of the Royal Commission in 1945 indicated that present annual increment far exceeded annual drain. Further, large areas of young growing stock have replaced the areas burned in the fires of the railroad building era of 40 to 50 years ago. These young forests are becoming firmly established and represent potential raw material for many new pulp mills. Water power is available for development. It only requires the initiative and enterprise plus the capital and a co-operative set-up between government and industry to establish many new prosperous wood communities in the Interior of B.C.

There has been much progress in forestry in British Columbia

within the last 10 years. A number of the larger companies on the Coast now maintain staffs of experienced, professional foresters and are laying long range plans to place their holdings on a sustained yield basis. Logging operations are planned in advance to secure natural regeneration of cut over areas as early as possible. Some thousands of acres have been planted on the Coast by private companies during the last 10 years at their own expense. Fire protection organizations have been streamlined and a very high degree of protection is being developed by many operators. The past 10 years of good fire weather, together with a number of prolific seed years, have helped considerably to change the picture on the Coast. Salvage operations and very much closer utilization have vastly extended the life of the virgin stands by the recovery of more of the wood on each acre.

In the field of Provincial government forestry, sincere congratulations are due to the present administration. To the Minister of Forests, Hon. E. T. Kenney and to his Deputy, Dr. Orchard, for the leadership shown by them in many branches of forestry in British Columbia. During the past 10 years some 75,000 acres of denuded forest lands on the Coast have been replanted, nursery facilities have been doubled, inventories have been pushed to the fullest extent that available resources in personnel and appropriations will permit. Fire protection facilities have been vastly increased in efficiency and in many regions on the Coast adequate fire protection in normal years is pretty well assured by the establishment of pre-suppres-

sion crews and by intensive organization and training of the fire protection staff. In some fields, recent achievements of the B. C. Forest Service are outstanding through forest research in weather forecasting, in new equipment and in the use of specialized crews.

Dominion Forest Service

In the Federal field, full credit also should be given to the Dominion Forest Service for a start in recognition of the national government's responsibilities under the new Forestry Act. As mentioned, the appropriations this year included \$1,000,000 to assist the Provinces in securing up-to-date National Inventories. This is a good start. It is hoped that next year further Federal assistance to the Provinces will be forthcoming by appropriations for fire protection similar to the assistance rendered by the Federal government in Washington to State and Private Forest Fire Organizations in that country.

In the Municipal field, a few of the Municipalities in British Columbia are setting up machinery for managed community forests. The City of Victoria is managing its own water shed on a sustained yield basis. A number of other Municipalities are becoming conscious that in many parts of Scandinavia, communal forests practically carry the burden of local taxation when properly managed.

The question of the recently announced huge mergers in the Forest Industries of B.C. has caused some comment. In passing I would just like to mention that this is a natural development and follows the pattern of older Econ-

omies. Similar mergers in Sweden and other Scandinavian countries have been the logical outcome of forest development. In spite of the fact that these countries have been for many years Socialist governments, no objection has been taken to the creation of large integrated units in the Forest Industries. It is recognized in Scandinavia that large holdings of productive forest lands are more efficiently managed. Large organizations can and do support more intensive research than is possible in smaller units. They have proven to create greater stability and more diversification in employment.

There are also many other encouraging developments in the forestry situation in Canada today. Chief of these, in my opinion, is the recognition by more of the various elements and agencies in our complex national economy of the importance of rational treatment of the perpetually renewable resource based on our productive forest lands. This is evidenced by your interest on this Forum today. In closing I would just like to call your attention to this little pamphlet called "Trees." It is the announcement of the re-

cent organization in the United States of a new Forestry Policy and Programme of the American Bankers Association. The objectives are as follows:

- "(1) Acquainting bankers with the forestry agencies and associations operating in the states.
- "(2) Cooperating with colleges of agriculture and with Federal, State and private forestry agencies in making an appraisal, by counties, of the economic importance of tree farms and farm woodlands and their production as part of a well-rounded farm enterprise.
- "(3) A study of adequate fire control.
- "(4) Encouraging better woodland management and protection from fire, insects, disease and overgrazing.
- "(5) A study of integrating bank services with forest production."

I suggest that a good public relations job might be done by the Investment Dealers' Association of Canada along similar lines in the interest of developing profitable fields for investment in Forest Enterprises in Canada, based on the one outstanding resource which is self-perpetuating.

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Continued from page 3

The Inflation Impact on Investment Industry

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

Finally, during the past year the government brought down two budgets: the "baby budget" in September, 1950, and the budget for the current fiscal year in April, 1951. In summary, these budgets raised federal corporate income taxes from 33% to 45.6%, resulting in an overall corporate tax in all provinces of over 50%. The general sales tax was increased from 8% 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 recitation it will be concluded that a variety of strong monetary measures have been adopted to curb inflationary pressures. Although it is too early to be sure of their ultimate success, one can only conclude 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 prejudiced.

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 \$86 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 roughly the same, and government restraint thus helped corporate expansion. It the nature of things, there is not the same compulsion on governments as on individuals to pay off debt, but in the long run, with few exceptions, that homely virtue has merit 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 merchandise changing widely in value and their operating conditions drastically altered.

A year ago, Government of Canada three-month Treasury bills sold to yield $\frac{1}{2}$ of 1%, and now yield $\frac{3}{4}$ of 1%; five-year Governments yield 2.85% against 2.10%, and 15-year Governments 3.25% against 2.75%. Because credits are related one to the other, these changes have been extended in greater amplitude to provincial, municipal and corporate bonds, so that while in their heyday top-ranking corporations could have borrowed for long term at a cost of less than 3%, there would now be few able to come to the market under 4%. It appears that the era of extreme ease of money in Canada has passed, and while there is no evidence that rates will rise immoderately, the day of the borrowers' market seems to be over and the lender has again come into his own.

The primary function of the investment dealer is to convey the savings of the people in Canada

into the active capital of governments, 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 Canada Savings Bonds made for refunding purposes. In June, 1950, \$395 million 2% Dec. 15, 1954, and \$350 million 2 $\frac{3}{4}$ % June 15, 1938, were issued, to retire an equivalent aggregate amount of 3% 1951 and 3% 1955 called for prior redemption, and in November, \$300 million 1 $\frac{3}{4}$ % Nov. 1, 1952, and \$400 million 2 $\frac{1}{4}$ % Nov. 1, 1956, were issued toward the retirement of a slightly larger issue of 1 $\frac{3}{4}$ % Nov. 1, 1950. Canadian 4%, 1960, issued in the United States in 1930 were retired in equal parts for cash, and by refunding in that market with 2 $\frac{3}{4}$ % Sept. 15, 1975, likewise payable in United States dollars. The Canada 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, numbering 955,000, produced an aggregate of \$264 million. The wisdom of maintaining the con-

tinuity of this valuable instrument and public relations. Under Mr. J. W. G. Clark, as Executive Assistant to the President, and later Mr. H. L. Gassard, 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 175. 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 Canadians 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.

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, it was decided to explore the fields of educational classes for young men in or entering our business

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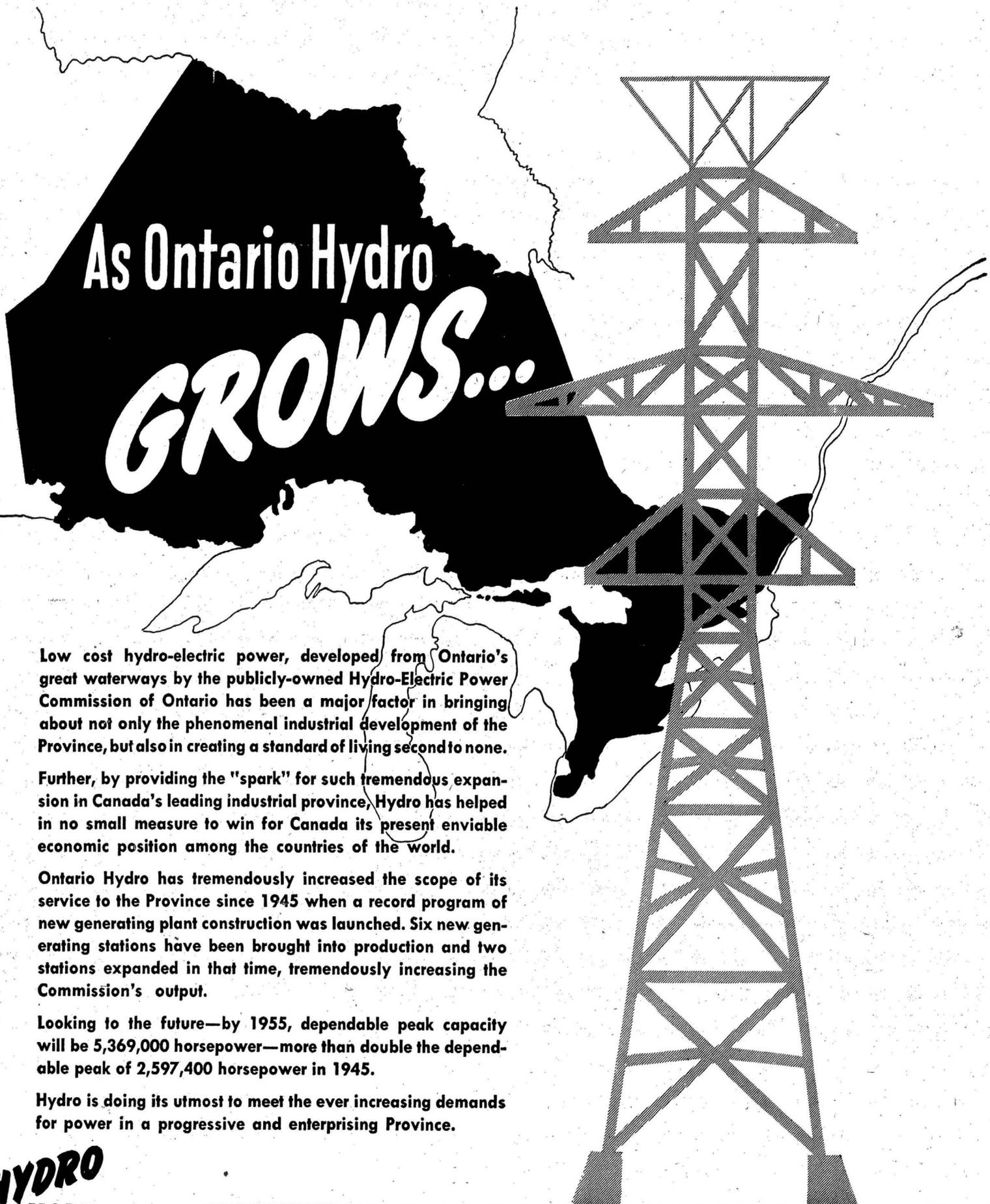
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