[redacted]s useful introductory guide to the Stock Exchange has become an established favourite among investors. Novices particularly who are puzzled by financial procedure and professional jargon can turn to it confident of finding clear answers to all their questions, and the functions of brokers, jobbers, "bulls," "bears," "stags," and all the other denizens of the Noah's Ark of Throgmorton Street, explained in more understandable terms. Besides this a wealth of useful advice is offered to the inexperienced investor, and he should be in a position, after reading this book, to invest wisely and avoid the risks which accompany unskilled incursions into this specialized field.

THE STOCK EXCHANGE

THE STOCK EXCHANGE

An Introduction for Investors

by

H. D. BERMAN, M.A. (Oxon.)

THIRD EDITION

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PREFACE TO THE THIRD EDITION

THE World War has brought numerous changes to the Stock Exchange, as to everything else. Large numbers of Members and Clerks joined the Armed Forces or went to other essential war work while those who remained made their by no means negligible contribution to the national effort by keeping the financial machinery of the Nation working in spite of seriously depleted staffs, in the face of great difficulties and, often, of great personal danger.

The Government wisely decided that it was in the national interest to curtail speculation and various steps were taken by the Stock Exchange Committee, now the Stock Exchange Council, to implement that policy by suspending various facilities normally enjoyed by the speculator.

*Since some of these facilities described in this volume were similarly suspended during the 1914/18 War and restored during the years that followed, it has been decided to include them in the present edition as they may again be restored before long and they have therefore merely been marked as "Suspended during the war." The chief of these are contangos and option dealing.

Other changes concern procedure and consist mainly of measures designed to prevent transactions being carried out for the benefit of enemy subjects and as these

*Dealing for the fortnightly account is to be resumed towards the end of 1946 or early in 1947, but the ban on contangos, options, and the "free to close" concession remains in force for the present and dealing forward, i.e. beyond the current account, will not be allowed.

are likely soon to become unnecessary, only brief mention of them will be made.

It may not be out of place to remark here that while speculation carried to excess is undoubtedly an evil, reasonable speculation, that is to say speculation within the means of the individual concerned, serves a useful purpose in providing a flow of business which makes it possible for the genuine investor to buy more cheaply and to sell at better prices than would otherwise be the case.

Speculation is apt also to have a steadying influence on prices, since the speculator is always ready to sell a "bear" on a sudden rise, thus having a sobering effect on the market, and to support it on a sudden fall by buying back the shares of which he is short, or opening new commitments on the "bull" tack when he considers the fall has gone too far.

INTRODUCTION

THIS book was written, in the first instance, for the benefit of the inexperienced investor of every age and class. Stock Exchange securities have many advantages as investments, not the least being that they are readily realisable; there are, however, many pitfalls for the unwary and it is the aim of this book to help the inexperienced investor to avoid them.

There are many other forms of investment and speculation, but this book is concerned with Stock Exchange securities only; its aim is to give an outline of that part of the Stock Exchange routine and procedure which affects the client directly—stock-brokers have clients, banks and shops have customers—to direct his attention to considerations of great importance which are often overlooked by the amateur, and to present some of these from different points of view.

No schoolboy in his senses would try to play football without first of all learning, at any rate, the fundamental rules of the game; strangely enough, plenty of people try to make money by speculating in stocks and shares without knowing any of the rules, and the results are often disastrous.

The first, and by far the most important, rule is "use your common sense." This will tell you, if you give it a chance to do so, that offers of "money for nothing" if accepted will usually lead to trouble. There are, fortunately, a large number of philanthropists in the world, but they do not usually give their money to complete strangers. Therefore, if somebody writes to offer you shares in a company at a certain price with the assurance that they are certain to be worth double that price within a month, let your common sense ask why the alleged philanthropist—of whom you have never heard before, and who has probably got your name and address out of the telephone directory—should have chosen *you* to be the recipient of this gratuitous information which (according to him) will enable you to make a large sum of money without any risk whatever, and inquire why he does not use that knowledge to make the money for himself.

If you still think that there is something in it, buy a few shares, but on no account send the "philanthropist" any money; instruct him to deliver the shares to your bank against payment and give your bank the necessary instructions: you will then at least have a few bits of paper to show for your money.

Most reputable stock and share brokers are members of the Stock Exchange, London, or of one of the provincial Stock Exchanges and, as such, are not allowed to advertise; there are also reputable "outside houses", but they mostly confine themselves to dealing with their regular clients and with people to whom they have been given an introduction.

Should the reader be rather sceptical about this warning against "philanthropists" or "bucket-shops", let him read one of the financial newspapers regularly for a month or two; similar, though more particularised, warnings appear in them every few weeks and are presumably not put in merely as a joke.

Another good rule for the would-be investor or speculator is "Do not expect your broker to be infallible"; if he were, he would no longer be a broker but a millionaire leading the life of the idle rich.

CONTENTS

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*SUSPENDED—*See Appendix II—Temporary Regulations.*

AUTHOR'S NOTE

Since this book went to press the 1947 Budget has been opened and the chief points affecting the Stock Exchange are as follows :-

(i.) Stamp duties on Transfers and on Contracts are doubled with effect from 1st August, 1947 ; the " steps " remain as before and are as shown on page 110.

(ii.) As from 1st January, 1947, companies will pay 5% Profits Tax on undistributed profits and 12½% Profits Tax on distributed profits ; it may be more convenient to regard this as a tax of 5% on all profits and an additional tax of 7½% on distributed profits, the latter presumably including dividends on preference, preferred, ordinary and deferred stocks and shares but not interest on debentures. The status of arrears of preference dividends is not yet clear.

(iii.) Issues of shares and debentures by a company to its existing shareholders will be subject to a stamp duty of 10% of the amount of any " bonus element ". The " bonus element " is the difference between the market value of the shares or debentures issued and the amount, if any, subscribed therefor. Where a company increases the amount paid up on or secured by any shares or debentures by capitalizing profits or reserves, the amount of the increase will be treated as a bonus element for the purposes of charging duty.

CHAPTER I

Government Loans

IF YOU want to invest money, the safest way is to lend it to the British Government direct—by depositing it with the Post Office Savings Bank. As the Government cannot arrange profitably to borrow £500 from you to-day, £43 from Jones next week and so on, and provide for repayment at short notice, it only pays 2½ per cent per annum for money lent to it in this way—a rate of interest which is not very attractive.

When the Government needed large sums of money, it issued loans for public subscription at rates of interest high enough to attract the money required; therefore, when you wish to invest money, you need not go to the Government and offer to lend it at the rate of 2½ per cent (i.e. go and put the money into the Post Office Savings Bank) but you can arrange to take over a part of one of the Government loans and thus earn a higher rate of interest. In this case your broker buys as much of the loan as you require from someone who had lent money to the Government when the loan was issued. The Government debt is not increased in this way; the Government merely owes the money to you instead of to Mr. Brown or Mr. Jones, and has to pay the interest on it to you, instead of to them.

The chief difference is that in the first case you lend say £100 to the Government on the understanding that interest at a certain rate (2½ per cent) will be paid to you and that the £100 will be returned to you at your request at any time on due notice (usually a fortnight) being given. In the second case, you buy £100 of the loan at the market price, i.e. at a price low enough for you to be willing to pay it and high enough for the seller to be willing to accept it. This price depends on factors which will be discussed later.

If you buy £100 of a 4 per cent British Government loan you can be just as certain of receiving your £4 per annum interest on it as you are of receiving the £2 10*s.* per annum on the £100 deposited in the Post Office Savings Bank, but you cannot be sure of receiving the £100 at any time; you cannot demand repayment from the Government and if you wish to have the cash you must sell your £100 of the 4 per cent loan at the market price of the day—this may be above or below the price which you originally paid; in fact, if you buy part of a Government loan you have a chance of making a profit on it and run an equal risk of making a loss.

Limited Liability Companies

Formerly, when a man wished to undertake an enterprise which was too big for him by himself, he looked for one or more partners to help him not only with their work but also with their resources. This was not an entirely satisfactory arrangement since each partner or member of the company was liable, with the whole of his estate, for the debts of the company. Since for enterprises such as building railways or large ships, starting a mine, etc., it was evidently necessary to have a large number of participants in the company in order to get sufficient capital and since few people would subscribe capital, knowing that by so doing they became liable for all the debts of the company, the Limited Liability Company came into being. In such a company, each member's liability is limited to the amount of capital which he agrees to subcribe; when he has paid this, he has no further liability; e.g. suppose a man subscribes for 100 shares of £1 each at par; if the company calls up the whole amount at once, he pays £100 and has no further liability; if the company calls up 5*s.* per share, he pays £25 and remains liable for £75. If he sells his £1 shares (5*s.* paid) the buyer is liable for 15*s.* per share; if a call is made and the buyer is unable to meet it, the previous holder is liable if the call is made within one year of the time when the shares were transferred out of his name.

The Stock Exchange is the market which deals in Government loans and also in Municipal loans, loans to foreign governments, loans to companies (debentures) and in the capital of companies.

The Stock Exchange being private property, only members and their clerks are admitted; for this reason, and also because the purchase and sale of securities of this kind is a complicated business, members of the general public are obliged to employ a broker to transact their business for them.

To justify the statement that this is a complicated business it may be pointed out that if a man takes a stall in the market and fills it with potatoes it is assumed that he is there to sell potatoes and when the housewife appears with an empty market basket on her arm and stops in front of the stall there is little doubt that she is there to buy potatoes, provided only that they be cheap enough. Having bought her potatoes she proceeds to pay for them and take them away; there is no Government tax to pay—except a 2*d.* receipt stamp, if she has bought more than £2 worth of potatoes—and the transaction is completed.

In the Stock Exchange, however, a man is just as likely to be there to sell stock as to buy it; further, the sums of money which the stock represents are often large and in the majority of cases the securities are not things which can be delivered from seller to buyer like a sack of potatoes or even like a banknote, but have to be transferred from the seller to the buyer by means of a legal document signed by both parties and bearing, in many cases, an Inland Revenue stamp of a value depending on the value of the security to be transferred.

A company's capital consists of stock or shares; stock is usually priced at so and so much per £100 (i.e. so and so much per cent) but it is sometimes quoted in £1 units. Shares may be of any denomination (the denomination of a share is its face or "par" value), and may be fully or partly paid; the £1 share fully paid is the most common. Under English law every share must have a definite face value and a distinctive number.

The holder of stock or shares in a company is a part proprietor of the company and dividends may only be paid to him out of profits earned by the company.

Stock and shares can be of various classes, the names of which are more or less self-explanatory; thus preference shares rank for dividend before the ordinary shares—it would be more correct to say that preference shareholders rank before the ordinary shareholders, but the meaning is clear—but they do not get anything more than their fixed rate of dividend however well the company may do; the first preference shares rank before the second preference, and so on. A cumulative preference share is entitled to the arrears of dividend before the ordinary shares get anything, should the company return to prosperity after a lean period, but a non-cumulative preference share enjoys no such right.

A participating preference share, as its name implies, is entitled to a fixed dividend in priority to the ordinary shares and to a further participation, which may or may not be limited, after a certain amount has been paid on the ordinary shares.

The ordinary shares are usually entitled to all that remains (the equity) after paying interest on the debentures and dividends on the preference shares and are, therefore, often referred to as equity shares or equities. Sometimes, however, they are divided into preferred ordinary and deferred ordinary shares, the former corresponding to a further class of non-cumulative preference or participating preference shares, and the latter to the ordinary shares in other companies.

There is no standardised nomenclature for the different classes of stocks or shares, so it is as well to look up their rights before investing in them. (The Stock Exchange Official Year Book, which is to be found in most reference libraries, gives all the particulars under the name of the company).

Debenture-holders are not proprietors, but creditors of the company, and interest has to be paid to them before any dividends can be distributed.

CHAPTER II

Markets and Marketability

THE price of a share, like the price of anything else, depends on the supply and the demand; both supply and demand depend on a large number of factors, such as the past history of the company, the rate of dividend paid, the proportion of earnings usually distributed as dividend, the prospects of the industry in which the company is engaged, in general, and the prospects of the company in particular; other factors are hopes or fears of a tariff, news of famine or revolution in one or other of the countries where the company's products are consumed, or which supply its raw materials, or, if the company is a railway, reports of good or bad crops in the agricultural districts, and estimates of the state of trade in the industrial centres which it serves. The marketability of the share is also a factor which affects the price.

This last is a subject which appears to be understood by only a very small proportion of the general public, so that it may be as well to go into the matter fairly fully.

If you want to buy a cabbage, you go to a greengrocer; you might be able to get it cheaper by going to a market-gardener and he would doubtless be glad to sell it to you, as you would pay him more for it than the greengrocer would—by splitting the greengrocer's profit between you, you would both benefit.

Again, suppose that you have an armchair which you wish to sell; you go to a furniture dealer; there very probably is a market-gardener, somewhere, who wants an armchair and who would give you a better price for it than the furniture dealer would; however, you cannot spare the time to look for him, so you go and buy your cabbage from the greengrocer and sell your armchair to the furniture dealer.

A jobber is a man who specialises in certain stocks or shares (e.g. British Government stocks, foreign government bonds, oil companies' shares or industrial companies' shares) and does not deal with the general public but only with brokers or other jobbers. When a jobber is asked the price of a stock or share he quotes two prices, meaning that he is prepared to buy at the lower price or sell at the higher. (The difference between the two prices is known as the "jobber's turn" and is his remuneration for "making a market" in the stock or shares).

Suppose that you give your broker an order to sell 100 Shell; he may happen to know that another broker is a buyer of Shell, in which case he goes to him and they deal at the "middle price" (i.e. half way between the two prices quoted by the jobber) to the benefit of both clients; usually, however, he has no such knowledge and dare not go round on the off-chance of finding a broker with a buying order in that particular share, as the price might change in the meanwhile, i.e. he might "miss his market"; instead he goes to a jobber in the oil market and asks him what Shell are; the jobber quotes two prices and probably adds "How many are you talking about?" On being told he says "All right" or, if he has not asked the question and the price suits the broker, the latter will ask "Will you make me that in a hundred?" If the jobber agrees, the broker says "Sell you a hundred at such and such a price" (mentioning the lower of the two prices quoted), the jobber confirms the deal by saying "I buy a hundred Shell at . . ." (repeating the price) and the business is done.

The point to be emphasised is that when the jobber "makes" the price, he does not know whether the broker is a buyer or a seller. If he makes a wide price—makes a big difference between the price at which he is prepared to buy and the price at which he is prepared to sell—the broker will either demand a closer price before he deals or else take the business elsewhere; if the jobber "reads" (guesses) the broker a buyer and pitches the price rather high, he may find himself landed with shares at a higher price than he wished to pay, if he has guessed wrong, or he may lose the business if he has guessed right. Once he has "made" a price he is bound to deal in the number of shares in which he has made it, or in a reasonable amount if no number has been specified, if the broker wishes him to do so.

It must be pointed out that the jobber "makes" the price of a share only in a restricted sense and that the popular idea that the Stock Exchange or its members raise and lower prices according to their whims is a fallacy. In the broad sense it is the investing public, including the big financial institutions, banks, insurance companies and investment trusts as well as the large and small private investors who determine prices in the long run. The jobber's aim is to make a living by buying securities and selling them at a profit or by selling securities and replacing them at a profit. If a particular jobber raises his price unduly, sellers will flock to do business with him and he will soon acquire a large number of shares which he cannot sell except at a loss; similarly if he lowers his price too much, he will sell shares which he cannot replace without loss.

Jobbers are therefore forced to adjust their prices in accordance with the flow of buying and selling orders from the investing public, tempered with intelligent anticipation.

Thus a tip in the daily press that a certain share looks cheap will cause the jobbers to raise the price in anticipation of a stream of buying orders from the readers of the paper in question ; they will only raise the price cautiously, however, since the tip may be regarded by existing shareholders as a welcome opporunity to get out with a small profit or at any rate without a loss after buying the shares for a quick profit and waiting for months without a sign of a rise.

There are three main reasons for buying stocks and shares ; one is for investment, that is to say for the income which they will produce ; one is for capital appreciation in light of some expected development and the third is a combination of the two.

There are two reasons for selling stocks and shares and the first really covers the second ; the chief reason for selling is to raise money, whether it be to buy a house or a car or a business, or to pay death duties, or to buy other securities which at the moment appear more attractive, or to have money in the bank in the expectation of favourable opportunities of investing it to better advantage later on ; the second reason is the belief that the particular stock or share to be sold is standing at a higher price than its real value, that is to say, a belief that the price is going to fall.

There is one other reason both for buying and selling and that is to take a profit or cut a loss on shares which have been sold or bought for a quick turn.

Marketability

Now for the question of marketability; if a company has a very large capital, the shares are likely to be widely held and there will always be shares "coming in" (to the market)—from liquidation of deceased estates, from people taking profits on a slight rise in the price, from people cutting losses on a slight fall, or from other sources; in normal times there is an equally steady stream of buying orders and the shares are thus always changing hands. If a jobber is asked to make a price in a share of this kind (e.g. Courtaulds, which has twenty-four million £1 units of ordinary stock, or the Imperial Tobacco Co., the ordinary capital of which consists of over thirty-seven million £1 units of stock) he will make a fairly close price, knowing that if the shares are sold to him he will be able to dispose of them fairly easily while if they are bought from him he will have little difficulty in replacing them (in Stock Exchange jargon, he will have little trouble in getting his "book" "even" again). Further, a share of this kind is dealt in by a large number of jobbers some of whom, on account of the state of their respective books, will make slightly different prices from the others. Take Courtaulds, for example, now standing at the price of 54*s.* 6*d.*; one jobber may call them 54*s.*—55*s.* and refuse to "make" anything "inside" that; presumably he has got his book even and does not wish to do business except at a wide price. Discreet inquiry might discover that another jobber calls them 54*s.* 3*d.*—54*s.* 9*d.*, while a third jobber calls them 54*s.* 6*d.*—55*s.*, so that the actual "touch" would be 54*s.* 6*d.*—54*s.* 9*d.*; if the broker has an order to sell at 54*s.* 6*d.* or at some lower price he goes to the jobber who is making 54*s.* 6*d.*—55*s.* and sells them to him at 54*s.* 6*d.* while, if he has an order to buy at 54*s.* 9*d.* or at some higher price, all that remains for him to do is to go and deal with the appropriate jobber, provided that the price has not moved against him during the time taken to make these inquiries. It should be noted that in active markets prices move very rapidly and a broker who has gone to the telephone to quote a price to a client, may find that the price has altered by the time he gets back into the market again, and that, in spite of the fact that there are telephone boxes inside the Stock Exchange.

The art of the good broker is to know when to deal and when to hold his hand and try for a better price; a jobber is not obliged to "make a price" and if a broker gets a name for squeezing the last farthing out of a deal when business is brisk, he may find himself unable to do business when conditions are difficult; unless he is limited (i.e. has an order to execute at a price fixed by his client) a good broker will deal without hesitation at a fair price. He must be careful not to throw his client's money away, but it will react to the broker's disadvantage, and through him to that of his clients in the long run, if he habitually tries to drive too hard a bargain.

Now consider a company with a small capital of only one or two hundred thousand pounds; being only a small company there are far fewer people interested in it, and there are probably only two or three jobbers who deal in its shares; they will only make wide prices, knowing the difficulty they will have in getting their books even again if they deal, and will often refuse to make a price but ask the broker what he wants to do; if he tells them, they go and bid for or offer the shares to other brokers whom they know to be interested in the company, taking a "turn" out of the price to remunerate them for their trouble.

and most new issues of stocks and shares, until they are fully paid, are done for cash ; settlement takes place, theoretically, on the next business day (except Saturday) after the day on which the bargain is done ; in practice it takes place within the next few days.

In the case of bearer securities (of the stocks just mentioned) the seller is entitled to deliver the stock on the day following that on which the bargain was done (except that stock cannot be delivered on a Saturday) and to be paid for it at once

Transfer of British Government Securities

British Government Securities are in the form of inscribed stock (now obsolete), registered stock or bonds to bearer (the last mentioned are becoming less common and may disappear altogether in course of time).

The Government Stock Regulations, 1943, abolished inscribed stock as such and made it transferable in the same way as registered stock (also known as "deed" stock since it is transferable by means of a deed of transfer). The only difference is that holders of stock which was inscribed before the 1st January, 1943, will not receive stock certificates in respect of their holdings unless they apply for them in writing.

Deeds of transfer in respect of inscribed stock for which no certificate has been issued will be "certified" (see p. 21 "Certification").

The books recording the names and addresses of holders of British Government stocks are kept by the Bank of England ; of the books of Dominion and Colonial stocks, some are kept by the Bank of England, others by the Bank of Montreal, the Commonwealth Bank of Australia, the Crown Agents for the Colonies, etc.

Transfer of Registered Government Securities

As there is no expense incurred in the transfer of British Government securities and as, largely on account of this, bargains are often done in odd amounts, it is usual to transfer stock from the seller to the immediate buyer, even if the latter has already sold part or all of it to a third person.

The selling broker (i.e. the broker of the client who has sold the stock) delivers the certificate and transfer signed by his client to the jobber who has bought the stock, against payment and the jobber then signs the transfer and lodges it with the Bank of England for registration. (In the case of inscribed stock for which no certificate has been issued the transfer has to be certified before delivery). The Bank notifies the transferor (seller) that a transfer out of his name has been lodged for certification (see page 23).

When a client buys registered British Government stock his broker must, on the day following that on which the bargain was done, supply the seller with the name into which the stock is to be registered; the seller may deliver the stock immediately and is entitled to be paid on delivery, so the client should send his broker a cheque as soon as he receives the contract. Delivery is made by handing the buying broker the stock certificate together with a signed transfer or else a certified transfer (see page 21).

The broker sends his client the transfer to be signed and witnessed, and on getting it back lodges it with the Bank of England for registration. The new stock certificate is ready in about ten days and has to be collected and sent to the client or to his bank to complete the transaction. In practice the broker sometimes "holds the name over" for a day or two, pending receipt of cheque and instructions from his client.

The interest on registered stocks is sent to the holder (or to his nominee, e.g. his bank) by post when it falls due.

Transfer of Government Securities in Bearer Form

Bearer bonds for various round amounts of stock (£5,000, £1,000, £500, £100, and in some cases £50) are issued; these are transferred from seller to buyer by being handed from one to the other in the same way as a banknote. It is impossible to send the interest to the holder by post as the Bank of England has no means of knowing who the holder is; the bonds, therefore, have "coupons" attached and these must be cut off as they fall due and "lodged" with the Bank which pays the interest on or after the due date against delivery of the coupons. Coupons have to be left for three clear days for examination before payment is made.

Great care must be taken to cut the coupons off neatly, since, if the next coupon is damaged (e.g. by cutting the corner off), the bond will become "bad delivery" (i.e. the buyer will be entitled to refuse to accept and pay for it) while, if the coupon to be cut off is damaged, the paying agent may refuse payment on it.

The coupon sheets attached to bonds to bearer contain sufficient coupons to cover the interest payments for a number of years and a "talon" to be detached and exchanged for a new coupon sheet when the original supply of coupons has been exhausted.

Treasury approval is now required for the issue of securities in bearer form and will not readily be granted; holders of bearer securities have been encouraged to have them registered, and it was announced recently that when the coupons attached to the bearer bonds of a certain British Government loan were exhausted no new coupon sheets would be issued so that payment of interest could only be obtained by registering the bonds.

The withdrawal, as opportunity offered, of bearer bonds was started for the protection of the public when it was discovered that they were being forged on a large scale in Germany; bank notes of large denomination have been withdrawn for the same reason. A further reason for both withdrawals is that bearer bonds as well as banknotes can be used for black market transactions where their comparatively small bulk in relation to their value and the difficulty of tracing their successive owners are highly prized.

**Dealing for the Account*

Other stocks, bonds and shares are dealt in "for the account". The arrangement of dealing for the account seems very simple to one inside the Stock Exchange, but it appears rather mysterious to those outside. Stock Exchange accounts last for a fortnight, except those accounts which cover Easter, Whitsun, August Bank Holiday and the Christmas and New Year holidays—these are extended to three weeks.

Dealing for the account starts on Monday of the first week and continues until Saturday of the second week (Friday, if the Stock Exchange is closed on Saturday); the bargains are settled on account day which is Thursday of the third week. Dealing for the next account starts on Monday of the third week and continues until Saturday of the fourth week, account day being Thursday

*Suspended—to be resumed towards the end of 1946 or early in 1947—See Appendix II—Temporary Regulations.

in the fifth week, and so on. The account day is now always a Thursday. In a three-week account dealing is continued for an extra week (broken up by the Bank Holiday) and account day is on the Thursday following the end of that week. Each account is settled while dealing for the next account is already in full swing.

Specimen 1.

BLACK, GRAY, WHITE & Co. — 1,000 *Throgmorton Street,*
A. B. Black, E. F. White, — *London, E.C.*2,
C. D. Gray, G. H. Robinson. — *and Stock Exchange*
30th May, 19....

Bought by order and for account of J. Smith, Esq.
(Subject to the rules and regulations of the Stock Exchange).

		£ s. d.
£200 2½ per cent Consolidated Stock @ 88⅝ ..		177 5 0
Government Transfer Stamp		
Company's fee		
Commission	£1 0 0	
Contract stamp	1 0	
		1 1 0
For Cash.		£178 6 0

(Signed) BLACK, GRAY, WHITE & Co.
(OVER 1*s*. STAMP)
Members of the Stock Exchange, London.

Specimen 2.

BLACK, GRAY, WHITE & Co. — 1,000 *Throgmorton Street,*
A. B. Black, E. F. White, — *London, E.C.*2,
C. D. Gray, G. H. Robinson. — *and Stock Exchange*
30th May, 19....

Bought by order and for account of J. Smith, Esq.
(Subject to the rules and regulations of the Stock Exchange).

		£ s. d.
100 Courtaulds Ltd. ordinary units @ 54*s*. 9*d*. ..		273 15 0
Government transfer stamp	£2 15 0	
Company's fee	2 6	
Commission (@ 6*d*.) ..	2 10 0	
Contract stamp	1 0	
		5 8 6
		£279 3 6

For the 6th June account, 19....

(Signed) BLACK, GRAY, WHITE & Co.
(OVER 1*s*. STAMP)
Members of the Stock Exchange, London.

Foreign Government Bonds

Foreign Government loans which are dealt in in London are, almost without exception, in the form of bonds to bearer, the bonds being of various denominations from £10 to £1,000, those of £100 and £500 being the most common. (This is to facilitate dealing in Continental Stock Exchanges or Bourses, where practically all securities are in bearer form).

Each bond has a sheet of coupons attached to it and both bonds and coupons are printed from plates engraved with intricate designs to prevent forgery. Each bond has a distinctive number and the coupons bear the number of the bond to which they are attached as well as the date on which they are due.

Transfer from seller to buyer is effected by simply handing the bonds from the one to the other. If you buy bonds, it is best to hand them to your bank, not only for safe keeping, but also because the bank will cut off and encash the coupons for you as they fall due. If bonds have to be sent by post, they should not only be registered but also insured.

Transfer of Registered Stocks and Shares

On the Tuesday before account day the buying brokers (our old friends Black, Gray, White & Co.), that is to say, the brokers of the client who has bought the shares, make out a "ticket" stating the full name, description and address of their client, the number, name and price of the shares and the amount of the transfer stamp, and bearing the intimation that "Black, Gray, White & Co. pay". Their clerk goes to the settling room (a large room underneath the Stock Exchange) and hands the ticket to the jobber (or rather to his clerk) from whom the shares were bought. The jobber may have bought and sold a large number of these shares during the account; if he has to deliver shares on balance he keeps the ticket, but if not he passes it on to a firm from whom he has bought shares. The ticket may thus pass through various hands before it reaches the ultimate sellers, Jones & Co., the brokers who sold the shares for Mr. Green.

The description in the case of a woman is "spinster", "married woman", "widow" or "feme-sole"; in the case of a man it may be anything—baker, banker, civil servant, merchant, retired army officer, clerk or gentleman, but many companies consider the last too vague and refuse to accept it.

Jones & Co., having the share certificate, make out a deed of transfer (referred to as a "transfer" for short) filling in the seller's name, address and description exactly as on the certificate, and the buyer's name, etc., as on the ticket; the consideration filled in on the transfer is the price on the ticket multiplied by the number of shares; this price is the price paid by the buyer and is often different from the price received by the seller, as there may have been intermediate transactions. The law requires that each share in a company should have a distinctive number, so the numbers of the shares to be transferred are copied on to the transfer from the share certificate; this entails a considerable amount of work and is one of the reasons why a higher commission is charged on shares than that charged on stock.

Jones & Co. then send the transfer to Mr. Green to be signed and witnessed and returned to them; it should be remembered that the wife or husband of the signatory is usually not eligible as a witness. On receipt of the signed transfer, Jones & Co. have it stamped at the

Inland Revenue Stamp Office and it is then ready for delivery. If Mr. Green lives in town, the transfer will probably be ready for delivery on account day but, if he lives in the country or abroad, there may be some delay in getting his signature.

If the transfer is for the same number of shares as the certificate, Jones & Co. deliver them together, with the ticket attached, to Black, Gray, White & Co. on the account day or as soon after as possible; Black, Gray, White & Co. pay for them on the day on which they receive them and Jones & Co. pay Mr. Green on the same day as well. Stock (i.e. stock, shares or bonds) must be delivered at the buyer's office before 1.45 p.m.; after that time the buyer need not accept them and the seller has to wait until the next day to deliver the stock and receive his money.

If Mr. Green has only sold part of his holding of shares, Jones & Co. take the transfer and certificate to the Stock Exchange Share and Loan Department or to the company's office for "certification". The Share and Loan Department or the company keep the certificate, issue a "balance receipt" which can be exchanged for a "balance certificate" (i.e. a certificate for the balance of the shares) in due course, and sign a declaration on the transfer certifying that a certificate for the number of shares mentioned in the same has been deposited with them. Jones & Co. then deliver the certified transfer in the same way as described above.

Black, Gray, White & Co. forward the transfer to their client to be signed and witnessed, and on its return send it to the company with the seller's certificate (unless it is a certified transfer) for registration; in due course (usually about two months) the company sends them (the brokers) a new certificate in their client's (the buyer's) name and they complete the transaction by forwarding the new certificate to their client or to his bank.

Transfers

Any alteration, deletion or erasure should be initialled by all the signatories or the transfer will not be accepted by the company.

The witnesses should give their full postal addresses so that the company can communicate with them in case of dispute; failure of the witness to give sufficient address may lead to the rejection of the transfer by the company, with consequent delay in the completion of the transaction.

If the witness is a woman the description or occupation should be given as "spinster", "married woman", "widow" or "feme-sole" in the case of a divorcée. Most companies refuse to accept as a witness the wife or husband of the signatory.

When a client buys several hundred shares in a company, it is not uncommon for them to be delivered in small numbers from several different sellers and when they are sold again they may have to be delivered to several different buyers; as a matter of convenience many investors now arrange to have their shares registered in the name of a nominee (usually a company specially formed for the purpose by the investor's bank); one signature instructing the bank to take up so many shares from such and such a broker or to deliver so many shares to the broker is then enough to complete the deal.

This arrangement is particularly valuable if the client has to go away from home since it makes it unnecessary for transfers to be forwarded all round the country after him for his signature.

Nominee companies usually refuse to take up partly paid shares on which there is a liability but as most shares, with the exception of bank and insurance shares which are usually bought for long term investment, are fully paid, this is no great drawback.

The bank then keeps the certificate in safe custody for their customer; incidentally, the bank is the safest place for all stock and share certificates, whether the shares are registered in the client's own name or in that of his bank.

When the shares are registered in the client's own name it is becoming increasingly common for him to send the company a dividend request form instructing the company to pay all dividends direct to his bank. This saves a certain amount of trouble and is a safeguard against loss in the post if the shareholder changes his address and forgets to notify the company.

Most companies charge a fee of 2*s.* 6*d.* per document for registration. When a transfer is lodged with them they usually write to the transferor saying "we have received a transfer for . . . shares in the company out of your name into the name of . . . purporting to be signed by you; if we do not hear from you by return of post, we shall assume it to be in order", as a safeguard against fraud.

When a client buys stock his broker is entitled to be paid on the day on which the stock is delivered to him, since he must pay for it on the same day. Since the stock may be delivered on account day or on any subsequent day, it is usual for the client to pay his broker on or before account day. If, however, the amount is large, them (the brokers) a new certificate in their client's (the buyer's) name and they complete the transaction by forwarding the new certificate to their client or to his bank.

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Canadian and American Shares

These shares are registered but the share certificates have a deed of transfer printed on the back; when this has been signed by the shareholder named on the face of the certificate (the space for the name of the person to whom the shares are to be transferred being left blank), the shares are delivered from seller to buyer in the same way as bearer shares (to be "good delivery" in London the certificates must in general be for ten—or a smaller number—shares each)* except that the dividends are paid to the registered shareholder and must be claimed from him by the person who owns the shares (i.e. the person who has the share certificate in his legitimate possession).

Most of these shares stand in the names of finance houses, jobbers or brokers ("recognized marking names") who deal in them and who exchange the dollar dividends for sterling, deduct United Kingdom income tax and issue tax vouchers to the owners of the shares and charge a small commision for their services. The share certificates have to be presented to the registered shareholder to be "marked for dividend" before the dividend is paid; this is to prevent the same dividend being claimed twice over on the same shares.

Unless otherwise instructed, a broker will deal for his client in shares in "recognized marking names", since shares in other names command a lower price and a less

*For details. See Glossary—American Form.

free market; if the buyer intends to hold the shares indefinitely and wishes to save the cost of collection of dividends, he can have them registered in his own name on payment of the registration expenses; if that is his intention, he should inform his broker when he gives him the buying order, since he may be able to save money by buying shares in "other" names; such a course is probably false economy and is not recommended.

When giving your broker an order to sell Amercian or Canadian shares you should send him the certificates with the order or, at any rate, give him the names in which they stand, in order to prevent mistakes.

The International Nickel Co. of Canada maintain a London register and buyers of Nickels should stipulate "London register"; they will pay a little more for their shares but they will get the benefit of Dominion Tax Relief automatically without having to go to the trouble of claiming it from the Inland Revenue.

American and Canadian shares are dealt in in London in dollars; these, however, are neither American nor Canadian, but fictitious dollars worth 4*s.* each ($5 to £1). This practice started when dollars were worth approximately 4*s.* (the gold £1 equals 4.86⅔ gold dollars), to simplify the keeping of accounts, the difference between the standard rate of the fictitious dollar ($5 to £1) and the actual rate of exchange on New York or Montreal being allowed for in quoting the price of the share. Many, in fact most, Canadian and American ordinary shares are of no par value and the dividends are therefore declared as so and so many dollars or cents per share and not as so and so much per cent.

English law requires all shares of companies registered in this country to have a nominal value; the nominal or par value of an equity share is often misleading, since the whole of the equity shares is represented by all the assets of the company which are left after the debentures and preference shares have been provided for. A Company may have one million ordinary shares; if the equity is worth £2 million, each ordinary share is worth £2 whether its nominal value is one shilling, one pound, ten pounds, or any other figure. This statement is only partially true—see articles on "markets" (page 6) and on "intrinsic values of shares" (page 41).

The nominal value of a share may be the price at which it was orginally issued to the public, but shares are often issued at a premium and occasionally, in special circumstances, at a discount.

CHAPTER IV

Ex Dividend

THE dividend or interest is paid to all registered stock or shareholders on the same day, the dividend warrants (cheques) being posted the evening before the day on which the payment is due. Boards of directors are empowered to declare and pay interim dividends, but have to obtain the sanction of the shareholders at the annual general meeting before they can pay the final (or, if there has been no interim dividend, the only) dividend of the year on the ordinary or deferred shares. For this reason the final dividend is often paid on the day after the meeting.

It is manifestly impossible to make out all the dividend warrants on one day, so payment is made to all holders who were registered on a specified date some time before the payment is due. In the case of British Government loans the "balance is struck", to use the official phrase, on the evening of a day about five weeks before the interest payment is due and after that date all stock is transferred ex dividend.

Most companies close their transfer books for the preparation of dividend warrants for about a week or a fortnight during the three or four weeks immediately preceding the date of payment.

The security is made "ex dividend" on the Contango day immediately preceding the closing of the transfer books if the Stock Exchange authorities have been notified in time or, if not, on the next Contango day. (Under the Temporary Regulations now in force the security is made "ex dividend" on the Monday immediately preceding the closing of the books if notification has been made in time, otherwise on the next Monday).

The prices of all securities, with the exceptions mentioned below, include all future interest or dividends until they have been made "ex" any specific payment; when a dividend is imminent or has just been declared, the price of the security may be quoted "cum dividend" (c.d.) until it is made ex dividend in order to obviate misunderstandings, but this is by no means always done.

When a security is made "ex dividend" the price is adjusted by deducting the amount of the dividend (less income tax, except in cases where the dividend is paid tax free) from the "cum dividend" price.

When securities which were sold "cum dividend", (i.e., before they had been specifically made "ex dividend" since, as soon as a security is made "ex" a particular interest or dividend payment, it is automatically "cum" the next payment, although that may not be due for another six or twelve months) are delivered after being made "ex dividend", then, provided the transfer books have been closed for preparation of the warrants, the buying broker is entitled on behalf of his client to deduct the nett amount of the dividend from the payment due to the seller.

Suppose that on Friday, 5th October, you sold the 5*s*. shares of a certain company at 12*s*. 9*d*. cum the 6*d*. per share (less tax at 10*s*. in the £) which had recently been declared, and that it had been announced that, in order to prepare warrants for the payment of the dividend on 10th November, the books would be closed from 8th to 27th October both dates inclusive; the price would be made ex dividend on Monday, 8th October, so that when you delivered the shares on or after that date (it would be impossible to deliver earlier), the books would already have been closed and the buyer could not therefore be registered in time to receive the dividend direct; the buyer's broker would accordingly be entitled to deduct the dividend (6*d.* per share less tax i.e. 3*d.* per share net) from the purchase price; ignoring selling expenses, you would on delivery receive 12*s.* 6*d.* per share (for the share itself without the dividend) from the buyer and the remaining 3*d.* per share (6*d.* less tax) would be paid to you by the company as dividend on 10th November.

You have nothing to grumble about because you would not have had the dividend any earlier if you had kept the shares instead of selling them. The buyer, on the other hand, receives the dividend on the due date, but not before, from his broker who collected it for him when the shares were delivered.

There is no trouble when the stock is delivered after it has been made ex div. and the transfer books have been closed as in the example above; the buyer deducts the net amount of the dividend from the purchase price and the seller receives and retains the dividend.

Trouble does, however, often occur when the security is sold shortly before the dividend is declared and the registration of the transfers is delayed for one or other of the various reasons which so often hold up registration.

One cause of delay is the difficulty of getting the necessary signatures quickly, another is that many banks will not accept and pay for securities bought for their customers until the whole order is delivered (e.g. if the bank's customer has bought 500 shares in a company, the broker cannot deliver 400 shares that he has received from the market, but must wait till the whole 500 have been delivered to him before he can pass them on to the bank).

If shares are delivered to the buyer's broker cum dividend, but are not registered before the transfer books are closed, the broker claims the dividend for his client from the seller; in busy times, however, the making of the claim may be put on one side in favour of more urgent work or even overlooked until the client asks why he has not received his dividend, with the result that the seller, to his great annoyance, may receive a claim weeks after he has had the dividend (and perhaps light-heartedly spent it).

Take an instance of what may easily happen; you sell 1,000 shares in a company when the dividend is about to be or has just been declared; "names" for 500 shares come in, 200 to be delivered to Mr. Jones of London and 300 to be delivered to the joint account of three brothers of the name of Brown who live in Manchester, Torquay, and York, respectively.

The transfers are made out and posted to you the same day; you sign them, have your signature witnessed, post them back to your broker and go away for a week or ten days.

A "name" for the remaining 500 to be delivered to Mr. Smith comes in the next day, the transfer is made out and posted to you 24 hours after the first two transfers; you only receive it on your return home, when you sign it and send it back to your broker at once.

As soon as he got the signed transfers, your broker delivered the 200 to Mr. Jones' broker, who secured Mr. Jones' signature and registered the transfer before the books closed (shares paid for "cum dividend" and the dividend eventually paid by the company direct to Mr. Jones).

Your broker also immediately delivered the 300 shares to Messrs. Brown, Brown & Brown's broker who also paid for them cum dividend; however, by the time he had secured the three signatures the books had closed, so that the company eventually paid the dividend to you (although it belonged to the Brown brothers and their broker had to claim it from you through your broker).

When at last he received the transfer for the 500 shares from you, your broker immediately delivered it to Mr. Smith's broker, but by that time the shares had been made "ex dividend" and the books were closed, so that Mr. Smith's broker deducted the net amount of the dividend when paying for the shares. (The company eventually paid the dividend to you and you were entitled to keep it).

If you were unfamiliar with the machinery, you might well be puzzled at selling 1,000 shares in a particular company and then receiving the dividend on only 800 shares, and still more puzzled at being asked to part with the dividend on 300 of them while being allowed to keep the dividend on the remaining 500; you would, however, find on examination of the statement of your account that it had all been adjusted in the payment you received from your broker for the sale of the shares.

The price of a stock, bond or share, includes the interest or dividend accrued since the last interest or dividend payment was made. If you sell a stock which is "full of dividend", you must work out for yourself how much of the proceeds represents capital and how much represents income. There are, however, certain important exceptions.

Treasury Bonds* (and certain other stocks such as Dominion and Colonial Treasury and Exchequer Bonds and Bills) are always dealt in plus accrued interest: that is to say, the price represents the bond alone and the buyer pays for the accrued interest separately, this being calculated to the day on which the purchase is made. The buyer is not entitled to deduct income tax from the accrued interest payable to the seller.

It would appear that income tax could be evaded by buying Treasury Bonds when only a few days' interest had accrued and selling them a few days before the interest was paid (i.e. with just on six months' accrued interest) since tax is deducted at the source when the interest is paid and would therefore be paid by the holder of the Treasury Bond at the date of payment. This is seldom feasible in practice since the price is adjusted to allow for the tax, a "clean" bond (i.e. one on which the interest has recently been paid) commanding a higher price than one which is full of interest, apart from other factors which may affect the price. If it is feasible, it is legally permissible to evade tax in this way on 10 per cent of one's holding, but it can only be done on a large scale as otherwise the commission payable on the transaction is greater than the gross profit.

The Finance Act 1937 (Section 12 seq.) has stopped one loophole of legitimate tax evasion but it appears that the practice described above is still legal provided that the sale and the purchase are separate transactions and that no re-purchase (or option to re-purchase) is arranged at the time of the sale.

**Buying In*

If bearer securities are not delivered on the account day, the buyer can instruct his broker to have them "bought in" the next day ; the "buying in" is done by a

*See Appendix II—Temporary Regulations.

Stock Exchange official and any loss is borne by the seller who has failed to deliver the securities at the proper time. As there may be some delay in getting the seller's signature, ten days' grace is allowed for the delivery of registered securites but, if these are not delivered by the tenth day after account day, they can be bought in on the eleventh day. When selling it is, therefore, very important to deliver the securities to your broker in time for him to effect delivery at the proper time.

**Selling Out*

If no ticket with the buyer's name has been received by the day before account day, the seller can "sell out" for a name; the "selling out" is done by a Stock Exchange official and any loss is borne by the buyer who has failed to issue a ticket. The seller must have a "name" to enable him to deliver the stock and get his money. When buying securities (other than bearer) it is, therefore, very important that you should give your broker full instructions with regard to registration at once.

A broker pays his client for stock on delivery on account day or after, but not before, except by special arrangement. The stock must be delivered early enough for the broker to pass it on to the buyer before 1.45 p.m., otherwise it will not be paid for until the next business day (no stock can be delivered on Saturdays).

See Appendix II—Temporary Regulations.

CHAPTER V

Orders

WHEN giving your broker an order to sell, it is best to send him the stock or share certificate, or bond with the order; you will have to send it to him eventually, so you might as well send it at once; he can then check it with your order and make sure that he is selling what you have actually got to sell—mistakes are very easily made, owing to misunderstanding or to an incomplete description of the stock, and it is often an expensive matter to put them right.

When giving an order to buy or sell, give it explicitly and mention the full name of the stock or share and the amount, and state the price at which you wish to deal or else give the order "at best" (short for "as cheaply as possible" in the case of a buying order and for "at the highest price obtainable" in the case of a selling order). Do not use Stock Exchange jargon unless you are absolutely sure of its meaning. A client once sent an order to sell "three" Cable and Wireless ordinary stock, meaning three hundred pounds stock, in blissful ignorance of the fact that "three" in Stock Exchange parlance means three thousand pounds stock.

Brokers often receive letters saying that the client "would rather like" to buy this, that or the other, and have great trouble making up their minds as to whether the letter is meant as a definite order, a discretionary order, or no order at all, but merely a request for information and advice.

It does not appear to be generally known that a broker will take an order to buy a share at a lower price (or to sell at a higher price) than the price ruling at the time the order is given, and retain the "limit"—i.e. order at a limited price, referred to as a limit for short—until executed or cancelled.

A broker will get information about a security for you and give you advice on request, without making any charge ; also, if they know what your investments are, a good firm of brokers will draw your attention to it, when a sudden rise in price gives you a favourable opportunity for selling one of your holdings or exchanging it for something else.

When your broker suggests business to you, it is very important that you should reply at once, if you intend to deal, since prices change from day to day and sometimes even from minute to minute.

You may have seen in the newspapers that the price of a certain share has been fluctuating between say 4 and $4\frac{3}{8}$ and have decided that it was worth buying if you could get it at 4, but that you were not prepared to pay any more for it. You can give your broker a "limit" to buy so and so many shares at 4, limit good until cancelled, or good until such and such a date. As a matter of fact you would be well advised to fix your limit at $4\frac{1}{64}$ or $4\frac{1}{32}$ as the chances are that a number of other people have given their brokers buying limits at the figure 4. If the share is worth buying at 4 it is also worth buying at $4\frac{1}{32}$; if you think that the extra $7\frac{1}{2}$*d.* is going to turn a small profit into a loss, then you had much better leave it alone altogether.

You may wish to change from one investment to another (e.g. from Brass Bedsteads Ltd. $7\frac{1}{2}$ per cent Preference shares into Universal Bakery Co. Ltd. ordinary shares) provided that you can get a good price for the first and buy the second sufficiently cheaply. In this case you should send your broker orders to

sell 100 Brass Bedsteads Ltd. 7½ per cent cumulative preference shares of £1 @ at 21*s*. 6*d*.
buy 50 Universal Bakery £1 ordinary shares @ 41*s*. 3*d*.

and mark it "Contingent Order".

This means that he must either execute both orders at the same time or else do nothing at all.

If you sell stock or shares and re-invest the proceeds in other securities in the same or in the following account your broker may, and usually will, charge you reduced commission on re-investment; the maximum reduction permissible is half of the total buying or total selling commissions, whichever is smaller, provided the amounts realized and re-invested are approximately equal and that neither the purchases nor the sales are "continued" i.e. carried over or taken in.

If you are going to buy a British Government stock, e.g. War Loan, you can instruct your broker to "invest" a definite sum of money in the stock; he will then buy such an amount of stock that the consideration plus commission and contract stamp add up to exactly the sum which you have told him to invest. This can be done without disadvantage since there are no transfer expenses on British Government securities. (The stock must be registered since bearer bonds are only issued for round amounts of stock).

Amounts to Buy

If, however, you are buying shares it is always best to buy an "amount"—100 shares or multiples thereof if they are low-priced shares, or 50 shares or multiples thereof if they stand at a higher price—rather than odd numbers such as 37 or 42 or even 20 or 30. If you are buying several hundred shares it does not matter if you buy a few extra to bring the total cost up to the approximate amount of money which you wish to invest; if you are buying stock it is best to buy multiples of £100 stock.

The reason is that the buyer pays the transfer expenses and, though an odd number of shares can often be bought as cheaply as a round number, when you come to sell them, you will probably not be able to get the full market price for them or, if you do, you will have to sell them "free" (i.e. free of transfer expenses) which comes to the same thing as accepting a lower price. These remarks apply only to registered stocks and shares.

When buying bearer shares (or £1 units of stock in bearer form) it is also best to buy a round number since there is usually a plentiful supply of bearer warrants for 100 shares (or 100 units) but a shortage of warrants for 50, 10, 5 or single shares and you either have to pay a little extra for these or else wait a long time for delivery although, when you come to sell them, the chances are that you will not be able to get anything extra for them.

American and Canadian shares are usually dealt in in multiples of ten; certificates for smaller numbers of shares can be obtained but it is hardly worth the trouble to do so.

Investors with a small amount of money to invest, say £200 or so, often hesitate to buy "heavy" shares standing at £8, £10 or more for the £1 share, and seem to think that they have less chance of making a profit by so doing than they would have by buying shares the price of which is about the same as the nominal value.

High-Priced Shares

Many businesses have built up positions of enormous financial strength over a long period of years, and have gradually increased their dividends; their shares have gradually risen in price and these high prices are a measure of the confidence felt in the companies concerned by the investing public: provided that the yield obtainable on the money invested is not too small and that the company is known still to be pursuing a conservative financial policy, such shares provide a safer investment than that provided by the lower-priced shares of companies which have not got such a good financial record. The shares of some of the insurance companies are a case in point; they are held in such high repute that the yield obtainable from them is about the same as that on British Government stocks.

It is true that the speculator often does better with shares of which he can afford to buy a round hundred, but the small investor, who intends to hold his shares more or less permanently, should not be frightened of buying a few high-priced shares; he may have to give away something in the price when he comes to sell them again, although this is not usually the case if the consideration is over £100. Against this can be set the fact that the commission is relatively less.

Consider the investment of about £200 :—

1,000 shares @ 4*s*.	£200	0	0
Commission 1*d*. per share ..	4	3	4
400 shares @ 10*s*. per share	£200	0	0
Commission 1½*d*. per share ..	2	10	0
200 shares @ 20*s*. per share	£200	0	0
Commission 3*d*. per share ..	2	10	0
100 shares @ 40*s*. per share	£200	0	0
Commission 4½*d*. per share ..	1	17	6

50 shares @ 80*s*. per share ..	..	£200	0	0
Commission 7½*d*. per share	..	1	11	3
20 shares @ £10 per share ..	..	£200	0	0
Commission 1*s*. 3*d*. per share	..	1	5	0
10 shares @ £20 per share ..	..	£200	0	0
Commission 2*s*. per share ..	..	1	0	0

Assuming that the shares are sold at the same price after some considerable period has elapsed, the same commission has to be paid again. The total commission on the thousand shares at 4*s*. would be £8. 6*s*. 8*d*. against £2 on the ten shares at £20 and this difference would more than cover any price concession on selling ten, instead of a round hundred, shares.

The transfer expenses on buying would be the same namely, £2 Government transfer stamp and 2*s*. 6*d*. transfer fee, in all the above cases, and there would be a shilling contract stamp on buying and again on selling in each case.

It is more important for the small investor that he should not lose money than that he should make money; he cannot afford risks which a wealthier man can safely take.

Stop loss Orders

On the day of the general election a broker received an order, in force for that day only, to buy a certain number of shares at 17*s*. 6*d*.; so far, so good; however, the letter went on "if the price falls after you have bought the shares, sell them at 16*s*. 6*d*. and so limit my loss to a shilling". Now a few minutes' reflection will show that no broker can accept an order like that; when is the broker to sell? Normally there may be a 1½*d*. price in the shares (i.e. they can be sold at 1½*d*. less than the price at which they can be bought) but, if news is received which is sufficiently bad to cause the price of a share standing at 17*s.* 6*d.* to drop 1*s.* in the course of an hour or two, the chances are that there will be sellers only and no buyers, or at the best the price will be widened considerably (i.e. there will be a margin of 3*d.*, 6*d.* or more between the prices at which the shares can be bought and sold instead of only 1½*d.*). If the price falls and widens from 17*s.* 4½*d.*—17*s.* 6*d.* to 16*s.* 6*d.*—17*s.*, the broker may consider it his duty to sell hurriedly at 16*s.* 6*d.* while he can, and then, if the price rises again, his client may be annoyed at his having sold the shares at 16*s.* 6*d.* when the middle price was still as high as 16*s.* 9*d.*; on the other hand, if he waits to see what is going to happen, he may find that within a very few minutes the price has fallen to 16*s.*—17*s.* with "nothing inside" (i.e. no buyer to be found above 16*s.* and no seller below 17*s.*). A broker cannot accept an order of this kind without placing himself in an impossible position.

If a client wishes to give a "stop loss" order, he must give his broker an order to sell "at best" as soon as the shares are offered at a given price. In this instance he would probably instruct his broker to sell at best as soon as the shares were offered at 16*s.* 9*d.*; he would then have a good chance of getting out at 16*s.* 6*d.* and if he was lucky he might get 16*s.* 7½*d.* for his shares.

CHAPTER VI

Intrinsic Value of Shares

It is an extremely difficult matter to estimate the intrinsic value of a share, since so many things have to be taken into consideration. The novice should consult his broker before making his choice of an investment, but it is just as well that he should know something about the matter himself as he will otherwise be unable to appreciate the broker's remarks.

A high yield suggests that the shares are rather speculative, but it may indicate that there is very little market so that if he buys the shares he may find it difficult to sell them again.

He should remember, too, that a mine is a wasting asset; a mining share, when considered as an investment rather than a gamble—there are mining shares which can be considered as sound investments—should offer a sufficiently high yield to enable him to regard part of the dividend as a reasonable rate of interest on the money invested and the rest as a return of capital. The mode of division between income and return of capital depends on the estimated life of the mine—that is, the number of years expected to elapse before the mine is worked out. A brickworks also comes into this category, since the supply of clay in the brickfields will not last for ever.

In considering debentures or preference shares he should discuss the cover available while, if he turns his attention to ordinary shares, he must see how much is left (the equity) after providing for the prior charges (debentures and preference shares).

He must also, of course, consider the prospects of the industry in which the company is engaged, the state of trade in the districts which it supplies, the elasticity of the demand for its products or services, and the strength of the competition.

It is, of course, impossible to calculate the exact value of the equity of a company; "goodwill" may be of great value to a company as long as it continues to trade but, as it is an intangible asset, many well managed concerns take no credit for it, either omitting it from the balance sheet altogether or putting it among the assets at the nominal figure of £1. Office furniture is indispensable—the managing director cannot be expected to sit on the floor—and may appear among the assets at cost less depreciation; this is perfectly legitimate, but if the company went into liquidation, it might be found impossible to sell the office furniture except at a rubbish price; and so on with all the other assets except cash, debtors (after providing for bad and doubtful debts) and gilt-edged investments.

In fact, the value to be assigned to the various assets depends on whether one is discussing their value to the company as a going concern or what they would fetch if the company went into liquidation.

One may hear a man say that the ordinary shares of Whatnot Ltd. stand at 35*s.* but that, as the company is a flourishing concern and as the "break-up" value of the shares is 32*s.*, they must be cheap. He means that, in his opinion, if the company were wound up, the tangible assets could be sold to provide enough cash to pay off the company's debentures and other liabilities, to repay the preference capital in full and leave enough to distribute 32*s.* per share to the ordinary shareholders; his contention therefore is that a man who buys the ordinary shares at 35*s.* is paying 32*s.* for real assets and only 3*s.* per share for the earning capacity of the company.

Again, it must be remembered that it may or may not be legitimate to value a company's holding in a subsidiary company of 100,000 shares, whose market price is £3, at £300,000. The dividend paid on these shares may be sufficient to provide a handsome return on a capital of £300,000 and from this point of view they may justifiably be valued at this figure, but if cash were wanted in a hurry, the chances are that the sale of only 10,000 of these shares would lower the price very considerably. These remarks lead up to a discussion of balance sheets and the information which can be obtained from them, which hardly comes within the scope of this little book.

One often reads of companies with a high- or low-geared capital; what is meant can best be explained by means of two hypothetical examples.

Consider first of all a company with this capital structure :—

Loan Capital.		*Annual Interest.*
5½% 1st Debenture	£100,000	£5,500
6½% 2nd ,,	£100,000	£6,500
Share Capital.		
7% Preference Shares	£500,000	£35,000
		Total annual requirement for prior charges £47,000
Ordinary Shares	£200,000	

Suppose that after providing for depreciation, bad debts and income tax, the nett profit were £50,000 then, after paying the prior charges (£47,000), a dividend of 1½ per cent could be paid on the ordinary shares. If the next year the nett profit were doubled (at £100,000) there would be £53,000 available for the ordinary shares, a sum equal to 26½ per cent on the ordinary share capital; i.e. doubling the profit would enable the ordinary dividend to be multiplied by 17⅔—a high-geared company.

Now consider a company with this capital structure:—

Loan Capital.		*Annual Interest.*
None.		None.
Share Capital.		
6% Preference Shares	£100,000	£6,000
		Total annual requirement for prior charges £6,000
Ordinary Shares ..	£800,000	

Suppose that after providing for depreciation etc. the nett profit were £50,000, it would be possible to pay a dividend of 5½ per cent on the ordinary shares (costing £44,000). If in the following year the nett profit were doubled (at £100,000) there would be £94,000 available for the ordinary shares, which is equivalent to a dividend of 11¾ per cent; i.e. doubling the profit would barely do more than enable the ordinary dividend to be doubled—a low-geared company.

Conversely, the halving of the nett profit would, in the case of the company with the low-geared capital structure, be likely to lead to the halving of the ordinary dividend while, in the case of the high-geared company it would lead, not only to the passing of the ordinary dividend, but to the passing of the preference dividend as well. (When a dividend is not paid it is said to be "passed").

It is thus evident that, other things being equal, the shares of a high-geared company are more speculative than are those of a low-geared company.

Companies with a high-geared capital structure are also described as "top-heavy". The bulk of the capital has been subscribed by the preference shareholders who take most of the risk, while the ordinary shareholders (who may have put up none of the capital but received their shares as consideration for the good will of the business) take most of the profit, if things go well.

CHAPTER VII

New Issues

WHEN this book was first written (1932) it embodied a warning to investors to leave new issues alone until they had gained a certain amount of experience of Stock Exchange business.

The memory of the 1928/29 boom when shares in all sorts of catch-penny businesses were being offered to the public was then still fresh in the memory. In those days the public was so infected with the gambling fever that it was even said by one cynic that he could make a successful issue of a company to market Fire-proof Coal.

Some of the new issues at that time were perfectly sound but many were mushroom companies which did not survive for long.

The basis of allotment varied from issue to issue ; in some cases the big applications were uniformly scaled down and the small ones cut out altogether. In other cases, ten shares were allotted to all applications for 200 shares or less, twenty shares to applications for 201 to 500 and so on.

The stags went to fantastic lengths to get shares which they hoped to sell at once at a profit and used to sit up half the night filling up separate applications on behalf of themselves, their wives, children, dogs, cats, and even the parrot, in the hope of obtaining a separate allotment for each, while others made applications in their own names for half a dozen separate hundreds, for five hundred and one and other fancy numbers in the hope of out-smarting the issuing house which had to make the allotments.

Sometimes a rumour would go round that the issue was going to be a flop and the stags would fall over themselves trying to withdraw their applications before the allotment letters had been posted since offers to take shares only became binding when the allotment letters were posted.

The lists opened in those days on the day on which the prospectus was published in the daily press and there was usually a scramble for application forms from the banks the day before; stockbrokers' clerks queued up early in the morning to hand in applications but often found the lists were closed before they could get inside the bank.

A large number of people made quite a good income for a time out of stagging, but not a few burnt their fingers before they had finished.

Then, in order to give people living outside London an equal chance, arrangements were made to have the prospectuses and application forms published in the press the day before the lists opened.

The Stock Exchange took steps to protect the public from itself and now, although the future performance of a company cannot be guaranteed, publication of the fullest possible information is required before permission to deal is given and if such a course is considered to be in the public interest permission to deal is withheld or deferred.

Even so, there is very little time in which to study a prospectus and obtain expert advice before deciding whether to apply for shares or not.

If the recommendations of the Cohen Committee on

Company Law are embodied in an Act of Parliament, and it seems likely (October, 1945) that they will be before very long, all that will be changed.

A prospectus will have to be published not less than two business days before the lists are opened and this will give time for intending applicants to consult their brokers; it will also enable the financial editors of the daily papers to give their views and there is talk of amending the laws of libel to enable them to speak more freely without exposing themselves to litigation unless it can be shown that they have maliciously abused their position.

It will also be necessary for a company to declare in the prospectus whether or not it will seek permission for the shares to be dealt in in a recognized Stock Exchange and if it has declared its intention of so doing and either fails to do so within two days or is definitely refused permission within three weeks, it will be obliged to cancel allotments and refund all application monies.

This is not complete protection for the public against being left in possession of unmarketable securities since the Stock Exchange may defer a decision on granting permission to deal until after the publication of the first report and accounts.

It will also be made illegal to withdraw applications for shares until three days (excluding Saturdays, Sundays and Bank Holidays) after the opening of the lists.

The appeal of new issues lies in the fact that the issue price has to be made attractive to investors or speculators in order to obtain subscriptions and in the fact that no commission or transfer expenses are payable.

On the other hand, if the issue goes well the applicant will only get a small proportion of what he applies for so that, if he only applies for what he really wants, it is rather waste of effort; yet if he applies for many more shares then he wants to pay for he risks being landed with the whole lot and having to sell at a loss or else sell other securities to raise the money with which to pay for them.

The issue may be advertised under blue skies but the unexpected may spoil the market before the lists open; a sudden defeat of the Government may precipitate a political crisis and upset markets in general or the prospects of a new air transport company may be temporarily clouded by the spectacular crash of an air liner.

There is something to be said in favour of the small investor walking warily and buying new issue shares in the form of renunciation letters (free of transfer expenses) and paying a small commission when the market has opened.

What to Read

There is, unfortunately, no short cut to financial knowledge, nor is it easy for the beginner to read financial articles and understand what the writer is driving at, since many of the expressions used, and still more the ideas underlying them, are unfamiliar.

If, however, he makes up his mind to read a financial article daily, or, at any rate, three or four days a week—"City Notes" in *The Times* is as good an article as any—he will soon find that he is getting the hang of it. In addition, he should read the reports of the annual general meetings of the more important companies. "How is he to know which companies are important?" you ask. Well, the speeches of the chairmen of the "Big Five" banks, Barclays, Lloyds, Midland, National Provincial and Westminster, are always interesting (these meetings are held in January); as for other companies, their meetings are reported in the City pages of the daily press and a rough idea of their importance may be obtained from the amount of space devoted to them.

This ought to keep the aspiring financier busy for a while, but let him remember that a little regular reading will help him far more than an occasional long session, complete with wet towel around the fevered brow.

His week-end should not be considered complete without an hour or so devoted to the perusal of the *Economist*, the *Investors' Chronicle*, the *Stock Exchange Gazette*, or some such periodical; at first sight this will appear to be written in some foreign language and to be entirely unintelligible. However, after slogging away at it for a few months, the reader will find that it not only becomes intelligible, but also very interesting.

CHAPTER VIII

Trustee Securities

UNLESS the deed creating the Trust contains a clause expressly allowing the Trustees to invest the trust funds in non-trustee securities they cannot do so without making themselves liable for any resulting loss ; some trust deeds empower the trustees to continue to hold non-trustee securities, but in that case the proceeds of sale of such securities must be re-invested in trustee securities.

Before investing trust funds a trustee should obtain expert advice from a stock-broker or solicitor or both.

The following is a list of Stock Exchange securities authorised by the Trustee Act, 1925, for the investment of trust funds (paragraph (b) refers to real estate, mortgages, etc. which are not Stock Exchange securities, and is therefore left out), but more comprehensive information can be obtained from the Stock Exchange Official Year Book.

THE TRUSTEE ACT, 1925

(*a*) Government Securities of the United Kingdom.*
(*c*) Banks of England and Ireland Stock.
(*d*) Indian Government Stocks.
(*e*) Securities with interest guaranteed by Parliament.
(*f*) Consolidated stock created by the Metropolitan Board of Works or by the London County Council or debenture stock created by the receiver for the Metropolitan Police District, or Metropolitan Water Stock.
(*g*) Debenture, Rent Charge, Guaranteed or Preference Stocks of any Railway in the United Kingdom* that has paid not less than 3 per cent per annum on Ordinary Stock for each of the ten years preceding date of investment.

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*Great Britain and Northern Ireland.

(*h*) Any railway or canal stock in the United Kingdom* leased for 200 years or more at a fixed rental to any railway specified in para. (*g*) either alone or jointly with any other railway company.

(*i*) Debenture stocks of companies owning or working railways in India with interest paid or guaranteed by the Secretary of State in Council of India.

(*j*) "B" annuities of the Eastern Bengal, the East Indian, the Scinde, Punjaub and Delhi, Great Indian Peninsula and Madras Railways or in any securities substituted therefor, "C" and "D" annuities of the East Indian Railway and any like annuities created on the purchase of any other railway by the Secretary of State in Council of India and charged on the revenues of India.

(*k*) Companies owning or working railways in India with fixed or minimum dividend in sterling paid or guaranteed by the Secretary of State in Council of India.

(*l*) Debenture, guaranteed or preference stock of any chartered or incorporated company in the United Kingdom* established for the supply of water for profit that has paid not less than 5 per cent per annum on its Ordinary Stock for each of the ten years preceding date of investment.

(*m*) Stock issued under the authority of any Act of Parliament or Provisional Order by the Corporation of any municipal borough in the United Kingdom* with a population exceeding 50,000 at the last census before the date of investment or by any county council in the United Kingdom.*

(*n*) Stock issued by any commissioners incorporated by Act of Parliament to supply water and having a compulsory power of levying rates over an area with a population exceeding 50,000 at the last census before the date of investment provided that during the last 10 years before date of investment not more than 80% of the maximum authorised rates have been levied.

(*o*) Stocks authorised under the Colonial Stock Act, 1900.

(*p*) Any local bonds issued under the Housing (Additional Powers) Act, 1919.

(*q*) Government of Northern Ireland Stocks.

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*Great Britain and Northern Ireland.

(*r*) Stocks for the time being authorised for the investment of cash under the control of or subject to the order of the Court. Under this heading trustees may invest in stocks mentioned in (*g*) provided a dividend (though less than 3%) has been paid on the ordinary stock for each of the last ten years before the date of investment.

Provided that stocks described in (*g*), (*i*), (*k*), (*l*), (*m*), (*o*), (*p*), (*q*), redeemable within 15 years at a fixed price, are not purchased above such price, or, if redeemable after 15 years, at more than 15 per cent premium.

London Passenger Transport Board stocks other than "C" stock may be used for the investment of trust funds under London Passenger Transport Act, 1933.

The Trusts (Scotland) Act, 1921, Section 10 governs the investment of funds belonging to trusts formed under Scottish law ; the list is similar but rather more extensive.

The Colonial Stock Act, 1900, permits Trustees, both English and Scottish, to invest in certain Colonial Stocks registered in the United Kingdom of which the Treasury publishes a list in the London and Edinburgh Gazettes but subject to the clause as to redeemable stocks mentioned above.

The list badly needs revising as some of the securities which were formerly regarded as gilt-edged have, owing to unforeseen developments, become distinctly speculative, while other stocks of higher standing are not available for trustees.

It should be noted that trustee securities are apt to stand at slightly higher prices than their intrinsic values warrant, owing to the fact that trust funds, which in the aggregate come to a very considerable figure, have, by law, to be invested in one or other of these stocks. Consol 2½% (old Consols) in particular, almost always offer a lower yield than any other trustee security, since many trustees invest in them in preference to anything else from some sentiment or prejudice which appears to admit of no rational explanation.

CHAPTER IX

Yield on Securities

"YIELD" is a term which is continually cropping up and it may be as well to explain its meaning here. The yield on a stock or share means the rate of interest paid on the money invested in the stock in question as opposed to the rate of interest or dividend paid on the stock. Thus, £5 is paid every year on each £100 stock of a 5 per cent stock; the holder of £100 stock receives £5 a year, irrespective of what he paid for the stock. If he paid £100 cash for his £100 stock, the yield is 5 per cent; if, however, it only cost him £80 cash, he is getting £5 income for each £80 invested, which is equivalent to £6¼ per £100 cash invested, i.e. the yield is 6¼ per cent. Suppose a pound share pays 5 per cent and can be bought for a pound; the yield is 5 per cent; a pound share which pays 10 per cent and which can be bought for two pounds also yields 5 per cent on the money and so does a pound share which pays 2½ per cent, and which can be bought for ten shillings.

This is only strictly true if the share is bought the day after the dividend has been deducted from the price, i.e. when the share has just been made ex dividend, for at any other time the price of the share includes part of the dividend for the current year which has "accrued" although it has not yet been declared (assuming that a dividend is being earned and will be declared in due course) and thus the yield on the money is somewhat higher than the result indicated by the rough and ready method of calculation used above.

In practice the yield is usually calculated in this way to give an indication of the true yield, but when considering an investment the expenses should also be taken into account.

For example, Ruritania 6 per cent bonds (bearer) can be bought at 80; the yield indicated is $\frac{6 \times 100}{80} = 7\frac{1}{2}\%$ taking into account that the price includes two months' interest $(\frac{2 \times 6\%}{12} = 1\%)$ we see that the yield is really $\frac{6 \times 100}{(80-1)} = \frac{6 \times 100}{79} = 7{\cdot}594(9)\% = £7.$ 11*s.* 11*d.* per cent. How does this compare with Commercial Co. Ltd. £1 ordinary shares (registered) which have paid 12 per cent regularly for some years and which can be bought at 32*s.*, and which also yield $7\frac{1}{2}$ per cent $(\frac{12 \times 20}{32} = 7\frac{1}{2})$ on the face of it? The price in this case includes five months accrued dividend $(= \frac{5 \times 12\%}{12} = 5\% = 1s.$ on a £1 share) so that the yield is $\frac{12 \times 20}{(32-1)} = \frac{12 \times 20}{31} = 7{\cdot}741\ (9) =$ £7. 14*s.* 10*d.* per cent.

Now let us take the expenses into consideration and work out the actual yield on the money spent :—

Ruritania 6 *per cent.*—Assume that sufficient is bought for us to consider the ordinary rates of commission—if only a small amount is purchased, the broker has to charge minimum commission which is out of all proportion.

Comparing Expenses

Suppose that the client buys £1,000 Ruritania 6 per cent; the contract will be as follows:—

	£	s.	d.
£1,000 Ruritania 6% (bearer) @ 80	800	0	0
Commission (¼% on nominal amount)	2	10	0
Contract stamp		2	0
	£802	12	0

As two months' interest (=1%, see above) is included in the price, we can consider the actual cost to be £802. 12*s*. 0*d*. less 1 per cent of the nominal amount (=£10), that is £792. 12*s*. 0*d*. The annual income, 6 per cent on £1,000, is £60 so that we can now calculate the yield on the money invested thus:—

£60 on £792. 12*s*. 0*d*.

? on £100

$$=\frac{60\times100}{792\frac{3}{5}}=7{\cdot}5700(2)\%=£7.\ 11s.\ 5d.\text{ per cent.}$$

Now take 500 Commercial Co. Ltd. £1 ordinary shares (registered) at 32*s*. The contract will be as follows:—

	£	s.	d.
500 Commercial Co. Ltd. ordinary @ 32*s*.	800	0	0
Commission (4½*d*.)	9	7	6
Transfer stamp	8	0	0
Transfer fee		2	6
Contract stamp		2	0
	£817	12	0

In this case 5 months' dividend is included in the price (5 per cent assuming that the 12 per cent dividend is going to be maintained) so that we can consider the actual cost to be £817. 12*s*. 0*d*. less 5 per cent of the nominal amount of the shares (=£25), that is £792. 12*s*. 0*d*. The annual income, 12 per cent on 500 shares of £1 (=12 per cent on £500 of capital), is £60, and the actual yield on the money invested is £7. 11*s*. 5*d*. per cent—exactly the same as on the Ruritania bonds.

Of course there is no point in working out the yield exactly unless you are considering the investment of a large sum of money; if you have £200 to invest, you do not really mind whether it will bring you in £11. 2*s*. 3*d*. or £11. 8*s*. 7*d*., though you want to know whether it will bring in £10 or £12.

The yield, however, is of importance, even when investing a small sum, since it is a guide to probable price movements; if the shares of one company offer a higher yield than the average for shares in companies of the same class, it is worth while inquiring why. It may be that unfavourable developments are anticipated, in which case it is safest to leave it alone, but the price may have been depressed by the liquidation of a deceased estate, in which case it is reasonable to expect it to rise until the yield has fallen to the average, when the liquidation has been completed.

When buying British Government stocks, Foreign Government bonds, or debentures, which have a definite redemption date—the redemption date is the date on which the borrower is obliged, by the terms of the loan, to pay back the loan against delivery of the bonds which are then said to be redeemed—allowance must be made for yield "with redemption". Unless the redemption date is fairly remote, the current price is not likely to be more than a few points above the redemption price (in which case there will be a loss on redemption) but bonds, etc., can often be bought considerably below the redemption price.

When a loan has two dates as part of its title it generally means that the borrower may redeem the whole loan at any time after the first date, on giving due notice, and must redeem the whole loan not later than the second date, e.g. 5 per cent War Loan 1929-1947 which the Government was entitled to redeem at any time after 1929 (and did, in fact, redeem in 1932) and was obliged to redeem by 1947. Two dates in the title of a loan sometimes mean that the borrower undertakes to redeem a part of the loan every year starting at the earlier date and completing the redemption by the later date; this may be done in various ways, for instance, a definite proportion of the original loan may be redeemed each year or a definite sum of money may be applied to the payment of interest and repayment of capital every year; as the amount of the loan outstanding is reduced each year by repayment of capital, less money is required to pay interest and therefore more is available every year for the repayment of capital.

The method of redemption varies according to the terms of the loan; some loans are repayable only by drawings at par, some are repayable either by drawings at par or by purchase at or below par plus accrued interest.

Debentures are usually redeemable at par at a given date, but may be redeemed earlier at a premium. Some debentures are irredeemable or perpetual.

The bonds of a loan which can be redeemed a part at a time carry distinctive numbers, and the bonds to be paid off are selected by drawing numbers by lot. A bond ceases to bear interest when it has been drawn for redemption and provision has been made for its payment.

Consider Utopia 5 per cent loan, redeemable by purchase in the open market at or below par, or by annual drawings at par, final redemption date ten years hence. The loan can be bought at 80 so that the "running yield" is 6¼ per cent. If the price remains below par for the whole of the ten years, you will be obliged to retain your bonds until the final redemption date in order to be repaid at par. If you bought at 80 and were repaid at par (100) ten years later, you would have made a profit of 20 points on 80, that is 25 per cent on the money, spread over ten years; this looks like 2½ per cent per annum, but it is actually less, since £20 ten years hence is worth considerably less than £20 cash down now. Reckoning 5 per cent compound interest payable half-yearly, £20 ten years hence is worth just over £12 now: £12 on £80=15 per cent and this, spread over ten years, is 1½ per cent per annum.

The yield with redemption is therefore 6¼ per cent plus 1½ per cent=7¾ per cent, of which 6¼ per cent is income which is subject to income tax, and 1½ per cent is capital appreciation which is not liable to tax.

If the price rises above par you can sell at that price, and thus get your 20 points capital appreciation in less than ten years, the yield being correspondingly increased.

If the loan is redeemable only by drawings at par and not by purchase at a lower price, you may have some of your bonds drawn each year. If you are an actuary and know the amount of the loan outstanding and the size of the sinking fund, you can work out the "yield with average redemption" which will be somewhat higher than that calculated above, as you will be very unlucky if none of your bonds are drawn during the ten years which the loan still has to run.

When calculating yields with redemption it is the usual practice to assume redemption at the latest possible date if the price is below par, and to assume redemption at the earliest possible date if the price is above par, so that the yield calculated is usually a minimum value. When the loan is redeemable piecemeal by drawings or purchase, brokers' investment lists often state the "yield with average redemption".

Some foreign bonds (e.g. China 5 per cent 1925-47 Gold Dollar Bonds and Sao Paulo 7 per cent Coffee Realisation Loan) are repayable by annual or semi-annual drawings for redemption at par; when these loans can be bought substantially below par, they are more attractive than sweepstake tickets, as the buyer may, if he is lucky, get several bonds drawn at the very next drawing which means a handsome profit, whereas, if none are drawn, he continues to receive interest on his money and may have better luck next time.

In the year 1932 Sao Paulo 7 per cent Coffee Realisation Loan was quoted at 83 ex drawings (the chance of getting a bond drawn was valued at 4 per cent and, the day before the draw took place, the price was adjusted from 87 cum drawings to 83 ex drawings; if a man sold bonds "ex drawings" and then had one of them drawn, he would be entitled to retain the drawn bond and substitute one which had not been drawn). The capital and interest of this loan are payable in pounds sterling or in U.S.A. dollars at the fixed rate of \$4.86⅔ to £1 at the option of the bondholder; with sterling at a discount in terms of dollars, payment would naturally be demanded in dollars. The drawn bonds are now quoted at 141—a very substantial profit if one had bought a bond at 87 cum drawings and had it drawn a few days later. The drawing takes place about two months before the drawn bonds are actually repaid and the list of the numbers of the drawn bonds are published in the daily press.

In general, it is not good policy to buy a loan which can be redeemed within a few years, at a price above the redemption price, but there may be special reasons for so doing. (See Chapter X on Money Stocks and Investment Policy).

If a redeemable loan is bought above par it must be remembered that part of the interest payments is to be regarded as a return of capital and this part should be carefully set aside and reinvested to provide against the capital loss on redemption.

Consider a 4½ per cent stock, redeemable ten years hence at par, which is bought at 110. This evidently gives a flat yield of 4·090 (9) per cent or £4. 1*s*. 10*d*. per cent and an eventual loss of ten points in 110 or 9·090(9) per cent equal to £9. 1*s*. 10*d*. per cent ten years hence.

There are twenty half-yearly interest payments in ten years, but it is not necessary to set aside $\frac{1}{20}$ of the eventual capital loss of £9. 1*s*. 10*d*. per cent (or just over 9*s*. per cent) from each interest payment, since these sums are to be re-invested and will thus bear interest. Assuming compound interest payable half-yearly and reckoning 5 per cent for the sake of simplicity, calculation shows that 7*s*. invested for ten years plus 7*s*. invested for nine and a half years . . . plus 7*s.* invested for half a year will together amount to just over £9.

Therefore, if we deduct 7*s.* half-yearly (i.e. 14*s.* per cent per annum) we get the yield with redemption as £4. 1*s.* 10*d.* per cent less 14*s.* per cent=£3. 7*s.* 10*d.* per cent, but it should be noted that income tax is deducted from the whole interest payment: with income tax at 5*s.* in the £ the gross flat yield is £4. 1*s.* 10*d.* per cent, and the nett flat yield £3. 1*s.* 4*d.* per cent, while the yields with redemption are £3. 7*s.* 10*d.* per cent gross and £2. 7*s.* 4*d.* per cent nett. (With income tax at 10*s.* and 9*s.* in the £, the nett flat yields are £2. 0*s.* 11*d.* and £2. 5*s.* 0*d.* and the net yields with redemption £1. 6*s.* 11*d.* and £1. 11*s.* 0*d.* per cent respectively).

Dominion Income Tax Relief

For the purposes of this relief the word "Dominion" includes all parts of the British Commonwealth of Nations and "income tax" includes Non-Resident Taxes such as are imposed in Canada and South Africa.

When a taxpayer in this country can prove that Dominion Income Tax has been paid on any part of his income, he is entitled to relief in respect of the Dominion Tax paid on the same income at the rate of the Dominion Tax paid or at half his own appropriate United Kingdom Income Tax rate, whichever is lower.

The taxpayer's "appropriate rate" is found by dividing the whole of his income tax by his gross income less personal allowance (but not life assurance relief) and adding the rate of sur-tax found by dividing his sur-tax for the previous year by his total income for that year; the "appropriate rate" for a company is the standard rate of income tax in force for the time being.

Effect on Yield

A company obtaining Dominion Tax relief is obliged to pass the relief on to its shareholders (but not to its debenture-holders) by deducting tax from dividends at a reduced rate.

The deduction of tax at queer rates such as 9*s*. 10¼*d*. or 9*s*. 5*d*. in the £ is due to Dominion Tax relief on the small part of the company's profits which have been earned in the Dominions.

Other companies make the whole or the greater part of their profits in the Dominions and may consequently deduct tax from their dividends at rates as low as 5*s*. in the £.

Dominion Tax Relief should be taken into account when considering an investment, since it can make the effective yield on a share appreciably larger than appears at first sight; for example a £1 share paying 15 per cent per annum standing at 60*s*. apparently yields 5 per cent but if, as a result of Dominion Tax Relief, tax is deducted at only 6*s*. in the £, the effective yield is the same as if the dividend were 21 per cent with tax deducted at 10*s*. in the £. (15 per cent on 100 shares is £15 which less tax @ 6*s*. (£4. 10*s*. 0*d*.) is £10. 10*s*. 0*d*.; 21 per cent on 100 shares is £21 which less tax @ 10*s*. (£10. 10*s*. 0*d*.) is also £10. 10*s*. 0*d*.).

In the case of a company controlled abroad which pays dividends in the United Kingdom through an agent, e.g. a South African mining company, United Kingdom tax is calculated, not on the actual dividend declared by the company but on that dividend increased by the amount of Dominion tax allowed for relief; that is to say that if the Dominion tax relief were 5*s*. in the £, a dividend of 9*d*. per share would be regarded as equivalent to 1*s*. per share (1*s*. less tax @ 5*s*. in the £ is 9*d*.)

and United Kingdom tax would be calculated on the gross amount of 1*s*.

It should be noted that if the rate of Dominion tax relief passed on to the shareholder by the company is greater than his own "half appropriate rate", the Inland Revenue can claim the difference.

It was announced not long ago that arrangements were being made with the United States of America to obviate double taxation and similar arrangements with other countries are foreshadowed; when companies controlled in the United Kingdom operate in countries which have provided for reciprocal relief in respect of tax, the effect of Dominion Income Tax Relief is that although the net amount of the ordinary dividend is unchanged, the gross ordinary dividend is lower and United Kingdom tax is deducted at a reduced rate. This is an advantage to shareholders with large incomes who are liable to sur-tax but is a disadvantage to shareholders with small incomes who are not liable to United Kingdom income tax and can claim repayment of tax deducted at source.

When the double taxation relief provisions in the new Finance Bill (October, 1945) become effective in pacts with the Governments of Dominions and other countries, the replacement of the restriction on relief from half the United Kingdom rate by relief up to the full standard rate of United Kingdom tax should increase distributable profits where sums paid out in Dominion income tax have exceeded the reliefs obtained.

United Kingdom tax will be deducted at the full standard rate from dividends to United Kingdom shareholders but they should benefit from the higher dividends made possible by the double taxation relief; it should, however, be borne in mind that shareholders with small incomes who are liable to tax at less than the standard rate, will be entitled to relief in respect of tax deducted from dividends only to the extent of the United Kingdom tax after taking double taxation relief into account.

These remarks are only intended to draw attention to the existence of Dominion Tax Relief further details of which can be found in the Stock Exchange Official Year Book (available in most Reference Libraries). It is a complicated subject and is best dealt with by considering specific cases individually.

CHAPTER X

Money Stocks and Investment Policy

When business is good the tendency is for firms to enlarge their factories and increase their stocks and many of them borrow money to do this ; if a firm believes that it can earn 10 or 20 per cent per annum, it is willing to pay 5 per cent, 6 per cent or even higher rates of interest on borrowed money, and interest rates rise since there are plenty of would-be borrowers.

When business is bad there is a dearth of borrowers as nobody wishes to pay rates of interest higher than, or even nearly as high as, the rate of profit which they expect to make on the loan : consequently it becomes almost impossible to lend money on good security, except at very low rates of interest. The bank rate is a fairly good indication of the rate at which money can be borrowed. A low rate stimulates borrowing and eventually stimulates business ; as business improves more borrowers appear and interest rates gradually rise until they reach levels at which they definitely check business : and so it goes on in a series of trade cycles.

Those stocks which are backed by such good security that there is no doubt about the interest being paid at the due dates, such as British Government stocks and, to a lesser degree, well secured industrial debentures, are known as money stocks.

The yield obtainable on these varies directly with the rate of interest at which money can be lent on good security. When money is more or less unlendable (on good security) the possessors of money buy "money stocks", since these offer a higher return on the money than can be obtained by lending it in the money market; the price of the money stocks consequently rises and the yield obtainable on them falls.

Money stocks can be divided into two classes; those with definite redemption dates which are not far distant and those which can only be redeemed many years hence or are irredeemable (or perpetual).

The former class, short-dated stocks, cannot rise in price very much above their par value, as the loss on redemption decreases the yield very considerably when the price rises much above par; similarly, even when money rates are high and the owners of these stocks sell them in order to employ the money to better advantage in the money market, the price does not fall much below par, since the profit obtainable on redemption increases the yield very considerably when the price falls and thus attracts fresh buyers.

It is evident therefore that when money rates are low it is a wise policy to buy fairly short-dated securities (redeemable in, say, one to ten years' time) because, even if money rates rise, these are not likely to fall very much, particularly if a stock is chosen which can be bought below or only a little above the redemption price.

When money rates are high, it is wise to buy long-dated or perpetual stocks, as these will have fallen much more in proportion than the short-dated stocks, and offer a correspondingly larger scope for capital appreciation.

As a corollary to this, it is evident that when money rates are low the long-dated stocks, bought when the bank rate was high, should be sold and the proceeds invested in short-dated securities, or if no suitable stocks are available except at prices well above par, the money should be placed on deposit. When interest rates rise again, as they are bound to do eventually, the short-dated stocks can be exchanged for long-dated securities again.

Prices at which stock yields ..	5%	4½%	4%	3½%	3%	2½%
2½% stock ..	50	55½	62½	71⅜	83⅛	100
3% ,, ..	60	66¾	75	85¾	100	120
3½% ,, ..	70	77¾	87½	100	116¾	140
4% ,, ..	80	89	100	114¼	133¼	160
4½% ,, ..	90	100	112½	128½	150	180
5% ,, ..	100	111	125	142¾	166½	200

It should be noted that ordinary individuals are liable for income tax on interest and dividends received, but not on profits obtained by appreciation of capital : conversely, they are not allowed to set off capital losses against income, when being assessed for tax.

Certain businesses, notably discount houses and banks, owing to the nature of their business, are liable for income tax on capital profits and are therefore allowed, to claim relief in respect of capital losses. Firms such as these can often profitably buy Treasury Bonds (short-dated loans) at a premium when the private individual cannot do so without incurring a loss, on account of the special arrangement for assessing them for tax. In general, the private investor is well advised to buy Treasury Bonds only when the price is below par.

CHAPTER XI

Relative Merits of Different Types of Investment

IN the good old days people spoke of the "absolute security" of certain investments, but nowadays we know that there is no such thing as absolute security, since even British Government securities—still probably the safest of all investments—gave their holders a nasty fright, first in 1931 when Great Britain went off the gold standard, and again in 1939 when minimum prices,* below which no transactions were allowed, had to be introduced to support the market.

British Government stocks, often termed "gilt-edged" stocks, rank as the soundest of all holdings, but at present they only offer a yield of about 3 per cent and, in view of the tendency mentioned elsewhere for the purchasing power of money in terms of goods and services to decline as time goes on, it must be remembered that the real income from capital invested in fixed interest bearing securities tends to shrink over a period of years.

Those who require a larger yield, but are unwilling to take much risk, must turn their attention to the debentures of sound industrial and public utility companies. There are various points to examine when making the selection, but opinion has changed during recent years as to which points are of real importance.

The older text-books stress the advantages of mortgage debentures secured on certain definite assets and having the right of foreclosure should the interest not be paid.

More recently events have shown that, when a company gets into difficulties, it is quite the usual thing to propose

*See Appendix II—Temporary Regulations.

a reconstruction involving sacrifices, not only from the shareholders (the proprietors), but from the debenture-holders (the creditors of the company) as well. A metaphorical pistol is levelled at the debenture-holders' heads and they are told that if they insist on their rights the company will be wound up, its assets sold for what they will fetch (i.e. next to nothing) and that after paying the expenses of liquidation there will be literally nothing left for them (the debenture-holders); whereas, if they will agree to a modification of their rights (e.g. accept a reduced rate of interest on their debentures, or possibly forgo the interest altogether unless it can be paid out of profits, and accept a certain number of ordinary shares per £100 of debenture stock held, as compensation for this sacrifice) it may be possible to save something for them out of the wreck. The debenture-holders usually protest but finally agree to make fairly substantial sacrifices, even though they are not quite as drastic as those originally suggested.

Modern opinion is less concerned with the specific security but tends to examine the cover, the provision made for redemption and the record of the company's financial policy. Questions such as the following are asked: "How much money is required to pay the annual debenture interest and how much was available during each of the last three or four years?" (i.e. what was the net profit after providing for tax and depreciation, but before paying the debenture interest), "How much of the net profit (after tax, depreciation and debenture interest) was distributed in dividends and how much put back into the business by way of reserve?"

If the profits of the business are not subject to wide fluctuations from year to year, and if the debenture interest is covered something like ten times and only about half of the nett profit is distributed in dividends, the debenture looks pretty well "cast iron"; if, on the other hand, the debenture interest is only covered about one and a half times, and the net profit is distributed in dividend "up to the hilt", the debenture looks rather risky.

Another point to examine is whether the debenture is perpetual (irredeemable), redeemable only at the option of the borrower (the company), or whether it has a definite redemption date. Most of the debentures issued during the last ten years or so have to be redeemed by the company by a specified date, and the company is usually obliged by the terms of the loan to pay a certain amount (e.g. $1\frac{1}{2}$ per cent of the nominal amount of the debentures still outstanding, or a fixed sum equal to 1 per cent or 2 per cent of the amount of the debentures originally issued) annually to a "sinking fund" before paying any dividends.

The sinking fund is used according to the terms of the issue of the debentures; it may be invested in gilt-edged securities, the interest from which is added to it every year, payments to the sinking fund being calculated to provide the money required to pay off the debentures at the redemption date. In other cases it may be used each year to buy debentures for cancellation, in the open market if they can be obtained at par (100 per cent) plus accrued interest, or lower, or else to pay off debentures at par (or at a premium fixed by the terms of the issue) the debentures to be so paid off being selected by drawing lots. (For this purpose the debentures must, of course, have distinctive numbers).

A debenture whose interest requirements are well covered and which has a strong sinking fund as well, is a fairly safe investment, since you know that your money must be repaid in full by the final redemption date at the latest, and if that date is not too far distant—say, ten to thirty years—the sinking fund and the fact that the debenture must be redeemed on or before a certain date, are very strong factors in maintaining the price.

A perpetual (or irredeemable) debenture, or one that is only redeemable at the company's (i.e. the borrower's) option is not such a safe investment, since, should the company begin to make smaller profits, thus reducing the cover on the debenture interest, some of the debenture-holders would sell their stock and the price would fall in the absence of a sinking fund to support it.

Preference Shares

Preference shareholders rank for dividend after the interest has been paid to the debenture-holders, but before anything is paid to the ordinary shareholders. The holders of preference shares are part proprietors of the company and dividends can only be paid to them out of profits; if the dividend is non-cumulative, then, if it is passed (when a dividend is not paid it is said to be "passed") in any one year because the company has not sufficient funds to make it prudent to pay it the preference shareholders have no claim to any dividend for that year; if, however, the shares are entitled to a cumulative dividend all arrears of preference dividend have to be paid before any dividend can be paid to the ordinary shareholders. (It is customary to speak of cumulative and non-cumulative preference shares; strictly speaking it is the dividend, and not the share, which is cumulative).

The preference shares of some of the larger companies, with no debentures ranking before them and a large amount of dividend-paying ordinary capital behind them, e.g. British American Tobacco and Courtaulds, make a safer investment than the debentures of many smaller companies; the market opinion of the safety or otherwise of a security can be gauged by the yield obtainable at the current price—the higher the yield, the greater the risk. In the case of an ordinary share a low yield does not necessarily imply safety, but may be due to the market "discounting" the somewhat speculative possibilities of the share in question.

Of recent years there has been a certain amount of prejudice against preference shares, though this seems to be dying down now, unless there is some special attraction—participating preference shares are not included in this statement as they are more akin to ordinary shares—since if the company does well the preference shareholder does not benefit from its prosperity (his dividend being fixed) except in that his security is increased, whereas should the company fall on evil times, he will fare little better than the ordinary shareholder.

Ordinary Shares

When considering an ordinary share as an investment, after calculating the yield on the assumption that the current rate of dividend is maintained, it is instructive to calculate the yield on earnings.

Consider two companies with the same capital consisting entirely of ordinary shares of £1, and engaged in a similar line of business; the shares of both companies can be bought at £2.

"A" earned 12½ per cent on its capital and paid 12 per cent. (Dividend yield 6 per cent; earnings yield 6¼ per cent.)

"B" earned 18 per cent on its capital but only paid 10 per cent in dividend. (Dividend yield 5 per cent; earnings yield 9 per cent).

Which is the more attractive investment? The assumptions as to earnings, dividends and prices have been made as reasonable as possible, but they are, of course, entirely hypothetical.

The shares of "B" appear far more attractive (so much so, that it is unlikely that both shares would stand at the same price; it can be assumed, however, that a large block of the shares of "B" has come on to the market owing to the liquidation of a deceased account).

"A's" profits are being distributed up to the hilt and a bad year would necessitate a reduction in the dividend. "B's" profits leave a large margin over dividend requirements so that, although the directors might consider it advisable to reduce the dividend after a bad year, a very small cut might satisfy the claims of prudence. Also it must be remembered that the undistributed profit is not lost to the shareholder; on the contrary, it goes to strengthen the position of the company, either by being spent on replacing obsolete machinery with up-to-date plant, or by providing extra working capital, or by being invested in gilt-edged securities which can be turned into cash at short notice should the company require money at any time, and which bring in interest in the meanwhile. In any case, the shareholder reaps the benefit, since the undistributed profits add to the company's earning capacity; it is by "ploughing" a large part of the profits back into the business in this way that the prosperity of the large successful concerns has been built up.

When, after ten or twenty years, the earnings are so great that they permit the distribution of dividends of indecently large proportions (at least some people consider them indecent) part of the reserve equal, say to the ordinary capital, is capitalised and new ordinary shares are issued as a bonus, free of charge, to the shareholders in the appropriate proportion (in this case one new share for each old share held); if the capital bonus is 100 per cent (as just described) the rate of dividend is halved the next year and looks less indecent although the shareholders receive exactly the same amount of cash. (Incidentally the price of the shares would also be halved in this case).

Two shining examples of this policy of conservative finance are Courtaulds and Woolworths; the chairman of the latter company summed the matter up admirably when years ago in his speech to the shareholders he said: "The earnings on the Ordinary share capital, after providing, on the basis of a full year, interest on the Preferred shares, is 104·3 per cent, and the dividend for the year is equal to 70 per cent. It may be thought by some that the amount carried forward is too heavy, but your directors are following the customary procedure of the company in building up ample reserves. In this connection it is interesting to note that this company has been brought from small beginnings to its present robust condition through this policy of putting back into the business a substantial proportion of the profits made, and it will explain why the company has never since its inception borrowed money or issued Debentures. These profits are retained in the business for the purpose of expansion, thus helping to provide further profits for the shareholders."

British Government loans still form the best foundation for an investment portfolio but the yield obtainable now is only about 3 per cent.

If you have enough money to be able to spread your risk to some extent it is worth while considering the ordinary shares of companies with a good record, since there is always the prospect of gradually increasing dividends ; there is of course the risk of reduced dividends in bad years, but well-managed companies distribute only a part of their net earnings while the balance is put back into the business to increase its earning power, and many companies now put an extra bit aside in good years to a dividend equalization reserve to help to maintain the dividend in lean times. The debenture and preference shareholders only gain indirectly in that, as the cover for their interest or dividends increases, the value of their securities tends to increase too, but sooner or later the ordinary shareholders will reap a real benefit in the form of larger dividends.

It is worth remembering, too, that although the price of an ox or a sheep averaged over a number of years tends to remain constant in terms of the average day's wages of an unskilled labourer, the cost of living in terms of money tends to rise from decade to decade ; thus the purchasing power of the income from a fixed interest bearing investment gradually decreases as the years go by. This alone is a sufficient reason for putting at any rate a part of your savings into ordinary shares which give you a chance of maintaining the purchasing power of your income.

It is probably the fear of inflation which has driven money into such shares and has raised their prices to levels where the yields obtainable are little more than can be obtained from an investment in gilt-edged stocks.

Forty or fifty years ago only the very wealthy felt that they could afford to accept the low yields obtainable on British Government securities, industrial shares were not yet taken seriously and the chief field for investment by the middle classes was in foreign bonds.

Some countries have honoured their debts and have continued to do so ; others honoured them so far as they were able, but the number of countries and states which have defaulted in bad times but have taken no steps to resume payment in full when their circumstances improved, is depressingly large.

It has been said that foreign borrowers only made efforts to pay in order to keep their credit high in order to be able to borrow further sums on favourable terms ; this is a sweeping statement but there is certainly an element of truth in it and, since the effect of the 1939-1945 war is likely to make it impossible for this country to lend money abroad on any appreciable scale for years to come, that particular factor as an inducement to foreign countries to meet the interest and capital payments on their loans must be counted out for the present.

There is reason to believe that some foreign countries, while pleading their inability to find the money with which to pay the interest on their bonds, which consequently fell in price, yet managed to find funds with which to buy their depreciated bonds for cancellation.

The Council of Foreign Bondholders have rendered yeoman service in looking after the interests of investors in foreign bonds, but all the same it seems that this is a field that might well be left to the experienced investor.

Risks and Circumstances

An Introduction for Investors

When you decide to carry out your first Stock Exchange transaction you will doubtless find a friend who can recommend a stockbroker to you and give you an introduction but, if not, you should write to the Secretary to the Council, The Stock Exchange, London, E.C.2. ; you will be sent a list of some thirty firms who have intimated their willingness to undertake business introduced in this way ; you should then write to the firm you select, mentioning that their name has been submitted to you by the Stock Exchange authorities and giving references (preferably a bank).

The list sent to prospective clients is worked on a rota and is changed every month to distribute the business fairly.

When you approach a stockbroker for the first time to ask for advice about investments, it is a good thing to give him some idea of your general circumstances and of what, if any, investments you already hold, since he is bound to take these into consideration before he can offer an opinion.

A share with speculative possibilities may be a reasonable purchase for a bachelor earning £1,000 a year and with several thousand pounds already invested in British Government loans and first class equity shares, yet a purchase of shares in the same company by a £500-a-year married man with a couple of children and no invested capital, could only be regarded as foolhardy speculation.

If a wealthy client wishes to invest a considerable sum of money, his broker finds it relatively easy to make a list of suggestions which will spread the risk over various industries dealing with the home and foreign markets and ranging from banks and insurance companies to shipbuilding, from breweries and tobacco firms to mining companies and from agricultural machinery makers to multiple stores, giving brief notes of his reasons for recommending them, knowing that his client has sufficient experience to enable him to make his own decisions on the information supplied.

When a client approaches him for advice about the investment of a relatively small sum, he has a much harder task since the money cannot be spread over more than two or three different securities without incurring disproportionately high expenses and the importance of avoiding the risk of losses is relatively much greater. A request for advice on the investment of a small sum entails more work for the broker, involves him in more worry since he knows that he will blame himself if in the end his client sustains a loss which the broker knows that he can ill afford, and brings him little profit, since the commissions charged on small orders barely cover the overhead charges.

You need not be shy, however, in approaching a broker even if you have only a small amount to invest; most brokers welcome such inquiries, remembering that the small client of today is often the big client of tomorrow when he has climbed to the top of his own profession or business or inherited a fortune from his rich uncle. "Little fish are sweet!"

Incidentally, no investment should be regarded as permanent and if your list of securities is too large to be carried in your head you should go through it carefully at least once or twice a year and consider whether some of the items could not with advantage be exchanged for something safer or more promising; this applies particularly to trustees since trust funds are apt to be invested in stocks which appear to be perfectly safe at the time and are then put away and forgotten; ten or twenty years later the trustees wake up and wish that they had held an annual overhaul which might well have resulted in selling some of their securities before the fall in price had become really serious.

In order to enable the small investor to spread his risk Investment Trust companies were formed to buy securities and distribute the investment income to their shareholders; some confined their attention to specific types of security e.g. foreign Government bonds, others displayed more catholic tastes but all sought to reduce the risk by spreading their holdings over different parts of the world and over different kinds of enterprise; their shareholders benefited from having their investments managed by men whose training, experience and intimate contact with the market enabled them to take swift advantage of any favourable opportunity of selling one security and replacing it with another.

The drawback to this kind of investment is that there is only a restricted market in most investment trust stocks and a would-be buyer often finds there is no stock to be had and a long queue of buyers waiting in front of him while, when times are bad, it is the other way about and sellers are hard put to find a buyer.

The funds of some of the investment trusts in the U.S.A. appear to have been used by the managers for outright gambling instead of investment on behalf of their shareholders to such an extent as to bring the whole idea of a "managed trust" into disrepute in America and the Fixed Trust emerged as a result.

Fixed Trusts have now established themselves in this country with certain modifications. The normal plan is for a syndicate (the managers) to announce a Fixed Trust to hold the shares of some twenty named leading industrial companies (or it may be bank and insurance or gold mining shares); the managers buy about £2,000 worth of the shares spreading the money over them in roughly equal amounts; they then have the shares registered in the name of one of the big banks or insurance companies whose services they have secured as Trustee; this £2,000 worth of shares is known as a fixed trust "unit" and "sub-units" (each one two-thousandth part of a unit) worth originally about £1 each can be bought by small investors at a price fixed daily on the basis of the market prices of the underlying securities plus a margin to cover commission and transfer expenses; the sub-units can be sold in the same way, the charges being deducted from instead of added to the price. The sub-unit certificates are issued by the trustee and if this is a well known bank or insurance company the sub-unit holder need have no fears about the safe custody of the underlying securities.

A recent issue of *The Times* showed some fifty different Fixed or Unit Trusts at prices ranging from 10*s.* to 60*s.* per sub-unit*; among them were units covering general investments, bank or insurance shares, electrical industries, foreign bonds and gold-mining shares, so that most tastes are catered for.

It was thought when Fixed Trusts first came in that, although they might be all right on a rising market, there might be grave difficulties in arranging sales in bad times. Perhaps it is still too early to pass judgment on them but they seem to have survived the war with flying colours and none of the evils predicted as the result of the introduction of this novel form of investment have so far made themselves felt.

*Units are not necessarily divided into 2,000 sub-units nor is the original price of a sub-unit necessarily £1.

CHAPTER XII

Bucket Shops

THE reader has been warned in the introduction against dealing with bucket shops and this warning cannot be repeated too often. No Stock Exchange firm is allowed to advertise or to write to people, without an introduction, to offer or bid for securities; therefore, if you receive a letter about stocks and shares from someone whose name is unfamiliar to you, you can be sure that it is from an "outside house" or "bucket shop". If the letter offers you shares in a company and you do not put the letter straight into the waste paper basket, look up the company in the Stock Exchange Official Year Book as a matter of interest; the chances are that, if it is not fictitious, it is a company whose shares are not dealt in on the Stock Exchange; this means that having once bought the shares and secured delivery of them (see page viii) you will find it extremely difficult, if not impossible, to sell them again. If the shares are dealt in on the Stock Exchange, look at the newspaper and compare the prices at which business was done in the shares on the previous day with the price at which they are offered to you; you will find that the latter leaves a generous margin which will explain the offer to sell them to you without charging commission.

Deal with a Stock Exchange firm: if you buy you will, at any rate, get your shares on account day or fairly soon after and, if you sell, you will get paid on the account day or as soon after as you deliver the stock.

Also, when dealing with a Stock Exchange firm, you will get a contract showing exactly what the shares have cost or realised, and how much has been charged for the commission, so that you can see what you are paying your broker for his services. When you buy from an outside house you are charged a net price (no commission being shown) but investigation usually shows that it would have been cheaper to buy on the Stock Exchange—the net price of the bucket shop including a larger, though hidden, commission than that charged openly by a Stock Exchange firm.

The Stock Exchange was formed originally as a profit making concern but it has developed, particularly of recent years, into a powerful guardian of the interests of the general public; it imposes a strict code of rules on its members and has disciplinary powers which enable it to enforce them. These or similar rules govern the members of the Provincial Stock Exchanges which are now closely associated with the Stock Exchange in London through the Joint Advisory Committee of Stock Exchanges set up in 1942.

By dealing only through members of one of the recognized Stock Exchanges you obtain the protection of the Stock Exchange Council or of the Provincial Stock Exchange authorities against any infringement of your rights.

Naturally this does not mean that the fact that the shares of a company are dealt in on the Stock Exchange guarantees that the company will prosper and that you will not lose money by buying its shares, or even that there is a free market in the shares.

The Stock Exchange Council are, however, continually tightening up the requirements which must be satisfied by companies before permission is given to deal in their shares on the Stock Exchange.

These requirements have been framed in order to obtain for the shareholder the fullest possible information as to the financial position of his company and to assist him as far as may be in exercising his vote in its control. As an illustration it may be mentioned that companies seeking permission for their shares to be dealt in on the Stock Exchange are required to undertake to give full notice of their meetings and, if they send out proxies, to draw them up in such a way that the shareholder or debenture holder can vote either in favour of or against the resolution put forward. They must also undertake to publish immediately after the Board Meeting all dividends declared or recommended and at the same time to make known the nett profits for the year with the figures for the previous year for comparison and any other information necessary to prevent the creation of a false impression which would lead to an unjustified rise or fall in the price of the shares.

Bucket Shops

The compulsory registration* of all dealers in stocks and shares, other than members of recognized Stock Exchanges, seems considerably to have reduced the bucket shop evil and even if the share-pusher has not been stamped out for good his activities have at least been curtailed.

The Stock Exchange still refers to "outside firms" as "bucket shops" but many, perhaps most, of them are honest firms who prefer to remain independent of Stock Exchange rules and regulations in order to be free to advertise and to address their circulars to all and sundry.

When dealing in shares in which there is an active

*Prevention of Fraud (Investment) Act.

market these firms cannot hope to compete with the Stock Exchange but it is probably fair to say that a large part of their turnover is in the shares of sound but small businesses in which, on account of the small size of their capital, there can never be a really free market.

Many people have bought shares in this way and have had no cause to regret their action until, for some reason or other, they have wanted to turn their shares into cash without delay. Then they have found that the capital of the company was too small for anything like a free market to develop and that they were faced with the alternatives of waiting for weeks or months till a buyer appeared or of accepting a knock-out price in order to effect a quick sale, although the shares themselves were perfectly sound and paying good dividends.

Outside firms normally buy such shares as opportunity offers (through the Stock Exchange as often as not) and then peddle them round; there is, however, no guarantee that they will have capital available to lock up in shares of this kind just when you are anxious to sell your holding.

Their business is to buy and sell shares on their own account and they send out circulars offering the shares that they wish to sell and bidding for shares for which they know that they have buyers; it is no part of their business to draw the attention of possible purchasers to the poor marketability of the shares they are offering, though it is legitimate for them to stress their merits.

Outside firms usually claim in their circulars that the client can deal through them to better advantage than he can through the ordinary channels; a moment's reflection will show the absurdity of this claim; the outside firm cannot do better than buy the shares in the open market, i.e. the Stock Exchange; it thus pays the same price and commission that the client would have paid if he had dealt with a Stock Exchange firm; as the outside house does not do the business for love, it is evident that the client must pay more by dealing with an outside house. A similar argument may be used *mutatis mutandis* with regard to selling shares. The alternative is for the outside house to sell shares already in its possession; it will obviously not sell them at a lower price than that obtainable in the open market, so that the client will not be buying shares particularly cheaply and, since it is a fair inference that it wishes to sell because it expects the price to fall or at least does not anticipate an early rise, its advice to the client to buy may be suspected of being insincere.

In many cases the bucket shop (not the genuine outside house) sells shares which it does not possess (and has no intention of buying) to its clients (probably above the market price) in the hope that the price will fall. If the price falls, the client is asked to pay the difference; if the price rises, the client finds it difficult, if not impossible, to obtain delivery of the shares.

Even if you only deal with a Stock Exchange firm and thus avoid the dangers of dealing with bucket shops, there are plenty of pitfalls. In particular you must be on your guard against promiscuous tips. When business is brisk there are always plenty of tips going about to the effect that "it is right to buy" this or that share for a quick profit; Mr. Z believes that a director of a certain mining company has been buying shares in the company for himself and argues that the director probably has good reason for so doing: Mr. Z buys himself a hundred shares and tells all his pals, some of whom do likewise; by the time you hear of it the price has risen, these people start taking their profits and, if you buy the shares, you probably get "landed at the top". Mr. Y notices that the price of Consolidated Bottlewashers has fallen of late; inquiring the reason why, he learns that one of the largest shareholders has died recently and that his estate is being wound up; further inquiry convinces him that the bulk of this holding has already been sold; as soon as "the tap has been turned off" the price should rise to its previous level, he thinks, so he "tips" Consolidated Bottlewashers for a rise; and so it goes on, tips to buy for a rise being far more frequent than tips to sell for a fall, owing to the innate optimism of the human race.

You must remember that if you, an outsider, start speculating, as opposed to investing, the odds are fairly heavily against you. To begin with, by the time the tip reaches you, it is probably already too late; then, as you are not on the spot you cannot take advantage of a momentary rise to "get out"; and lastly, you have the jobber's turn and the broker's commission against you.

Consider a share standing at about 17*s*. Suppose that there is a free market and that there is a 1½*d*. price; the commission is 3*d*. Your broker finds that the price is 17*s*. 1½*d*.—17*s*. 3*d*., and you buy 200 shares at 17*s*. 3*d*.; suppose that immediately afterwards, before the price has moved, you decide that it was a mistake to buy and you sell them again at once; you only get 17*s*. 1½*d*. for them, so that you have lost 1½*d*. a share plus 3*d*. per share commission, equals 4½*d*. per share.

*If you buy shares your broker charges you commission, but if you sell them again during the same or the

*Suspended—See Appendix II—Temporary Regulations.

following account, he may, and usually does, do the second bargain free of commission.

To put it another way, if you have bought shares at 17*s.* 3*d.* which enjoy a sufficiently free market for it to be possible to deal at a 1½*d.* price, you cannot get out without a loss, let alone make a profit, before the price has risen 4½*d.* If the market is less active and the price consequently wider, the shares must rise further before you can get out without loss; e.g. if there is a 6*d.* price and you "got in" at 17*s.* 3*d.* (price 16*s.* 9*d.*—17*s.* 3*d.*), the price must rise from 16*s.* 9*d.* bid to 17*s.* 3*d.* plus 3*d.* (commission) equals 17*s.* 6*d.* bid, before you can get out without loss . . . a rise of 9*d.*

Tips quite often "come off" but it is extremely difficult, if not impossible, to distinguish between good and bad tips until after the event. If you ignore all tips you will miss making some handsome profits, but you will avoid even larger losses, unless your broker is cautious and well-informed above the average—and that you can only judge by watching the prices in the daily papers, and seeing what would have happened if you had followed his advice.

The writer's view is that there is only one way for the small investor to make money on the Stock Exchange and that is a very slow one. He must buy a good stock or share, taking care not to buy it immediately after a sharp rise (for rises are often followed by a reaction due to profit taking), to yield him a certain annual income and keep it ("sit on it") until he sees a chance of exchanging it for another security of similar standing which will yield the same income and give sufficient profit on the transaction, after paying the expenses, to make it worth while. Issues of new shares and debentures by old established companies are attractive since there are no transfer expenses to pay; it is usually more satisfactory to buy them in the market than to apply for them direct. (See Chapter VII on New Issues).

In this connection three classes of ordinary shares stand out as particularly suitable for investment with an eye to eventual capital appreciation. No one can foresee which industries are going to produce the great and prosperous companies of ten or twenty years hence —who guessed, fifty years ago, that the manufacture of gramophones and records would one day become a huge and flourishing industry? to take one example— but it seems fairly certain that banks and discount companies will always be wanted to finance trade, whether the commodities are wheat and pig-iron or silk stockings and television apparatus, and insurance companies are not likely to become obsolete on account of increasing longevity and improved fire-engines; accidents always have happened and always will.

Further, the big British banks and insurance companies are proverbial for conservative finance and, at the time of writing, their shares can be bought at prices at which they give a reasonably high yield.

The electric supply industry has been making great strides in spite of the industrial depression and shares of companies engaged in this business also seem good for capital appreciation over a period of years.

CHAPTER XIII

Stock Exchange Psychology

IF YOU decide to speculate you should try to learn something of Stock Exchange psychology; although the Stock Exchange is notoriously short-sighted, it is much more inclined to deal in what it believes is going to happen next week than in what actually happened yesterday.

The result is that if good news is expected—e.g. the declaration of an increased dividend in good times, or of a maintained dividend in present circumstances—people buy the shares in anticipation, thus causing the price to rise; as soon as the news is out there is "nothing more to go for" and they all hurry to take their profits; this brings the price down and gives the bargain-hunter his chance.

Conversely, if a bad report is expected the bears get busy and the price falls; as soon as the news appears, the bears rush to cover their commitments (i.e. buy back the shares which they have sold but do not possess) and the price recovers.

This explains the paradox of good news causing the price to fall while bad news is followed by a rise.

Of course, if the news is entirely unexpected it has the effect on the price that one would expect.

A great difficulty is to know when to sell: there are two well known Stock Exchange sayings which are mutually contradictory—"Nobody ever went broke through taking a profit" to which one might add "provided he does nothing foolish with the proceeds" and "Cut a loss and run a profit".

If you have bought shares as a speculation, it is wise to heed the former saying, take a reasonable profit if you get the chance and be thankful; if you have bought the shares as an investment, keep them as long as they continue to forge ahead, ignoring minor day to day fluctuations. It is worth pointing out that if you can clear a profit of 10% after allowing for expenses, you have made as much as you would have received by way of income in four years with income tax at the present rate of 9/- in £1, if you had invested in a safe security yielding 5% —and few securities that can be termed safe yield as much as 5% nowadays. This is not meant to be an incitement to rash speculation; on the contrary, it is meant to make you realize that, if you have been skilful or fortunate enough to make such a profit, you need not be in a hurry to re-invest the money but can regard it as having "earned its keep" for the balance of the four years and be content to let it lie idle in the bank for a bit until you see a really good chance of repeating the performance.

An even more difficult decision to make is when to cut a loss; we are most of us optimists at heart and we all hate to admit having made a mistake but if shares have been bought for a speculation and the price refuses to rise or, worse still, starts to go down, then, nine times out of ten it is wise to get out quickly.

Some investors, if the price falls after they have bought their shares and, if they have confidence in their judgment, buy more on the fall to "average" and then, if the price recovers to its original level, sell the lot and heave a sigh of relief.

Other, probably shrewder, investors in similar circumstances, hold their hand while the price is falling but, if it recovers, double their holding at the original price with the remark "I was right after all", and then go on to make a handsome profit.

The chief value of an investment is to provide you with an income and banish financial worries, so, if a particular holding causes you sleepless nights, the only thing to do is to sell it, no matter how good it may be, and buy something else that will not spoil your rest.

While on this subject it may be as well to consider the case of a man who is bemoaning the fact that he bought 1,000 Patent Sausage Machine ordinary shares when they stood at 25*s*. and that the present price is only 10*s*.; he complains that he cannot afford to sell them now as he would be realising a loss of over 15*s*. a share. It is true, from one point of view, that it is only a loss on paper until the shares have been sold and the loss realised, but it is surely also true that his shares at this moment represent £500 cash—what he paid for them is ancient history and quite irrelevant—and that unless he can honestly say to himself "If I had £500 cash I would invest it in 1,000 P.S.M. ordinary shares in preference to anything else" he would be well advised to sell his Patent Sausage Machine shares and invest the proceeds in something sounder.

CHAPTER XIV

**Contangos*

WHEN a man has bought shares, the price of which he expects to rise, as a speculation and has not got the ready cash with which to pay for them, he can very often get his broker to "carry them over" for him. That is to say, he sells the shares for the old account, buys them at the same price for the new account and pays a "contango" or interest on the money involved. The price fixed is the middle price (i.e. halfway between the price at which the shares can be sold and the price at which they can be bought) at 11 a.m. on the day on which dealing first takes place for the new account.

The broker may charge a commission for carrying over but usually his remuneration is included in the rate of interest, i.e. he charges his client ½ per cent or 1 per cent per annum higher interest than he pays in the market. The client in this case is said to be a "bull" of the shares. A bull is always an optimist, at any rate as far as the prospects of the shares of which he is a bull are concerned, since he thinks that the price is going to rise; "bullish" consequently is the Stock Exchange slang for optimistic.

If the price has fallen since he bought the shares, the client is expected to pay the difference between the price at which he bought them and the contango (or "making up") price on account day to square his account; if the price has risen his broker pays him the difference. The broker, however, unless he knows his client very well and is assured of his financial standing, will expect him to keep a credit balance or deposit a

*Suspended—See Appendix II—Temporary Regulations.

certain amount of securities (bearer for choice) with him to cover a possible loss in case the price of the shares falls heavily. If the price falls and this cover or margin runs off, the broker will demand further cover, and if this is not forthcoming he is entitled to sell the shares in order to cut the loss. The client is, of course, liable for the whole of the loss incurred.

It is often convenient to carry shares over for one or two accounts in order to save transfer stamp and fee, but it should be remembered that the stamp and fee only amount to about 1 per cent of the consideration (i.e. the money paid for the shares apart from commission, etc.); the contango rate on a speculative share is usually 6 per cent or 7 per cent per annum; the length of an account is a fortnight or roughly $\frac{1}{24}$ of a year, so that if the rate is 6 per cent per annum, you pay approximately $\frac{1}{4}$ per cent per account; in other words, if you pay 6 per cent contango for four accounts, you have spent as much in interest as you would have done in paying for the stamp and fee. If you have the money lying idle or on deposit at the bank, it is cheaper to "take up" the shares unless you only intend to "run them" for an account or two.

A bull, even if he has carried the shares over, is entitled to any dividends or rights declared on the shares after he has bought them and before he has sold them again.

If a man thinks that the price of a share is likely to fall, he sells them, even if he does not possess any, and he is then said to be a "bear" of the shares, or to be "short" of them. When the end of the account comes, if he cannot deliver the shares (since he has none to deliver) or does not wish to deliver them, since they are registered in his name and he hopes to buy them back at a lower price, and does not wish to have to pay another stamp and fee, he instructs his broker to "take them in" (or "borrow" them).

If there are plenty of "bulls" about, the broker arranges the carry over as described above except that in this case the client receives interest instead of paying it. The broker either charges him a commission for carrying over, or more usually, pays him a ½ or 1 per cent lower rate of interest per annum than he receives in the market.

When a "bear" takes shares in he buys them for the old account and sells them at the same price for the new account; the price is fixed in the same way as the bull. If the price has risen since he sold the shares the bear has to pay the difference to square his account while, if it has fallen, he receives the difference. The broker will expect his client to keep a credit balance with him or to deposit securities as cover against a possible loss, whether he is a bull or a bear.

Theoretically when stock or shares are carried over, the bull lends stock to the bear and the bear lends money to the bull.

As money can always be borrowed if the rate of interest offered is high enough, a bull can always "get on" at a price—if the worst comes to the worst the broker "takes up" the shares for him and charges him stamp and fee as well as interest on the money—but, if there are more bears than bulls, the bears may have to take in the shares at "evens" (i.e. without receiving any interest on the money) or, if there is a large number of bears, they may have to borrow the shares and pay a backwardation or "back" on them. (A "back" is the opposite of a contango—a contango is the rate paid by a bull on the money which he borrows with which to pay for the shares and which is lent to him by the bear who is "taking the shares in"; a "back" is the payment which is made by a bear on the shares which he borrows to deliver against his sale).

A bull's maximum loss is limited to the amount he paid for the shares, since the price cannot fall below nothing (unless there is a liability attached to the shares—partly paid shares or shares in a company with unlimited liability) while his possible profit is, theoretically, unlimited ; a bear's maximum profit is the amount for which he sold the shares (if they become valueless he can buy them back for nothing) but his possible loss is unlimited.

A man who sells shares which he possesses but does not wish to deliver is said to be a "protected bear".

A bear must hand over to the buyer any dividends or rights declared on the shares after he has sold them ; if he is a protected bear with the shares registered in his name, the dividends will be paid to him, but they do not belong to him for all that.

Bears exert a steadying influence on markets since they sell on a rapid rise and thus check it, while, when the price falls suddenly, they buy back their shares and thus support the market. A large bear account is a source of strength to the market, while a large bull account is a source of weakness.

When a broker carries shares over (whether it is for a bull or a bear) he issues a "continuation" contract to show what he has done.

CHAPTER XV

**Options*

FIRST a very brief description of what is meant by an option, and then an attempt to remove a popular misconception.

Options may be "done" on the Stock Exchange for any period not exceeding three months, the full three months being the most usual period.

Call

For the sake of lucidity it may be as well to take an hypothetical case, mentioning a price and an amount of option money more or less at random. Suppose that a share stands at 29*s*. 9*d*.—30*s*. 3*d*. and you think that it is likely to rise considerably in price, but you wish to limit the amount of a possible loss, or you have not the money to buy and pay for the shares outright. Your broker finds an option dealer who is willing to "take" 2*s*. 6*d*. for the call of the share for three months at 30*s*. 3*d*. (the price at which it can be bought in the market at the moment) plus a small sum, say 6*d*., for the contango. You agree and the bargain is done; you are said to have "given" 2*s*. 6*d*. for the "call" of . . . shares at 30*s*. 9*d*. for three months. The option money (2*s*. 6*d*. per share) is payable at the end of the three months.

At the end of the three months (or before, by mutual agreement) you have the right to call the shares at 30*s*. 9*d*. (i.e. to buy the shares at 30*s*. 9*d*.) whatever the market price may be; if the shares can be sold at anything higher than 30*s*. 9*d*. you "call" the shares and sell

***Suspended—See Appendix II—Temporary Regulations.**

them, the difference between your selling price and 30*s*. 9*d*. being your gross profit; the difference between the gross profit and the option money is your nett profit or net loss; (ignoring commission—commission is charged on an option at the same rate as on a firm bargain in the share in question, but no further commission is charged when the shares are called or put at the expiry of the option).

To make it clearer, look at it from another angle; your option price is 30*s*. 9*d*. and the option money 2*s*. 6*d*., so that if you call the shares they will "stand you in" at 30*s*. 9*d*. plus 2*s*. 6*d*.=33*s*. 3*d*. (ignoring commission —4½*d*. in this case—to make it simpler though in practice it must be taken into consideration); if you can sell above 33*s*. 3*d*. you do so, call the shares and make a profit; if you can sell at 33*s*. 3*d*. but no higher, you still call the shares and sell them, thus getting out without loss. If the price is below 30*s*. 9*d*. you "abandon" the option and lose your 2*s*. 6*d*. per share option money which has to be paid in any case; if the price is between 30*s*. 9*d*. and 33*s*. 3*d*., you call the shares and sell them and thus get at any rate a part of your option money back; in any case your loss is limited to the option money (plus commission).

Put

Consider the same share at the same price (29*s*. 9*d*.—30*s*. 3*d*.) and suppose that you take the view that the price is likely to fall heavily in the near future. You do not wish to sell an unprotected bear, so you "give for the put" for three months. The option money will be the same as for the "call", though your broker may have a little more difficulty in finding a "taker" for the put and the option price will be 29*s*. 9*d*. (the price at which the shares can be sold at the moment) plus a small sum for the contango on "taking the shares in". In practice, when giving for the put, it is usually found that the contango is non-existent, or the option dealer may even insist on fixing the option price slightly lower than the selling price at the moment, in order to protect himself against having to pay a "back" on taking the shares in.

The bargain is done; you have given 2*s*. 6*d*. for the put of . . . shares at 29*s*. 9*d*. for three months, the option money being payable at the end of the three months as before.

You have the right to "put" the shares on the option dealer (i.e. sell them to him) at the option price at the end of the three months (or before, by mutual agreement) whatever the market price may be at the time.

If at the end of the three months the price is above 29*s*. 9*d*., you abandon the option and lose the option money; if the price is between 29*s*. 9*d*. and 27*s*. 3*d*. you buy the shares and put them, and thus get part of your option money back; if you can buy them at 27*s*. 3*d*., you can "get out" without loss, while if you can buy them at a lower price than that, you make a profit (again ignoring commission). In any case, your loss is limited to the option money plus commission.

Put and Call

Consider the same share at 29*s*. 9*d*.—30*s*. 3*d*. for a third time; you expect news shortly which is likely to affect the price of the share very considerably one way or the other, but you have no idea as to whether the news will be favourable or the reverse. You therefore give for the "put and call" or "double option"; the option money will be twice the single option (5*s*. in our hypothetical case) and the option price, the middle price, namely, 30*s*. (plus a small sum for the contango).

The price must rise or fall 5*s*. before you can make a profit (unless you job against your option, see below) but, as the price is not likely to remain steady for the whole three months, you are not likely to lose the whole of your option money.

Jobbing against an Option

If, after you have given for the call, the price rises sharply, you sell the shares and "take them in" until you can buy them back more cheaply and then repeat the process, or until the option expires.

Similarly, if, after you have given for the put, the price falls sharply, you buy the shares and "give on them" (carry them over) until you can sell them at a higher price, or until the expiry of the option.

After giving for the double option, you can job against it in this way, whether the price rises or falls.

When jobbing against an option, it is simpler to "deal forward" for the option date, but this cannot always be done; if it is feasible, it usually entails making some concession in the price, in lieu of contango.

This brief explanation of options shows that they provide a safe, though rather expensive, way of speculating; they are usually regarded as a means of gambling though they may also be regarded as a form of insurance.

Options as Insurance

As an example, let us suppose that you have invested in the ordinary shares of a brewery company (as you very well may have done, since most breweries are well managed concerns, whose shares make a sound investment). A month or so before the Budget a rumour goes round that the beer duty is to be increased; you feel nervous, but the shares have already fallen slightly, and you do not feel inclined to cut a loss; you might go to Lloyds and insure against an increase in the beer duty, but your simplest plan would probably be to give for the put of your shares for a period long enough to carry you over the Budget.

The insurance aspect of options is often overlooked.

APPENDIX I

Partly-paid Shares

WHEN new shares are issued to the public a small amount is usually payable on application, a further small instalment on allotment (if the issue is over-subscribed an applicant will only be allotted a proportion of the amount applied for; the amount of his remittance left over after paying the application money on the shares allotted to him is used in paying the instalment due on allotment, and the balance, if any, returned to him) and the balance is payable in two or three instalments due on definite dates spread over some months.

Formerly it was usual to issue shares of fairly large denomination and to "call up" only a small proportion of the nominal amount of each share; the balance could be called up in whole or in part by the company at any time and was thus a liability to the shareholder.

The company could refuse to register a man as a shareholder of partly-paid shares if they thought he was a "man of straw" who might be unable to meet a call.

Partly-paid shares are a liability to the holder but they give confidence to creditors of the company since, if it is in difficulties, it can call up extra capital.

Banks and insurance companies form the chief classes of concerns in which partly-paid shares are common. For example, one of the big banks has £12 shares, £2. 10*s*. paid, and also smaller fully-paid shares which have no liability attached. As in the more recent past banks and insurance companies have raised new capital by issuing new shares and calling up the whole of the new capital, to make these shares fully paid within a few months of issue, instead of making a call on the partly-paid shares, it is not likely that they will ever call up the unpaid capital on the old shares. That, in spite of this, some people fear the liability attached to the partly-paid shares, is shown by the fact that a higher yield can be obtained on the partly-paid than on the fully-paid shares. (On the principle that the bigger the risk, the higher the yield).

In some cases the unpaid capital can only be called up in the event of the company going into liquidation—it is then known as a reserve liability.

It should be noted that if the uncalled capital is ever called up, the call is likely to come at a time when the shareholder will find it most inconvenient to pay; he is legally bound to pay the whole of the unpaid amount of capital on each share held by him, i.e. the difference between the nominal amount of the share and the amount already paid up and, if he does not do so, the company, or its creditors, if it is in liquidation, can make him bankrupt.

Allotment Letters

When a company offers shares for public subscription, allotment letters are sent to the successful applicants. These letters state that so and so many shares in the company have been allotted to . . . . and that so and so much per share has been paid. Separate sections are provided (A) for the allottee to sign a declaration that he accepts the shares if he wishes to take them up, (B) for him to sign (over a 1d. stamp if the nominal amount is under £5 or over a 6*d*. stamp if the nominal amount is £5 or more) a declaration (if he wishes to sell them) that he renounces the shares in favour of . . . (left blank). When the renunciation form has been signed, the document is known as a Renunciation Letter and can be transferred from seller to buyer as a bearer security; the buyer must have the Renunciation Letter registered in his name by the date specified or he will be liable for an ad valorem transfer stamp. Section C is completed by the ultimate buyer who accepts the shares renounced in his favour by the original allottee and undertakes to pay the calls as they fall due. Space is also provided for the company's bankers to record payment of the calls as they are made.

When a company raises fresh capital by offering new shares to its shareholders in proportion to their existing holdings at a price below the current market price, it issues Provisional Allotment letters to its shareholders; these can either be accepted or renounced as described above.

As soon as the provisional allotment letters have been issued, the existing shares are made "ex rights" and the price is adjusted as explained below. The Stock Exchange does not deal in "rights" but only in the new shares.

Consider the case of a company whose 1s. ordinary shares stand at 6*s*. 3*d*. which decides to increase its capital by the creation of new ordinary shares of 1*s*. each and to offer some or all of these new shares to its existing shareholders in the proportion of two new shares for every five old shares held, at 2*s*. premium (i.e. at 3*s*. per share); this obviously constitutes a bonus to the shareholders. (Incidentally it is worth noting that except in certain very exceptional circumstances it is illegal to issue shares at a discount, i.e., at a price below their nominal value).

In the present instance 5 old shares at 6*s*. 3*d*. each are worth 31*s*. 3*d*. and the holder can obtain 2 new shares at 3*s*. each ; he will then have 7 new and old shares representing 31*s*. 3*d*. plus 6*s*., that is 37*s*. 3*d*. or 5*s*. $3\frac{6}{7}$*d*. (say 5*s*. 4*d*. to the nearest penny) each. The rights are worth 11*d*. per old share, the "ex rights" price will be 5*s*. 4*d*. per old share and the new shares will be worth 5*s*. 4*d*. each or 2*s*. 4*d*. premium over the issue price of 3*s*. which itself is a premium of 2*s*. over the nominal price of 1*s*. Further minor adjustments are necessary ; a buyer of the old shares will have to pay transfer stamp and registration fee, whereas the buyer of new shares will receive renunciation letters which for a short period will be free of these transfer expenses ; this will tend to raise the price of the new shares, while the opposite effect on the price will be exerted by a desire to cash in on the bonus, particularly by holders of the old shares who have no ready money available with which to take up the new ones ; in this particular instance, the company announced that the new shares would receive only half of any final dividend declared for the current year and that must also affect the price of the new shares. After the final dividend for the year has been declared and the prices made ex dividend, the need to distinguish between old and new shares will disappear and they will be treated as a single category.

Amounts Transferable

Stock may, theoretically, be transferred from one holder to another in any amount. In practice, British Government stocks are mostly transferable in multiples of one penny, and other stocks are usually transferable in multiples of one pound, subject, as a rule, to a minimum of ten pounds of stock.

Commission Scale

Shares are indivisible, as are also one pound units of stock: they are only transferable in multiples of one share or one unit. There are certain exceptions, e.g. Royal Dutch Company for the Working of Petroleum Wells in the Netherlands Indies shares of 1000 Dutch florins are divided into sub-shares of 100 florins each, and it is these sub-shares, not the whole shares, which are dealt in in London.

MINIMUM SCALE OF COMMISSIONS

A. $2\frac{1}{2}\%$ Consols, $2\frac{3}{4}\%$ and $2\frac{1}{2}\%$ Annuities	$\frac{3}{16}$ per cent on Stock.
Other British Government Securities .. .. Indian Government Stocks .. .. Metropolitan Consolidated Stocks .. London County Consolidated Stocks Dominion and Colonial Government Securities .. .. .. County, Corporation and Provincial Securities (British, Indian, Dominion, or Colonial)	$\frac{1}{4}$,, ,, ,, Stock.
County, Corporation and Provincial Securities (British, Indian, Dominion or Colonial)	Annuities (dealt in per unit of annuity) $\frac{1}{4}$ per cent on money

Public Boards (Great Britain and Northern Ireland):—

Inscribed Stocks free of Stamp Duty	$\frac{1}{4}$ per cent on Stock.
Inscribed Stocks subject to Stamp Duty .. .. Registered Stocks whether free of or subject to Stamp Duty* ..	as on Registered Stocks (Section C)

**Note*:—Metropolitan Water Board "B" Stock — as on Inscribed Stocks free of Stamp Duty.

Bank of England and Bank of Ireland Stock	½ per cent on Money.
B. Bonds to Bearer other than those included in Section A. Price 1 or under	At discretion.
Bonds to Bearer other than those included in Section A. Price 5 or under	$\frac{1}{32}$ per cent on Stock.
Bonds to Bearer other than those included in Section A. Price 10 or under	$\frac{1}{16}$,, ,, ,, Stock.
Bonds to Bearer other than those included in Section A. Price 20 or under	⅛ ,, ,, ,, Stock.
Bonds to Bearer other than those included in Section A. Price over 20	¼ ,, ,, ,, Stock.

C. Registered Stocks (quoted per cent.), Registered Debentures and Bonds :—

Price	5 or under	$\frac{1}{32}$	per cent on Stock
,,	10 ,, ,,	$\frac{1}{16}$	,, ,, ,, ,,
,,	25 ,, ,,	⅛	,, ,, ,, ,,
,,	over 25	½	,, ,, ,, Money.

D. Shares or Units of Stock, Registered or Bearer (other than Shares included in Section E.)

Price 0 1 0 or under .. .. At discretion.

Commission Scale

									s.	d.	per Share
Over	0	1	0 to	0	2	0	..	0	0½	or Unit.
,,	0	2	0 to	0	3	6	..	0	0¾	,,
,,	0	3	6 to	0	5	0	..	0	1	,,
,,	0	5	0 to	0	15	0	..	0	1½	,,
,,	0	15	0 to	£1	10	0	..	0	3	,,
,,	£1	10	0 to	£2	0	0	..	0	4½	,,
,,	£2	0	0 to	£3	0	0	..	0	6	,,
,,	£3	0	0 to	£4	0	0	..	0	7½	,,
,,	£4	0	0 to	£5	0	0	..	0	9	,,
,,	£5	0	0 to	£7	10	0	..	1	0	,,
,,	£7	10	0 to	£10	0	0	..	1	3	,,
,,	£10	0	0 to	£15	0	0	..	1	6	,,
,,	£15	0	0 to	£20	0	0	..	2	0	,,
,,	£20	0	0 to	£25	0	0	..	2	6	,,
,,	£25	0	0	..	..		..½ per cent on Money.			

E. Shares of Companies incorporated in the United States of America or Canada (whether dealt in in London on a Dollar or Sterling basis), with the exception of shares which are transferable by Deed of Transfer.

Price 25 cents (1/-)or under .. At discretion.

					s.	d.	
Over	25 cents	(1/-)	to 50 cents	(2/-)	0	0½	per Share.
,,	50 cents	(2/-)	to 87½ cents	(3/6)	0	0¾	,,
,,	87½ cents	(3/6)	to $1¼	(5/-)	0	1	,,
,,	$1¼	(5/-)	to $3¾	(15/-)	0	1½	,,
,,	$3¾	(15/-)	to $7½	(30/-)	0	3	,,
,,	$7½	(30/-)	to $10	(£2)	0	4½	,,
,,	$10	(£2)	to $15	(£3)	0	6	,,
,,	$15	(£3)	to $25	(£5)	0	7½	,,
,,	$25	(£5)	to $50	(£10)	0	9	,,
,,	$50	(£10)	to $100	(£20)	1	0	,,
,,	$100	(£20)	to $150	(£30)	1	6	,,
,,	$150	(£30)	to $200	(£40)	2	0	,,

With 6*d.* rise for every $50, or portion thereof, in price.

F.	Indian Railway Annuities	½ per cent on Money
	Options for more than one Account	As on bargains.
	Options for one Account or less ..	At discretion.
	Bargains in Partly-paid Stock or Shares of New Issues	At discretion.
	Bargains in Rights for Cash	At discretion.
	Powers of Attorney for Inscribed Stock	At discretion.
	Probate and Other Valuations ..	At discretion.
	Securities Made-up or Made-down ..	At discretion.
	Short-dated Securities (having five Years or less to run)	At discretion.
	Transfers of Stocks and Shares ..	At discretion.

Small Bargains .. No lower Commission than £1 to be charged except in the case of :—

(*a*) Transactions amounting to less than £100 in value on which a Commission of not less than 10*s*. must be charged, or

(*b*) Transactions amounting to less than £20 in value on which a Commission of not less than 5*s*. must be charged.

Note:—

(1) When the consideration for a single bargain exceeds £2,500 a broker may at his discretion charge half the normal rate of commission on that part of the bargain in excess of £2,500.

(2) In the case of a transaction in not less than £50,000 Stock of a Security included in Section A above, a broker may at his discretion charge a reduced rate of commission on the whole amount.

Stamp Duties

Stamp Duties

TRANSFERS

Consideration not exceeding £	Amount £	s.	d.
5	0	1	0
10	0	2	0
15	0	3	0
20	0	4	0
25	0	5	0
50	0	10	0
75	0	15	0
100	1	0	0
125	1	5	0
150	1	10	0
175	1	15	0
200	2	0	0
225	2	5	0
250	2	10	0
275	2	15	0
300	3	0	0
350	3	10	0
400	4	0	0
450	4	10	0
500	5	0	0
1000	10	0	0

and so on at the rate of 10*s*. for every further £50 or fractional part of £50.

Stamp Duties

CONTRACTS

Where the value of the Stock or marketable Security is

£5	and does not exceed	£100	..	6*d*.
Exceeds				
£100	and does not exceed	£500	..	1/-
500	,, ,,	1,000	..	2/-
1,000	,, ,,	1,500	..	3/-
1,500	,, ,,	2,500	..	4/-
2,500	,, ,,	5,000	..	6/-
5,000	,, ,,	7,500	..	8/-
7,500	,, ,,	10,000	..	10/-
10,000	,, ,,	12,500	..	12/-
12,500	,, ,,	15,000	..	14/-
15,000	,, ,,	17,500	..	16/-
17,500	,, ,,	20,000	..	18/-
20,000			..	£1

APPENDIX II

TEMPORARY REGULATIONS

CERTAIN facilities were suspended at the outbreak of war and have not yet been restored; in consequence some of the rules have had to be modified or superseded by temporary regulations. The chief alterations are set out below :—

Buying-In. The buyer of a security who does not obtain delivery on or before the fifteenth day after passing the "name" may buy-in unless the deliverer has informed him in writing that it is actually in course of delivery, in which case it may not be bought in without the authority of two Members of the Council.

Contangos. The "carrying over" or "taking in" of stocks and shares is prohibited.

**Dealing for the Account.* The normal practice of dealing for the fortnightly settlement is suspended and all bargains are for cash.

"Free to close". Normally when a client has bought or sold securities his broker is allowed to close the position for him by selling the securities or buying them back in the same or the following account without charging a further commission. This concession is suspended.

Minimum Prices. In the last week of August 1939 minimum prices for gilt-edged and other trustee securities were fixed below which no transactions were allowed to take place. This provided an artificial support for the market since sellers were prevented from throwing away their holdings at any price they could get, thus possibly precipitating a panic, and were forced to wait till buyers appeared at or above the fixed minima; the sellers were dealt with in rotation and prices rose again; in March 1940 the minimum prices were raised and in October 1945 they were abolished except for loans which were then "on tap" at the Bank of England—namely Three per Cent Savings Bonds 1965/75, Ditto Series "B" and Two and a Half per Cent National War Bonds 1954/56.

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*To be resumed towards the end of 1946 or early in 1947.

Options. Dealing in options is suspended.

Selling-Out. The seller of Securities who fails to receive a "name" by Twelve Noon on the fifth business day after the date of the bargain should report the matter to the Authorities with a view to enquiry being made into the reason for the delay ; a fine will be imposed on the buyer who has failed to issue a name, whether the securities are sold out or not.

Trading with the Enemy Act, 1939. Bearer Seourities (including American and Canadian shares in "American form", i.e. registered certificates endorsed in blank) had to be notified to the Bank of England on Form S.1.

Before such securities may be transferred from seller to buyer the consent of the Bank of England must be obtained by lodging Form S 2 giving the name of the new owner and declaring that he is not resident outside the United Kingdom, is not an enemy within the meaning of the Act or acting as the nominee of such a person.

In the case of registered securities (including new issues not yet in registered form) separate declarations (Forms D.1, D.2 and/or D.2A) must be made on the back of the transfer by his banker, broker, solicitor etc. on behalf of both seller and buyer that he is not an enemy within the meaning of the Act and that the transfer is not made for the benefit of an enemy.

GLOSSARY

*ACCOUNT DAY.—The day on which all bargains done for the account are settled ; the Account Day is always a Thursday.

ACTUAL.—Dividends are usually declared as so and so much per cent. (actual) but are sometimes declared as "at the rate of so and so much per cent per annum for such and such a period"; a dividend at the rate of 5 per cent per annum for six months is equivalent to 2½ per cent actual.

ALLOTMENT LETTER.—Letter from a company informing the person to whom it is addressed that he has been allotted so many new shares. It includes forms on which the Allottee can either accept or renounce the shares.

AMERICAN FORM.—American and Canadian shares are dealt in in the form of registered certificates endorsed in blank. In order to be "good delivery" in London, certificates must represent not more than 100 shares of up to $5 each, 50 shares of up to $25 each, 20 shares of up to $50 each or 10 shares of any higher denomination or shares of no par value.

APPLICATION FORM.—When securities are offered for public subscription, application has to be made on special forms obtainable from the issuing house or from the company's brokers or bankers either direct or through the client's own broker or banker. The forms are also printed at the bottom of the prospectus advertised in the daily press. A small commission is payable by the issuing house in respect of the number of shares allotted (not the number applied for) to the banker or broker whose rubber stamp appears on the form.

AT BEST.—Abbreviation for "at the lowest possible price" in the case of a buying order and "at the highest possible price" in the case of a selling order.

*BACK OR BACKWARDATION.—Fee paid by a bear on borrowing stock or shares to deliver against his sale.

BAD DELIVERY.—Bonds which have been damaged or have not got the proper coupons attached ; American or Canadian

*Suspended—to be resumed towards the end of 1946 or early in 1947—See Appendix II—Temporary Regulations.

shares registered in other than Recognized Marking Names unless sold as "in other names". Shares with distinctive numbers other than those in which permission to deal has been granted. Registered securities in respect of which the transfer is not in order, e.g. signature of transferor not properly witnessed. The buyer is entitled to refuse to accept and pay for securities which are not good delivery. See also Appendix II—"Trading with the Enemy" concerning Forms S.2, etc., without which securities are bad delivery as long as the Temporary Regulations remain in force.

BAD NAMES.—See OTHER NAMES.

BEAR.—One who has sold stock or shares which he does not possess, in the hope of buying it (them) back at a lower price.

BEAR SQUEEZE.—See SQUEEZE.

BIG FIGURE.—See FIGURE.

BARGAIN.—Any transaction in the Stock Exchange; also cheap stock.

BUCKET SHOP.—A firm outside the Stock Exchange which deals in stocks and shares; the term rather suggests a fraudulent concern, but there are reputable outside houses. Some outside houses are limited companies.

BULL.—One who has bought stock for a quick profit; the term "bull" implies that the speculator does not intend to pay for the stock, but that he will take a profit, cut a loss, or contango the stock.

CALL.—Demand by a company for payment by the shareholder of part or all of the unpaid portion of a partly-paid share.

*CALL.—Right to buy stock or shares at the agreed option price.

*CALL.—Exercise an option to buy stock or shares at the option price.

**CAPITAL BONUS.—Issue of fully-paid new shares to shareholders gratis.

CASH BONUS.—Extra dividend; the term implies that the bonus is paid in respect of an exceptionally profitable year.

C.D.—Abbreviation for cum dividend.

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*Suspended—See Appendix II—Temporary Regulations.

**The Government have temporarily forbidden capital bonuses.

Glossary

Client.—People who deal through stockbrokers are known as clients.

Close.—$\frac{1}{64}$ of £1 or 3$\frac{3}{4}$*d.* when the price is quoted in pounds and fractions of pounds; if the "figure" q.v. is 2, then "close to the figure" means that the jobber will buy at1 $\frac{31}{32}+\frac{1}{64}$, i.e. 39*s.* 8$\frac{1}{4}$*d.* and sell at £2, while "figure to close" means that he will buy at £2 and sell at $2+\frac{1}{64}$ or 40*s.* 3$\frac{3}{4}$*d.* When the price is quoted in shillings and pence, "close" means $\frac{3}{4}$*d.*; thus "10*s.* 4$\frac{1}{2}$*d.* close to close" means that the jobber will buy at 10*s.* 3$\frac{3}{4}$*d.* and sell at 10*s.* 5$\frac{1}{4}$*d.* It is usual to omit the "big figure" when quoting the price of an active share as both broker and jobber are assumed to know what it is.

Consideration.—The money paid for an amount of stock or a number of shares exclusive of commission, transfer expenses, etc.

***Contango.**—Rate of interest paid by a bull on money borrowed with which to pay for stock which he has bought; the money is borrowed from one account day to the next account day, and the bull is said to "contango" the stock or to "carry it over".

Cum Dividend.—A stock is said to be cum dividend when the price includes the dividend or interest which is shortly to be paid.

Debenture.—Security issued by a company against a loan.

Deed of Transfer.—Legal instrument by which stock or shares are transferred from one holder to another; the term is usually abbreviated to "transfer".

Discount.—New issues are dealt in at Par (the issue price), at so and so much premium over the issue price, or at so and so much discount on the issue price, until they are fully paid.

Dividend.—Distribution of profits to shareholders.

Dividend Request Form.—Printed form to be completed by the shareholder requesting the company to pay all dividends on shares registered in his name to his bank, whose receipt shall be the company's full and sufficient discharge. Also used in respect of payment of interest on Government loans and on company debentures.

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*Suspended—See Appendix II—Temporary Regulations.

EITHER SIDE.—Short for a thirty-second of £1, or $7\frac{1}{2}d$, either side of the price mentioned ; "either side of three-quarters" or "three-quarters, either side" means that the jobber will buy at $\frac{1}{32}$ under $\frac{3}{4}$ (or $\frac{23}{32}$) and sell at $\frac{1}{32}$ over $\frac{3}{4}$ (or $\frac{25}{32}$).

EX DIVIDEND.—A stock or share is quoted ex dividend when the amount (less tax) of the dividend or interest recently paid or shortly to be paid, has been deducted from the price. When a stock is dealt in "ex dividend" the seller retains the dividend. The term also does duty for "ex interest" which has fallen into desuetude.

EX RIGHTS.—When new shares are issued to shareholders in proportion to their existing holdings at a price below the current market price, the right to subscribe is valued by the Stock Exchange authorities and when the new shares are issued the old shares are made "ex rights", the price being adjusted by deducting the value of the rights. (See page 104).

FIGURE.—When quoting the prices of active stocks, it is assumed that the big figure is known. Thus a share standing at $3\frac{5}{8}$ may be quoted as "nine eleven" i.e. $3\frac{9}{16}$—$3\frac{11}{16}$, and a share standing at 4 may be quoted as "either side of the figure", i.e. $3\frac{31}{32}$—$4\frac{1}{32}$. A stock standing at $99\frac{1}{2}$ may be quoted as "nine and three-eighths five-eighths", i.e. $99\frac{3}{8}$—$99\frac{5}{8}$, or possibly simply as "three-eighths five-eighths".

FINAL DIVIDEND.—When a company has paid one or more "interim dividends" (q.v.), the dividend declared at the annual general meeting is known as the "final dividend", i.e. the final dividend for the financial year, the accounts in respect of which have been considered at the meeting.

FREE.—Free of transfer expenses ; when small, odd lots of shares are sold, they are usually sold "free".

*FREE TO CLOSE.—When shares are sold in the same account as that in which they were bought or in the following account, or if shares have been sold and are bought back in the same or in the following account, the second bargain may be done free of commission. The contract is marked "free to close" (the bull or bear position).

*GIVE ON is short for "give a rate on" when a bull carries stock over. *See* CONTANGO.

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*Suspended—See Appendix II—Temporary Regulations.

GOOD DELIVERY.—Bonds which are undamaged, not drawn for redemption (unless so specified at the time the bargain was done) and with the proper coupons attached. American and Canadian shares in recognized marking names (q.v.) unless otherwise specified at the time the bargain was done. Registered securities in proper order. Under the Temporary Regulations now in force, bearer securities including shares in American form must be accompanied by Form S.2 duly authorized by the Bank of England and registered securities must have the proper declaration endorsed on the transfer. *See* Appendix II—Trading with the Enemy.

GOOD NAMES. *See* MARKING NAMES.

INCOME TAX is deducted at source from dividend and interest payments (inscribed and registered War Loan 3½ per cent is the only important exception) ; a so-called tax free dividend is really a correspondingly larger dividend less tax. Vouchers stating that so and so much tax has been deducted and has been, or will be, paid to the Inland Revenue, accompany all dividend and interest payments. These vouchers have to be produced in support of claims for refund of income tax overpaid.

INDEMNITY, LETTER OF.—When a stock or share certificate has been lost or destroyed, the company concerned will usually issue a new one on receiving a letter signed by the shareholder explaining the circumstances and undertaking to indemnify the company for any loss incurred as the result of the issue of a new certificate. If a bearer bond or share warrant to bearer is lost or destroyed it is virtually irreplaceable.

INSCRIBED STOCK.—Stock which is transferred from seller to buyer by the transferor or his attorney attending at the Bank of England (or wherever the books of the particular stock are kept) and "signing off" the stock ; a stock receipt is issued to the transferor to hand to the buyer as proof that he has delivered the stock but this stock receipt is not a valuable document like a stock certificate and need not be produced when the stock is delivered again. Inscribed stock is obsolescent since all British Government inscribed stocks are now delivered by deed of transfer and stock certificates are issued in respect of such stock; stock certificates are valuable documents and must accompany the transfer when the stock is delivered again. Stock certificates are not issued to holders of inscribed stock except on request but transfers are certified as required. (*See* page 14)

INTERIM DIVIDEND.—As it is inconvenient for shareholders to receive dividends only once a year, many companies pay one or more "interim dividends" on account of the current year. The payment of an interim dividend does not necessarily mean that a final dividend (q.v.) will be declared, nor does it give any indication of the amount of the final dividend. The directors have power to declare and pay an interim dividend but the final dividend, in the case of most companies, has to be sanctioned by the shareholders in general meeting before it may be paid. Some companies pay a small interim and a large final dividend; some make the interim and final dividends approximately equal.

ISSUE ON BONUS TERMS.—Issue of new shares to shareholders at a price below the current price of the old shares.

JOBBER.—One who makes a market in a stock or share, and who only deals with other members of the Stock Exchange.

LETTER OF.—ALLOTMENT (q.v.) INDEMNITY (q.v.) REGRET (q.v.) RENUNCIATION (q.v.)

LIMIT.—An order to buy at or below, or to sell at or above, the current price at a limit fixed by the client; when giving a limit the client should say for how long it is to be kept in force e.g. good for the (current) account, good till cancelled.

MARK OR MARKING.—A price given in the newspapers under the heading "record of business done" at which business has been done on the previous day. (The Saturday issues of financial dailies record the last bargain during the week and the date on which it was done, if no mark was recorded on the Friday). The number of marks gives a rough guide to the activity of the stock but it must be remembered that when a number of bargains are done at the same price they are not all recorded individually. The newspapers obtain the markings from the Official and Supplementary Lists published by the Stock Exchange Council every afternoon, MARKET NAMES.—Synonymous with Marking Names.

MARKING NAMES.—American and Canadian shares are dealt in in the form of share certificates endorsed in blank. These are not good delivery (unless otherwise stipulated at the time the bargain was done) unless they are registered in the names of certain finance houses, jobbers or brokers recorded in a list of "Recognized Marking Names" kept by the Stock Exchange authorities. These firms undertake to receive the dividends from the companies and to pay them to the owners of the shares when the share certificates are presented to be "marked for dividend". (*See* page 24).

NOMINAL VALUE is the par or face value of a share or bond.

NOMINAL PRICE. *See* QUOTATION.

NOT TO PRESS OR N.T.P.—When a jobber has no stock, he will sometimes sell on the understanding that the buyer will not press for delivery.

ON TAP.—*See* TAP LOANS.

OTHER NAMES.—American and Canadian shares registered in names other than "Recognized Marking Names" are not good delivery against a sale unless "Other Names" was specified at the time the bargain was done. Shares in "Other Names" normally command a lower price than shares in Recognized Marking or "good" names. "Other Names" are also referred to as "bad" names or "private" names.

OUTSIDE HOUSE.—Firm whose partners are not members of the Stock Exchange, which deals in stocks and shares. Some outside houses are limited companies. *See* BUCKET SHOP.

OVER means $\frac{1}{32}$ of £1 or 7½*d.* Thus "half to over" means 10*s.* to 10*s.* 7½*d.*; "over the three" means $\frac{1}{32}$ over three-sixteenths, i.e. $\frac{7}{32}$, and so on.

PAR is 100 in the case of stock and the face or nominal value in the case of shares, with the following important exception. In the case of partly-paid new issues, both of stocks and of shares, PAR is the issue price.

PASSED.—When a company decides not to declare a dividend, the dividend is said to be passed.

*PAY DAY.—Account day; the day on which all bargains done for the account are settled.

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*Suspended—to be resumed towards the end of 1946 or early in 1947—See Appendix II—Temporary Regulations.

PINK FORM.—*See* PREFERENTIAL FORM.

PREFERENTIAL FORM.—When companies offer new shares for public subscription they usually give preferential treatment to applications from their own shareholders ; for this purpose they issue preferential application forms which are readily distinguishable by their colour, usually pink ; they are often called "Pink Forms".

PREMIUM.—New issues are dealt in at PAR (the issue price), at so and so much premium over the issue price, or at so and and so much discount on the issue price, until they are fully paid.

PRIVATE NAMES. *See* OTHER NAMES.

PROVISIONAL ALLOTMENT LETTER.—Offers of new shares in proportion to their existing holdings are made to shareholders by provisional letters of allotment. (*See* page 104).

*PUT.—Right to sell stock or shares at the agreed option price.

*PUT.—Exercise an option to sell stock or shares at the option price.

QUOTATION is a double price, the lower being the price at which the stock can be sold, and the higher, the price at which it can be bought. NOMINAL QUOTATION.—A double price indicating the basis of negotiation, when there is no free market in the stock.

RECOGNIZED MARKING NAMES. *See* MARKING NAMES.

REDEMPTION.—Repayment of a loan.

REGRET, LETTER OF.—Letter sent to unsuccessful applicant informing him that no new shares (stock) have been allotted to him.

SQUEEZE, BEAR.—When bears are unable to borrow stock to deliver against their sales and the price is forced up against them, they are said to be "squeezed" since they must buy back the shares they have sold as they cannot deliver them.

STAG.—One who applies for a new issue in the hope of being able to sell what is allotted to him at a premium at once.

STALE BULL.—One who has bought stock in anticipation of a quick rise which has failed to materialise.

STOCK.—This term includes both stocks and shares.

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*Suspended—See Appendix II—Temporary Regulations.

*TAKE IN.—One who has sold stock which he either does not possess or does not wish to deliver, is said to "take in" the stock which he borrows from a bull to deliver against his sale. *See article on* CONTANGOS.

TAP LOANS.—British Government loans have usually been floated by announcing that the Government wished to borrow so many million pounds and inviting subscriptions by prospectus stating the price of issue, rate of interest and redemption dates (or a statement that the loan was to be irredeemable) ; the lists were closed when the full amount had been subscribed or if the full amount was not obtained, after a few days, when the outstanding balance would be taken by Government Departments and sold in the market as opportunity offered.

Of recent years it has become the practice to issue loans, e.g. National War Bonds 2½%, to an unlimited amount, as required ; these are described as being "on tap" or "tap loans"; when sufficient money has been obtained or when the currency of the loan is getting too short, the tap is turned off and a new loan on similar terms but with different (slightly later) redemption dates is put "on tap" in its place.

TRANSFER.—Abbreviation for DEED OF TRANSFER.

UNDER.—Under means $\frac{1}{32}$ of £1 or 7½*d.* Thus if a price is quoted "under to three-quarters", it means $\frac{1}{32}$ under ¾ (or $\frac{23}{32}$) to ¾ or 14*s.* 4½*d.* to 15*s.*; there may or may not be a big figure.

WARRANT, DIVIDEND.—Cheques sent out in payment of dividends are called dividend warrants.

WARRANT.—Stock or share warrant to bearer. Bearer stock or bearer shares.

X.D.—Abbreviation for ex dividend.

X.R.—Abbreviation for ex rights.

YIELD.—The annual return on the money invested in the security in question at the current price.

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*Suspended—See Appendix II—Temporary Regulations.

NICKNAMES OF STOCKS AND SHARES

MANY stocks and shares are often referred to by abbreviated titles or by nicknames ; in the majority of cases it is obvious which stock is meant, though the origin of a few of the names is obscure. The investor wishing to look up particulars of a stock should, if he is at first unable to find it, look under the following prefixes : Amalgamated, Anglo-, Associated, British, Imperial, International, National, New, Royal, United, etc.

In response to numerous requests a list is given of some of the more generally used nicknames, together with the securities to which they refer.

AMERICAN CELANESE : Celanese Corporation of America.

AREAS : Government Gold Mining Areas.

BAGS : Buenos Ayres Great Southern Railway.

BATS : British American Tobacco.

BERWICKS : London and North Eastern Railway.

BRICS : British Insulated and Callenders Cables.

BRUMS : London Midland and Scottish Railway.

BOXER : China 5% 1925/47 Gold Dollar Loan (Boxer Indemnity).

CANADAS : Canadian Celanese, Canadian Eagle Oil, Canadian Government Loans, Canadian Pacific Railway or Canadian Selection Co., according to the context.

CANPACS : Canadian Pacific Railway.

CANTABS : Imperial Tobacco Co. of Canada.

CASTS : Consolidated African Selection Trust.

CEMENT : Associated Portland Cement.

CHADE : Compania Hispano-Americana de Electricidad.

CHARTERED : British South Africa Co. (Incorporated by charter ; not a limited liability company).

CHEMICALS : Imperial Chemical Industries.

CONTROLLED : British Controlled Oilfields.

DUTCH : Royal Dutch Petroleum.

EAGLES : Canadian Eagle Oil and Mexican Eagle Oil.

E.M.I.s or EMMIES : Electric and Musical Industries (merger of the Gramophone Co. (His Master's Voice) and Columbia Graphophone).

FONTS: Randfontein.

FREDDIES: Free State Development and Investment Corporation (Orange Free State).

GIPS: Great Indian Peninsula Railway.

GIPPY "B": Anglo-Egyptian Oilfields "B" shares.

I.C.G.: Imperial Continental Gas.

IKEYS or I.C.I.s: Imperial Chemical Industries.

IMPS: Imperial Tobacco Co. (of Great Britain and Ireland).

IRCAS: International Railways of Central America.

JOHNNIES: Johannesburg Consolidated Investment Co.

KAIPING: Chinese Engineering.

KNIGHTS: Witwatersrand Gold Mining Co.

LEASEHOLDS: Trinidad Leaseholds (Oil).

LOBS: Lobitos Oilfields.

MODDERS: New Modderfontein Gold Mining.

NICKELS: International Nickel of Canada.

NUNDIES: Nundydroog Mines.

PACIFICS: Buenos Ayres and Pacific Railway.

PERSIAN: Anglo-Persian Oil, now Anglo-Iranian Oil.

SELECTION: Rhodesian Selection Trust; possibly also Rand Selection.

SIDRO: Societé Internationale d'Energie Hydro-Electrique Sidro.

SILVERS: India Rubber, Gutta Percha, and Telegraph Works, formerly Silver's India Rubber, etc.

SLUBBERS: British Cotton and Wool Dyers' Association.

SOFINA: Societé Financière de Transport et d'Entreprises Industrielles.

STEEL: United States Steel.

SUBS: Sub Nigel.

SWINES: South African Distilleries and Wines.

TANKS: Tanganyika Concessions.

TOWNSHIPS: South African Townships Mining.

TRACKIES: Brazilian Power, Light and Traction.

TRANSPORT: London Passenger Transport Board stocks.

U-BOATS: United British Oilfields of Trinidad.

VANCOUVERS: Brewers and Distillers of Vancouver.

V.O.C.: Venezuelan Oil Concessions.

WIRES: British Insulated and Callenders Cables.

WOOLLIES: Woolworth.

WRITS: West Rand Investment Trust.

ADDENDUM

Since this book went to press the Stock Exchange Council has announced that dealing for the account will be resumed in January, 1947, but that Account Days which before the war were always on Thursdays, will now be on Tuesdays as an experimental measure subject to review after six months.

Procedure will be as described on p.17 seq. except that dealing for the fortnightly account will start on Wednesday of the first week and continue until Tuesday of the third week (ten business days excluding Saturdays and Sundays); account day will be on Tuesday of the fourth week. Dealing for the next account will start on Wednesday of the third week and continue until Tuesday of the fifth week for settlement on Tuesday of the sixth week and so on. Three-week accounts will be introduced from time to time to cover Easter, Whitsun, etc.