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38th Annual Convention
Jasper Park Lodge, Jasper, Alberta

June 9-12, 1954
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Economic Trends in Canada

By GERARD GINGRAS

Retiring President, Investment Dealers’ Association of Canada
Assistant President, Rene T. Leclerc, Inc., Montreal, Que.

Though picturing 1953 as the most successful in Canada’s history, Mr. Gingras calls attention to a slackening of pace toward the end of the year. In the Canadian investment scene he notes the effect of the return to an easy money policy both in U.S. and Canada, and comments on the success of large financing operations by the Canadian Government and Canadian Pacific Railway. Discusses premium on the Canadian dollar as “a thing of pride and a thing of hardship.” Holds, despite large foreign investment in Canada, the trend has been for Canadians to own an increasingly greater share in their own country. Lauds co-operation of Canadian banks with the investment industry.

IN CANADA

IN THE UNITED STATES

Calvin Bullock, Ltd.,
507 Place D’Armes
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Calvin Bullock
One Wall Street
New York
Let's Treat Securities as a Commodity

By WILFRED SANDERS*  
President, Sanders Marketing Research 
Director, Canadian Institute of Public Opinion, Toronto, Can.

Holding securities is a product manufactured by the imagination, resourcefulness and courage of business enterprise, and made ready for packaging and marketing by investment dealers. Canadian marketing analyst traces steps to be taken in marketing and applies these steps to the securities industry. Points out large number of potential investors in Canada have not been reached by investment dealers, and praises sales promotion efforts in industry.

*An address by Mr. Sanders before the 20th Annual Meeting of the Investment Dealers’ Association of Canada, June 10, 1934.

The emphasis in the last decade has been on going out and studying the man who is always people, because of the basic fact that all sales are made in the mind of the consumer. You can talk about the manufacturer, the producer, the supplier, the jobber, the retailer, as much as you like, but in the long run the consumer, activated by a mind is KING. The consumer can make or break the manufacturer, the wholesaler, or the retailer.

Case Histories: Taxi duplication, margarine wrapping, dated products—wasted dollars because failed to know what was in mind of consumer. Reverse: Ball point pen.

The odds are that a majority of men in this room are thinking: “Our business is different. You can’t apply these yardsticks to investments.”

Gentlemen, in 14 years of marketing research, I have never yet had a client who said that his business was different. So, if you think your business is different, it’s at least not different in that respect! In any event, I am going today to treat securities as a commodity, a product, which is manufactured by the imagination, resourcefulness, and courage of business enterprise, out of the raw material with which God has provided this country. Let’s package and make ready for the market by Investment Dealers. You invited me to speak on investment markets, and this is the only approach I can make.

It is true that many of you feel that you are in effect wholesalers, and not interested in the retail market for securities. I suggest this could not be further from the truth. I believe your product reaches the general public, whether in the form of insurance policies, bank loans, marriage money, or salary checks. Whether or not you deal only with institutions, your final market is the general public.

Four Steps in a Marketing Study

Here are the four steps normally taken in any marketing study, and since they form the main skeleton around which I plan to hang the meat of my remarks, I would ask you to take note of them:

(1) Study the product. If you don’t know fully what you are selling, you can’t sell it. (Rey Dog Food.)

(2) After studying and clearly defining the product, you are in a position to define and locate the market. Who are the logical consumers?

(3) After defining and locating the market, we can study it. What kind of people are they? Where do they live? How do they live? What do they think about you? Accepting or rejecting you? What are their prejudices, their ignorance, and your chances of solving the problems with your sales message?

(4) Fourth, and final step is to arrange your current product, distribution, and sales effort against the information you have obtained. Have we really studied and discovered its full potentialities? Is our sales effort hitting the target with a scythe, and not scaring it around the target?

Step 1: “Knowing the Product.” How you describe your product, but to me, as an outsider, I would say that you are selling two things:

(1) You are selling participation in Canada’s growth, an equity in this country’s business and industrial development. You are selling protection of income, and income itself.

(2) In addition to the above, and as part of the above, you are selling a service. Yours is a business with professional character, with trained technical knowledge in its own field, just as important as technical knowledge in law, medicine, or engineering. So, when we come to talk about the market, and to assess what you are doing, we will have to bear in mind that you have two things to sell—a product, and a service, based on technical knowledge. In this respect, your business is different from others, in the same way that the automobile business is different from the retail field, from that of a grocer. A grocer is not expected to do much by way of servicing the prunes he sells you.

All this is very general, and it is so of necessity that each certificate, is a product in itself, and the varieties of your products is legion. I want to say a few things about what your product is not, but will save that until we get to point IV.

Step 2: “Defining and Locating the Market.” In collecting data on the market, I frankly ran up against what to me was a surprising lack of reliable information. As far as I have been able to ascertain, no research has been done on a national scale. Canada aimed at defining the market for investment securities, comparable, say, to the study done in United States by the Brookings Institution a few years ago. Even though there is considerably more information about the securities market in United States than there is in Canada, the report of Stewart Dougall and Associates to the New York Stock Exchange (probably familiar to you) states: “It must be recognized that in spite of the numerous investigations which have been made in the past, they by no means contain all the information which the public’s experience with, and attitude toward stock market dealings. There are existing vacuums in information essential for drawing direct conclusions from a merchandising viewpoint.”

That comment, gentlemen, goes double in spades, for Canada.

In the face of this absence of data, I got the facts of my organization to collect a few basic facts about the attitude of the public to the securities market, for my talk this morning. This was done on a feasible scale, national basis, through the Gallup Poll. It has not yet been published, but I obtained the final figures from our statisticals and I left Toronto. Interviewing for this poll was done in all areas of Canada, north to Vancouver Island.

But before I give you the findings from this study, perhaps we’d better dispose of one thing. It may seem to you that the obvious way of arriving at the potential market for securities is to look at bank deposits. You might wonder why this is so. Bank deposits in Canada have increased from $3,860 million in 1919, to $13,149 billion at the same date last year. This is an increase of 251 months, amounting to 33%. The actual number of such deposits has increased in the same five-year period from 64,000, to 1,823,000, an increase of 235%. These are impressive figures, and undoubtedly give us an indication of part of the market. But I suggest this is not the whole story. Canada and possibly thousands of Canadians have, literally, no bank account, but yet enjoy a high standard of living. Some of these may have certain financial values mixed, and are spending on consumer goods what properly belong on the buying up an investment portfolio. From the other side of the coin, you will agree, I think, that many of the bank deposits have a legitimate reason for being there. If you try to use that reason hard, you may be able to agree to that statement.

In any event, if you think about it at all, you will see why bank deposits are not the answer to the question: “How big is the untapped market for securities?” and why it is worth going further afield, as we did in this national study.

Securities Holders in Canada

The question our interviewers asked several Canadians worded like this: ‘Would you like to know some questions about investments? Have you ever bought any stocks or bonds?’ I don’t want to throw a lot of statistics at you, but here are a few highlights from our results:

53% of the total population never bought any stocks or bonds.

82% of the population never bought stocks.

69—nearly two-thirds—had never bought any bond.

We found the highest proportion of non-purchasers in the Maritimes, lowest on the Prairies and in the Prairies and Ontario.

You may be one of them, but I think this 55% figure, representing those who have never invested anything, is the segment of the population which is financially unable to invest in securities, and can therefore be ignored. But wait a minute. Let’s take those people who have never invested in anything. An analysis shows that 59% of them were in the lowest income, 29% in the middle income group, and 12%, in the highest, and in the lowest income, 29% of the middle income group, and 12%, in the highest, and in the lowest income, 29% of the middle income group, and 12%, in the highest, and in the lowest income, 29% of the middle income group, and 12%, in the highest, and in the lowest income, 29% of the middle income group, and 12%, in the highest, and in the lowest income, 29% of the middle income group, and 12%, in the highest, and in the lowest income, 29% of the middle income group, and 12%, in the highest, and in the lowest income, 29% of the middle income group, and 12%, in the highest, and in the lowest income, 29% of the middle income group, and 12%, in the highest, and in the lowest income, 29% of the middle income group, and 12%, in the highest, and in the lowest income, 29% of the middle income group, and 12%, in the highest, and in the lowest income, 29% of the middle income group, and 12%, in the highest, and in the lowest income, 29% of the middle income group, and 12%, in the highest, and in the lowest income, 29% of the middle income group, and 12%, in the highest, and in the lowest income, 29% of the middle income group, and 12%, in the highest, and in the lowest income, 29% of the middle income group, and 12%, in the highest, and in the lowest income, 29% of the middle income group, and 12%, in the highest, and in the lowest income, 29% of the middle income group, and 12%, in the highest, and in the lowest income, 29% of the middle income group, and 12%, in the highest, and in the lowest income, 29% of the middle income group, and 12%, in the highest, and in the lowest income, 29% of the middle income group, and 12%, in the highest, and in the lowest income, 29% of the middle income group, and 12%
Investment Policies of Canadian Life Companies

By P. S. BOWER*
Assistant General Manager & Treasurer,
The Great-West Life Assurance Co., Winnipeg, Canada

Canadian insurance executive, after commenting on close relationship of insurance companies and investment dealers, reviews investment policies of Canadian life companies. Points out government policy will always exercise a major influence on investment operations of insurance companies, and the Bank of Canada, by its actions affecting interest rates, frequently influences how life companies’ funds are employed. Discusses classes of securities held by Canadian life companies, and takes up question of common stock investments. Concludes, so long as companies are compelled to guard themselves against wide market fluctuations, there will be relatively little investment by them in stocks. Reviews situation of Canadian municipal issues.

Canadian insurance, as a form of investment by those paying for it, has always been one of the most emotional and incomprehensible fields in the family of insurance. The same is true of life insurance, because it is, in a way, the very foundation of personal security—on which we all depend for a competent and happy annual attention.

In view of the universal public interest in this particular form of insurance, I would like to suggest an article on investment policies of Canadian life companies, for which there are so many reasons. To begin with, the Canadian insurance public appears to be demanding a greater part of its investments in stocks. This is a natural and expected development, as it is bound to be a consequence of the increasing prosperity and standard of living in Canada. The result is that the Canadian life companies have a much larger pool of capital, and are able to invest a larger amount of their funds in stocks.

It was natural, however, for the local capital needs, which seldom warranted the cost of a local offering, to be sought from local lenders, of which the life companies are an accessible source. What was more natural than for local mortgage needs to be met by the companies? Not only have these investments improved satisfactory over the years, but by helping to provide adequate housing and services, they contribute to a healthy and happy atmosphere in the country. The great expansion in the mortgage portfolios of the companies since the war is, therefore, a natural reassessment of an investment characteristic which has long prevailed among our companies, accustomed for the time being by the delayed action caused by the building recession of the 30's and the retarding influence of the Second World War. There is no doubt that capital will continue to provide an investment medium for a substantial proportion of mortgage funds under normal circumstances.

The character of mortgages has, of course, changed radically in the last 15 years. The old conception of a mortgage was essentially that it was a non-liquid investment. This attribute was heighted by the fact that it was most uncommon for principal payments to be required at any time before maturity—with the result that the approach of this event was usually regarded by both parties with considerable misgiving. Frequently, the mortgage had to be refinanced—out of necessity rather than by desire—so that mistakes were only too often compounded, until the only solution was an application to foreclose with its attendant repercussions and losses.

The development of equal monthly payments over a period of years, with ultimately, complete amortization of the mortgage, has changed the character of the lowly mortgage—like the glass slipper changed Cinderella. It is now a beautiful thing. It graces both its acquisitive and superior return. It shines with liquidity—and its garments are bright with such trappings of grandeur as government guarantees, which are used to be reserved almost entirely to more elegant instruments like C. N. R. bonds. Its liquidity is attributed to the fact that between 8% and 10% of Canadian life companies’ mortgage portfolios were repaid last year—during a period of contraction.

Insurance Portfolio Changes

From 1945 to 1953, the major insurance portfolio changes were these:

1. Dominion government bonds declined from over 60% to 18% of Canadian assets.
2. Canadian corporate bonds increased from approximately 10% to 22% of Canadian assets.
3. Canadian mortgages increased from less than 15% to about 24% of Canadian assets.

Important increases also occurred in municipal bonds and in investment portfolios, though smaller in the absolute amounts involved.

Can these changes be related to a calculated investment policy on the part of the insurance companies—or do they represent simply a shift of holdings or selecting Canadian securities frequently desire advice and assistance from specialists in the field. The interests and facilities of our organization, with offices across Canada and in London, New York and Chicago, are always at their disposal.

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Life insurance companies and investment dealers have an important part in the development of our modern economy in Canada, over five million of whose working population are contributing through their thrift, to the protection of themselves and their families; but are also assisting in making available a vast pool of capital for the financing of homes, businesses, schools, local improvements, and the development of our natural resources.

I should like to talk about this with you this morning in a more general way than the subject originally suggested to me—my remarks being in the nature of observations on the development of investment policy by insurance companies, because much of our flow of investment funds is placed in bonds, debentures or stocks through the offices of your members. The balance is, of course, more or less—duly—placed in mortgages directly by the companies.

By the beginning of this year, Canadian assets of Canadian life insurance companies operating in Canada amounted to $4,490 million, diversified as follows:

Bonds—Dominion Govts. 19% Provincial Govts. 7%
Corporates 27% Stocks 23%
Mortgages 10% Real Estate 25%
Other 5%

Into this pool of $3,496 million there is flowing a net addition, at the present time, of over $240 million a year. Not only do the companies have this net inflow for investment in bonds but, in addition, as much as another $130 million or so, representing the amortization on their Canadian mortgage portfolios and serial repayments on bonds and debentures. With the sharp rise in security prices, two other sources of funds for reinvestment may be expected to expand this year. Sales of securities can be expected to be more advantageous, and therefore may be expected to increase the flow of available funds—and refundings. This year, for example, some of the larger established issues—like Metropolitan Life, will be called upon to find investments on our behalf for this vast sum. At the moment, however, the demand for mortgage funds is sufficiently great that the historical inclination of the industry to invest large amounts of our investible income in first mortgages will likely leave not more than 50% to 60% of these funds available for security investments. Even so, this will likely be a larger dollar amount than for 1953.

Prospects of More Funds for Investment

How much will this all amount to? The two big unknown amounts are security sales by the industry and the volume of refundings to which portfolios will be exposed. Last year, the total volume of funds invested by all life insurance companies doing business in Canada was in the order of $500 million. This figure cannot be broken down very accurately, but it is possible to say that some $240 million came from newly issued Canadian securities. The increase in their volume, in other words, a further $130 million came from mortgage repayments to the same companies; and the balance from other sources, principally repayments and sales of securities. This year, the total will be larger. Just how much, I am not tempted to hazard.

I suppose no greater measure of comfort could be accorded this group than for me to assure you that you will be called upon to find investments on our behalf for this vast sum. At the moment, however, the demand for mortgage funds is sufficiently great that the historical inclination of the industry to invest large amounts of our investible income in first mortgages will likely leave not more than 50% to 60% of these funds available for security investments. Even so, this will likely be a larger dollar amount than for 1953.

Mortgage Investments

The continuation of the investment of large amounts of funds by the life companies in mortgages is not a new departure in the investment history of our industry. Indeed, it has, a firmly established precedent, going back to the earlier days of our companies, when the bulk of our government and corporate financing was placed in London where such fluctuations were far more readily absorbed than they could possibly have been in a scattered economy like early Canada's.

It was natural, however, for the local capital needs, which seldom warranted the cost of a London offering, to be sought from local lenders, of which the life companies are an accessible source. What was more natural than for local mortgage needs to be met by the companies? Not only have these investments improved satisfactory over the years, but by helping to provide adequate housing and services, they contribute to a healthy and happy atmosphere in the country. The great expansion in the mortgage portfolios of the companies since the war is, therefore, a natural reassessment of an investment characteristic which has long prevailed among our companies, accustomed for the time being to the delayed action caused by the building recession of the 30's and the retarding influence of the Second World War. There is no doubt that capital will continue to provide an investment medium for a substantial proportion of mortgage funds under normal circumstances.

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Investing in Canada

By W. T. Moran

The Commercial and Financial Chronicle

Thursday, June 24, 1954

In the background of Canadian investment, I think that there are three principal potentials, namely, its people, their philosophy and the country’s resources. As for the people, they number about 15 million which is less than 10% of your population. Probably that is one of our weaknesses, but at the same time, it is a factor of potential strength. The growth rate of our country of around 2½% a year exceeds that of the United States, and some of the commentators say that by 1980 the population will have increased by 65% to 25 million people.

The Political Atmosphere

The political atmosphere is important as, in relation to most countries, we have a stable government and a government that favors business and wants expansion. We tried to back our war by about 50% as we went along. We had heavy excess profits taxes but we took them off after the war and the tax was off. Since the war we have had a balanced budget every year, and at the same time reduced debt by nearly $2 billion, or close to 15%.

We realize that we have to encourage business to catch up in Canada and, in most cases, a new plant gets accelerated depreciation at a 20% rate. If you open a new mine you operate it for three years, plus a turning-up period of six months, before you pay any taxes. In other words, you have an opportunity of getting your money back before the government sees anything.

The necessity of attracting risk capital is appreciated by the powers that be, so we have no capital gains tax. Then, for those companies which are tax paying Canadian Corporations, Canadian shareholders are allowed to deduct from the tax bill 50% of dividends received from preferred and common stocks. Using a theoretical case, you can actually have an income, if you are married, of about $10,000, all from stocks, and you won’t pay any federal income tax.

Canada’s Industrialization

Prewar Canada’s economy was primarily agriculture and forest products with important mines. Industry was not dominant. For example, in 1937-38 annual average auto production was 125,000 cars. The total production was around 400,000. But now the economic front is being pushed back to the north.

In the development of any country it is normal to have two broad steps or phases. The first step is the opening up of primary wealth, usually agricultural and mineral. The second, usually following the first, is the development of manufacturing industry. The second stage usually marks the end of the first stage, as by that time resources are normally quite well known and fairly utilized.

In Canada, however, particularly postwar, a very rapid industrial growth took place in manufacturing coincided with new discoveries of raw resources. For example, oil was discovered on the plains of Alberta in 1947. New metal deposits greater than any we previously had were found. Tremendously new hydro-electric power was harnessed or plans were made to harness it. Thus, we had the unusual coincidence of two kinds of growth that worked together. So, in addition to doubling up in this way, we have also had the ability of Canada to utilize the techniques in the new products which had been developed in our country, as well as our own, and to apply them against both kinds of growth.

Actually, therefore, we have had a three-fold growth factor in Canada.

(1) The industrial economic growth.

(2) The discovery and development growth.

(3) The new product and technology growth.

While agriculture and forestry are still great sources of wealth and are still expanding, you have had these other factors so that you have a triple play in Canada. As a result, since the end of World War II, the Canadian gross national product has risen above 5% as against about 6% in the States.

Steady Rise In Capital Expenditure

What I think very significant is that since the end of the war new capital expenditures have in every year been greater than the year before with over $30 billion being the total of such expenditures in the past eight years. The annual so-called white paper on the outlook for capital expenditures for 1954 envisions a further small increase over the record of 1953 which, like in your country, was a boom in 12 months.

Of great significance, however, is that these additions to physical capital have represented nearly 21% of Canada’s total national product in the postwar period as a whole and even higher percentages in recent years. In other words, we in Canada have been ploughing back into physical assets, rather than consumption, immediately, between one-fifth and one-quarter of our national output. A higher proportion than in the States and much higher than in most other countries.

It is probably your impression that Canada’s expansion as a whole has been financed mainly by external capital. It is true that Canada’s growth has been attractive to outside investors. The foreign stake in Canada has increased in seven years by a little over $3 billion from $7 billion at the end of 1945 to over $10 billion at the end of 1952.

When we compare this increase of $3 billion in foreign investment in Canada during the seven postwar years with the figure of $40 billion of new Canadian capital expenditures as a whole in eight years, it becomes clear that less than 10% actually, actually about 8% of Canada’s total postwar expenditure of a capital nature has been financed by outside investors. And I might add that 62% underwritten by Canadian capital is a higher proportion than prevailed in earlier periods of rapid development.

Potentials of Specific Industries

Leaving the general background, let’s consider some of the specific industries and resources with a view to assessing their potentials.

In the first place, agriculture is still our biggest industry and contributes well over 10% of our gross national product. This segment of our economy, particularly the wheat portion, has been causing us some concern because of the extraordinarily large crops that we have been fortunate in having during the past few years and which have resulted in the accumulation of large wheat surpluses despite higher than average sales. If a period of surplus and falling prices should lie ahead, it is fortunate that the western wheat farmer is in a strong position. In the postwar years, an almost revolutionary improvement in the equipment and methods used in the harvest have occurred. It has been achieved, too, without a large net increase in cost. Thus, the Prairies wheat economy is physically more productive than ever before, and financially much stronger than, for example, in the late ’20s.

Forestry is the second biggest industry with Canada being the world’s largest newsprint producer and second in pulp. The newsprint situation today is that production and sales are approximately at a peak. The situation, however, would change to a shortage if there were foreign buyers, e.g. North America, able to secure from their governments the additional necessary Canadian or U. S. dollars which are required for our products.

The forestry is our best customer in newsprint and it is estimated that your requirements will increase again this year with the bulk of the anticipated increase.

Continued on page 12

Canadian Securities

1939 — 1954

Our organization has actively engaged since its foundation in underwriting and distributing Canadian Government, Provincial, Municipal and Corporate Securities.

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THE COMMERCIAL and FINANCIAL CHRONICLE
Canadian Money Market Enlarged

By T. H. ATKINSON

President and General Manager, Royal Bank of Canada

The last few months have been extremely important for Canadian bankers. Parliament has authorized the chartered banks to make housing loans on the security of mortgages and the law is now in operation. Parliament has also practically concluded a revision of the Bank Act, a recasting of the basic banking law to bring it into line with today's economic conditions. Side by side with that, three-way discussions, among the chartered banks, the Bank of Canada and the investment dealers, have just been concluded for the establishment, for the first time in Canada, of a day-to-day loan market as part of an enlarged short-term money market.

In review of these developments, it is not my intention today to make a general survey of banking and economic factors but, rather, to emphasize some of the points of the new banking laws and to outline the size and scope of the new loan market.

Mortgage Lending

The National Housing Act of 1954, in force since March 22, enables banks to lend on mortgage or hypothec on new housing projects, a departure from a long-standing prohibition in Canadian banking laws. The banks did not seek this authority. However, as it resulted from government policy, I believe that a spirit of willingness on the part of the banks to give this new power a fair chance to work may reasonably be assumed. As with the exercise of all other banking powers, the extent of the operations in this new field, consonant with recognition of the prime obligation for the safeguarding of the confidence of depositors, will remain the responsibility of the management of each bank.

Parliament is in the process of completing the eighth decennial revision of the Bank Act which was passed originally in 1871. No other nation has this system of 10-year charter banks and decennial revision of the basic banking law. Most bankers will, I am confident, agree that it is a good system, good for banking as well as for the country.

Strong Banking System

The Canadian banking system enjoys the reputation of being one of the strongest and soundest in the world, yet flexible and adaptable to meet the changing, ever-expanding needs of a rapidly growing nation. This is due, in part, to the principle of periodic revision, so that every 10 years Parliament conducts a full inquiry into banking practices, takes a long, hard look at the banking law and finds where it can be improved, extended, strengthened and brought into line with new economic conditions.

The 1954 revision proceedings, conducted by the Banking and Commerce Committee of the House of Commons, were broad in scope and resulted in several basic changes in banking law. Of the many amendments, perhaps the most important was the introduction of the principle of variable cash reserves.

Cash Reserves

The new method of setting cash reserves, embodied in both the Bank Act and the Bank of Canada Act, represents a new principle.

Loans Against Oil

As far as the Bank Act, itself, is concerned, several other important amendments have been included. One of the most important is a whole new section empowering the banks to lend against oil in the ground. This is a good illustration of the value of periodic examinations of the basic banking law. The banks have been permitted in financing the rapidly-growing oil industry because production had not reached important dimensions at the time of the 1944 revision and no provision was made for bank loans against the security of oil in the ground. In the 10 years between the two revisions, the banks have assisted materially in the development of the nation's oil resources by involved methods of taking security but now will be able to simplify the process by making loans on a special type of security on the oil.

Chattel Mortgages

The Banking and Commerce Committee inserted a provision in the bill, which was accepted by the House of Commons, enabling banks to take chattel mortgage or other security on household goods, including motor vehicles, in the case of loans to individuals. This, again, is a new principle in Canadian banking and it will be interesting to see how it works out. Every bank has been making small personal loans for years—the aggregate for all banks was $290,200,000 on Sept. 30, 1953—but this new provision will make it possible to enlarge this lending field and will simplify matters for borrowers.

Other Changes

There were many changes of a technical nature made in the Bank Act. The note-issuing privileges of the banks, in process of progressive reduction since the Bank of Canada was set up in 1934, are wiped out. The liability for the comparatively small outstanding notes of the Bank of Canada and the Bank of England, which were in the British West Indies will, it is expected, be transferred to local governments along the lines of the transfer to the Bank of Canada of the Bank of British North America in 1960. Changes were made, the first since 1866, in the capital regulations.
Canada's Rank Among Industrial Nations

By F. CYRIL JAMES
Principal and Vice-Chancellor
McGill University, Montreal, Canada

Canada, economist, formerly professor in the University of Pennsylvania, points out that Canada, despite its ties to U. S., has a separate and independent economy. Describes recent Canadian progress, and contends Canada has grown up in an economic sense, while both geography and tradition combine to make of Canada a nation different in many ways from the United States.

Canadians know it as in fact Canada's declaration of economic independency from the United States.

That decision marked the beginning of an era that has not yet ended. Canada recognized itself as a separate and independent economy -- and that decision coincided with the beginning of an upward surge in Canadian prosperity. In spite of the dismal prophecies of William Jennings Bryan, 1897 was the beginning of an upswing of prices throughout North America, although it is well for us to remember that this happy trend was due to the scientists who applied the cyanide process to the ores of the Witwatersrand rather than to anything that we did in Canada or the United States.

The last free land in your country was being occupied rapidly, and Western Canada was beginning to fill up with farmers, so that the dreams of those who had constructed the Canadian Pacific Railway were being justified.

Remembering all those undertones of the middle nineties, can we not find in Kipling the echo of a mood?

"I called my chiefs to council, In the din of a troubled year; For the sake of a sign ye would not see, And ye would not hear. This is our message and answer: This is the path we chose: For we are but a people." Said our Lady of the Snows.

Dr. F. Cyril James

# Canada's 13 Most Important Exports in 1938

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Woolen goods</td>
<td>$100,000,000</td>
</tr>
<tr>
<td>Coal</td>
<td>$6,013,156</td>
</tr>
<tr>
<td>Sugar</td>
<td>$4,652,004</td>
</tr>
<tr>
<td>Rolling mill products</td>
<td>$4,653,784</td>
</tr>
<tr>
<td>Cotton goods</td>
<td>$3,720,541</td>
</tr>
<tr>
<td>Raw cotton</td>
<td>$3,529,243</td>
</tr>
<tr>
<td>Tea</td>
<td>$3,073,843</td>
</tr>
<tr>
<td>Wheat &amp; grain products</td>
<td>$2,034,949</td>
</tr>
<tr>
<td>Silk goods</td>
<td>$2,645,385</td>
</tr>
<tr>
<td>Fruits</td>
<td>$2,400,000</td>
</tr>
</tbody>
</table>

# Canada's 10 Most Important Exports in 1891

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fish</td>
<td>$4,972,112</td>
</tr>
<tr>
<td>Sheep</td>
<td>$4,099,476</td>
</tr>
<tr>
<td>Tobacco</td>
<td>$2,645,744</td>
</tr>
<tr>
<td>Cattle</td>
<td>$2,416,414</td>
</tr>
<tr>
<td>Barley</td>
<td>$2,400,490</td>
</tr>
<tr>
<td>Squares and planks</td>
<td>$2,402,370</td>
</tr>
<tr>
<td>Coal</td>
<td>$2,447,824</td>
</tr>
<tr>
<td>Pipe and mill products</td>
<td>$3,539,243</td>
</tr>
<tr>
<td>Coal</td>
<td>$3,073,843</td>
</tr>
<tr>
<td>Wheat &amp; grain products</td>
<td>$2,034,949</td>
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<td>$2,645,385</td>
</tr>
<tr>
<td>Fruits</td>
<td>$2,400,000</td>
</tr>
</tbody>
</table>

# Canada's 10 Most Important Exports in 1913

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sheep</td>
<td>$4,972,112</td>
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<tr>
<td>Fish</td>
<td>$4,099,476</td>
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<tr>
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<tr>
<td>Fruits</td>
<td>$2,400,000</td>
</tr>
</tbody>
</table>

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**BUSINESS IN FORCE NOW OVER 2½ BILLION**
United States decided not to co-
cope, brought some apprecia-
tion of the changing pattern to
many Americans. You may have
noticed that the American-born
Minister of Trade and Commerce
in Canada, the Rt. Hon. C. D.
Howe, has publicly stated his re-
sentment that the United States
could not decide to participate in
the war. Each country will benefit
by each country. Howe was not thinking of any
economic advantage. He wanted the
unilateral completion of the spectacu-
lar project to signal
Canada's coming era.

That coming of age makes it
necessary for us to recognize that
Canada has characteristics which
mark it off from its great neigh-
bor to the south. In terms of
geography, Canada used to be
narrow fringe of population, not
much more than a hundred miles
across, which stretched from east
to west along the northern border
of the United States. The great
geological structure of the Lar-
ventile and the massive heights of the Rockies divided it
into three weak parts, and each
of these often looked in its
field toward the south. In our gen-
eration, the great northern
incredible mineral resources of the
Laurentian shield is drawing
population northward. It is acting
as a magnet to draw Canada into
a newly recognized geographic
unity, while pipelines and air-
planes have reduced the sig-
ificance of the boundaries of Cana-
dians, more and more, look to the
north when they ask for a job, or
start on their way to the eastward or westward. It is from
the north that much of their
trade and industry flows. It is in
the north that they are maintain-
ning garrisons to detect and inter-
cept any invader who might threaten this country. You must
allow me a personal feeling of
pride in the knowledge that, in
the day of the United States Con-
gress, if you ask whether we should come, the safety of
millions of our fellow men in
New York is likely to depend on the effi-
cacy of "the McGill fences" standing
cross the entire country.
The great wastes!

This geographical unity, which
was excellently discussed in the
March issue of the "Canadian
Geographical Journal," is coming
by an increasingly conscious homogeneity of population.
Canada has never subscribed to the
theory of the melting pot. For
two centuries, the British portion of
its population has remembered
the diversity of dialect and cus-
tom in the old country, so that it
is natural to guarantee to the
French-speaking population after
Wells's victory the right to enjoy
their own language, their own
customs, and their own religion.
This policy has been embodied in the Quebec Act, as
a forebear of many factors that contribute to the American
way of Independance—so that the
difference in this regard is a history that
extends from the Battle of the Plains of Abraham to the most
terrible epoch of the Dakhkoes,
and Senator
The Senate needs
not be consulted.
The Parliament of
Canada can also pass legislation
which is not intended to be
acted upon by the courts, even of
the Supreme Court of Canada, when
it finds the law incompatible with
public policy. I might even point
out that both Blackett and Blackett
have the full power—which it is
likely to use—to declare war on
either Great Britain or the
United States, and all the subsid-
aries of this action that is implied by this extreme
position. Both of these traditions have, I
think, helped to make the Parlia-
ment of Canada a more sober and
less spectacular body than the
Parliament of the United States.
Legislators cannot tilt with the
President unless they are ready
to get rid of him and face
new elections for themselves, at
which time they can put an in-
mediate judgment on their ac-
deagreement.
They cannot lightly pass
legislation in the hope that the
laws will save them from the
reproach of a decision of Parliament must,
therefore, be worked out in rec-
ognition of the desire of both
dates a chance to express their
views in sober debate, because the
ultimate decision of the majority
is absolute and final.

Canada, in Many Ways, Different
it Was

Geography and tradition, there-
fore, combine to make of Canada
either something different from the
United States, or something the
difference of Canadians resented the deci-
slay and the public opinion of the United
States Senate to interpose in the
matter of the internal affaires of
Canada. person of the resolu-
tion that reservation rose still
greatly when it was directed against the Canadian
Minister for External Affairs from
Canada. I might add, that this
important country is the great
Canadian breasts in regard to the
legislation in this country which
provides that a Canadian who
comes to one of your great
cities and wins the respect of
Canada, has the right to be
recognized as a Canadian, and
realize the full rights of a
Canadian citizen.

In the case of the United States, which
ranked first, the total com-
mood exports amount to no
more than 5.3% of the national
income; while in the case of the
United Kingdom, which ranks second,
exports represent
21.9% of the national income.
This fact expresses the kind of
trade to which Canada is most
likely to be allied with, as is
easy to understand from the
best known of all, that the in-
ternational trade of the British
States plays a vital role in its
economic life, and it is be-
cause of this that all of
the world has watched so care-
fully during the past five years
the annual figures of Britain's balance of payments. In the case
of Canada, the value of commod-
y goods exports amount to 24% of
the national income, a figure even
higher than that for Great Brit-
ain, so that on a per capita basis
foreign trade is a more important
to Canadian than to any other
nation in the world.

A second major point that
should be emphasized is the fact
that the pattern of Canadian trade
has changed substantially during
the past two decades. Canada has
always liked American goods and
has for many years been the most
important foreign customer of the
United States. Last year we took
38% of our imports from you, out of total American exports of
approximately $15 billion; no other
country in the world of-
fared to American producers any-
thing like so large a market. Ca-
nadian interest in American goods
is traditional, but our methods of
paying for them have changed
substantially. Prior to World War II, most of the Canadian exports
got to Great Britain or Europe, as
among the United States were paid in terms of the British and
European goods that we ob-
gained in exchange for Canadian goods because of the economic
disorganization of Western Eu-
rope and the lack of convertibility of
many European currencies into dollars, that is no longer possible.
Canada has therefore undertaken
the task of selling its products
directly in the American market;
and today substantially more than
half of Canada's products are sold
every year. In Canada, the
American market, accounted for 63 billion
and is not very much below
the $3 billion worth of goods that you purchase from you.

The Honorable Minsters, the
Canadian Minister of Public
Works, recently pointed out to the
American Society of Newspaper
Editors that "our newspapers out
every day in this country in
the United States were original as a result of the
ten of your cars coming off the
lines . . . lines . . . lines . . .
are likely to have and
Canada's exports to the United
Continued on page 26
1953—A Year of Progress for Canada

By W. A. Mather
President, Canadian Pacific Railway

Leading Canadian railway executive though stating there is some uncertainty in the business outlook, reveals economic progress in Canada during 1953. Sees a perplexing problem in the marketing of the immense grain crop as well as in distribution in some Canadian manufacturing industries. Stresses the importance of foreign trade to Canada, and notes growing competition to Canadian products. However, expresses optimism regarding Canada’s future, because of her rapidly growing population and abundant and diversified natural resources.

William A. Mather

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—Freemont address of Mr. Mather at the Annual Meeting of Shareholders of the Canadian Pacific Railway, Montreal, Can.

reflected in the worsening trade balances of recent months. Perhaps the most significant and perplexing problem on the trade front is the marketing of the 1953 grain crop. Export sales in the first part of the year were satisfactory but subsequently declined drastically. As a result, stocks of grain available for export are tapering all available storages facilities, although the crop in 1953 was not as large as in 1952. The reduction in the volume of grain moving to foreign markets was reflected in a decrease of 3.6% in the grain traffic of our railway in 1953.

Marketing problems were also manifest in some manufacturing industries. Export sales have declined, while imports from other countries have increased. The situation appears to be that the difficulties experienced by Canadian manufacturers are not unrelated to the fact that labor costs have increased to the extent that the prices have not increased in productivity. With the post-war backlog of demand now largely filled, companies are finding that the normal interplay of costs and prices should, over a period of time, strengthen and rejuvenate our economy in relation to the rest of the world.

Effect on Foreign Sales

Increasing competition, while affecting many domestic markets, has had an even more pronounced effect on our foreign sales. Canada ranks in the major trading nations of the world. Hence, it is important to maintain a high level of employment in Canada and of a balance in our international trade and railroad shipments that our international trade remain at a high level. When Canadian labor costs and, therefore, Canadian prices, tend to be high, our competitive position in world markets deteriorates and our prosperity suffers. Only by constant scrutiny of our prices can we ensure that the standard of living which we seek will not be so high as to make us uncompetitive in the world markets.

Experience has shown that inasmuch as competition promotes economic and efficient production, it is healthy for both consumer and producer. However, competition, as it is often presented, to both management and labor to strive together for lower prices by increasing output, improving the quality of product, and exercising carefully the closely price and wage levels. Non-productive, make-work projects and similar devices offer no substitute for efficient or economical production. It is hoped that a high level of employment and economic well-being, Canadian industry, as a result of the large capital investment made in the post-war years, is well equipped with modern tools and methods to make the most effective advantage of the challenge of competition. It is confident that with a realization of the nature of the problems and an understanding of the sense of Canadians will ensure that this challenge will be met vigorously and effectively.

Great Potentialities

The potentialities of Canada cannot fail to impress even the most timorous. Through the length and breadth of this vast country there is abundant evidence of the strength of our economy. No longer can there be any strength that justifies optimism on the part of all Canadians as to the future.

Possibly the greatest strength lies in the spirit of our population. Last year, the number of people in Canada increased by 381,000, bringing the total to over 15 million — each an individual who can be fed and clothed and for whom the goods and services required for modern living must be produced. The resulting expansion in our domestic market and in our productive capacity are major factors in maintaining the buoyancy of our economy.

One of the best known of our basic strengths is the wealth of our natural resources. As has been frequently stated, Canada is a country of the kind which is witnessing a great surge of mineral development not only of the basic and similar metals but also of the new materials of the jet and the atomic age. Among the most spectacular of the present and proposed developments are an iron ore in Labrador; nickel, lead and zinc in the Yukon, the North-west Territories, the Maritimes; copper and titanium in Quebec; uranium in Ontario and Saskatchewan; and asbestos and tungsten in British Columbia.

Much of the productive forest area, which accounts for about one-third of the total land area of the 10 provinces, is yet untouched. Recent progress in forest management encourages the hope that these lands will prove capable of a far greater productivity than was once thought possible.

New Energy Sources

These developments broaden the foundation of our industrial potential a potential that is becoming all the more impressive as it is accompanied by the discovery and development of various additional sources of energy. Not many years ago there were some who, looking only at the traditional sources of industrial power — coal, even considered the industrial potential of Canada was limited by the geographic location of its vast coal reserves. Today, with a growing realization of our reserves of water power, improved transmission methods, oil and natural gas and, for eventual development, nuclear energy, our sources of power are considered not as a limiting factor to our future as one of the major forces in the expansion of the economy. Reserves of oil are now estimated at 3 billion barrels, establishing Western Canada as one of the important oil-bearing regions of the world. The rich potential of new and expanding fields leads us confidently to expect a considerable increase in proven reserves and discoveries. It is also expected that the future move northward and outward across the Prairies. Since the discovery of the Leduc field early in 1947, $1 billion has been spent on oil exploration and development. Additional large sums have been invested in refinery and pipeline facilities. As new facilities come into operation, the flow of oil from established fields will steadily increase. Average daily production of crude oil rose to 222,000 barrels per day in 1953. This amount to one-third more than in 1952, and almost 10 times more than in 1946. The availability of this oil and its products is transforming the economy of parts of our Western provinces. Chemical and other industries have already been established there and the output is expected to increase at a rapid rate. As distrustful expansion of areas previously thought to be marginal, the 1954 estimates of the Petroleum Potential of Western Canada have shown an increase of 2 billion barrels from 100 million barrels to 2 billion barrels. The potential of our hydro-electric power has recently been estimated at 65 million horse-power. Over one-third of this is at present developed—equivalent to approximately one horse-power per head of population. The many hydro projects are an example of construction or being planned are still a substantial increase in installed capacity. Those along the St. Lawrence River will provide Canada with an increase of some 3 million horse-power.

Population Growth

Our growing population, the development of our natural resources and the forces of expansion are transforming our economy from one dependent on a few basic commodities to one in which a vast diversity of products is produced. The number of people employed in agriculture is about the same as it was 15 years ago, while the number of those employed in other occupations has roughly tripled. Today, the industrial la...
In Attendance at I.D.A.C. Convention

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Okanagan Investments Limited, Kelowna

ALEXANDER, N. J.
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Copitthorne, C. J.
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Continued on page 28

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In view of the insatiable demand for newsprint from the U.S.A. which has made for capacity operations in Canada during the entire postwar period, one might wonder why current operations are up less than 30% from 1947 levels. The reason is that the Canadian industry is making sure that it doesn't become the victim of over-expansion. In fact, only one new newprint mill (Elk Falls, B. C.) has been built in the country since the end of the war. The increased capacity came from rehabilitation and speeding up of existing machines. Further steady growth is looked for but no spectacular overnight expansion. In general, the investment status of the industry has undergone a material improvement.

The Mining Industry

Mining is the third biggest industry in Canada. We have there not only growth of the established mines, particularly base metals, but the development of the new ones. New finds of major importance have been made in the last couple of years such as in New Brunswick, and the Manitouwadge district of Ontario which, while still subject to development, have given early indications of being major producing areas as further exploration and development work is carried out.

If you take iron, last year Canada had to import a portion of its ores but in about two years' time we will be shipping iron ore in expanding volume from the Quebec-Labrador and Lake Superior deposits with your producers as the principal customers.

There has been a lot of press in the recent year about uranium, findings of which have been made in widely scattered spots ranging from Saskatchewan to Quebec. As time goes on the promising ore indications in such major areas as Beaverlodge Lake in Saskatchewan will be more clearly defined and production achieved. Another metal, titanium, almost unknown until recently, gives hopeful promise of being produced on a commercially profitable basis.

Petroleum Developments

The industry that gets the most attention from the newspapers and probably from you too is oil. Quite justifiably so as in the seven year period Canadian oil reserves have increased from approximately 100 million barrels to an estimated 3 billion barrels.

From a geographic or economic point of view, these Canadian oil reserves are located at great distances from available markets. Two major crude pipe lines have been constructed, however, to connect the fields with the markets. The Interprovincial Pipe Line, which is the world's longest, runs from Redwater, Alberta, to Sarnia, Ontario, a distance of 1,700 miles. The Trans Mountain Pipe Line crosses the Rocky Mountains from Edmonton to Vancouver and is being extended to connect refineries now under construction on Puget Sound.

For the moment, these lines are only operating at approximately one third of their capacity of over 100,000 barrels of oil per day, but it is expected that markets for the full amount will be built up over the course of the next several years.

While natural gas reserves in Canada have been proven up at a very substantial rate, increasing by about 4,000 billion cubic feet annually, so major transmission systems have been completed to connect this supply with the available markets. However, plans are rapidly being formulated for the construction of a line to Eastern Canada with possibly an off-shoot into the Minnesota area. Such a line would be the largest in the world, would cost $300 million to construct, would take two years to complete but would provide a major outlet for Canadian natural gas.

Plans for construction of a gas pipe line from the Peace River area of Northern Alberta and Northern British Columbia into the Pacific Northwest States has yet to receive approval from the Federal Power Commission in Washington. Should approval be given to this project, it also would provide a major outlet for Canadian natural gas.

Beyond a doubt, major reserves of natural gas and crude oil exist in Western Canada. They are being enlarged steadily and, if not cheap, at least their cost is moderate. The major problems from an economic standpoint continue to be one of markets, a problem compounded by the fact that the closest markets lie across the international boundary. However, there exists every confidence that this marketing problem will be solved in due time and that large profits will result from astute investments made in the Canadian industry.

Other Industries

Now to turn from some of the raw material producers to some of our other industries.

Starting with automobiles, Canada has one passenger car for about each five people. In the United States you have one car for each 3½ people. Canada certainly has room to parallel your growth and develop the car use up to something near your own.

Going hand in hand with the automobile industry the installment finance business offers some interesting comparisons. While you consider it a growing business in the United States, it would seem that the growth potential is higher in Canada. For example, at present about 40% of the new passenger cars in our country are financed, while you are financing around 65%-70%. Another point, Canadian banks don't write installment business whereas the United States banks do about half the volume.

Another big industry where comparison shows some possible relative on safety is steel. The
main point is capacity vs. peak demand. Canadian capacity of around four million tons is about two-thirds of peak demand, the excess steel is imported. Now if demand drops, it might be logical to think the imports will get the first cut. The United States in contracts has capacity in excess of domestic peak demand plus some exports. It would thus seem fair to say that Canadian steel will not be as fully cyclical.

Turning to the utilities field, Canada has something over 14 million h.p. installed. Present plans of utility companies and others put that up to about 18 million in 1965, over 92% of which is hydro-electric. The Canadian potential in 66 million h.p. of hydro, thus pinpointing one of Canada's big advantages, namely cheap hydro-electric power in large quantities.

Before passing on, a few words on the building and construction industry might be in order as this has been an excellent sustaining force in our economy. Prices continue to rise bringing new high values to the building done although the net result after three years from the peak is a decline of about 20% in real activity. Much of this decline has been in the major type of contract work and relatively little in residential building. While some decline in general building activity might be expected, our public works have been largely deferred through the blueprint stage and could be stepped up quite rapidly. We also have the St. Lawrence Seaway project coming along which should be a further sustaining factor for this industry.

In addition of course the Trans-Canada Highway, aside from any other road building, will continue to be an important contributor.

Long Range Estimates of Canadian Investment

In retrospect, I guess I turned out to be another drum beater despite my avowed intention not to be one. It does sound rather glooming, but there is this one important qualification to make. My terms of reference are all based on the long-term potential. I have attempted to point out certain attractive areas for investment and the next job for you analysts is to sift the wheat from the chaff within the various areas of investment covered. Initially you must have enthusiasm but also a critical approach is essential.

To a considerable degree long-range estimates of Canada are based on a continuing growth in population. As far as one can see now only two developments would be likely to retard this expansion seriously. The first is a long continued weakness in world demand for basic products. But if the picture of world and particularly U.S. demand for raw materials depicted in the Palley Report is at all valid, the long-term outlook for Canada's basic exports is a strong one, whatever short-term ups and downs may occur.

The second condition that would seriously retard growth is a long and severe depression like that of the 1930's. However, the fiscal and monetary mechanisms that have been developed to combat depressions and the extent to which governments are committed to policies of full employment would seem to rule out a prolonged slump of major proportions. This does not say there will not be recessions from time to time but if the underlying economic trend is satisfactory the 65% increase in population by 1980 which was referred to doesn't seem unduly optimistic.

The prospects of such an increase in Canadian population has its important implications. But the population increase and the parallel growth it implies in the output of the economy are only part of the picture. The experience of the past leaves no doubt that rising productivity and higher standards of living will be part and parcel of the expansion of the population and of the economy.

Over the past quarter century the real output per head in Canada has increased at a rate of about 1 1/2% per annum, a factor which has contributed fully as much to population growth to more than doubling the national production. It is estimated that annual growth at this rate in real output per head, combined with the population increase, could bring the total production of the country to well over 2% times the present level.

Broadly speaking, sometime around 1980 Canada could achieve a population of 25 million, and a gross national product of about $65 billion as compared with 15 million people and a gross national product of $24 billion at the present time.

Summary

To sum up, we should look at the fundamentals. The raw material is there. The political and business climate is favorable. The growth potential in the population is large. Resources are developing. The normal growth of business is highly promising. All of these things are not going to happen overnight and you should approach the analysis of Canadian situations from that angle. It is going to take time just as in any basic investment but the progress should be both solid and sure. In turn the investment reward should be substantial.
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Investment Policies of Canadian Life Companies

Continued from page 5

Investment Policies of Canadian Life Companies

ploy a submission to whatever market and other forces may have happened to be in play as funds became available for investment!

I think we must concede that while insurance companies can programme their operations in an important degree, they cannot always exercise nicely balanced selection in their purchases. A number of factors influence the development of their investment portfolios, some of which stem from the character of the life insurance business itself and some of which arise from external sources.

Internally, first, it is a fact that life companies, unlike fire and casualty insurers, are vitally concerned with interest rates. The wide benefits which a life insurance company is able to offer to the public are based upon the magic multiplication possibilities of compound interest applied over long periods of years. Insurance premiums are calculated on the assumption that certain minimum rates of interest will be earned on the policyholders’ funds, and the insurance company’s contract obligates it to earn a stated rate so long as that contract is in force.

Other policy considerations also arise from the nature of the life insurance business. A company’s prime objective must be to provide insurance to the policyholder at the lowest possible net cost. This calls for a proper balance of emphasis between security of principal and interest return. Investments must be diversified for safety and adequate liquidity must be maintained to meet reasonable contingencies. These are the copy-book maxims of the business and I am sure they are quite familiar to you. They will always be given great weight in investment policy decisions, no matter what other considerations are brought to bear.

External Influences on Investment Policy

Turning next to the external influences upon investment policy, we readily name two—economic forces and governmental forces. The two are not always easily distinguished from each other. To illustrate these, let us look again at the portfolio changes which have occurred since 1945.

As we have seen, the close of the war found insurance companies heavily invested in government bonds, which had been purchased in support of the war effort. There was, indeed, little alternative demand for the funds at the time. Was 60% of assets too great a proportion to have invested in that form? The companies thought it was, in the light of the alternatives they beginning to be available to them. They were not unduly concerned to maintain any theoretical portfolio balance—except in the sense that the ideal portfolio should be so composed as to produce the best net-end result to the investor under circumstances as they are able to foresee at the moment. It rather reminds one of a famous golfer’s answer to someone who asked him what shot he considered most important in golf. His reply was, “the next one.”

As a practical matter, a large holding of government bonds yielding only 3% was too rich for the digestion of the industry at a time when most of its contracts were written with a relatively high assumed rate of interest. The end of 1945 found the average gross rate earned by insurance companies on their investments at the low figure of 3.89%, with a downward momentum which was not to be checked for a further two years. Meanwhile, the economy required new capital for postwar conversion and expansion in order to meet a long-restrained backlog of consumer demand. A residential building boom, under strong government sponsorship, also required to be financed. These projects offered interest rates more in keeping with the contractual needs and historical inclination of the insurance industry. Here, then, as in the United States, the companies found their government bonds a natural source of funds to augment their normal investible income to meet the demands and the investment opportunities of the postwar years.

Government Influence

Criticism was sometimes directed at the insurance companies, at the time, because of the ultimate inflationary effect of these sales of government bonds. No objection was raised, however, by the central banking authority which, as the only purchaser capable of absorbing so large a volume of bonds, needed only to withdraw its support of the market to check the whole operation.

Eventually, exactly this was done. In the meantime, however, the central bank, by facilitating the market, actively facilitated the flow of insurance funds into industry and the construction field, apparently feeling that the long-term answer to inflation was likely to be best found in expanding national production.

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Continued from page 15

Investment Policies of Canadian Life Companies

running before the economic winds rather than following their own pre-designed programmes. They bought great quantities of government-subsidized mortgages and accepted large blocks of securities underwritten by our good friends, the investment dealers. At the same time, however, they were methodically changing the character of their portfolios along lines more suited to the requirements of the insurance business. They were also bringing their investing machinery to a level of efficiency probably not enjoyed by the industry previously. The mortgage field forces, which had declined in importance during the depression years, were rebuilt, and security analysis techniques were intensified.

The most generally recognized aspect of the government’s influence on investment policy takes the form of direct statutory regulation. The Canadian and British Insurance Companies Act dictates the types of investments permitted to insurers. It provides for the inspection of their business, prescribes the form of their Annual Statement, and directs how their assets shall be valued for statement purposes. It provides penalties for failure to comply with its terms. The legal framework thus provided for Canadian insurance operations is less restrictive, perhaps, than that of some American states, but is considerably more restrictive than that of the United Kingdom. It is, however, a natural development of the conditions under which the insurance business has grown up in Canada. It is a singular testimonial to the general acceptance of this Act, and to the sound administration it has received from the Dominion Department of Insurance, that the companies cheerfully conform to its provisions although they are aware that it is probably unconstitutional.

One may, perhaps, express a personal view, however, that the Act would benefit, at least in its investment terms, from more frequent amendments in order to keep it abreast of the changing versus of use economy. After the war, an industry committee undertook a study of the Act with a view to having it brought up to date. There had been relatively few major changes since the depression years and the companies accumulated a number of suggestions for amendments. With two or three important exceptions, their recommendations proved acceptable to the Department of Insurance and became law in 1948.

You will no doubt recall that the 1948 amendments provided new standards of eligibility for debentures and stocks, and created the so-called “basket” or “leeway” provision under which companies were given a quite wide discretion in investing up to 3% of their assets. It is under this “basket” provision that companies have been able to make some entry into the field of direct ownership of real estate for the production of income and, also, to employ that useful medium—the purchase-lease-back.

By a further amendment in 1950, the Act accorded recognition to real estate investment, apart from the “basket,” as a proper use for a limited part of company assets up to 5%. The industry has already made good use of this new power.

Responsibilities For Use of Funds

A further external influence upon the course of life insurance investments lies in the companies' awareness of their responsibility to use their funds so as to make the greatest possible contribution to the advancement of the Canadian economy. The life companies now marshal a very important part of the national savings and they recognize that their placement may be quite significant to the general economic welfare. It is pointed out with increasing frequency that anything which contributes to the general economic welfare must also contribute, in the long run, to the welfare of insurance policyholders.

Let us consider this for a moment.

Is there some public obligation on insurance companies to hold certain types of government bonds in volume? Have we already noted the inadequacy of the yield on governments in recent years in relation to the contractual obligation contained in most insurance contracts. A recent American study sums up the historic role of the government bond—as an investment medium for life insurance funds only in emergencies or when no other form of outlet is available, except to the degree that it is held for purposes of providing liquidity. So far as the liquidity factor is concerned, it has lost some of the significance it once possessed. The record of the industry shows that over a long period of years (including the depression thirties) the current income of life companies has always been greater than the outgo. Moreover, there is some reason to question whether government bonds, except of very short-term, could ever properly be considered to be entirely liquid investments.

The market for governments is, perhaps, somewhat more protected than it was used to be, since we now have the paternal influences of the Bank of Canada. Nevertheless, the Bank is free to limit or withdraw its bids at its pleasure. The ordinary market is always unlikely to be able to absorb the sizable offerings which might appear in an emergency.

Expression has recently been given to the opposite view by Mr. O. Kelly Anderson, President of New England Mutual Life Insurance Company. Mr. Anderson is able to see a practical benefit to policyholders in the purchase of certain types of government bonds. As you know, the U. S. Treasury has indicated a desire to
place a greater proportion of national debt in long-term securities but has not been able to do so. New and refunding Treasury issues have had to be placed in the short-term market where the commercial banks are the principal purchasers, and the resulting enlargement of bank reserves has been highly inflationary. Mr. Anderson reflects the concern of the industry about the injury which inflation can work upon the future beneficiaries of its policy-holders. We have seen the gradually changing power of the 1943 demand to 1952 and he points out that a continuation of that trend would be much more serious to the future recipient of insurance dollars than any small loss in interest yield now sustained by insurance companies in buying government bonds instead of higher-yielding securities. He suggests, therefore, that life companies should stand ready to buy substantial amounts of long-term government bonds in order to keep government financing on a non-inflationary basis so far as they are able.

In Canada, where governmental policy in this respect has been more successful — financing has been able to be carried out largely in the long-term market. The need, therefore, for life company support is not at the moment so great — but investment officers would no doubt agree with Mr. Anderson that it is in the policy-holders’ long-term interest to do their part to support non-inflationary types of financing when other purchasers are not equal to the task.

Such influences on investment policy, external and internal, as we have referred to, are only a sampling of those which have left their mark on postwar insurance portfolios.

If we choose now to look forward rather than back, it is already possible to see the emergence of new forces which will create new policy problems for the companies. For some time, we have been moving into a period of lower interest rates and we must still make some further adjustments if we are to continue to live with these. We must also recognize that, at least in some cases, these rates contain a concealed hazard from the fact that they are partly artificial — rather than the full product of free market interplay of supply and demand. If we believe that there is always a true price for the hiring of money and that that price is set by the balancing of supply and demand, it follows that insofar as artificial factors enable borrowers to obtain money at some other price, there is created a differential which has to be absorbed in another segment of the economy.

Greater Field for Investments Needed

In recent years, there has been serious concern among insurance companies about the narrowing field of investments legally available to them. There is general confidence that our dynamic economy will develop new investment demands for the accumulated savings of life policy-holders — in fact, it appears that financing which the future may require will not always be of the traditional types in which life companies are expected to invest and that the powers of investment may not be wide enough to encompass them.

Research conducted in recent years within our industry confirms that the growth of funds in the hands of institutions is proceeding at a more rapid pace than the supply of securities eligible for investment by such institutions. The competition among investors for this relatively diminishing supply has a tendency to over-price such securities when they appear. As one authority describes the situation — institutional investors who are invested largely to the field of debt obligations are, in such circumstances, paying something for legality as distinguished from investment quality.

What are the new areas of investment capable of being opened to life insurance funds? Many are suggested but the only ones which seem likely to provide the volume required are those which offer a fixed rate of return, or ownership. The conception of an insurance company as an owner rather than a creditor in the field of finance is, of course, not new. For many years, the Canadian and British Insurance Companies Act has permitted the acquisition of preferred and common stocks and, since 1941, as we have seen, the ownership of real estate has also been allowed. The Act in its present form limits, however, directly as well as, perhaps, indirectly, the full use of these instruments.

In the case of real estate, we have the direct restriction to 5% of assets which must cover purchases under the specific real estate section, as well as the real estate in the "basket." In setting this limit, the insurance Authorities were understandably cautious — but perhaps we may hope that when we have had time to demonstrate the worth while character of such investments, the limit will be raised to substantially higher levels.

It is recognized that in acquiring equity the investor loses the benefit of the cushion which would protect him if he were only a creditor — but the insurance industry, as a whole, has always brought to bear that same degree of conservatism in the equity field that it has in the other classes of investment available to it.

The Question of Investment in Stocks

With respect to stocks, it may appear at first glance that the Canadian and British Insurance Companies Act gives plenty of room for activity. No limit is placed on the volume of preferred stocks which may be acquired and, in the field of common stocks, the limitation to 15% of ledger assets appears quite reasonable at the moment. However, the limit to 15% might be more fully exploited if some practical way could be found to cushion the effect of the wide market value fluctuations which a large holding of common stocks exercises on the portfolio. At the present time, industry holdings of common stocks comprise only about 2% of assets.

This is part of a valuation problem confronting insurance companies in both United States and Canada today — a solution of which might radically change the...
Investment Policies of Canadian Life Companies

It is hardly necessary for me to point out to this audience that the market quotation on a blue-chip stock, or even a high-grade bond, may rise or fall noticeably in a single day for reasons entirely unrelated to the business operations of the company concerned—its earnings record—or its ability to pay dividends. On the other hand, market fluctuations of bonds or stocks are of little immediate importance to life companies as we are, by nature, long-term investors. On bonds, we look for the regular payment of interest and the ultimate payment of principal at maturity. On stocks, our primary concern is income. We are not exposed to pressures to liquidate assets to raise funds. Our normal current income is, in practice, more than sufficient for all requirements and this is now augmented by the increasing volume of repayments on serial issues and the heavy monthly rate of repayment on mortgages.

It is evident, therefore, that the use of market values may, under unduly exaggerated or depressed market conditions, present an unfair picture of a company's financial position. A step was taken in the right direction in the latest amendment to the Insurance Act in permitting the use of amortized values instead of market values on direct and guaranteed Dominion, United States and United Kingdom federal bonds and Canadian provincial bonds—an amortized value being one determined by reference to the yield at which a security was originally purchased. This, of course, eliminates the favored classification against portfolio market declines—but other important segments of our securities still remain fully exposed to the uncertainties of the market, including the whole field of corporate bonds and stocks. A much greater measure of freedom has been granted insurance companies in the United States for many years, where practically all corporate bonds and debentures are now amortized.

The fact that market values play such an important part in the considerations involved in the construction of company statements naturally has the effect of compelling unduly a company's attention to the likely market action of classes of securities from time to time as a matter of investment policy. Such considerations can frequently prejudice the pure investment merits of a situation. The use of amortized values for statement purposes, which has been so generally accepted as desirable in theory and has found such practical application in the insurance experience of the United States—would do much to correct this difficulty. The development of a systematic method of valuing common and preferred stocks for statement purposes—which would cushion the effect of wide fluctuations—has been under study for some time by an industry committee in the United States. It could do much to extend the attractiveness of the field of common and preferred stocks for life insurance investment in that country.

So long as companies are compelled to guard themselves against the possibility of wide market fluctuation on any considerable part of their assets, they will have little room to invest in preferred and common stocks—where market variation is seen in its most exaggerated form. Until this situation is corrected, even the present legal amount allowed to be held in common stocks is of little practical significance.

Municipal Securities

Mr. Gingras, in inviting me to be your guest today, suggested that I might contain in my remarks observations on municipal securities and finance from the point of view of the institutional investor, such as life insurance companies. There is, of course, a fine distinction which you will at once have recognized, between municipal securities and municipal finance which may be better demonstrated by allusion to the bride, who explained to her mother that she and John had come to a satisfactory operating arrangement in connection with the household budget—he would look after the finance and she would look after the money!

It is quite possible for a municipality to enjoy a strong financial position and a long history of integrity but if it offers securities for sale which are not tailored to meet the investment needs of the life insurance industry, then they cannot expect to be readily sold there. Naturally, this is not an error of which any large municipality is likely to be guilty. Investment dealers are known for their ability to interpret wisely to the borrowing community the terms which will provide the closest possible bal-
ance between the respective needs of borrower and lender. Since the market for such securities is generously favored by life insurance companies, it is obvious that the financing needs of municipalities should, in turn, be tailored, to a considerable extent, for this market. While experience over many years has demonstrated that the securities of well-administered municipal authorities, both large and small, are a sound location for policyholders’ funds—municipal securities present the elements of a social challenge of the type that insurance companies are not inclined to ignore. If, on the one hand, we, as an industry, are to continue to assist substantially in providing housing and like facilities through our mortgage operations—we cannot ignore the need which this operation in itself will create for local improvements, schools, fire protection and so forth.

If our expanding mortgage operations, which inevitably must be in the newer and fringe areas of our expanding communities, are to enjoy the essential characteristics of soundness—then the mortgaged premises must have accessibility to roads, to public transportation, adequate schools, facilities, fire and police protection, and essential water and sewage facilities. Unless these can be provided by our municipalities on the one hand, our mortgages will lack essential elements of adequate security on the other.

Successful municipal financing cannot, of course, hope to rely solely upon the assurances of this essential relationship. So where, the equating and equalizing ingredient of the rate of interest must assert itself and the needs of the municipal borrower be brought into a measure of realistic competition with the financial needs of industry and others. In subjecting any municipal situation to analytical scrutiny, the first and natural approach is to its general financial position—the size of its debt, the rate and incidence which its repayment will impose upon the municipal resources, the rate, resilience, and stability of its tax and other revenues. Against these factors, we naturally scan the terms of the proposed financing and the facilities to be provided and burdens which they, in turn, will impose. Lastly—and most difficult of all to assess—is the willingness of the borrowing authority to meet its obligations—in other words, the character of municipal management.

In corporate finance, willingness to pay is bolstered by the realization of the drastic consequences which can occur upon default. To the municipal or other government borrower, the consequences are hardly as horrendous. While the business man may lose control of his company, the city father is not unknown to have pictured himself as a hero for having stood off the money barons and the capitalists of St. James and Bay Streets. In reality, he is in a fair way to undermining the credit of his community, and increasing the cost of insurance protection for policyholders of life insurance companies everywhere.

At the municipal level, defaults in Canada were, of course, numerous during the depression of the 30s. Courage, patience, and determination by local governments, provincial authorities, and debenture-holders have brought most of these to settlement on bases which have preserved the credit of the borrower, with justice and equity to debenture-holders. In many instances, such as the municipalities surrounding Toronto, financial difficulties were due almost entirely to unwise spacing of maturities or to too heavy rate of required repayment for rapidly expanding municipalities. In others, closing of one or two major industries, with attendant unemployment and tax delinquency, precipitated serious strains on municipal finance. Fortunately, in only a very small number of instances was default premeditated in an effort simply to exact more favorable terms from debenture-holders. In some instances, political considerations either accelerated an already hopeless situation or created the crisis in a marginal one.

In practically every instance, adjustments were possible to lessen the immediate pressure, without involving either a loss of face to the debtor or a grave financial one to debenture-holders. In a few instances, where the bondholders concluded that their confidence and judgment had been seriously in error, some losses had to be absorbed. Looking back, the maze of problems which have been so amicably and reasonably settled in the last 20 years bears a striking testimony to the sincerity of Provincial regulatory bodies, the integrity of our municipal administrations, and, I must in fairness add, to the confidence and patience of debenture-holders, among whom ranked very largely the Insurance and Trust Companies of Canada.

Such a period is, of course, not all sweetness and light. In fact, there is often more heat than the latter—but where a genuine and honest desire on the part of municipal authorities existed to meet their liabilities, some arrangement almost invariably eventuated. Some aftermath of the problems of that era we inherit today. A few of the defaults persisted for protracted periods, largely because no solution of a practical nature could be found to be mutually acceptable. In these instances, the delay was, of course, a matter of financial relief to the municipality. As one authority has observed—no debt is a burden if it is not repaid and never bears interest.

If creditors have long memories, how is it that so many municipalities which defaulted can now finance on relatively favorable terms? The answer lies, I believe, essentially in the understanding Continued on page 20

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which the institutional creditor, like life insurance companies, bas of the underlying causes which precipitated default in individual cases. Where such causes were valid, there is little evidence for recriminations today. But effective willingness to pay must be with the municipal officials. They may be overwhelmed, of course, at times by local political pressures but—in the final analysis—their attitude must inevitably come to the fore. If they have sufficiently evidenced this integrity, they are reaping the dividends from it now.

Summary of Canadian Municipal Securities Situation

How do our institutions regard Canadian municipal securities at the present time? I believe—generally with approval. Nevertheless, I would be less than frank if I omitted reference to some of the uncertainties on the horizon. There will, of course, always be clouds of some kind on the horizon—and they always appear larger or smaller in fact than they eventually turn out to be—at least to this observer. If concern becomes more widely accentuated on some of these aspects of our municipal financial situation it would find eventual reflection in the relative acceptability of municipal securities amongst our investors. At the moment, from the rates which municipalities, as a class, command, these uncertainties do not weigh heavily upon the consciousness of the investor group.

What are these clouds? First, there is the inability of municipalities to secure a broader share of the total tax dollar. In fact, this concern goes so far as to recognize that the municipal share is, in fact, rapidly becoming less. Further, municipalities are still dependent essentially upon the real estate tax, while their obligations require them to meet modern methods of transportation, water supply, sewage disposal, schooling and extensive social services, which increase yearly with rising costs of labor and material. Many municipalities have preserved the appearance of a balanced budget in the face of these conditions only by the astute expedient of not keeping up normal maintenances. Sooner or later, this accumulated shock will have to be met.

Secondly, I believe that our school set-up invites some reconsideration. Those who are responsible for our school policy might also be made more responsible to the councils which provide their budgets. Our present system con¬
dones extravagance, avoids financial responsibility, and duplicates political and administrative machinery. It is a luxury which our municipal budgets may not be able to continue to afford.

Thirdly, a general reassessment and realignment of responsibilities, as among the municipal, provincial, and Federal taxing authorities. Modern transportation methods, interdependence of all levels of government for health, safety and defense reasons, have antiquated our old conceptions of the responsible field which each should occupy. Probably no other greater problem exists to test the ingenuity and the foresight of our municipal, provincial, and Federal representatives in the years that are immediately before us. For financial considerations—while eminently important and always pressing for some new solution—must be set against the underlying necessity of preserving the principles of essential checks and balances in order to assure the continuity of our democratic Canadian way of life. This requirement is not likely to be overlooked, but it greatly increases and complicates the difficulties of an already oversaddled problem. We will probably never solve it but, like the hyperbolic curve, perhaps we can hope only to approach continually the axis of our ideals though never expecting to reach them.

I regret, Mr. Chairman, that circumstances prevent me from experiencing the full stay of your Convention. I would have enjoyed the longer association, drawn conviction and assurance from your meetings, delighted in a wider renewal of acquaintance with so many good friends, and enjoyed meeting your young cousins, sisters and secretaries with which you seem amply supplied.

I doubt if I have told you much that in your own experience and knowledge you do not already know. Our industry and your profession exist to provide service to the public. Fortunately, our relationship is mutually compatible—for your abilities as salesmen are too well known, from personal experience, not to be regarded as shall I say—a close second to our own.

Our mutual existence is justified only on the basis of our character and capacity to serve better and cheaper than any alternative.

I am sure there are many light moments throughout your Convention. It would not be a convention, and it would not be human, if this were not so. But it provides, I sense—as I have seen so often on other occasions—the opportunity for the affirmation of principles, for a reappraisal of our ideals, and for encouragement and comradeship.

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Continued from page 3

**Economic Trends in Canada**

The economic trends in Canada have been marked by a number of significant developments.

1. **Low Interest Rates**: Interest rates have remained at historically low levels, which has provided an ideal environment for borrowing.

2. **Increased Investment**: There has been a significant increase in investment activity, particularly in the real estate sector.

3. **Strong Canadian Dollar**: The Canadian dollar has strengthened against the U.S. dollar, which has had implications for trade and tourism.

4. **Inflation**: Inflation rates have remained low, contributing to economic stability.

5. **Tax Reforms**: Recent tax reforms have aimed at simplifying the tax system and reducing rates, which has had positive effects on businesses and consumers.

6. **Government Spending**: Government spending has increased to support various sectors such as healthcare and education.

7. **International Trade**: Canada continues to participate actively in international trade, benefiting from its diverse markets.

8. **Technology**: The technology sector has shown robust growth, with innovation driving economic growth.

9. **Mergers and Acquisitions**: There has been a surge in mergers and acquisitions, reflecting confidence in the economy.

10. **Education**: Investment in education has been a key focus, aiming to prepare the workforce for future challenges.

The economic trends in Canada reflect a strong and resilient economy, with continued growth and innovation at its core.

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**TABLE 1**

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<td>$4,662.8</td>
</tr>
<tr>
<td>Provincial</td>
<td>230.0</td>
<td>235.0</td>
<td>258.5</td>
<td>210.1</td>
</tr>
<tr>
<td>Provincial Guaranteed</td>
<td>96.0</td>
<td>95.0</td>
<td>116.5</td>
<td>132.7</td>
</tr>
<tr>
<td>Municipal</td>
<td>78.0</td>
<td>58.0</td>
<td>222.0</td>
<td>146.1</td>
</tr>
<tr>
<td>Corporation</td>
<td>337.4</td>
<td>224.6</td>
<td>353.6</td>
<td>548.4</td>
</tr>
<tr>
<td>Total</td>
<td>$3,198.1</td>
<td>$2,445.6</td>
<td>$6,619.0</td>
<td>$5,556.1</td>
</tr>
<tr>
<td>Less: Short-term financing</td>
<td>$1,686.1</td>
<td>$850.6</td>
<td>$2,954.9</td>
<td>$1,981.1</td>
</tr>
</tbody>
</table>

**Notes**:
- Data represents selected items from The Commercial and Financial Chronicle.
- The figures are in millions of dollars.

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**OPPORTUNITIES IN CANADA**

Our facilities can be of valuable assistance to those interested in the industrial development of Canada and of benefit to investors in selecting suitable investments through which to participate in Canada’s assured growth.

**NESBITT, THOMSON AND COMPANY**

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**NESBITT, THOMSON AND COMPANY, INC.**

25 Broad Street, New York 4, N. Y.

Direct wire connections between
New York, Montreal, Toronto, Ottawa, Hamilton, Kitchener and London (Ont.)
Economic Trends in Canada

count—even though our pride might suffer a little.

Foreign Investment in Canada

Table II shows for selected years the investments in Canada owned by investors in the United States, United Kingdom and other countries, and what percentage these totals represent of our gross national product on a net basis.

From time to time we hear people alleging that each year more and more of Canada is owned by non-Canadians. However, as may be seen from the table, the trend since 1939 has been towards Canadians owning an increasingly greater share in their own country.

The accumulated value of all foreign capital invested in Canada is now a smaller proportion of the country's total capital investment than in earlier years. Although no comprehensive or current data are available, an official publication gives some indication of the extent of the changes in ownership for two specific areas of investment.

In Canadian industry, between the end of 1939 and the end of 1953, total non-resident ownership declined from 38% to 21% of the total, though the United States portion increased slightly from 22% to 25%. In the distribution of ownership of Canadian bonds, non-resident holdings represented one-third of the total Canadian bonds in 1939, whereas at the end of 1953 they represented less than 16%.

In any event, we have no excuse to be alarmed about people outside of Canada investing in our country. There is much to be done, and much money is needed to do it. The fact of the matter is we do not have enough money to do all that should be done. This situation is improving from year to year and the 20% tax credit on dividends allowed to Canadian shareholders is proving to be an important factor in this trend.

Our Relations With Other Financial Institutions

As mentioned at the outset, 1953 was a record year for many branches of Canadian industry, and so it was for the Canadian chartered banks. Their growth during the past 10 years has been phenomenal. From 1944 to 1953, current deposits increased from $2.1 billion to $3.1 billion, a 47% increase, and savings deposits from $2.5 billion to $4.2 billion, a 68% increase. Loans increased from $1.03 billion to $3.38 billion, or a 270% rise. However, during this same period the combined paid-up capital of the banks rose from $145.3 million to $152.5 million or only 5%. During the same period, the Reserve Fund, also belonging to shareholders, increased from $138.8 million to $293.4 million or 90%. In other words, the shareholders' investment has not kept pace with banking operations and there has been speculation that the banks will possibly be doing some new financing to remedy this situation. Recent strength in bank shares, other than strength caused by such things as increased earnings, is in part due to this possibility.

The regulations of the Securities Exchange Commission in the United States and the Bank Act in Canada have made it difficult to get any increases in capital through on terms which would be satisfactory to our chartered banks. One of the main objections has been that the Bank Act of 1944 required new offerings of shares to be made to all shareholders. December 1953 figures indicate that somewhere in the neighborhood of 6% of the shares of the Canadian chartered banks were held by investors in the United States. SBC regulations made offering of new shares to them a difficult task. Recent changes in the Bank Act will provide that chartered banks will not have to offer new shares to shareholders in countries whose requirements exceed those of Canada; this will facilitate new share offerings by our banks.

This year has seen the entrance of the chartered banks into the mortgage field. Canada needs...
housing, and needs it on terms which will make it possible for those in the lower income groups to afford their own home. In each of the past few years the demand for home mortgages has been increasingly heavy. The insurance companies, despite their policy of diverting larger proportions of funds to home mortgages, had sometimes been criticized in recent years for failing to make even more money available. Under the new Bank Act, the chartered banks, heretofore prohibited from loaning money on mortgages, will be permitted to carry mortgage loans. It will be several months or a year at least before it will be possible to assess what the effect of their entrance into this field will be.

In late 1953 and early 1954, the Canadian insurance companies once again became active in the bond market after what could be termed a "partial eclipse" covering quite a period of months. There would appear to be at least two chief reasons for their decision to once again emphasize bond investment. Firstly, they are doing business at a rate unprecedented in their history and they have additional funds available for investment over and above the still substantial sums of monies placed in mortgages previously. And secondly, I would say that they became aware of the fact that interest rates were getting away from them. Missing many of the attractive investments of a year or so ago and looking for favorable yield rates, the insurance companies began to buy long-term bonds. The spectacular rise in such issues as C.N.R. 3% of 1974 and Government of Canada 3% of 1978 and their purchases of the recent Canada issues illustrates, to a degree, the result of this new interest in bond investments by the insurance companies.

The Development of a Canadian Money Market

There are presently only two major money markets—New York and London. Before too many more years pass by, however, Canadian authorities are hoping for, and working towards, the creation of at least one more—a Canadian money market. The concept of a "money market" simply means a central area into which surplus short-term funds will gravitate, and one writer on the subject has described it by saying that what a bank balance is to an individual, the market is to a nation's credit system. The first essential of any money market is the existence, or the creation of a broad short-term money market and the creation of a real "call-money" market. Steps have been taken by the Bank of Canada with these ends in view. For instance, in January, 1953, a new policy in handling short-term Treasury bills was announced. Instead of issuing the Bills every two weeks for an invariable maturity of three months, the Government began to make a weekly issue of $15 million 91-day bills and $5 million 27-day bills, more recently modified to $30 million and 10 million respectively. The reason for the change in method of issue was to provide greater variety in maturities, to attract a wider range of investors and to provide yield more nearly comparable to the yield on short-term bonds without their fluctuation in price. To develop fully our money market, the market for short-term funds such as that represented by Treasury Bills must be much broader. Corporations and other holders of important amounts of liquid funds must become a vital part—both as buyers and/or sellers—of "commercial paper," no matter what it be named.

In addition, the Bank of Canada, to facilitate trade in Treasury Bonds, has agreed to make delivery in City "A" even though the transaction might have been consummated in City "B." Also Bank of Canada officials have extended credit facilities to investment dealers to enable them to carry additional inventories for short periods of time. In all these things, the idea paramount in the central banking authority's mind is to indicate to corporate and other purchasers that their holdings of short term bills and bonds have a very high degree of liquidity.

The co-operation and participation of the chartered banks and all other financial institutions is, of course, essential to the development of a Canadian money market. The industrial and economic growth of Canada in recent years has captured the imagination of the world and I feel sure that those of us engaged in the industry of finance will do our part in this contribution towards complete economic maturity.

Outlook for the Balance of the Year

The beginning of 1954 could not be characterized by any one trend either gloomy or bright. Now, at about the halfway point, economists and forecasters still are wary in predicting what the prospects will be for the full year 1954, although some of the finest economic thinkers in both Canada and the U. S. are predicting an up-turn in the second half of the year. Whatever the result, however, we should keep in mind that in a dynamic economy such as ours, there are bound to be ups and downs, and even if 1954 is not as good a year as 1953, it will still be one of the best years in our country's history.

The Challenge of Our Business

The theme of our annual convention this year is Marketing and Market Research, in other words "where are our markets and how can we reach them?" The display that will be exhibited will serve to indicate what many of our members have done and are doing to educate the public toward Continued on page 24

Ask us for Information and Quotations on Canadian Securities

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Canadian Affilie
W. C. Pitfield & Co., Inc.
30 Broad Street NEW YORK HAnover 2-9250
Continued from page 23

Economic Trends in Canada

better investment habits and equally important, what certain members are doing to broaden the basis of their business by building up a much greater following of individual retail accounts.

As I mentioned earlier, Canadians are at the present time saving more—and investing more than they ever have before. Our imaginative development of primary industries—oil, lumber, iron, waterpower—and our meteoric rise as an industrial nation have made our own people and people in other countries anxious, even eager, to participate by direct ownership in these enterprises. Many are not sure how to go about this; it is up to us to show them.

The Investment Dealers' Association of Canada

I believe that our Association has just completed a very successful year of operation. I refer to the activities of our many committees and of our permanent staff. In my visit across Canada—which included—Newfoundland for the first time—I realized the vast number of individuals and firms who are contributing their knowledge, experience, time and energy for the benefit of the membership at large. Be it at the level of Federal and provincial authorities in matters which are of immediate concern to investment dealers, such as Securities Acts and transfer taxes, or with the preparation and presentation to the public of our educational program, and in many other fields of common interest, they achieved outstanding results. Let me mention only one in particular: our booklet "To Help You Share in Canada's Growth." The material in the booklet itself brought very favorable comment from high officials in government and financial institutions and from the public for whom it is intended. 40,000 copies—70,000 in English and 20,000 in French—are making it easier for the layman to understand more about investments and the investment dealer.

Our industry has made great strides in the last decade and has contributed substantially to the development of Canada. As the investment industry has grown it has become more complex and the work of The Investment Dealers' Association of Canada in promoting the general welfare of those who own or deal in securities is becoming more important—and more evident—each year. As investment dealers we will continue to play our part in the development of Canada as one of the economic and financial bulwarks of the Free World.

Continued from page 4

Let's Treat Securities

As a Commodity

 noteworthy that 43% of the families in the United States are financially able to invest, and I assume this figure would include the subsistence populations in the South. Using the process I did, we arrived at a comparable figure of 38% for Canada, so, if anything, I feel we are on the low side.

So there is a large potential of new customers. But going out and getting new customers is only one way of expanding a market. To continue our analogy from mercantile fields, there are two other ways.

One such additional way is to increase the quantities of the product used by present customers. In your terms, this would mean enlarging the portfolios of present investors where you felt such a step would be in the best interests, and within the capabilities of that customer.

Increasing Investment Turnover

A third way of expanding the market, besides finding new customers, and increasing quantities used by present customers, is to increase the number of uses to which a product can be put. In your terms, again, this would mean increasing turnover by reviewing the portfolios of customers, and revolving or amending them when such changes would be in their interests. I don't, of course, advocate switching for the sake of switching. But it would

A monthly report on the Canadian Economy

If you are an investment dealer...and interested in Canada...you will want to be on the mailing list for the B of M's monthly Business Review—an up-to-the-minute brief of Canadian economic trends. Address any of our U.S. offices or our Head Office in Montreal.
be interesting to know, (and here is a simple bit of research you could quickly do yourselves) what percentage of your customers have held portfolios static during the last, say, five or 10 years. During this time, think of what has happened to Canadian development, in the fields of aluminum, iron, oil, uranium, construction, manufacturing, the sea way itself, and all the branching, corollary activities such major developments stimulate.

Step 3: Analyzing the Market: To recoup, quickly, you will recall that organization of my remarks was under four consecutive headings, first of which was studying the product, second, locating and defining the market and third (where we are now), studying it to find out attitudes of people constituting this market. Just a couple of points under this heading: A few minutes ago, I told you that our National Poll found that some 45% of the adult population had ever invested in stocks or bonds. We asked this group: "Were you satisfied to the point that you would invest again?" Results indicate a fairly healthy situation. Taking these investors as 100%, we find that: 70% say "Yes," they would invest again. 15% as mentioned, told us they were still investors. 3% weren't sure and only 11% gave a categorical "No." Not only are seven in 10 of the investing public satisfied with the experience they had, but we find that people are anxious for reliable, objective information as to how to handle their money. This doesn't surprise me. Usually, when we ask people, "What is the greatest problem facing you or your family today?" the largest single group of answers falls under the general heading of money troubles. Moreover, recently we asked Canadians what they felt was the chief cause of quarreling between husband and wife, and the answer was "money." So, in this special Poll, it was not surprising that we got a big "Yes" answer when we asked: "Although the Polls show that financial worries are named as top problem by many people, the schools don't teach young people how to handle their money better. Do you think high schools should add this to their course of teaching or not?" Approval ran all the way from 68% in the Prairies to 80% in Quebec, for a national total of 78%. Only 15% were definitely opposed to the idea.

Step 4: "How Does Our Present Sales and Promotional Effort Stack Up Against the Facts We Have Learned From the Preceding Three Steps?"

One obvious answer lies in the vast untapped market to which I have referred—the fact that your sales offices have left 57% of the potential market untouched.

I was sincerely and considerably impressed by the sales promotion display which I glimpsed in Toronto and studied more fully here yesterday. Frankly, five years ago, I wouldn't have believed that investment dealers would have achieved what they have, or what some houses have done by way of direct mail literature. All this is excellent. You have established a pattern. But there is work to do. Just to see how many rank-and-file people were aware of the existence of your various firms, we had our interviewers put this question to people in the 10,000 population or more: "Do you happen to know the names of any investment dealers?"

I hope the results don't shock you. The fact is that 70% of the people in these communities, know of no investment dealer as such. Another 4% said they did, but were unable to give us the names. Only 26% could give us the names of a n y investment dealers in their community, haven't had an opportunity of seeing how many of these names are properly definable as investment dealers, so the 26% figure is the maximum.

I said there was work to do. We asked our sample: "Has anyone ever tried to sell you stocks or bonds by personal call or telephone?" Two-thirds (67%) said "No," they had never been asked to buy stocks or bonds. Less than one quarter (24%) said they had been approached. Maybe there is nothing you can do about this on the narrow margin on which I, know, you operate, but certainly insurance companies could not keep in business with this kind of sales record.

To summarize: In the past 20 minutes here is what I have tried to do. I have taken the four elementary steps usually used in merchandising, and applied them to the investment business, treating securities as a commodity. I have indicated that the potential is a vast one, and that you have so far penetrated it to the extent of only 43% which I believe to be a maximum figure. I have tried to convince you that, although the work this association, and you as individuals, have done in the past five years is very impressive and worthwhile, the fact is that you have, as individual firms, made yourself known even by name, to only about one-quarter of the people in your communities. This tells us the fact is that one about one-quarter of these people recall ever being asked to buy securities.

JASPER
Gem of the Canadian Rockies
The Canadian Rockies and Jasper Park Lodge offer you everything for a supreme holiday. Here on the shores of Lac Beauvert is a bungalow village in an atmosphere un rivalled for rest or play. Spacious public rooms, excellent cuisine...thrilling golf, fishing, riding, hiking, tennis, enthralling scenic drives in Jasper National Park.


C.N.R. makes record equipment purchase.
To make your Canadian vacation even more wonderful, C.N.R. is daily placing in service on its trains throughout Canada smart, modern equipment providing the utmost in comfort, convenience and beauty.
Canada's Rank Among Industrial Nations

States of iron ore may [soon] meet one-quarter of the requirements of the American steel industry working at full capacity. These are facts that we must keep in mind. They indicate the extent to which the economies of Canada and the United States are complementary. They must not, however, blind us to the fact that, as Canada develops, the proportion of manufactured goods to raw materials will grow steadily, and that many of these manufactured goods will be competitive with those of the United States rather than complementary. Canada, like the United States, is therefore vitally interested in the development of multilateral trade and looks on its mutual trade with this country as the central core of a widely spreading network.

This care which is the material embodiment of the mutual friendship and economic independence of our two countries, is of tremendous importance. I have already mentioned that the Imperial Preference of 1897 was, in a sense, Canada's declaration of independence from the United States; and, in 1931, by the Statute of Westminster, Canada declared its independence of Great Britain. Canada is an independent nation, visibly on the march, as I have suggested to you. But we must never lose sight of the fact that it shares this continent with the United States. The recent Pailey Report, which emphasized the inadequacy of American supplies of certain basic raw materials, should have a more extended appeal and a more extended pejorative, indicating the extent to which Canada could fill that gap. If we look at our physical resources in continental, rather than national, terms, there are very few things that North America lacks, but we share more than physical resources. We share something that, with not too much stretch of the imagination, can be called the same language; we inherit the same literary traditions, as far as English-speaking Canadians are concerned; and all Canadians and Americans, no matter what their national ancestry, associate the same ideals of individual freedom and of human dignity.

In partnership, Canada and the United States constitute the last great bulwark of human freedom and opportunity in a world that is growing steadily more restricted and troubled. I might quote from another poem that Rudyard Kipling wrote during that same Diamond Jubilee period:

"For my house and thy house
so let us all stand
Save the house and my house—
In sharing to kind.
If my house be taken,
Thine tumbling on,
If thy house be built,
Mine followeth soon."  

No man in North America dare gain the rich prosperity we seek. But we do not always act in that spirit. A few months ago, speaking before the International Municipal Congress that was meeting in Montreal, the Prime Minister of Canada pointed out: "We as an exporting nation do not relish being regarded as marginal suppliers, cut off, whenever the going is tough for those with whom we happen to be competing; indeed, we want to be as sure as we can of a continued access to the markets we have established over so many years; we don't want the market suddenly cut off without warning. And we don't want either to see the kind of ill will which that kind of action inevitably creates... We have a trade with the United States as can reasonably be achieved without upsetting your or our economy; we ask for no special favors that you would not grant to the rest of the free world; but we would like to feel that we know where we stand in our commercial relations with each other, in every other aspect of our relations, and we would like to be sure that are not standing on sand that are apt to shift between one season and another."

Canada and U.S. Trade Policy

In a similar context, the Canadian Manufacturers Association, after carefully studying the problem, last autumn placed its finger on several aspects of the policy of the United States in the field of foreign trade that cause disquiet to Canadian exporters, and I should like to put before you their five recommendations:

(1) Further simplification of the U.S. Tariff Act of 1930, which could be accomplished by—

(a) Elimination of Section 402 (i.e., foreign value provision).

(b) Relaxation of marking requirements on goods which are difficult or expensive to stamp with country of origin.

(c) Establishment of a simple, but realistic basis for conversion of foreign currencies into U.S. dollars.

(d) Elimination of consular invoices.

(2) Elimination of U.S. import quotas.

(3) Reduction of U.S. tariff rates on manufactured goods to the extent needed to give a small share of U.S. domestic market to foreign producers.

(4) Cancellation of 'Buy American Act'.

(5) Cancellation of legislation dealing with CargoPreferences.
gress. These can be changed easily if we wish to do so. The fundamental thing, the important thing, is our attitude of heart and mind. As I have tried to point out, our trade with the United States is vital to the prosperity and welfare of Canada. We want to maintain it on a stable basis for that reason. We want to maintain it on a stable basis because we feel that close kinship with the United States that we feel with our fellow nations of the British Commonwealth. We enjoy our friendly partnership with you.

Does the United States share that conviction? Does the average citizen of this great country recognize that the events of the 20th century make the United States just as dependent on Canada as Canada is dependent upon the United States? Does it recognize that Canadian imports to it are as significant in the pattern of its economy as are the American exports to Canadian life? Or, as we who are north of the border sometimes fear, does the American climate of opinion regard Canadian trade as a luxury that may be reduced or cut off if it seems to interfere in any way whatever with the prosperity of any American producer, no matter where his costs may stand in relationship to his competitors? This is not primarily a political question to be debated in legislative halls. We are concerned here with the fundamental ideals and prejudices of every thinking individual. Only in the hearts and minds of men, Americans and Canadians alike, can that partnership, on which so much the fate of the world depends, be cemented. Only in that kind of whole-hearted and enduring partnership can we both augment our strength to invincibility, and yet preserve in each of our houses that individuality which characterizes our separate inheritances. Only in that kind of whole-hearted and enduring partnership can each of us say to the other that, as long as the world endures:

"I shall know that your good is mine:
    And that my strength is yours:

    In the day of Armageddon,
    At the last great fight of all,
    That our houses stand together
    And the pillars do not fall. . . ."

Go to your work and be strong:
Building the and half-won
for an instant dole of praise.
Stand to your work and be wise—
certain of sword and pen,
Who are neither children nor Gods,
but men in a world of men."

Display of Public Relations Material At the Convention

The following firms contributed to the display of advertisements, booklets, folders and other mailing pieces on view during the Convention:

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"The Gazette," Montreal
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DALY, JR., R. A.
H. A. Daly Co. Limited,
Toronto
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Telephone: Jackson 7-0276

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and Corporation Securities

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B. E. h. Weston
W. W. Watson

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HILL, J. E.*
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Limited, Winnipeg
HOWARD, R. P.*
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