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By

HENRY LOWENFELD

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Introduction

INVESTMENT is a matter requiring deep consideration, whereas only too often the investor allows himself to be guided by mere impulse in the disposal of his capital. The following series of articles from the pen of Mr. Henry Lowenfeld have already appeared in the *Financial Review of Reviews*; they are now reprinted in book form in the hope that, collected, they may assist the investor to grasp the fact that the science of investment comprises a series of acts of selection, all of which require to be carefully weighed if the combination of securities, which results, is to take the shape of a perfect list of investments.

First of all there is the selection of the type of security best suited to the individual investor's requirements; then there is the selection of suitable localities for investment. After it has been decided in what class of

security and in what countries the capital to be disposed of should be employed, it still remains to discriminate wisely between the respective merits of kindred securities.

Above all things it is essential that the various stocks, of which an Investment List is composed, should weld one with another. They must not only harmonize in their respective widths of fluctuation, but also in their respective yields of income. On no account must an attempt be made to blend stocks, which habitually fluctuate widely, with stocks of marked stability: and investments yielding high rates of income must not be combined with securities which afford a comparatively low return.

Perfect harmony can only be secured by the judicious selection of a combination of stocks, similar in income-yield and identical in width of fluctuation; but every one of them controlled by a separate set of market influences.

It is the aim of the articles reprinted in this book to show how investment harmony is to be achieved. The reader will find that the Statistical Record which is published at the end of each number of the *Financial*

Review of Reviews will supply him with all the necessary data as to income-yield, width of fluctuation, trend of price-movement, and balance-sheet analysis of over 5,000 securities. So that the investor will be enabled to make therefrom an intelligent selection of investments, suitable to his own requirements and suitable also to blend with one another in an harmonious scheme of investment.

If he will only follow the directions, which the originator of the Geographical Distribution of Capital so clearly lays down in this symposium of financial essays, the investor will learn how to house his capital securely and how to put himself in possession of an assured income.

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Investment Crazes

Of all financial transactions there is none of more general interest to the investing public than the manner in which a new market or a new group of securities suddenly springs into popularity, and there is no subject into which it is more difficult for the average investor to obtain an accurate insight. His knowledge is usually limited to the fact that he learns one morning from the financial column of his daily paper that, when the Stock Exchange closed, a certain new issue was quoted the previous day at a substantial premium; and from that time onwards, for days and weeks, and, indeed, in the case of a particularly well-organised "boom," perhaps even for months, the advertisement columns of the Press will be crowded with the prospectuses of kindred ventures, whilst the reigning market sensation will be the premiums at which this new group of stocks is being actively dealt in.

Without pausing to consider precisely how all these activities and all these premiums have thus miraculously sprung into existence, the public not unnaturally becomes fascinated by the prevailing financial topic of the hour, namely, the buoyancy of the new market and the sums of money which are being made by those who are fortunate enough to be interested therein.

But if the investing public would only stop to investigate the origin of this seemingly inexplicable outburst of activity, they would doubtless be surprised to find that they themselves were individually capable of producing an exactly parallel phenomenon by their own firesides, with no more complicated a set of apparatus than a kitten, a cork, and a piece of string. For just as a kitten is unable to restrain itself from eagerly jumping in pursuit of a cork which is steadily drawn away from it, so the average investor finds himself impelled to jump into a market which is steadily rising. It matters not to the kitten that past experience has taught it that the cork is possessed of no real vitality, any more than it matters to the investor that bitter experience

has taught him that these spurts of artificial activity in a new market are just as devoid of real life as is the inanimate cork which fascinates the kitten. In both cases the attractive force is motion—motion which to the unreasoning observer bears a certain resemblance to life.

Now the real explanation of this sudden simultaneous production of a number of brand new ventures of kindred character lies in the fact that the various Houses of Issue, which are responsible for the flotation of new joint-stock companies, all have a multitude of schemes in all parts of the world, pigeon-holed and waiting for the capricious Public to display a marked interest in any one of them. When the investor has a fancy for tramways, it would be useless for the company-promoter to tempt him with a brewery and *vice-versa*. Therefore when one tramway scheme has been seized upon by the public with avidity, forthwith a succession of tramway issues are unearthed from the obscurity of the pigeon-holes, in which they have been reposing, and are given forth to the world. Amongst this mass of flotations there are

naturally schemes good, bad, and indifferent, companies of proved dividend-earning capacity, and crude, immature concerns of doubtful prospects. The whole situation, moreover, is still further obscured by each House of Issue lending a certain amount of market support to its own offspring; in the language of Throgmorton Street every man is busily thwacking his own donkey, and amidst the consequent dust and uproar which ensues, the general public can be little surprised if it fails to display the very keen amount of discrimination which is requisite in such a case.

But the engineered advance in quotations having accomplished its purpose, and the investor having been induced to ally his fortune for better or for worse with that of the new market, there forthwith ensues what the average financial journalist, who is a man of set phrases, so dearly loves to term a "healthy reaction." And naturally enough the receding tide leaves the genuine investor stranded high and dry with his new purchase or purchases. Then follows a dreary period of suspense, accompanied by a further shrink-

age in values, until the unpleasant conviction begins to steal over the erstwhile over-eager buyer that there is no immediate probability of the glowing prospectus promises being realised.

At this point, too, the speculator, who is carrying large masses of the new stuff on loan, finds that his banker is beginning to display a certain amount of uneasiness, and it is made abundantly clear to him that his loans will be closed down upon him, unless, of course, he should happen to be of sufficient wealth to entitle him to practically unlimited credit. Thus one weak speculator is compelled to liquidate his holding, with such disastrous effect upon the market that other weak speculators are in turn forced to liquidate theirs; so that there ensues, to quote another picturesque Throgmorton Street idiom, "such a getting downstairs" as altogether eclipses in rapidity even the suddenness of the original rise.

During the progress of the slump the doubtful ventures die a natural death, and only the sound ones survive to participate in another "boom," perhaps, when the investment craze

once more takes the market in hand again, after it has been purged by a lengthy period of liquidation. This new boom follows precisely in the footsteps of the first, and again leaves the market to a lengthy period of repentance.

Amongst recent investment crazes have been: —

South American Investments.
Enterprises in Egypt.
Motors and Motor-Buses.
Electric Traction Ventures.

For the purpose of the present argument I will group the two first and the two last together, as, though united by the common bond of all being fashionable, the two former widely differ in their main essentials from the two latter.

The first group bases its claims to recognition upon new developments in specific countries, whilst the second owes its popularity to the development of new industries which are universal to the whole globe. Now, obviously, an enterprise dependent upon the development of tracts of country affords far

greater stability than an enterprise secured upon the prosperity of a particular industry. Because new inventions and individual industries are always liable to be superseded by some fresh discovery or social movement, as the electric tramcar has practically killed the horse-drawn tram, as the motor has cut into the bicycle trade, and as the Temperance Movement has checked the prosperity of the Brewing Industry. On the other hand, no new craze, invention, or social development can injure the industrial progress of a particular part of the globe.

When a new country has once made a start upwards, though its prosperity may be checked by a period of lean years, yet its progress cannot be altogether arrested. Hence an investment based upon the development of a country has a much more solid foundation than an investment based upon a specific trade or an individual industry.

The recent financial developments of the South American Railway stocks are typical of the present investment craze for South American securities of all kinds. For the purpose of illustration I will take the Buenos

Ayres and Rosario Railway, one of the greatest and most important of the South American Railway group. This company was incorporated in 1873. It would serve no useful purpose to trace its early history, so I will commence with the year 1886, when its Ordinary stock rose from 114 to about 160 on the prospect that its dividends would increase from 6 to 8 per cent. This expectation was fully realised; the dividend rose to 9 per cent. and the price of the stock touched 185½, its highest record in the year 1889. At that price the stock yielded slightly under 5 per cent., and the then craze had it that the stock was bound to rise considerably higher.

However, the Baring crisis, which took place in the following year, summarily checked Argentina's borrowing power and led to a period of financial conservatism, during which it became evident that much of the country's past prosperity had depended upon the constant influx of fresh European capital. During this time the dividends of the Buenos Ayres and Rosario Railway ceased entirely, and the price of the Ordinary stock dropped from 185½ in 1889 to 45—or just one quarter

of its former figure—in 1893. Dividend payments were resumed in 1894, and, after lingering between 1½ and 4 per cent., they gradually rose again to 6 per cent. for 1904, the price of the stock improving to 117.

Clearly, then, a stock with such a past history as this is entirely unsuited to a steady-going investor. It should be the aim of the investor to consider nothing but the safety of his capital and the income-yield which it affords him. Whenever he finds that he can obtain greater safety and a better income by changing from one security to another, he ought certainly so to change with the view of improving his Income and building up his Capital Account.

An investment craze, no matter how strong, only lasts for a time, and, after a large rise in prices above the normal level, a reaction is sure to follow. This has been emphatically demonstrated by the dwindle of prices in the British Railway Market of recent years, and we are quite certain to witness a similar reaction in South American securities. To the speculator an investment craze does offer undoubted opportunities of which he may avail himself so far as he deems it to be pru-

dent; but for the investor the investment craze is apt to prove a dangerous trap, which it is easier to walk into than to walk out of. It should be the object of the investor to improve his capital position and his income whenever he can do so by realising an unduly inflated stock; this he can do in the present instance, and a cursory survey of an investment list will reveal many opportunities offering to the prudent holder of South Americans if he will only take advantage of the present craze to turn his paper profits into actual cash.

The case of the present "boom" in Egyptian securities differs from that in South Americans chiefly as to the knowledge we possess of Egypt as a field of investment. Egypt has only recently come to the front; therefore, as to the probability of Egyptian investments possessing any ultimate stability we have little to guide us. History does, however, serve to show that the original pioneers are but rarely those who reap the ultimate profit. When developing a new territory many mistakes are inevitable, so that it naturally follows that, for a time, Egyptian invest-

ments were all strongly tinged with the taint of speculation. The speculative element, of course, entered least into that class of investments which appertains to the nature of mortgages. A sound well-secured mortgage debenture, yielding a substantial rate of interest to compensate for the risk incurred, should prove the least dangerous type of Egyptian investments. But more speculative stocks and ordinary capital issues should be eschewed by all who aim at solid investment.

Having now treated of investment crazes in new countries, and having explained how they should be regarded by investors, let us next consider booms in the development of individual trades, like motors and motor-buses and electric traction. Here I should like to veto at once every investment in motors and motor-buses, no matter whether Debentures, Preference or Ordinary shares. We are in this case dealing with an entirely untried industry. There is not the slightest doubt that the motor has come to stay, but whether it is the motor as at present manufactured, or not, is a question of grave doubt. I should like to advise every investor to closely

watch the development of motors and motor-buses. They pass him daily in the street, so that he can obtain a cheap, instructive, and practical lesson as to the way an investor should look upon this and every other boom which concerns itself with any fashions and new inventions.

He will see a bus or a motor which will please him vastly; let him take careful note of the particular make which strikes his fancy, and he will most likely find that in the short space of two or three years that very same motor which he looked upon as almost perfection has already dropped out into the ranks of the obsolete. Every time that he witnesses such a development, let him remember that in all probability some patent right, which was originally acquired for tens of thousands of pounds, has become valueless, or that some firm or company which did not understand how to adapt itself to altered circumstances has been brought to the verge of bankruptcy.

There is but little to be gained by entering the ranks of the pioneer investors in a new industry, whilst there is everything to be lost by so doing.

Perhaps one of the most successful patents in connection with motors was the Dunlop pneumatic tyre. Yet the Eight per Cent. Cumulative Ordinary shares of this company are now purchasable at a discount of about twenty per cent. The patentee has no doubt made a fortune out of his invention, but the shareholders also have quite evidently lost one. Yet the Dunlop tyre was quite a remarkable success. A glance at the Birmingham Stock and Share List, giving the quotations of all the cycle companies—a craze of a few years ago—clearly illustrates what is likely to happen to motor investments of the present day.

Here, both investors and speculators are equally likely to lose, so that the finding of capital for motors and motor-bus concerns ought to be left to the trade and to those investors who are practical engineers and are following the entire movement with the closest attention.

The last craze which I propose to discuss here is that of Electric Traction. This is by no means a new industry, but one that has already established itself so strongly as to

have become a veritable danger to some of the existing railway systems.

Electric traction was first introduced about eighteen years ago, and has, during that time, so thoroughly established itself that it can be safely assumed that new inventions or developments are not likely materially to affect this industry. As a matter of fact we are dealing here with a thoroughly tried and successful form of enterprise. The pioneers of the Electric Traction movement have lost money, no doubt, but the present investor is in a position to profit by these losses. For these reasons this craze has now reached a point when it may be said to have justified present current prices, if not the boom prices of earlier days. Electric trams have opened up new districts which were formerly inaccessible. They are also very popular for pleasure traffic on account of the speed of which they are capable, and of the ease and comfort with which they run.

It is a significant fact that few of the recently established electric railways and tramways but have already entered the list of dividend-payers, whilst some of them are

most signal successes, and it is particularly noticeable that in hot countries they do extremely well.

But, here again, the investor should be cautious in his selection, and he should not purchase any stock of an Electric Railway which does not return to him a fair amount of yield in comparison with the risks which he runs.

During the present craze many investors seem to have lost sight of this important point, and there are even now a great many instances in which the prices, at which Electric Tramway and Electric Railway stocks are selling, cannot well be justified by their prospects.

Let us take, for example, the £5 fully-paid Ordinary shares of the Anglo-Argentine Tramway, which used to sell at about par three years ago, and are now selling at £8 15*s.* a share. It is true that the dividends on these shares have risen from 6 to 8 per cent., yet on an 8 per cent. basis they only yield at the present price about 4½ per cent. This is an instance which clearly shows how far a temporary craze for any particular class of

investment tends to upset the investor's judgment.

It is quite true that the Anglo-Argentine Tramways Co. own a very fine system; it is also true that with very careful management the dividends might yet be increased. However, in my opinion, no investor should hold a Tramway Ordinary share which does not return him a minimum rate of over 5 per cent. on the selling price of his stock.

It is only by ascertaining whether the stock under consideration is really the safest, cheapest, and most remunerative that its desirability to the investor can be proved.

Now, how can the present selling price of Anglo-Argentine Trams be justified when this investment is compared with other investments of a similar class; taking, for example, the First Mortgage Gold Bonds of well established American electric railways.

Many first class Electric Railway Debentures yield 5 per cent., and it, of course, naturally follows that the yield on Ordinary stocks of this class of enterprise ought to be at least $5\frac{1}{4}$ to $5\frac{3}{4}$ per cent. How, therefore, can the present price of Anglo-Argentine

Tramway Ordinary shares, yielding 4½ per cent., be in any way justified—or, why should the Four-and-a-Half per Cent. Debenture of the British Columbia Electric Railway and many other Debentures of this class be selling at 105 ? On Second Mortgage Debentures a still larger yield is procurable. I know of several instances where as much as 6 per cent. is obtainable with comparative safety on this class of stock.

It is these comparisons which fix the price at which stocks ought to sell, but during the time of crazes, investors, for some unaccountable reason, seem to forget to make these comparisons, and only find out, after they have made their purchases, and when the excitement of the craze is over, that they ought to have done much better for themselves.

Investors should keep constantly in their minds the fact that investing crazes do not come about spontaneously, but that, usually, they are engineered by some group of interested parties. As it is the business of newspapers to record the latest news, and to discuss those sections of the market which are attracting the greatest amount of public attention, it

follows that when an investment craze once is set going it is like a snowball, which gradually, by the very fact of motion, finally attains to enormous dimensions.

There are times when every investment broker throughout the length and breadth of the land has the same class of stock in his mind, and naturally, therefore, reflects his state of mind upon that of his client.

For these reasons anomalies like the above cited examples come about, much to the detriment of those investors who simply purchase such stocks as have been brought principally to their notice through an investment craze. They fail to consider at the time of purchase whether they might do much better in another, but similar, security.

Another point of the gravest moment is overlooked during periods of financial excitement, viz., whether the particular security selected happens to fit into the investment scheme of its purchaser. I have, in *Investment An Exact Science*,[1] drawn attention to a fact which did not seem to have been well

[1] *Investment an Exact Science*, Demy 8vo, 2*s.* 6*d.*, 2, Waterloo Place, S.W.

understood previously by investors, that a badly assorted list of intrinsically sound and perfectly safe investments may give most unsatisfactory results, and that it is only by working on a proper system of investment averages that the Capital Stability and Income Safety can be attained. As my book is already in the hands of the public, I will not enlarge upon this point beyond simply mentioning that one of the greatest evils of investment crazes is, that investors on such occasions are apt to lose sight entirely of the indispensable necessity of a proper distribution of investments if Capital Safety is to be maintained.

On the whole, my long and very varied experience amongst investors has proved to me that a calm and judicial selection of investments is the only way in which investment success is to be achieved. All crazes or temporary excitements warp the judgment of investors—they are, therefore, pernicious in their general effect. If there were any particular advantage to be gained by following a craze, I should certainly counsel investors to watch, study and profit by these erratic temporary move-

ments, but as, on the contrary, the not well-advertised and neglected stocks invariably offer better investment opportunities than those which are in everybody's mouth, the fashionable stocks of the moment should always be purchased with caution.

Crazes should be left entirely to those who are desirous of losing money. The solid investor should rather confine himself to stocks which, although not particularly prominent at the moment, offer a solid investment opportunity.

There has been countless money lost through crazes in the past. The list of Brewery and Distillery stocks presents the appearance of a great battlefield piled high with corpses and strewn with the shattered remains of numberless victims crippled for life. The Brewery craze was a craze indeed, and stocks like Allsopps, which at one time sold at 150, are now procurable at about one-fifth of that figure. If anyone should ask who profited by this craze, the only possible answer would be—the Brewers, who sold their properties at high prices, and the Promoters who brought out the concerns.

Precious little profit found its way into the pockets of investors, and such small profits as were made by the fortunate few did not represent a tithe of the investment capital which was swallowed up in the subsequent collapse.

Just as with the Brewery craze, so with almost every one of the innumerable financial crazes which have taken place during the last quarter of a century.

It is true that even during a craze sometimes a really sound investment can be picked up cheaply. But cases of this sort are only exceptional, and investors will, as a rule, do infinitely better by studying a table of prices, yields, and past records of stocks, than by allowing themselves to be swayed by a passing market delirium.

Tests for Every Investor's Real Position

As there are but few investors who are capable of readily enumerating the factors which constitute the soundness of an investment position when considered as a whole, the purpose of the present article is to set forth these factors in detail. Not only so, but also to explain how each individual investor can test the conjoint value and solidity of the stocks which he holds.

Investors employ their Capital with the intention either of deriving an income therefrom, or else of augmenting the capital sum of which they are possessed. The larger the Capital which is employed, the greater is the expectation of Income or the larger is the prospect of Capital enhancement. Consequently, it is the reasonable desire of the investor to keep his Capital fully employed and to reduce his idle, and therefore unpro-

ductive, cash to the minimum. But as none of us knows what the morrow may bring forth, and as all of us are liable to be called upon suddenly to furnish an unexpected sum of money, there is no investor who may not be confronted by the necessity of realising some portion of his invested capital. For this reason one of the chief factors of a sound investment position is the ability to convert into cash at any time without loss some portion at least of the stocks held. It is easy to ascertain whether ready realisation without loss is a constant characteristic of any given investment position by comparing the original prices paid for the stocks held with the prices which have ruled during the last few years. By this means it can be rapidly seen what proportion of the invested capital could have been turned into cash either without loss or at a profit on the original purchase.

If an investment position is to be held to answer this test satisfactorily it is requisite that a quarter or a third of the stocks should have shown themselves capable of realisation without loss in each year during which the

Investment List has existed. Whenever, however, the fact is revealed that any less quantity than one quarter of the stocks held were saleable without loss, then the investor must accept this as conclusive proof that his investment position is calculated to involve him in loss.

Nothing is more productive of disaster than attempting to explain away an established fact. It is highly dangerous for an investor to attribute to exceptional circumstances the failure of his own Investment List to pass the realisation test in any particular year. A sound investment position displays its soundness under the most adverse circumstances. It is folly to attempt to conceal the exposed weakness of an Investment List behind such transparent screens as the after-effects of the South African war, the financial crisis in the United States, or any other upheaval of Stock Exchange values. Rather than bandage his eyes with such plausible excuses, the investor would do better to look the fact squarely in the face that an investment position which has once broken down under the realisation test is an

investment position which is unworthy to have any further confidence placed in it. As it is by no means difficult to construct an Investment List which will always enable its owner to realise one-fourth of his capital without loss, why should not all investors avail themselves of this sound investment method ?

It is possible that some few investors may be found to assert that the matter of realisation without loss does not concern them personally. They may perhaps believe that they will never have occasion to disturb their invested capital. It is only fair to admit, this view of investment is supported by eminent financial authority; for Professor S. J. Chapman, in his able article on "Applied Geographical Distribution," which appeared in the *Financial Review of Reviews* for November, 1908, stated: "If a person is investing with a view to secure income, and does not want the trouble of changing his investments, the only risks that he need consider are those which affect the income from investments." It would almost appear, however, as if the learned writer, in penning

this sentence, had overlooked the fact that the most independent of investors are at times constrained to break through their habitual immobility and to raise money in an emergency. It may be that some dear relative is suddenly placed in a position of dire need or that a fire occurs, which is not fully covered by insurance, or a thousand-and-one unanticipated demands may force an investor to realise a portion of his investments in spite of himself and contrary to his preconceived investment programme. An investor who merely concerned himself with the regularity of his interest payments could not find a more ideal security than Consols. Yet what is the position of a holder of Goschens if forced into a reluctant realisation at the present current quotation ? On the sale of this gilt-edged stock he would stand to lose from 5 to 25 per cent. of his invested capital. Can it be prudent for an investor to expose himself to so crippling a disaster, when with a proper system of investment the risk of such a catastrophe can be altogether obviated ?

The second test of a sound investment

position is whether the total realisable value of all the investments held has varied considerably from year to year. The question of a variation in the total realisable value of an Investment List is of secondary importance from a practical point of view, because only under the rarest circumstances is an investor suddenly compelled to realise the whole of his stocks. But, as a test of the soundness of an investment position, the fluctuations displayed in the total realisable value of the stocks held affords a most trustworthy guide. Now, the object of an investor holding several stocks, rather than entrusting the whole of his capital to a single security, is to distribute the risk of the investment. It is the idea of an investor, who holds various stocks, to arrive at a position where the misfortunes which may overtake some of his stocks may be counterbalanced by the increased prosperity of other stocks. Such an investor places his original capital on one side of the scale, and his aim is that the total realisable value of his various stocks, when placed on the other side of the scale, shall always exhibit equilibrium with the

sum he laid out in their purchase ; or, better still, he hopes that the total realisable value of his investments shall outweigh their total cost price. But if he fails to establish such an equilibrium by distributing his capital amongst several stocks he has not achieved his object. He might, indeed, have saved himself the trouble of selecting a variety of stock, and he may have obtained no worse a result by investing his whole capital in one sound stock.

So that we see that the total annual value at any single year's average prices is the tongue in the investor's scale, which indicates with what measure of success he has distributed his investment risks. It need not and cannot be expected that an absolute equilibrium will be maintained. Some variation is bound to occur in the total value of the best assorted Investment List. But whenever it is found that the total capital value has diminished by as much as one-tenth or more, then it is proof positive that there is something seriously amiss with one or more of the items which go to make up the investor's combined holding. This test is therefore valuable, and it is easy

of application. It is only requisite to obtain the average prices of ten years ago, of five years ago, and those of each of the last three years immediately preceding the date of the investigation. Then, having multiplied the quantity of each stock by these several prices and put down the results obtained in separate columns for the convenience of addition, it is easy to compare the respective totals of the five years with one another, and also to detect which individual stocks have been responsible for the discrepancy which has occurred. Any reader who has not a table of previous quotations conveniently at hand should submit his Investment List to someone who habitually carries out such statistical investigations, and he will experience no difficulty in getting such a table of comparison drawn up for him.

But when an investor has in this fashion applied to his Investment List the only true test as to the proper distribution of the risks to which his investment position is subject, he must accept the result as constituting either the commendation or the condemnation of his investment scheme. He must not

quibble about exceptional times having produced exceptional fluctuation; because no properly distributed Investment List varies very greatly in value year after year. Investments can be so selected that their combined value remains fairly stable; so soon, therefore, as pronounced instability of value begins to be apparent the investor must bestir himself to uproot the cause of the mischief.

The third test of a sound investment position is regularity of income. Now, income can be rendered absolutely stationary by exclusively holding stocks which produce a fixed income, or else it can be endowed with stability by so selecting stocks which vary in income that a decrease in the dividends paid on some stocks may be compensated by increased dividends from others. How imperfect an investor's system of bookkeeping may be, but few neglect to take some note of the amount of annual income which they receive. Those, however, who take no record even of this important item, can supply the deficiency from various statistical publications, or they can appeal to some investment authority to furnish them with

the required information. The sum-total of dividends received should vary but little from year to year, and, should this not prove to be the case, then the investor is in possession of incontestable evidence that the quality of the stocks which he holds has not been harmoniously adjusted. It matters not whether his Income tends to display a jumpiness or whether it tapers off in a decline; for both these symptoms indicate a want of counterpoise in the investment position.

The chief tests, then, of a sound investment position are as follows:—

(1) Ability to realise some considerable portion of the invested Capital at any time without loss.
(2) The maintenance of the total realisable value of all the securities held at a fairly permanent level.
(3) Regularity of Income, which is an indication that the various stocks held have been properly selected.

Further, it has been briefly explained how every investor can apply these three tests to his own investment position. Lastly, it has

been emphatically insisted upon that any investor, who finds that his own holdings fail to pass these three tests satisfactorily, stands in a position of considerable investment danger, and that it is highly imprudent to attempt to disguise this danger behind such a plea as the unusually nervous condition of markets, &c. But lest it may be said that such a state of perfection as has been outlined above is unattainable in reality, practical proof will be given that a perfect investment position is within reach of everyone.

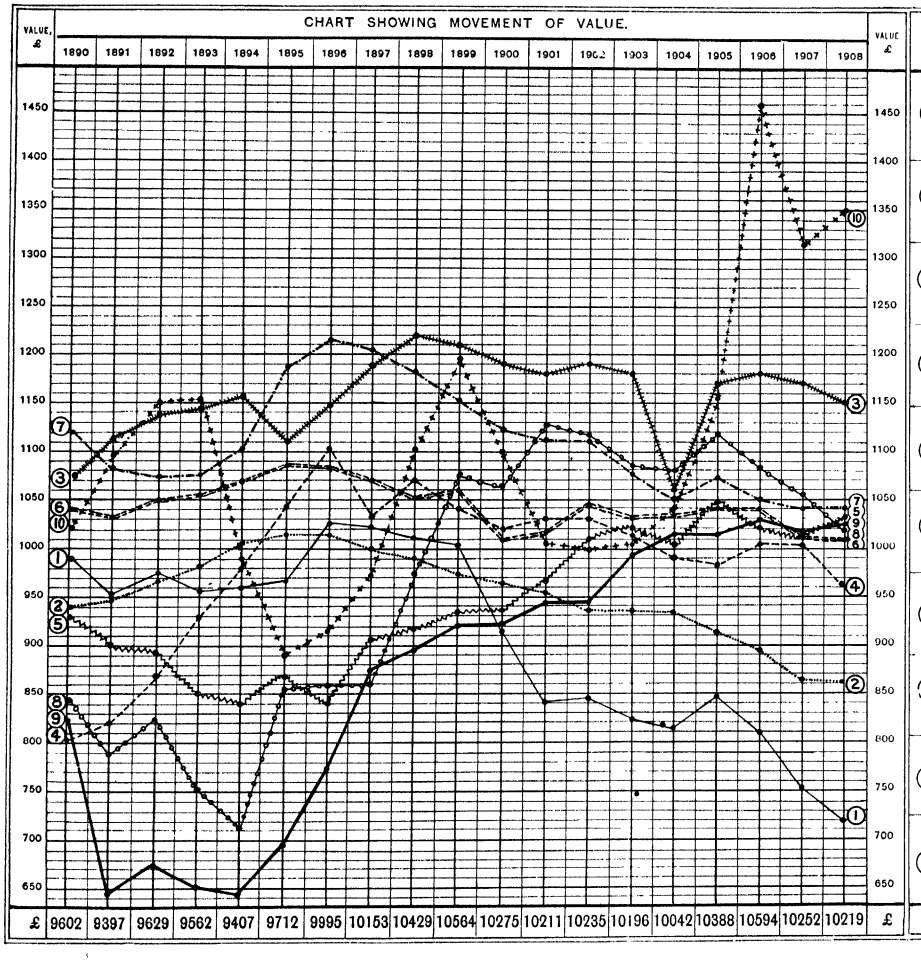
A certain amount of suspicion must always attach to any expert who has to illustrate how safeguards against future disaster will work by a reference to past events. In such a case there is a natural disposition to wonder whether certain exceptional events are not being unfairly pressed into the service in order to prove that a merely accidental occurrence establishes a general rule. So general is this feeling that the jibe that figures can be made to prove anything has passed into a conversational commonplace. This being the general mental attitude towards

the statistician, the present writer, in order to avoid the slightest hint of suspicion, has selected as his illustration a List of Investments which appeared in print so long ago as October, 1904, as typical of an ideal investment position. This Investment List was published in 1904 in a small pamphlet, entitled *How to Protect Capital*, a handbook which enjoyed considerable popularity and passed through several editions. It is, therefore, just possible that the reader may have a copy in his possession. In any case a copy can be inspected either at the British Museum or at the office of the publishers of this book. The table of stocks to which reference is here made faces page 40 of the pamphlet, and it is headed "International Investment Scheme Yielding $4\frac{3}{4}$ per cent." The pamphlet itself is rendered additionally interesting by the fact that it was the first publication in which the Geographical Distribution of Capital was discussed from a practical standpoint.

Chart I., which faces this page, presents in black print on its right-hand side an exact reproduction of the table of securities as it was published in 1904, and the

additional figures in red ink show the annual average prices of the same securities brought up to the present date. In 1904 the science of the Geographical Distribution of Capital was not sufficiently advanced for the idea to have been perfected of illustrating its effects by displaying lines of price movement in chart form. This method of ocular demonstration has now been added on the left-hand side of Chart I. In this connection it must be explained that since 1904 a large number of financial experts have been incessantly at work perfecting the practical application of the Geographical Distribution of Capital to the every day needs of investors. The result of these systematic researches has been to reveal some flaws in the selection of the stocks displayed in Chart I. For example, it is now recognised that in devoting double the quantity of Capital to investment in British stocks—namely, £992 to Great Western Railway Ordinary stock and £940 to Bass Mortgage Debenture—too large a proportion of the total capital sum was staked upon the continued trading prosperity of one country. Next, the important financial division of

CHART I. REPRINT OF AN INTERNATIONAL INVESTMENT SCHEME YIELDING 4½% WHICH WAS PUBLISHED IN 1904, WITH PRICES SINCE 1904 PRINTED IN RED, BRINGING THIS SCHEME UP TO DATE. CHART I.



STOCK.	REALISABLE VALUE AT AVERAGE PRICE FOR YEAR IN £ STERLING																		INCOME.
	1890	1891	1892	1893	1894	1895	1896	1897	1898	1899	1900	1901	1902	1903	1904	1905	1906	1907	1908	
	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	
(1) Great Western Railway Ord. £600 nom value	992	955	975	958	959	962	1039	1036	1024	1007	922	840	844	835	824	844	810	750	729	32½
(2) Bass, Ratcliffe 4½% Mge. Debs. £800 nom value	940	946	963	980	1004	1016	1016	1001	998	978	964	958	947	944	942	920	896	860	860	36
(3) New Brunswick 5% 1st Mge. Debs. £1000 nom value	1074	1117	1147	1151	1156	1112	1149	1190	1219	1211	1191	1185	1185	1180	1050	1170	1180	1175	1150	50
(4) Swedish Cent. Railway 4% Debs. £1000 nom value	805	820	870	930	970	1045	1105	1035	1070	1040	1020	1030	1030	1015	992	985	1002	1002	960	40
(5) Italian 5% Rentes £1000 nom value	940	901	898	854	790	864	841	906	916	931	931	969	1011	1024	1006	1044	1035	1017	1030	*37½ nett
(6) Bengal Presidency 5% 1st Mge Debs. £1000 nom value	1040	1035	1050	1055	1070	1082	1082	1072	1052	1060	1020	1027	1047	1037	1032	1049	1040	1020	1020	50
(7) Natal 4½% £1000 nom value	1120	1087	1080	1080	1115	1190	1217	1210	1182	1155	1127	1112	1110	1079	1055	1071	1050	1040	1040	45
(8) Denver & Rio Grande Railway 5% Bds. $5000 nom value	846	790	828	752	713	856	859	860	970	1077	1068	1127	1119	1085	1082	1116	1085	1055	1040	50
(9) Argentine 5% 1886-7 £1000 nom value	817	649	671	652	649	691	771	871	892	924	920	944	942	997	1014	1014	1030	1015	1040	50
(10) Direct U.S. Cable Ordy. 100 shares nom value	1028	1097	1147	1150	981	894	916	972	1106	1181	1112	1019	1000	1000	1045	1166	1466	1318	1350	85
£	9602	9397	9629	9562	9407	9712	9995	10153	10429	10564	10275	10211	10235	10196	10042	10388	10594	10252	10219	475½

NOTE.—The dots in the zig zag lines indicate the price at which each Stock was saleable in each year at that year's average price.

NOTE.—The prices printed in black are an exact reproduction of this Table as published in 1904; the additions in red indicate the price movement subsequent to the date of publication.

* In December, 1906, converted into 3½% Rentes nett, instead of 5%—now *not* subject to 20% Italian tax.

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[*To face p.* 34.

Central America was altogether omitted from this early Investment List. Again, Natal 4½ per cent. is treated as an African security ; but, owing to the fact that this stock is entirely held in England, the investment demand which controls its fluctuations depends entirely upon the state of British trade. Consequently, Natal 4½ per cent. moves in perfect sympathy with the London market, and it is an African security in name alone. Further, the selection made in 1904 would now be condemned as faulty owing to the securities failing to harmonise with one another in quality and in their width of fluctuation. To-day it is more clearly appreciated that the Great Western Railway Ordinary and Direct United States Cable Ordinary cannot be correctly blended with Government Loans and with Railway and Industrial Debenture stocks. Yet in spite of these imperfections the general principle of the Geographical Dittribution of Capital is so sound that the Investment List, although it was capable of improvement in some details, adhered sufficiently closely to the broad principles of scientific investment to successfully with-

stand the test of time and the exceptional events which have marked the period which it covers. For, when surveying the stability exhibited by each year's total of realisable value at the foot of the table, it is not unprofitable to remember that the period under review witnessed the Spanish-American War, the South African War, the Russo-Japanese War, the French expedition to Morocco, the accession to political power of the Socialistic Labour Party in England, the Money Panic in the United States, a series of small banking and commercial failures in Germany, all of which events were punctuated by a succession of world-stirring and panic-provoking speeches by the German Emperor. Briefly, the chart covers a period of untoward events, throughout which it displays remarkable stability and finally emerges scatheless from a series of peculiarly trying ordeals.

This being the unbroken success which this investment position achieved, it will now be of interest to examine how far it was capable of satisfying the three investment tests formulated earlier in this chapter.

Test I.

Ability to Realise some Considerable Portion of the Invested Capital at any Time without Loss.

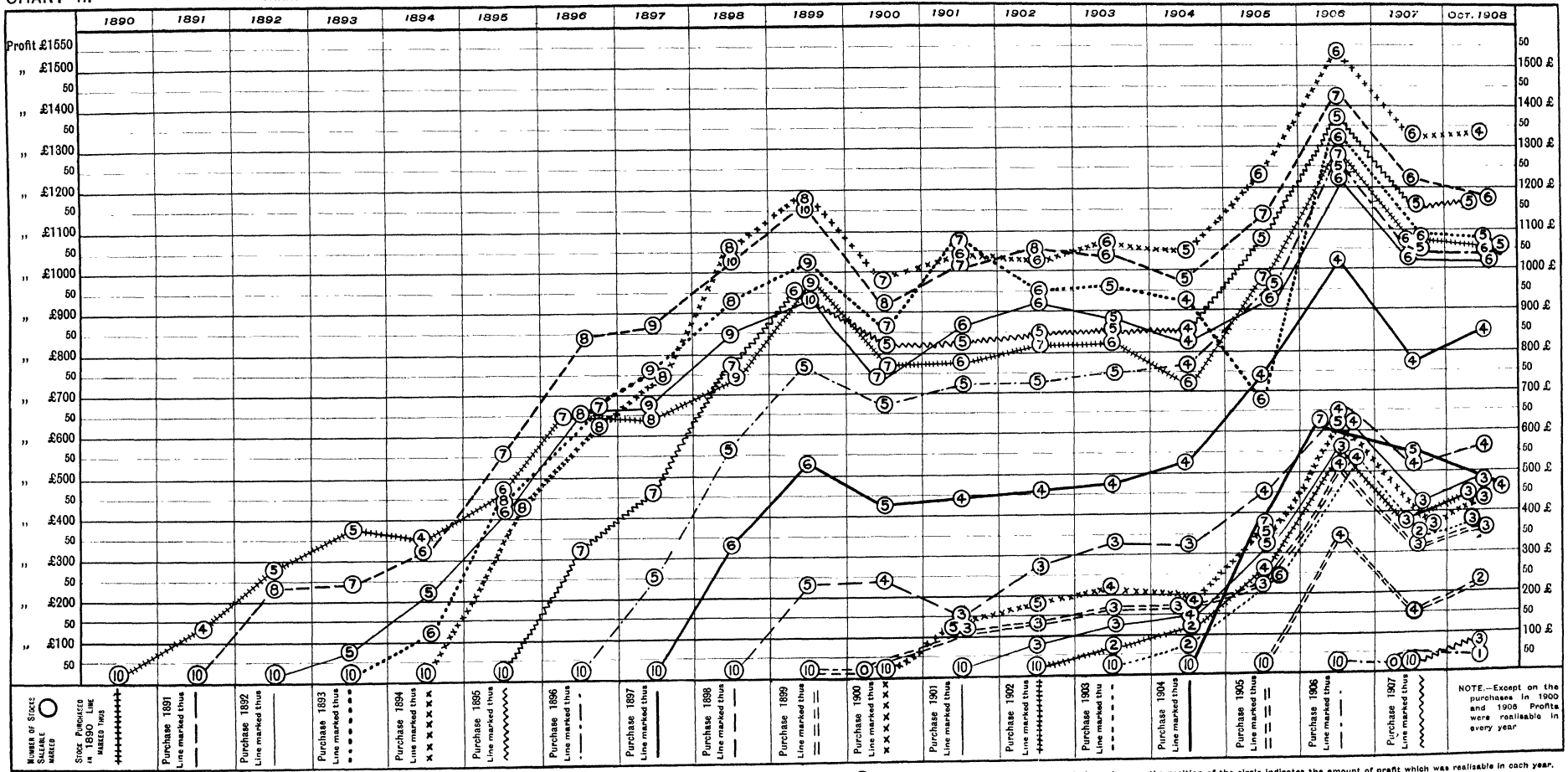
The list depicted on Chart I. can be tested on this point first of all by assuming that the stocks were purchased in 1890, and comparing the values then ruling with the average values of subsequent years. Next, by assuming that the purchase was made in any subsequent year, and again comparing the values displayed in that year with the average values of the following years.

As such a comparison would entail the making of 164 separate calculations, the calculations have been worked out for the reader, and the results thus obtained have been embodied in Chart II., which teaches several valuable lessons. In this chart the lines separating different years are drawn vertically and the lines displaying the profits are made to run horizontally. As each stock might have been purchased in any of the eighteen years depicted, there is a separate line tracing the result of each of these eighteen possible

purchases. These lines of purchase start at the bottom of the chart, and each one of them is intercepted annually by a ring; in the centre of these rings are numbers which specify how many of the ten stocks were saleable without loss during that particular year. The position of each ring indicates the amount of profit which could have been realised if the number of stocks enclosed in the ring had been sold. Thus, for example, the purchase line for 1897 has its ring for 1902 in the position of £450 profit, and the figure enclosed in the ring is 4, which indicates that the purchaser of these ten stocks for £10,153 in 1897 would have been able to realise roughly 4-10ths of his capital in 1902 at £450 profit.

It will be seen that there is not a single year during which a sufficient quantity of the capital was not realisable at a profit, no matter in which year the stocks had been bought. As might have been expected, owing to the fact that a Geographically Distributed Investment List requires a few years before it comes to maturity, the purchases made in 1906 and 1907 display the least favourable

CHART II. CHART SHEWING THE NUMBER OF STOCKS IN THE INTERNATIONAL INVESTMENT SCHEME, YIELDING 4½%, WHICH WERE SALEABLE AT A PROFIT YEAR BY YEAR CHART II.



NOTE.—Each individual zig zag line shews what the investor's position would have been if he had bought during any one of the 18 years here depicted. The figures in the circles ◯ give the number of stocks saleable at a profit in each year; the position of the circle indicates the amount of profit which was realisable in each year.

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[*To face p.* 38.

results. A cursory survey of Chart II. suffices to prove the truth of this: for, with the exception of purchases made in 1894, 1895, and 1896, the early tendency of all the profit lines is to slope upwards, but slightly from the horizontal during the first few years, and only in subsequent years were large profits realisable. This was strikingly the case in 1891, for the purchase made in that year showed but an insignificant profit during the first three years, yet in 1906, the fifteenth year after that purchase, there was a profit of £1,429 to be taken. This tendency of a properly-balanced Investment List to gather way slowly is the rule, and the rapid accumulation of early profits displayed by the purchases made in 1894, 1895, and 1896, was exceptional, and it was due to the fact that, as has been already explained, this early Investment Scheme was too heavily represented in the British Geographical Division, containing as it did Bass Debentures, Great Western Railway Ordinary Stock, and Natal Government Loan, the movements of all of which securities are controlled by the London market. So that, in spite of its admitted imperfections,

this Investment List is shown by Chart II. to completely satisfy the first test of a sound investment position by enabling its owner to realise a substantial portion of his invested Capital at any time without loss. Additionally, the chart establishes the fact that a Geographically Distributed Investment List does not settle down into good going order until the combination has had time to mature.

Test II.

The Maintenance of the Total Realisable Value of all the Securities held at a fairly Permanent Level.

It has already been explained that this test is made by valuing all the stocks held at the annual average prices and comparing the amount of the capital originally invested with the total value thus obtained. By reference to Chart I. it is to be seen that the bottom line of figures gives these respective annual totals, from which it is clear that the original purchase price compared most un-

favourably with the subsequent result in the case of a purchase having been made in 1899 for £10,564 and realised in 1904 for £10,042—the result showing a loss of £522. To have lost such a sum would have been a serious matter; but as a compulsory sale of the whole of an investor's holding is a rare occurrence, and it has been assumed that he was compelled to realise under the worst possible conditions, there is no doubt that in actual fact he would have been able to obtain a better result. But it has already been made clear that the comparison of total annual values is rather a test by which the investor assures himself that he has achieved a proper distribution of the risks of investment; it cannot be regarded as a record of transactions which it is conceivable could ever have taken place. Viewed from this standpoint, a depreciation not exceeding 10 per cent, is satisfactory enough, so that the List of Investments depicted on the Chart must be considered to have fully satisfied the second test.

Test III.

Regularity of Income, which is an Indication that the Various Stocks held have been Properly Selected.

As the investments displayed on Chart I. are all stocks producing fixed incomes with the exception of Great Western Railway Ordinary stock and Direct United States Cable Company's Ordinary shares, the variations of dividends exhibited by those two companies are the only points to consider. The dividends on these two stocks have varied, but the total annual dividends have remained unaffected, owing to the fact that these two stocks taken together only represent two-tenths of the total Capital invested, and therefore their influence on the total annual income was very limited. As was explained above, these two stocks of varying dividend do not harmonise with stocks producing fixed incomes; and therefore, according to the latest developments of scientific investment, they would not have been blended together. So that, although the Investment

List under consideration successfully passes Test III., yet it does not represent perfection in the matter of grouping stocks together harmoniously.

When summarising the results achieved by the Investment List we have examined, it must be conceded that the statement put forward at the opening of this article has been fully justified, namely :—That it is comparatively easy to so construct an Investment List that it will satisfactorily pass the three fundamental tests of a sound investment scheme. Having established this point, it follows that an investor has only himself to blame if he allows his own investment position to remain a source of future anxiety to him. It is scarcely necessary again to refer to the fact that the combination of investments by means of which this article has been illustrated was put together and appeared in print four years ago.

The object of writing this article is not to advance an interesting theory or to call attention to some striking charts; its aim is to prove of practical use to investors. There are several contributory causes which are re-

sponsible for the existence of tens of thousands of people in Great Britain who are the proprietors of badly-balanced Investment Lists. Chief amongst these causes is the fact that until a few years ago the Science of Investment was entirely undeveloped. There were a few detached investment theories in the air, but it has only been quite recently that the question has been studied with any practical result. Such progress has, however, now been made that it is possible to foretell with reasonable accuracy what future results a properly-constituted Investment List will produce. Another cause which is answerable for a great deal of the apathy displayed by investors is the point that so many people in this country have inherited investments, and they feel a vague sentimental reluctance to disturb the capital which has thus passed into their possession. They should, however, regard themselves as stewards of the nation's accumulated wealth, and they should remember that in this age of lightning progress the sound investment of to-day is the neglected and obsolete industry of to-morrow. Moreover, the fact must be faced that whereas

our forefathers lived a life of simplicity, which bordered occasionally upon parsimony, life at the present day tends each year to make greater demands upon the individual's income; with the result that incomes which were regarded as substantial some forty years ago are now considered to sentence their owners to lives of genteel poverty. Then again, before democratic legislation had begun seriously to attack accumulated wealth, both invested capital and the income which it earns required far less vigilant supervision than they do to-day.

For confirmation of this fact it is not necessary to look further than the Investment contained in Chart I.: for, barely a dozen years ago, securities like Great Western Railway Ordinary stock and Bass 4½ per cent. Debentures were justly considered to represent the acme of all that was desirable in the shape of a safe investment. In 1896 the realisable value of these two stocks, taken together, represented in the chart the capital sum of £2,055; their present value the chart now shows to be only £1,589, so that they have depreciated by £466. In other words,

nearly a quarter of their value has disappeared. Such a loss is serious, but as the chart shows, a properly balanced Investment List can sustain as heavy a blow as this without its total realisable value being thereby impaired. But it must be remembered that a badly assorted Investment List, in which high-class British stocks predominated, would have suffered irretrievable damage, because a similarly staggering depreciation would have attacked all the other British securities which the list contained, and would have permanently diminished the owner's capital resources. In short, times have altered; investment values are altering, materially and permanently; it therefore behoves the hitherto careless investor seriously to reconsider his investment position by the light of the three investment tests, which now are placed before him.

There are other causes which are instrumental in encouraging investors to hold badly-assorted Investment Lists. It is quite a recent discovery that investment safety depends upon all the stocks in the same Investment List being considered conjointly as

mutually supporting one another. Formerly it was the invariable practice when investing fresh capital to do so without systematically considering the class and character of the stocks which the investor already held, so that temporarily popular stocks of all sorts and descriptions were heaped together, new issues were applied for and taken up on the strength of glowing prospectus promises, and in this thoughtless fashion a curious medley of investments was accumulated which never gave their owner the slightest chance of arriving at investment success. Tested separately, each stock might have been quite sound, yet the total result of the ill-assorted mixture was most unsatisfactory. After all, it is only the total result which counts in investment as well as in most other matters.

In many cases family solicitors, bankers, and brokers are consulted in reference to investments, and it is quite proper that these reliable sources of information should be consulted. But if such a consultation is to be of any value to an investor nowadays, it is essential that he first satisfies himself that

the authority whom he consults is not of the ultra-Conservative type which refuses to entertain modern ideas. At the present moment there are many bankers and solicitors who refuse to avail themselves of telephones or typewriters, or to expedite their office work by employing shorthand writers, and many others to use electric light. Indeed, if rumour is correct, the news that all these things have been invented has not yet penetrated into the Bank of England. Respect for ancient customs is all very well, and doubtless, in some measure, this feeling is the backbone of British stability. But there is a limit to everything, and who would have a bad tooth taken out without gas or chloroform simply because these are comparatively modern inventions, or who would travel in an old-fashioned horse-drawn tramcar because his father did so before him ?

Investors should certainly consult a careful business-man if they do not trust their own judgment ; but they should make sure that the authority so consulted is abreast of the times, and does not advise them in accordance with the leech and cupping glass methods

of a previous century. The value of an article of this kind is to inform investors how they can test the advice which they receive so that they may know beforehand what to expect in future.

There are two other very potent causes which prevent many investors from putting themselves into a sound investment position —these are false pride and indifference. There is a generally prevalent feeling that to disclose an unsatisfactory investment position is somewhat like taking the family skeleton out of its cupboard. The point is overlooked that if a really competent man is consulted, he is no more surprised at any investment eccentricity than a watchmaker is startled at having a damaged watch handed to him to repair. To both these men such events are daily, if not hourly, occurrences, and the mere abstract question of whether an owner was wise to attempt to stimulate a jaded watch by prodding its works with a pin never presents itself to them. Their occupation would be gone if all men were experts in watches or investments, so that they are the last men in the world to sneer at the efforts

of inexperience. Besides this, financial ignorance need never be long lived, for after a few really sound lessons in the science of investment the most ignorant becomes an expert investor, if only the main principles are lucidly explained to him.

The careless investor is a perpetual menace to his own best interests. Neglect of ordinary financial precaution is certain to be followed by a day of reckoning, when the hitherto light-hearted trifler may have to forego many of the pleasures which he formerly enjoyed. For there is one absolutely indisputable fact which recent investigation into the science of investment has conclusively proved, namely, that a badly-assorted List of Investments can never right itself. The only remedy is a drastic reconstruction, and the longer that reconstruction is delayed the worse the ultimate disaster is likely to be. It is no temporary cause which is making Lists of Investments which formerly produced good results now produce bad results. Life's conditions have altered, social questions wear a different aspect, and international trade is assuming fresh developments. As time goes on the

chasm which separates the present age from the past will tend to go wider, so that delay in setting an investor's house in order will only tend to increase the cost of the inevitable operation.

The methods advocated in this article, if properly applied, will enable every investor to clearly grasp the weak points of his own investment position. The three tests to which reference has been made are easily carried out, and the results obtained thereby are infallibly true. No investor can afford to remain in a position where it is impossible to sell a substantial portion of his investments without incurring loss. To hold a combination of investments which varies greatly in its total realisable value is to court disaster, whilst to forego a safe and stable income is needlessly to adopt an uncomfortable condition of life. It has been proved that there is no necessity to tolerate any of these financial discomforts. There is no Investment List so badly constructed that it cannot gradually be brought into scientific shape. Therefore, whenever an existing investment scheme fails to satisfy the three tests described

above, the task of building up a sound investment position should be taken in hand at once and order should be evolved from chaos.

How to Select Investments

THE varieties of stocks are greater than the varieties of investors. There is, therefore, no small risk that the individual investor, embarrassed by the wealth of choice which lies before him, may ultimately select securities which are in many respects unsuited to his investment aims. It may seem strange to any one whose investigations into investment questions have not gone very far that it should be said that any varieties of investors exist, or that the investment aims of all of them are not simply confined to striving for the maximum of income obtainable with the minimum of risk.

But in connection with the aims of investors and aimless investment it is, indeed, a curious fact that many people habitually invest money over a period of years without ever attempting even to formulate in their own minds a definite investment programme.

If the great majority of investors, whose investment experience stretches over no longer a period than ten years, were to arrange their lists of stocks in the order of the dates in which their different securities were respectively acquired, they would find that not only had they started on their careers as investors without having decided upon any settled plan of investment, but they would also notice as they scanned the names of their securities, when arranged in chronological order, that even in the comparatively short space of ten years they had on several occasions unconsciously remodelled and revised the vague predilections that they had previously entertained for various types of Stock Exchange securities.

For the original basis of most Investment Lists will be found to be a prepossession on the part of the owner for some particular form of security. This mental bias in favour of one particular type of stock may have been the result of advice from a parent or guardian, or it may be traceable to some half-remembered financial article, the contents of which the reader had so completely

absorbed in the past that its teachings had re-appeared to him in the guise of his own original thought. On the subject of investment the mind is singularly impressionable, and a fact or theory, when once impressed on the investor's mind, frequently lingers there long after its originating cause has been clean forgotten.

Prejudices against some kinds of securities and prepossessions in favour of others may in truth be said to form the working outfit with which the average investor pieces together an Investment List over a period of years. The most curious feature of the miscellaneous collection of securities which results from this lack of a coherent investment plan is usually to be found in the fact that, as the investor turns in cold neglect from some hitherto highly prized financial idol and proceeds to prostrate himself before another new object of financial adoration, he is seldom sufficiently whole-hearted in his worship of his newly found perfection to rid himself of the accumulation of past securities which he amassed when he was under the influence of a widely different train of financial thought.

Another great objection to Investment Lists which are thus aimlessly strung together is that, although the capital-sum involved may be said to a certain extent to be distributed, yet it is distributed without method; and for this reason the distribution of capital must altogether fail to achieve its purpose. For the object aimed at in distributing capital amongst a number of different stocks is that the fluctuations of one stock may be counterbalanced by the fluctuations of another. This object can, however, only be attained when the stocks purchased are identical both in quality and in quantity. For unless the securities held are similar in quality, that is to say unless they are subject to fluctuations of corresponding width, and unless they each represent an identical amount of capital, it is obvious that the movements of one cannot counterbalance the movements of another.

It is, then, easily to be seen that the selection of stocks of the right type is in itself a matter of importance, and in order that the stocks, when selected, shall accomplish the personal investment aims of the individual investor,

it is of primary importance that the investor shall first of all definitely decide what are the objects which he wishes his Investment List to accomplish.

Broadly described, investors may be said to consist of three classes: the first of which comprises those who wish to be as free as possible from all the anxieties of investment, and who are prepared to content themselves with a small but safe and stable income; the second class of investors may be said to embrace those who at some personal trouble are anxious to improve their investment position; whilst the third class of investors are merely desirous of obtaining the maximum of interest which their capital can earn with safety, and they are prepared to abandon the idea of adding to their capital resources in the future.

It will, of course, be self-evident that in each of these three main sub-divisions there will be investors who are tinged with the inclinations of the other two sub-divisions. It will be observed, moreover, that I have classed together in the second sub-division both those investors who desire an increase

of income and those investors who are anxious to improve the realisable value of their capital. Both these types of investors I have placed in the category of those who are anxious to improve their investment position.

My reason for doing this has been that my lengthy study of investment questions has convinced me that the only sound method of attaining an improved income from a given capital sum is steadily to build up the realisable value of the principal invested, and it will then be found that the interest accruing therefrom will tend naturally and automatically to inrease. This is the only sound method of attaining an improved income. Therefore, as an improved income is only to be arrived at by sedulous care and cultivation of capital, the fact needs no demonstration that the improvement of income and the improvement of capital are practically one and the same thing. For one entails the other and both are arrived at by the self-same process.

Before I quit the question of investment aims, I may just mention that the fortunately rare type of investor, who is anxious to ob-

tain the maximum of income combined with a substantial increase in his capital's value, is striving after the impossible. What usually befalls investors of this sort is that in attempting too much they accomplish nothing. As a rule, they simply fall between two stools, and obtain neither satisfactory income, nor does their capital display any power of expansion when revalued over a fair investment period. I may also take the opportunity of alluding to the position of trustees whose investments are limited to Trustee Stocks authorised by Act of Parliament. Such investors are limited in their selection to a comparatively small group of stocks which comprises a number of securities practically identical in character. The point which the movements of Trustee Stocks during the last decade should impress upon the general body of investors, is that it is impossible to guard against capital-loss by merely formulating certain fixed principles which ought, speaking in the pure theory of investment as understood by the legal advisers of the Crown, to determine absolutely the safety of an investment.

It was the benevolent intention of the Trustee Acts to divert Trust Funds into such channels as precluded the possibility of any future depreciation of the capital invested; in spite of this, however, Trustee Stocks have fallen in value more severely than other securities of which the intrinsic merits are undoubtedly inferior. This fact proves that any effort to name a stock or a group of stocks which at all times and under all conditions is to be regarded as a desirable purchase is to court disaster. No such automatic selection of investments ever could be made as would stand good for all time and at all times. The nearest approach which can be made to an investment which requires the minimum of attention on the part of the holder owing to the regularity of its dividend payments and the stability of its capital, is to be found only amongst commercial debentures of well-matured companies engaged in non-speculative business. We shall discuss this type of investment later on. In the meantime it is instructive to note that the one class of investment, which on the score of its immunity from violent fluctuation

is the most suited to the requirements of trustees, should happen to be excluded from that list of investments which Acts of Parliament have sanctified to the use of trustees.

Having, then, definitely made up his mind as to what are his own investment requirements, the investor should next pass in review the various classes of existing securities, and he should select from them such stocks as are most likely to fulfil the objects he is aiming at. In order to facilitate the work of selection I will now discuss in brief detail the various types of security which lie before an investor.

The first broad distinction which sharply divides investments into two main classes is to be found in the fact that the act of purchase of some stocks puts their holder in the position of a money-lender, who has advanced money to a state or a public company; whilst the purchase of other stocks constitutes him a partner in the concern whose shares he has purchased. For example, any one who purchases a portion of a Loan or of a Debenture, or a Bond Issue, thereby assumes the position

of a lender of money to the State, Municipality, or Public Company, which has isued stock of the above description. On the other hand, the purchaser of a share of every sort and description thereby becomes a partner in the concern in which he interests himself. These being the two main positions which an investor can take up, let me proceed to analyse the results likely to be obtained from each of them.

In the first place, any one who lends money, that is to say, who takes up a Government or another Loan or Debenture can only participate in a very indirect way in the prosperity of his borrower. Therefore, the main point with which he has to concern himself, is the security upon which his money is lent: for it is this security alone upon which he has to fall back in case the borrower should make default in his obligations. In the case of a State, Provincial or Municipal Loan it is difficult to ascertain what sort of solidity there is. But, even if this were not the case, it would not very materially assist the investor in his selection; because loans of this kind are more influenced in their value by political

and other public events than by the security afforded by the borrower.

There recently appeared in the columns of the *Daily Telegraph* a long and interesting correspondence on the question of the price of Consols. Here we have a Loan whose security is absolute and undoubted, and yet it is selling at a very considerable discount. It will be seen, then, that a purchaser of Consols, who a few years ago paid over par for his stock, would have found no restraining warning in the security which lay behind his selection. In spite, however, of the solid nature of his security, he would have still sustained a very serious depreciation of his invested capital. What is true of Consols is equally true of every class of Public Loan which stands in the full daylight of public attention, so that it follows that no prudent investor who was anxious as to the stability of his Capital's realisable value would invest in public securities which are largely swayed in their market movements by events which cannot be foreseen and lie altogether outside the intrinsic value of the security itself.

Next, we come to Debentures issued by

Public Companies. Here the position is different. The security behind the Debenture issue is readily ascertainable from the balance-sheet, and the question of the safety of both capital and income is more or less a determinable item. Besides this it will be found that there are a great many Debentures in public companies which only feel the influence of political events to a very small extent. Here, therefore, we have a group of stocks which is peculiarly suitable for investment in all cases where great stability of realisable value is the desideratum. The marked stability of many Debenture issues may, however, provoke the inquiry—What about British Railway Debenture Stocks, which have depreciated so very seriously of recent years? This raises the question of a stock's marketability and all that is entailed thereby. The first necessity in the case of a readily marketable stock is that there should be a regular supply of floating stock in the hands of dealers and others; on the other hand, in order to arrive at great stability of realisable value it is essential that the whole of the stock, whose merits are being analysed, should be firmly held by

actual investors, and that there should be practically no floating supply of stock. Because the average investor is only too prone to overlook the fact that it is the comparatively small quantity of floating stock in freely negotiable investments which causes the wide fluctuations to which they are subject. For instance, a dealer, who finds himself at the conclusion of a day's business with ten thousand pounds worth of unsaleable stock on his hands in a security which is considered to be freely negotiable, would in the ordinary course of business be persistent in his struggles to sell the stock and "to get his book even." Consequently, after nursing it overnight, he would offer his holding at the next day's opening of the market, and he would so persistently worry the market with his £10,000 stock that, in nervous times, he would frequently produce a fall of a couple of points or so before he achieved his end and completed the sale of the parcel of stock which he had acquired in the ordinary turnover of business but had no desire to retain.

Some idea of the risk attaching to "negotiable" stocks may be gathered from such-like

incidents. Translated into actual figures it would mean, say, in the case of London and North-Western Ordinary, that £84,000 floating stock pressed for the sale would produce a depreciation of 2 per cent. on a capital issue of some £42,000,000. In other words, when the market in North-Western "dries up," as it has done on several recent occasions, the sale of £10,000 is capable of wiping £840,000 off the realisable value of the whole Ordinary issue. For that is what the damage done by a 2 per cent. fall amounts to in the case of an issue of £42,000,000.

Another disadvantage under which stocks lie which are accounted "readily negotiable," is the existence of a large number of professional and semi-professional Stock Exchange operators who habitually study the probabilities of price-movements in securities of this type. Their object is to "scalp profits" off a moving market; it is a *sine quâ non* for such operations that there shall be facilities for buying and selling large quantities of such stocks as they select. For this reason stocks which are well held, and consequently are not so freely to be dealt in, are protected from

the attentions of "scalpers," whilst fashionable stocks, owing to their greater market-freedom, readily lend themselves as playthings to these gentry. The natural result of these anticipatory operations is that the quotation of marketable securities oscillate with a violence which is much akin to the fluctuations in Government stocks. Although at the self-same time quite as important, but less readily dealt in, securities follow the general trend of markets to only a very small extent. In illustration of this let us consider the price-movements of three well-known and readily negotiable stocks, namely:—

(1) London, Brighton and South Coast Railway Ordinary sold at 197 in 1896, and fell as low as 121 in 1903.

(2) North British Railway Preference Stock sold at 156 in 1896, and declined to 117 in 1906.

(3) North-Eastern Railway 3 per cent. Debentures changed hands at 118½ in 1898, and were selling at 92 in 1904.

Let us now compare these wide fluctuations

with the comparatively infinitesimal movements of less well-known stocks, whose very lack of universal popularity enables them to escape the attentions of the speculator. For the purpose of comparison I will first select the singularly striking example of the Kimberley Waterworks 6 per cent. Debentures. The price record of this stock during 1896 was—Highest, 108; Lowest, 99½. Between 1896 and the present date there has occurred the South African War, which entailed a lengthy siege of the town of Kimberley. Although one would, therefore, have imagined that the Kimberley Waterworks Debentures in particular, and all South African stocks in general, would have been adversely affected by this long-drawn-out event, yet it is remarkable that, during the whole period from 1896 until to-day, the lowest recorded price of this Debenture has been 97, and that this moderate fall was quite temporary, the stock rallying promptly to par and over, and standing at 108 again at the present time. Here is the most impressive object-lesson of a stock, which has suffered from the depreciation inevitable in time of war, which is dealt in in

London, and has passed through a period when stocks in the British Market have depreciated enormously in price, and yet this stock has held its own through this trying period. This, it will be observed, is the price-record of a stock which is by no means a free market at any time, and in times of great depression it can only be dealt in by means of careful negotiation.

Another stock which would be contemptuously referred to as an "out-of-the-way investment" in Throgmorton Street, is the 5 per cent. Debenture of the Land and Mortgage Company of Egypt. In 1896 this stock's Highest Recorded Price was 103½, and its Lowest was 100. During the ten years which have elapsed since, the Lowest Record has been 99, and the Highest 104. In other words, this stock's extreme width of fluctuation has been 4½ per cent. during ten years, which have embraced a period of acute depression. We may assert, then, that for all practical purposes these two trading debentures, the Kimberley Waterworks 6 per cent. and the Land and Mortgage Company of Egypt 5 per cent. have exhibited no fluctuation.

In the case of Preference and Ordinary Shares it would, of course, be more difficult to find such conspicuous examples of stability of realisable value. Because in Stock Exchange issues of such type the question of dividend-earning power becomes an active factor in determining value; yet, if we take a case like the North British and Mercantile Insurance Company, we find the price-record of 1906 to be:—Highest $42\frac{3}{4}$, Lowest $36\frac{1}{2}$; whilst the extreme difference in the ten years which followed was 45 Highest and 35 Lowest. We see, then, that there was but a trifling difference between one year's width of fluctuation and ten years' width of fluctuation in this stock, whilst the present price is practically the same as the highest recorded in 1896. Yet from Throgmorton Street's point of view the North British and Mercantile Insurance Company's shares could only be described as an "out-of-the-way security." So that it really comes to this, that Stocks which do not appreciably alter in value are only to be found amongst "out-of-the-way securities," and the exceedingly liquid and frequently dealt in Stocks do not afford that stability of

value which is such a source of strength to the investor.

As opposed to this argument as to the undesirability of holding stocks which are too susceptible to every passing influence, it may possibly be urged that the objection to "out-of-the-way securities" is that it might very well happen that a stock of this description might not be realisable at the moment when realisation was requisite. Such might be the case when questionable investments were concerned, or in some isolated instance; but in all my five and twenty years of financial experience I have never known a case in which a really good investment could not be disposed of on very fair terms within a week.

In fact, it is beyond dispute that the capital invested in what are termed "out-of-the-way securities" is fully as large as the capital invested in so-called marketable securities, for officially quoted stocks are commonly asserted to be marketable in spite of the fact that these so-called marketable stocks are frequently more difficult to deal in than securities which enjoy no sort of official quotation. If any reader entertains a doubt as to the ratio

which unquoted stocks bear to quoted stocks, let him turn to page VI. of the Preface to Skinner's *Stock Exchange Year Book*, where he will find it stated that in April, 1906, the number of companies actually existing amounted to 40,995, and the total of their paid-up capital was £2,003,392,001. Allowing that these 40,995 companies have issued only the low average of two types of stock apiece, we arrive at 81,990 as the number of stocks in existence; whilst the number of officially quoted Stocks, we know, does not amount to more than a few thousands.

To sum up, therefore, our investigations into the nature of stocks of the first category, which comprise Loans and Debenture Bonds, we find that our conclusions are that the unmarketable stocks in this category are suitable for safe and sound investment, where any one is desirous that the realisable value of his capital shall remain stationary; whilst the marketable stocks in this category are suitable investments for those who have no objection to seeing wide fluctuations in the realisable values of their capitals respectively invested.

Before quitting the subject of Loans and Debentures I should like to refer to the subject of depreciated stocks of these types, viz., those which are selling at a considerable discount. These can hardly be said to belong to the category of Loans and Debentures as it is clear from their quotations that substantial doubt exists as to the security which stands behind them.

Such depreciated Debentures should rather be regarded as Preference Shares; for, although they were originally issued as Debentures the possibility of their again being quoted at their par value depends entirely upon the amount of future success which their company may achieve. The security upon which they were originally secured having depreciated, they tend to fluctuate with the temporary successes and reverses of their company, precisely as do the share-issues of other concerns.

The second main class of investments which we have to consider are those which constitute their holder a partner in the company in which he takes an interest. Such investments are companies' shares, and these naturally group

themselves into those which are entitled to a fixed rate of interest, and are termed Preference or Guaranteed Shares, and those which vary in their income and are usually spoken of as Ordinary Shares. There has been a great deal more money lost than made on Preference and Guaranteed Shares, because the position of the holder of them is such that he cannot demand the return of his subscribed capital when his interest payments fall into arrears as the holder of a Debenture can do. This is his fate in an unsuccessful company; whilst he participates to but a small and an indirect extent in a highly successful concern, for the reason that, no matter what prosperity may surround his company, his income is still limited to the fixed rate of interest agreed upon at the outset.

It will readily be seen that under no circumstances is it wise to pay a large premium for Preference Shares. On the other hand great care should be exercised in their selection, and the investor should satisfy himself that the company's earnings so far exceed the sum necessary to provide the interest on the Preference Shares that there is no probability

of the Preference dividend-distribution ever being imperilled. Preference Shares, thus amply secured, are very near akin to Perpetual Debentures, and may be regarded as safe income-producers. The mere fact that a Preference Share stands at a heavy discount, although it usually points to the income not being quite safe, is by no means an absolute indication that such is the case. For instance, the 4½ per cent. Cumulative Second Preference Shares of Ohlsson's Cape Brewery, which were issued at £5 each, are to-day quoted about 4. Yet, in spite of this heavy depreciation, the income on these shares is amply secured by the fact that the brewery has paid regular dividends on £300,000 Ordinary Stock, which rank behind the Second Preference Shares, and that the distribution on the Ordinary, which was at the rate of 12 per cent. in 1894-5, has been steadily progressive until it reached the almost unprecedented dividends of 52 per cent. for 1902-3, and 40 per cent for 1903-4 and 1904-5. The purchase of depreciated Preference Shares should commend itself to those investors who are not averse from risking a possible variation in their incomes

in their effort to secure stocks on which there is a strong probability of an ultimate enhancement in realisable value.

The second type of shares comprises Ordinary and Deferred Shares. Now, there are many companies whose business is so devoid of fluctuation that their distributions to their Ordinary shareholders hardly ever vary. For example, the India Rubber and Gutta Percha Company has paid 10 per cent. on its Ordinary Shares for more than a decade, and Boots Cash Chemists paid 10 per cent. on its Ordinary for five years up to 1898, and for the seven subsequent years its Ordinary Dividend has been at the uniform rate of 12 per cent. So that both in Capital Value and in Income earned it is possible to find Ordinary Shares which show little deviation. Whether, however, either a Preference or an Ordinary Share is really sound is only to be ascertained by a close study of the company's balance-sheet, and, even then, the result arrived at is not always to be relied upon. Let us take, for example, the unfortunate case of the British Electric Traction Company. Here was a company which almost from its

inception had paid steady dividends of 6 per cent. and upwards on its Ordinary Shares until 1905. Up to that date the balance-sheet showed that the Preference Shares could only be regarded as safe from every point of view. Then suddenly, in 1905, the attitude of municipalities in the matter of tramway concessions completely altered. Remunerative contracts were no longer obtainable by the British Electric Traction Company, with the result that the payment of the Ordinary dividend ceased, and even the Preference dividend is by no means so safe as it might be. I quote this case simply as an example showing that the nature of an undertaking should be carefully considered when buying Preference and Ordinary Shares. Indeed, the rule which a cautious investor should make is not to interest himself in any type of share unless he is satisfied that the undertaking is uninfluenced by the whims of fashion and that its business is not of a character which might suddenly expose it to the attack of a powerful competitor.

To sum up, prudent investors, who are anxious to avoid any startling fluctuations in

the realisable value of their invested capital, should confine their investments to such securities as are as far removed as possible from the wild whirl of market influence. More speculatively inclined investors should invest their money in depreciated Debentures, which can be bought at a discount, and in Preference Shares which stand in the same friendless position. But to the speculator should be left Ordinary Shares and those stocks which command wide market attention.

The next important point in the selection of investments is that all the stocks which an investor holds should be of a uniform character, that is to say, that their average widths of fluctuation should be as nearly as possible identical. Stock Exchange history conclusively proves that no matter how sound and solid an individual investment may be, no absolute reliance can be placed on its future price-movements. This being the case, the only way in which capital safety is to be achieved is by the adoption of a proper system of averages—that is to say, by such a system as will ensure that the depreciation of one

group of stock shall be counterbalanced by the appreciation of another group.

In this conjunction it will be patent to anyone that, if the system of the movement of one stock being counterbalanced by the movement of another is to work smoothly, it is primarily essential that the range of fall and the range of rise must be identical throughout the whole of the individual stocks which are comprised in an Investment List. On the other hand, whenever the combined movement of the stocks comprising an Investment List exhibits a large excess either of profits or losses, it is a clear indication that the List is improperly balanced, and an improperly balanced Investment List can only be regarded as an unstable speculation, instead of a stable investment scheme such as it should be the prudent investor's aim to compile.

It will, of course, be easily seen that not only is it requisite that the individual stocks comprised in an Investment List should be of identical width of movement, but also that the amounts of capital respectively invested in them should be identical. Otherwise the

investor would again find that the downward movement of a stock representing, say, £1,000 would be inadequately counterbalanced by an upward movement in another stock representing £500. The steady-going Investor will naturally endeavour, so far as possible, to lift his Investment List clear of the menace of violent fluctuations. Yet it must be remembered that, however sound an investment may be, and however small may be the attention which it receives from the bulls and bears in the speculative arena, it is inevitably subject to the one great price-controlling influence, namely, the course of trade in the country in which it happens to be chiefly dealt in. The influence of trade upon Stock Exchange fluctuations I have dealt with exhaustively in a book I published some time ago entitled *Investment an Exact Science*; wherein I advocate a system which I have called Geographical Distribution, whereby the effect of the various trade influences of the world are minimised by equally dividing the capital sum to be invested over the various portions of the earth's surface. It would be beyond the limits of this article to explain

this interesting subject at greater length here ; I must therefore refer the reader to the volume which treats of it fully.

Only too frequently shrewd investors say to themselves : " I will invest some part of my capital in absolutely sound stocks, such as Consols and other trustee stocks, and I will supplement the small income obtainable from these high-class securities by investing the balance of my capital in more speculative stocks, such as the Preference and Ordinary shares of industrial companies." Such a system as this may be described as " mixing," but by no stretch of imagination can it be termed averaging. A study of price-movements will convince even a superficial observer that there can be no methodical counterpoise in an investment list which is compiled on so deplorable a basis as this.

The above explanation of the forces which are the mainsprings of fluctuation will, I trust, have shown the various types of investors in which quarters they should search for stocks which will suit their own investment requirements. The trustee investor is, of course, com-

pelled to confine himself to stocks sanctioned by the Trustee Acts; whilst the extremely cautious investor, who feels the responsibility of his position perhaps fully as keenly as the trustee, should turn his attention to such first-class Debentures and loans as afford no scope for the operation of speculative and semi-speculative manipulators; again, the investor who is prepared to accept some small risk of adverse fluctuations in the course of his investment operations, which are based on the steady building-up of his capital account, should devote his attention to Preference shares, selecting for his purchase such stocks as are temporarily neglected and afford in consequence a high rate of interest; lastly, the investor who is of a speculative turn of mind will find that his most hopeful opportunities are to be found amongst depreciated Debentures and Preference shares standing at a discount, and he might mix with these some fair Ordinary stocks which seem likely to improve in value.

It must always be understood that in selecting an investment the balance-sheets and the highest and lowest records of price-move-

ment in previous years should be considered. Those investors, who make the safety of their invested capital their chief object, should only select those stocks which have a narrow width of fluctuation; whilst, on the other hand, investors who seek to build up their capital accounts by purchasing stocks of fairly wide fluctuation should buy such preference stocks as display a tendency to move freely.

The published balance-sheets of the various companies should form the basis on which the values of all stocks are calculated, and investors should satisfy themselves on the following points before they consider any security to be worth purchasing:—

(1) How much Capital is there behind a particular stock whereby capital safety is secured?

(2) How much annual income is there earned beyond the interest on the stock, the purchase of which is contemplated?

(3) How does the Stock contemplated compare with other stocks in the same category, and what is the Company's financial position generally?

It will be found that the answers to these three questions are to be found in the Statistical Record, and in the Digests of Companies' Reports, which are published each month at the end of the *Financial Review of Reviews.*

With the aid of the information there contained the investor, blessed with no great skill as an accountant, can satisfy himself of the eligibility of any investment he selects. If, for instance, he learns that there is double the amount of capital behind his stock as there is ranking in front of it or on the same terms with it, and that the Company's earnings exceed, say, threefold the amount of revenue requisite to pay the annual interest on his selection, and further that the Company's liquid assets exceed current liabilities by a substantial sum, he will have no difficulty in deciding that he is dealing with a safe investment, although he may not have received the training of a professional accountant. The *Financial Review of Reviews* aims at so focussing its readers' attention upon the main essentials of investment-safety that they may, with the least trouble to themselves, ar

rive at a right judgment on all financial questions.

Having once arranged his investment scheme in accordance with the above suggestions, the investor must bear in mind that later on, when he is either investing further capital or realising a part of his holding, he is altering one detail of the many details which go to make up the unity of a perfect Investment List. He must on such occasions, therefore, reconsider the symmetry of his reconstructed investment scheme, and satisfy himself that in its new form his Investment List will be capable of fulfilling his investment requirements.

The whole of the above system of investment is based not only upon a lifelong experience of Stock Exchange matters, but also upon the actual results which I have observed to have regularly followed upon various schemes of investment. The practical lesson which I would seek to impress upon my readers is that they should forthwith examine their own Investment Lists with a view to ascertaining how far they have followed the principles which I advocate. Should they find that

they have hitherto acted upon no definite investment tactics, or that their methods are seriously at variance with the scheme I have laid down, I should urge upon them straightway to set their affairs in order. It is too much the fashion amongst investors to bemoan their losses as the result of ill-luck, and to shirk the duty of informing themselves at regular intervals as to what is their exact investment position. In investment, as in everything else, the only man who can command success is he who is capable of taking infinite pains.

How Investment Safety is Attained

THE investment of capital in stocks and shares when based upon sound and solid principles is capable of producing not only the satisfaction which arises from pecuniary gain, but also the far more important sense of security and the complete freedom from worry which can only be achieved by the capitalist whose mind is thoroughly at ease.

For many years I was puzzled by the problem of how to arrive at a really sound system of investment. My difficulty arose from the fact that Stock Exchange securities seemed to be such highly electrical eel-like creatures, gifted with such erratic and incalculable movements, that it appeared impossible ever to be able to rely upon them producing any desired result. But now that I have succeeded in classifying the main influences which govern the movements of stocks,

my former difficulty has been surmounted, and I have been enabled to formulate a simple system of investment, capable of withstanding the severest strains, and yet so easy of comprehension that it can be explained in the space of a few pages.

I will first make it clear why it is that investors almost invariably fail to obtain the safety they are in search of when they invest their capital, and then I will lay before them the simple plan by means of which any desired investment result can be arrived at.

The great majority of people fall into the natural error of supposing the acquisition of a number of stocks, which are of undoubted soundness and solidity, is all that is necessary to ensure the safety of a given capital sum. This erroneous belief is held not only by the general investing public, but it also ensnares a great number of bankers and brokers. Now as these bankers and brokers act as skilled technical advisers to the general public, it can be a matter for small wonder that this wrong-headed method of investment enjoys an undeservedly wide popularity.

The second mistake which is too generally

made is that the personal requirements of the individual investor receive too scanty a consideration when the selection of stocks is made. A stock may possess undoubted investment merit without its being a suitable security for every type of investor to hold.

The third, and certainly the most potent, cause of failure in the search for investment safety is the dangerous habit of considering each stock separately instead of regarding the whole number of stocks held as constituting one harmonious investment scheme. For harmony throughout the whole investment is the key to investment success.

At one time I was as blind to these points as some of my readers may be to-day, and it was only after many years of attentive research that the principal causes of investment disaster became clear to me. During my researches I candidly admit that I found myself forced to discard many cherished illusions and to abandon many pet theories before I gradually arrived at a right understanding of the investment question. Judging by the hindrance I suffered from my own preconceived notions, I can conceive it

more than likely that I shall unintentionally arouse a certain amount of antagonism here and there in my reader's mind in the course of my argument. But the system of investment which I herein advocate is by no means widely known, and instead of meeting the novelty of my ideas in a spirit of hostility, as amounting to a practical vote of censure on his own system of investment, I would remind the investor that where he has hitherto failed to find investment safety many skilled professional financiers have failed before him.

The three causes of investment disaster enumerated above may be regarded as the three primary difficulties which beset the investor. In addition to these there are a number of other minor stumbling-blocks which militate against investment success. These include the unintentional purchase of speculative securities through a want of a proper understanding of the real nature of the investments selected, the purchase of stocks at a price too high to be compatible with safety, the retention of stocks which have risen to so high a level that they have ceased any longer to be a remunerative holding, and the specu-

lative retention of inflated stocks beyond the point where the chance of a further price enhancement has ceased to be reasonable, and such like minor errors of investment judgment. These points, however, will explain themselves when once a right understanding of investment is arrived at; therefore I need do no more here than to indicate their existence.

Whilst following my argument, I should like every one of my readers to bear in mind the particulars of his own investment career, and I should like him to tick off, as it were, my ideas against his own practical experiences. Whenever he finds that my teachings are in direct opposition to his own experience, let him make a note of the fact, and communicate forthwith with the Editor of the *Review*, who will, I am sure, be only too pleased to insert any sound counter opinion in his publication. By this means it may very well be that a great and further light may yet be thrown upon a topic of such world-wide interest as the attainment of investment safety, and no opportunity should be lost of assisting to put a stop to the enormous losses which are annually made by

investors—losses which in many cases entail actual privation upon the individual investor.

There is an old nursery adage which deals with the folly of putting all one's eggs into one basket, and herein lies the fundamental principle of all safe investment. I am not here referring to the case of a practical man personally supervising a particular enterprise, and devoting his entire energies thereto. Such a man need have no hesitation in putting his eggs into one basket—always provided that he himself is the only person who is permitted to touch the handle of that basket, and also provided that his personal strength is equal to the load which he undertakes. I am now rather discussing the investment question from the standpoint of that great army of investors who invest their money outside the circle of their daily pursuits, or those who invest but, for practical purposes, have no daily pursuit whatever. I am addressing myself, in fact, to the great multitude of investors who hand over the management of their capital to others, as every one does do who buys a Stock Exchange security without being either a director or a

manager of the concern in which he thus interests himself. This is the average type of investor, and an investor of this type requires a number of varied receptacles for his capital.

The man who has invested the whole of his capital in one single security is so rare as to be practically non-existent. Most investors hold a considerable number of stocks, some as many as 30 or 50, yet in many such cases the eggs are all actually in the same basket, whilst their owner is serenely unconscious of this unfortunate fact. It is the realisation of what constitutes a separate basket—that is to say, what constitutes a separate investment risk which is the first step towards successful investment.

The mere fact that an investor holds, say, twelve stocks is not sufficient to effect a distribution of investment risks: for it may well happen, and it very frequently does happen, that the fluctuations of all these stocks are controlled by the same motive force. Let us take, for example, say, three British Corporation Stocks, three British Railway Stocks, the stocks of three British Gas and

Water Companies, and the shares of three miscellaneous British commercial concerns—a fairly mixed assortment of securities which not only on the face of it appears to be a capital distribution covering a wide area, but also is a fairly typical specimen of the attempted distribution of investment risks such as exists in tens of thousands of cases. But so far from such a distribution being productive of any beneficial results, it will be found that over a period of twenty-five years the same result will be obtained by holding one or two of these stocks only as was obtained from the whole combined investment.

Such an investigation is easily made from practical experience by all those whose Investment Lists tally with, or are somewhat similar to, the above description, while those whose Lists of Investments held differ materially from the specimen outlined above, or who have no past investment experience to guide them, can make experiments for themselves with the aid of the price-records of British Stocks contained in the *Investor's Shilling Year Book.*

Some people have a natural antipathy to figures, and will therefore neglect to carry this

suggestion into practice. But those who take the trouble to inform themselves on this point will arrive at the inevitable and most important conclusion that all British Stocks are under the control of the same identical influence. Further, they will then have the fact forcibly borne in upon them that the splitting up of a capital sum amongst a number of stocks all fluctuating in sympathy with one common influence is not conducive to a distribution of investment risks. Having once arrived at that conclusion the cautious investor will immediately appreciate the necessity of so subdividing his capital that the various sections of it may each be influenced by a different motive power.

The next point will be to ascertain what that motive power really was which caused all his British investments to move in the same direction, and this he will do in the easiest way by ascertaining how the investments situated exclusively in any one other country move. If he does this he will ascertain the fact that the price movements of the principal stocks of every country are identical with one another; but that the individual price movements of

each country differ from the price movements of every other country.

Then, guided by the fact that all British Stocks are subject to one and the same controlling influences, and that the same rule applies to the stocks of other countries, the intelligent observer will readily understand that a true compensating balance of investment risk is easily attainable by means of the Geographical Distribution of Capital—that is to say, by not investing the whole of a capital sum under the controlling influence of one country, but by so dividing it that its component parts are each under the influence of a different geographical division of the world's surface. On this subject I have written a book which is published under the name of *Investment an Exact Science*. The title of the book may sound somewhat formidable, but its contents are easily digestible, and as it is impossible to go into the subject of the Geographical Distribution of Capital at greater length within the limits of this article, I must refer my readers to this volume for the more detailed explanation of this interesting discovery.

When once the investor has really succeeded in dividing his eggs amongst different baskets by means of Geographical Distribution, the most serious of his investment difficulties will be at an end. The total value of his invested capital will cease to fluctuate; some few of the stocks which he holds will always show him a profit over their cost price; his income will commence automatically to increase; in fact the chief elements of investment success will be his forthwith.

The next point is the class of stocks which any given investor ought to hold, and this is fully as important a consideration as the proper distribution of investment risks. Many investors, with the view of rendering some portion of their capital, as they think, perfectly safe, invest it in Trustee Stocks, whilst another portion they put into securities of medium class, and with the remainder of their capital they dabble in dubious ventures returning a high rate of interest. By this means they counter-balance the low yield of interest obtainable from Trustee Stocks, and so they arrive at a fair average return on their money.

The unwisdom of such a proceeding has been completely laid bare by the course of markets during the past few years, during which Trustee Stocks have fallen over 20 per cent. in value, and have thus entirely defeated the object with which they were originally purchased—viz., to endow the portion of the capital sum which they represented with the much-coveted stability of realisable value.

The most casual observer must have noticed that the width of fluctuation differs in every class of security. For whilst some classes of security only fluctuate a few points in value any one year, there are others which fluctuate to an extent which is five or even ten times as great. In most instances the width of fluctuation depends upon the nature of the stock. For example, good trading companies' Debentures vary but little in value from year's end to year's end; whilst in some Home Railway Ordinary Stocks the annual fluctuation amounts to twenty or thirty points. Width of fluctuation depends much upon the quality of an investment and hence upon its yield. So that any one who holds Trustee Stocks, medium-class

investments, and speculative securities by his own act involves himself in three groups which are all at variance with one another in the matter of width of fluctuation. But the primary object which led to their selection was the hope of minimising the risks of investment. This was to be accomplished by the rise in one stock compensating for the fall in another; clearly, however, the desired compensation could not be achieved if one stock held is to rise three points whilst another falls twenty points. It will be seen, then, that holding various classes of stocks must in the long run imperil capital.

The last point of cardinal importance is that most investors consider each one of their stocks separately, instead of regarding their whole Investment List as a carefully drawn scheme. Although the necessity of dividing their investment risks is instinctively obvious to all investors, they fail to appreciate the fact that the first object of the division of risks is to arrive at a balance of risks. They know well that a pound put on one side of a scale can only be balanced by exactly the same weight being put on the other side of it,

and yet they habitually subdivide their capital so unevenly that they are content to hold £3,000 worth of one security, £500 worth of another, £1,800 worth of a third, and so forth, and still they appear to expect that such an uneven distribution of risks will endue their capital with an evenness of realisable value.

I feel quite certain that a great many of my readers, and especially such of them as have achieved most unsatisfactory investment results in the past, are holding at the present moment Lists of Investments in which many stocks are subject to the same investment influences, and are of diversified qualities and are held in quantities which do not correspond one with another. Such heterogeneous collections of stocks can only produce investment catastrophe: this has been their result in the past and such must continue to be their result in the future.

The only way in which satisfactory investment results can be obtained is by observing the three main principles:—

That every stock held must constitute a really separate investment risk.

That the quality of all the stocks held must closely correspond.

That the amount of capital invested in each stock must be as nearly as possible identical.

These three points, once understood and observed, will, in my opinion, almost ensure permanent investment success, and will certainly outweigh any small mistakes as to the details of selection and price paid for individual stocks. At the outset of my argument I drew attention to these minor details, which are sometimes the cause of want of investment success, and as after all they are also of some considerable importance, I counsel those of my readers who are really interested in this question to inform themselves of them, and for this purpose I suggest reading a small book published under the title of *How to Manage Capital.* This volume is quite as easily understandable as this article, and will give the investor all the information which he needs on these minor details. When he has mastered these elements of sound investment, and has supplemented this knowledge by the strict obser-

vance of the three main principles cited above, he will find that his future career as an investor will be regulated by rules which cannot fail to secure success.

I am fully convinced that there are extremely few people in the United Kingdom who realise what enormous sums are lost by investors in the aggregate by disregarding the main principles of sound investment. Some years ago I made a calculation that the amount which was lost would pay off the entire British National Debt in a period of four years. Some people dismiss this serious matter with an airy remark to the effect that the losses so incurred no doubt serve some useful purpose as some one, doubtless, profits by them. Such ideas, however, only exist in the minds of those who have not studied the—I will admit—somewhat abstruse science of Political Economy.

Taking one easy example out of thousands which present themselves, let us discuss the fate of the thousands of pounds which have been lost by those investors who subscribed the capital for the London Coliseum. Enormous sums have been spent in erecting this

edifice. The contractors may or may not have derived a solid profit from their contracts; the workmen might have been employed on another profitable undertaking, and if the total profits made out of that building were put on one side, and the losses of the investors on the other, a large deficit which has not benefited any one at all would be found to be the actual result.

In this way the money so sunk has disappeared without affording any adequate advantage to any one. Had those who subscribed the capital studied the investment question, and had they read *How to Manage Capital*, they would have realised the risks of such an undertaking beforehand, so that most likely the Coliseum would never have been built, and the national loss thus made would have been avoided.

It is by being able to foresee what the future is likely to produce that the investor can guard against his losses. He knows that no country can continue being prosperous for a long and uninterrupted number of years. This fact proves to him that risking his money on the prosperity of any one country is

unsafe. He further knows that if his capital is divided up over a number of countries the division must be even in order that a true compensating balance may be effected ; and, lastly, a short study of price movements of individual stocks has convinced him that only stocks which are similar in kind are similar in price movements. By observing these very simple axioms he will not only avoid personal loss to himself, but he will also assist in reducing the serious national loss which is incurred through imprudent investment.

If an account of all the Investment Lists existing in Great Britain were taken, and they were sorted as to desirability in accordance with the above explained principles, it would be found that comparatively a very small number of them properly protected their owners against capital loss, and it is with the view of reducing the number of unsatisfactory Investment Lists that I have written my book and am now writing this article.

My book has enjoyed a certain amount of popularity, and has already passed through various editions, yet I have found that in a good many cases the readers of this book,

whilst agreeing with me as to general principles, have delayed putting their houses in order, so to speak, so far as their investments were concerned. This neglect has been due to a multitude of reasons. One of the chief reasons of their vacillation has been that they did not consider the time to be favourable for a proper re-arrangement of their own particular Investment Lists. In this respect they were wrong, because experience has shown me that the time is never inopportune for the reconstruction of an Investment List; and my experience is by no means small, as I have personally considered and practically dealt with many hundreds of Investment Lists.

It is true that sometimes, in re-arranging a list, some of the stocks held have to be sold at under cost price, and thereby a temporary capital loss is sustained. Investors reason that so long as they retain a stock which is likely to regain the price originally paid for it they cannot be wrong. Further, they assert if they sell any of their holding at a depreciation their loss becomes certain and irrevocable. Such a point of view is deplor-

able, because the re-arrangement of an Investment List is simply the substitution of desirable stocks for undesirable ones. If a man sells a stock under its cost price, all he must endeavour to do is to buy a stock in exchange which is possessed of a greater expectation of recovery than the security he parts with.

Another reason for reluctance in revising an Investment List is that the investor says, "I know all about the stocks which I hold at present, and I know comparatively nothing of the new stocks which I am going to buy." This is not a sound argument because there was a time when he knew nothing of the stocks which he now holds, and because all he now knows about them he has learned, and because it is quite as easy for him to learn all about a fresh stock from its past statistical history as from the actual experience of having held it. There are a considerable number of handbooks published which give the statistical facts in reference to almost every security of importance, and from these just as large an amount of knowledge is to be gleaned in reference to unknown stocks as the knowledge which the investor possesses as to his own securities.

The third point which weighs in an investor's mind against the reconstruction of an Investment List is that of expense; but here again he will find that the total cost of setting his affairs in order does not come to two months' interest on his investments. Furthermore, he will find that a wise re-arrangement will, in nine cases out of ten, recoup the amount of expense in an exceedingly short space of time.

I would not counsel any investor to re-arrange his Investment List unless he can achieve a very material gain thereby, and the desirability of this gain may be calculated as follows :—

1st—Additional capital safety.

2nd—Additional annual income.

3rd—An additional chance to regain past capital losses.

Unless the first point can be unquestionably secured by the proposed re-arrangement scheme, an investor should not think of altering his present holdings.

The second point is in many cases also one of great importance, and here I should like to make a remark in reference to the geo-

graphical distribution of capital, which will explain at once another advantage of thi ssystem which I have not as yet touched upon.

In every country money has a certain value, but that value differs in each country. In England and in France capital is more plentiful than in any other part of the globe, and therefore is in the least urgent demand. Consequently $3\frac{3}{4}$ per cent. is about the average yield obtainable in these countries from investments of the highest class; whereas in Germany the same type of securities return 4 per cent. But in America, the British Colonies, Africa, and Asia much higher rates are obtainable. In fact, the same class of Debenture which would yield in England only 4 per cent. will be found to yield quite $5\frac{1}{4}$ to $5\frac{1}{2}$ per cent. in Africa. For this reason, when an investment is made on the geographical principle, and the money is evenly divided among various countries, if the same class of stock be chosen in each instance, then an average rate of income is obtained, which is considerably higher than the rate ruling in England at the present time; in fact, the same selection of stocks which would produce in

England, say, 4¼ per cent. will produce, when geographically distributed, 4¾ per cent. A half per cent. may not seem to be much on the face of it, but on a capital of, say, £20,000 it amounts to a good deal, as there is a considerable difference between an income of £850 and £950 per annum. And whenever such a difference is obtainable whilst capital risks are also reduced, it certainly becomes a question of considerable importance.

I have in this article given my views on this all-important subject with much brevity; but they are entitled to consideration from the fact that they are not based on mere theory, but on a life-long practice. I do not suggest that my views are perfect, and I am willing to believe that some further improvements of my system may yet be effected before the really ideal investment method is discovered. For this reason I should be very pleased to receive any intelligent criticism of the investment programme which I lay down and to receive any statistical statement of investment results which appears to traverse the expediency of the system which

I advocate. Exhaustive discussion is the basis of true knowledge, and I am anxious to encourage the most searching inquiry into every aspect of the Investment Question.

The World's Stock Markets

EVERY important commercial centre has a Stock Exchange of its own, and the dealings in every one of these Stock Exchanges are naturally confined to those securities which are held by the public of the neighbourhood in which each Stock Exchange is situated.

Some stocks are held in many quarters of the globe. Dealings in them, therefore, take place on a large number of Stock Exchanges. Other or so-called "local" stocks are not so widely distributed, and, therefore, not so universally dealt in. It is really not the size of a stock which determines its number of regular markets, but simply the manner in which it is distributed among the population of the world. Thus, there are some large and important stocks representing millions of capital which have only one principal market, like British Consols, the only real market for these being London; whilst com-

paratively much smaller issues, like the loans of the Turkish Empire, are dealt in on nearly every Stock Exchange in Europe.

British Consols can, of course, be dealt in on every British or Foreign Stock Exchange, as they are known throughout the world; but nearly all these transactions come directly or indirectly by letter or telegram to London and are finally transacted on the London Stock Exchange, where almost any quantity of the stock can readily be bought or sold. In fact, only London can be relied upon to absorb or supply any substantial amount of the stock, and London is consequently the sole market.

In securities which have various large centres where they are dealt in, like the Turkish securities, this is not so; they are held largely by the public which make the London, Paris, Berlin, Brussels, Amsterdam, Vienna, and other less important Stock Exchanges their places of dealing, and consequently any one of these centres is always ready to supply or absorb Turkish stocks.

In fact, while every important transaction in Consols sends its reflex to London,

Turks are dealt in locally, and these dealings only affect indirectly the other places where they are quoted. For this reason London alone determines and controls the price of Consols, whilst the price of Turks is determined by international arbitrage dealings.

Arbitrage transactions are the sales and purchases of stocks which are effected by letter, telegram and telephone between the Stock Exchanges of different countries. In these international dealings the level of the respective quotations at any two centres is determined by the current rate of exchange between them. The rate of exchange becomes the arbiter of value—hence the term arbitrage. For instance: Paris quotes Turks in francs, and it is, therefore, necessary to work out the French franc-quotation by the rate of exchange into its equivalent in English money before an arbitrage dealer can determine whether it is possible to buy or sell Turks more advantageously through his agent on the London market than he can buy and sell them on his own Bourse. It is the constant rush on the part of arbitrageurs to buy stocks in the market where quotations are low, and to sell

them in the market where quotations are high, which keeps internationally-dealt-in stocks at an uniform price at the various centres.

In these international securities, of course, the most powerful centre determines the quotation. Thus, if the Paris public is more interested in Turks than Berlin, Paris is able to absorb or supply larger quantities of stock, and it is then the Paris market which controls the price and fixes the level of value to which Berlin is compelled to conform. If, in the course of time, the interest in Turks in Paris gradually diminishes, and the people of Berlin or any other centre should become the largest holders of Turks, then the position would be reversed, and the Berlin or some other Stock Exchange would commence to dominate the market in Turks.

In this way the principal markets for internationally held stocks are constantly changing, and the dominating centre of a stock does not depend upon its nationality, but upon the place where it is principally dealt in.

Thus, the principal market for the loans of the United States of America was at one

time in London, but has now been transferred to New York. In the same way the Grand Trunk Railway is mainly a Canadian enterprise, but no Canadian or American Stock Exchange can at present control the price of its stocks, as London dominates the market; whilst in the case of the shares in the Rio Tinto Copper Mine, which is situated in Spain, there is no independent market either on the Madrid or Barcelona Bourses. The shares are held in France and England, and the London or the Paris quotation alternately dominates the market, though the control is generally in the hands of Paris.

To the holder of stocks it is, for the above reasons, not only important to know where an enterprise is situated and where its stocks were originally issued, but also which financial centre happens to determine their quotations.

Not only do wars, political troubles, trade stagnation or prosperity influence the prosperity of the enterprises and the prices of stock which are held in a country, but such events as these also affect the stocks in which that individual country is the dominant

market. This is a point which should be most carefully considered by all those who desire to obtain a real international distribution of risks.

Many investors object to hold stocks which they do not see daily quoted in the particular newspaper they regularly read, and this fact alone prevents them from obtaining a proper capital distribution. No newspaper is able to quote all the really important stocks of the world, as this item of intelligence alone would suffice to fill the most voluminous newspaper. The largest number of stocks which are at present quoted in any newspaper or periodical of any country are contained in the *Financial Review of Reviews*. But although this *Review* gives the last four years' prices, dividends and yields at present prices of upwards of 5,000 individual securities, yet this number of stocks is only a tithe of all the investments of the world.

Every paper has to confine itself to a few stocks only, and these again are selected according to the individual ideas of the editor, who is usually not influenced by the relative importance of various stocks, but by the

amount of public attention any given security happens to command for the time being. Thus, frequently, prices of unimportant speculative securities are recorded by all papers to the exclusion of the quotations of really safe, solid, important investments. Frequent newspaper references to any one stock are tantamount to a large number of trade advertisements of a commercial article. Publicity does, doubtless, create a demand for much-advertised articles, but in the same way as it does not follow that any particular soap is the best because its name is on every hoarding, so the Allsopp Brewery issues have not proved the best investment of their kind because during a number of years they have been constantly quoted and commented upon in every British financial paper and in every City article.

When the choice of an investment is being considered, it is better to select a comparatively unknown security, because in such a stock the probability of securing a real bargain is far greater than amongst stocks that are in everybody's mouth. And just as consumers should always give a wide berth to all largely

advertised articles which have not already positively proved themselves to be the best of their kind, so investors should shun every stock which is much written and talked about at the moment, unless the past records of that stock prove it to be safe, sound and cheap at the ruling quotation.[1]

The argument frequently advanced that investors should only interest themselves in stocks which command a free and ready market proves to be quite fallacious on close investigation. The difference between a stock in which there is a free market and one in which the dealings are not frequent really consists in the difference between the buying and selling prices.

It is true that some stocks can be bought and sold at a difference of 5*s.* in every £100, whilst in other stocks this difference amounts to £2 for the same quantity. But stocks of both types are subject to market fluctuations, and an increasing or decreasing demand for a particular stock will rapidly alter the

[1] The writer has dealt exhaustively with this subject in the Popular Financial Booklet No. 17 (*The Money Market Article and the Private Investor*).

facility with which it can be dealt in; so that the free market of to-day becomes the laborious negotiation of to-morrow.

Investors do not buy with the intention to sell again soon after; they buy to hold for years. Suppose an investor, intending in 1905 to invest in a speculative South American Railway stock which paid a high rate of interest, had selected the then so-very-much-talked-about Buenos Ayres and Pacific Railway Ordinary Stock rather than the very little known 5 per cent. Second Preference Stock of the Cordoba Central Railway, and that he had made this choice because the former stock had a very free market, whilst in Cordoba Second Preference there was very little dealing and a difference of £2 per £100 between the quoted buying and selling prices. The income yields from both transactions in 1905 were about the same, while the dividends paid on both stocks remained unchanged. But if the investor had allowed himself to fall a victim to the free-market delusion and had bought Buenos Ayres Pacific Ordinary at 143 (quoted then at 142½–143), whilst he might have had

to pay 90 for Cordoba Second Preference (quoted 88–90), what would his position have been in March, 1907 ? Why, he would then have found that the Buenos Ayres and Pacific Stock had in the meantime not only dropped in value, but had also lost its free market, and he would have to accept 119 for it, or in other words, he would have lost £24 on every £100 of stock which he held. But Cordoba Central Second Preference, which had also receded in the meantime, and still remained a wide-priced stock, were yet saleable at 86 (quotation 86–88), representing a loss of £4 only on every £100 of stock held.

It is true that in the purchase of the Buenos Ayres and Pacific Stock only 10*s.* more than the lowest price quoted at the time was paid, while the market turn in the Cordoba case amounted to £2, yet not all this disadvantage in dealing was repeated at the time of sale. Thus nominally about £2 was saved on the Buenos Ayres and Pacific transaction. But into what utter insignificance these forty shillings sink when it is considered that the cheaply completed transaction produced an ultimate loss of £24 against a loss of £4 only

on the same quantity of the less negotiable security.

We wish it to be quite understood that in the above example Cordoba Central Second Preference and Buenos Ayres and Pacific Ordinary have only been used to prove the argument and not because we consider that they will retain their respective positions, both as to price or marketability. It is always dangerous to give in a financial review an example of this kind, as a review of this sort is frequently referred to and re-read for some time after publication, and both stocks used in the example might then have ceased to exist. For this reason I hope that my readers will understand that the future of the stocks quoted in the example is an unforeseeable quantity, and that the argument only is of value.

The speculator who intends to realise again promptly must, of course, consider the temporarily existing marketability of a stock. The investor should, as a matter of fact, turn his attention to stocks which are unfashionable and rather difficult to deal in. Every good investment is always saleable at a

price, and the margin of difference between purchase and sale prices is a matter of small moment in comparison with the ultimate destination of a market movement. It is, therefore, only present and future prospects and the suitability of a stock to a specific Investment Scheme, which ought to weigh with an investor, and not the margin of difference between its sale and purchase prices.

Again, it is really immaterial to the investor who holds a good stock which particular Exchange determines the price of that security. Whether it is quoted in England or elsewhere, or what may be the small actual expenses of purchase or sale, are minor considerations so long as it pays him to hold the stock at the nett cost price, including all charges.

Every investor who once grasps this important fact will experience no difficulty in distributing his investment risks in such a manner that no conceivable combination of circumstances can seriously reduce the realisable value of his invested capital.

To the investor who realises the truth contained in the foregoing paragraph, the

world, so to speak, is open, and he can buy the safest and most remunerative securities in existence, and thereby free himself from the confined limits of any one financial centre. An International firm of stock dealers is in a position to supply him with the best selection out of all markets, together with the necessary material for forming a capable opinion of the stocks he is inclined to purchase. Such a firm will also inform him as necessity arises how all his stocks are valued on those Stock Exchanges on which they are principally dealt in.

If the question of what people think of stocks and what they consider safe is analysed, we come again to a point of geography pure and simple. A Swede will consider Swedish the safest National Loans, and an American will entertain a preference for those of the United States. The Scotchman will prefer the British Linen Bank to the London and Westminster, the Londoner *vice versâ*. If an Englishman were told to buy Austrian North Railway Debentures he would hesitate, while an Austrian might consider London and North-Western Deben-

tures to be highly speculative. As a matter of fact, both these debentures are equally safe, as can be proved by statistics; therefore, why should an investor allow local feeling to interfere with his obtaining investment safety?

When the various Stock Exchanges of the world are reviewed, and when we consider that each Stock Exchange deals in quite a number of stocks which have only a very limited, if any, market in other countries, yet which stand high in the estimation of local investors, we see more clearly how wide may become the area of an investor's choice, and how, in this way, it becomes possible to find stocks which are able to realise any reasonable investment aim, whatever its nature.

To give the reader some idea how the stock markets are scattered over the surface of the earth we append the following list of principal Stock Exchanges obtaining in each of the nine main Geographical Divisions; a reference to a map of the world will indicate how widely they are distributed.

I. British Division.

Principal Stock Exchanges :—

London, Manchester, Glasgow, Liverpool, Birmingham, Edinburgh, Dublin, Cardiff, Leeds, Bradford.

II. British Colonies.

Principal Stock Exchanges :—

India : Calcutta, Madras, Bombay, Rangoon.

Canada : Montreal, Toronto.

Australia : Adelaide, Melbourne, Sydney.

Tasmania : Hobart.

New Zealand : Wellington, Christchurch, Dunedin.

Straits Settlements : Singapore.

III. Europe, North.

Principal Stock Exchanges :—

Belgium : Brussels, Antwerp.

Denmark : Copenhagen.

Germany : Berlin, Hamburg, Frankfort, Bremen, Breslau, Munich.

Holland : Amsterdam, Rotterdam.

NORWAY: Christiania.
RUSSIA: St. Petersburg, Warsaw, Moscow, Odessa.
SWEDEN: Stockholm.
SWITZERLAND: Geneva, Basle, Berne.

IV. EUROPE, SOUTH.

Principal Stock Exchanges:—

AUSTRIA: Vienna, Prague, Trieste.
BULGARIA: Sofia.
FRANCE: Paris, Marseilles, Bordeaux, Lyons, Lille.
GREECE: Athens.
ITALY: Milan, Genoa, Turin, Rome.
HUNGARY: Buda-Pesth.
PORTUGAL: Lisbon.
ROUMANIA: Bucharest.
SPAIN: Madrid, Barcelona, Bilbas.
SERVIA: Belgrade.
TURKEY: Constantinople.

V. ASIA.

Principal Stock Exchanges:—

JAPAN: Tokio, Yokohama, Osa Ka.
CHINA: Shanghai, Hong-Kong, Kobe.

VI. AFRICA.

Principal Stock Exchanges :—

CAPE COLONY : Cape Town.
EGYPT : Cairo, Alexandria.
NATAL : Durban.
TRANSVAAL : Johannesburg.

VII. AMERICA, NORTH.

Principal Stock Exchanges :—

New York, Chicago, Boston, Philadelphia, San Francisco, New Orleans, Baltimore.

VIII. AMERICA, CENTRAL.

Principal Stock Exchanges :—

Mexico City.
Havana.

IX. AMERICA, SOUTH.

Principal Stock Exchanges :—

ARGENTINE : Buenos Ayres.
BRAZIL : Rio de Janeiro.
CHILI : Santiago.
PERU : Lima.
URUGUAY : Monte Video.

We have in the above list, named some 90 different Stock Exchanges, among which

it should not be a difficult matter to find just the stock necessary to fit in with any kind of investment scheme.

Whether the securities held by an investor are marketable in London or any other part of the world makes nowadays but little difference. There are many stock-dealing firms in Great Britain who are in daily contact with every Stock Exchange centre, and by means of telegrams and cable transfers stocks can now be quite readily bought or sold, wherever their chief market may be. Quotations for all stocks, no matter where they are dealt in, are daily obtainable with the same amount of facility, provided that the proper firms are applied to.

Those investors, however, who prefer London as their market for investment transactions will not find it absolutely necessary to go considerably outside that Stock Exchange. The London market deals in a great variety of securities, a number of which are mainly controlled in other parts of the world and a very fair distribution of capital can be achieved by confining oneself to that market alone.

In former times this was not quite the case, but during recent years the position in this respect has improved to the advantage of the individual investor, though perhaps to the detriment of London's financial supremacy.

During the third quarter of the last century, which witnessed the dawn of present day industrial developments, Europe was in a state of great political unrest, and all Continental bourses were still in the infancy of their subsequent financial importance. For this reason, Great Britain—or perhaps it would be better to say London—was then the only existing international harbour of refuge for all financial transactions of magnitude. Not only did every important issue of stock find its way to London, but, in addition, a great deal of foreign capital was entrusted to London for investment. All foreign magnates and potentates had their nest-eggs in the safe custody of British Banks.

This gave to London the undisputed supremacy of the finances of the world, and this position continued until the end of the Franco-German War. This war resulted in

the payment of a large indemnity by France to Germany, and the subsequent consolidation of all German interests, which struck the first blow to London's financial supremacy.

Then—and particularly during the last decades of the past century—trade, commerce and industry all over the world developed that historically unprecedented expansion which so enormously multiplied the wealth of the world, and gradually withdrew from London its former financial power. Investors of all nationalities used their newly acquired wealth in the purchase of the stocks of their own countries, thereby shifting the dominating markets in them to their own Bourses, and in this way the London Stock Exchange has lost control over many stocks in which its influence was at one time supreme.

A very striking example of this happened recently in the case of Argentine securities. These were formerly wholly in the hands of English investors, and British trade depression spelt inevitable reduction in Argentine values. Now it is different; and whilst during 1904 financial stagnation prevailed in England, Argentine stocks were on the

boom, and every ship which left English shores for South American harbours conveyed parcels of Argentine stocks to a new domicile ; and this has continued to the present day.

This loss of financial control is a sad fact for the British nation as a whole, but it is advantageous to every individual British investor, as the number of stocks well known to him and to his London Stockbroker which are free from British trade influences is gradually increasing. In this way, as time passes, it daily becomes easier to obtain a fine distribution of capital risks by means of an internationally distributed list of stocks, without going beyond the securities which are known on the British Stock Exchanges.

Investment Knowledge

PRECISELY as the knowledge of language possessed by every individual depends upon the number of words which he has in familiar use, so the individual's investment vocabulary depends upon the number of stocks with the value, position, and history of which he is perfectly familiar. When judged by this standard it must be admitted that the average investor is possessed of but a scanty store of investment information; for the number of stocks with whose capital, constitution, and past market fluctuations he is thoroughly familiar is exceedingly small. But although on the one hand a limited vocabulary is a matter of small inconvenience to its possessor for the simple reason that his ideas are correspondingly few and, therefore, capable of expression in the few words with which he is acquainted, on the other hand an investment vocabulary of limited range is a serious dis-

advantage. For this reason being intimately acquainted with the history of but few securities an investor has a natural tendency to circumscribe his area of investment within dangerously narrow limits.

Neither is it difficult to understand why the individual range of investment knowledge is small. For, as a rule, investors obtain such information as they possess either from their stockbrokers or from the particular daily paper which they are in the habit of reading regularly. Now the number of visits which a steady-going investor pays to his stockbroker is, and should be, few; whilst the number of stocks which a newspaper can habitually discuss is also necessarily limited.

There are, of course, published in this country a number of excellent daily and weekly financial journals which give the names, quotations and particulars of a vast number of investments, together with analytical articles which deal with individual securities or groups of securities. But in this country financial journalism has never obtained the firm foothold which it deserves; so much so that the combined circulation of all the English financial

papers is smaller than that of any of the well-known London "Dailies." In other countries this is not so, and the circulation which some continental financial papers achieve is remarkable. Thus, for example, the *Berliner Börsen-Courier* is one of the leading German papers and has a circulation which equals that of the best daily papers in Germany, whilst in France even the smaller financial papers have a list of permanent subscribers which would fill the distribution managers of our most important periodicals with envy.

The simple fact is that the continental investor has a greater appetite for financial information than has his English confrère. The practical result of this is that a cursory examination of a complete list of prices issued by any British Stock Exchange will reveal a most extraordinary number of price-anomalies, whereas, if a similar list from any Continental Bourse is examined, it will be found that nearly all the stocks quoted therein have grouped themselves into certain levels of value and that few if any discrepancies can be said to exist.

In a previous article in the *Review* we have

already alluded to the noteworthy absence of any common basis of value amongst English securities, and we will now endeavour to explain the reason of such a phenomenon.

It must first of all be granted that the English nation is essentially commercial. Therefore, it would be ridiculous to assume that they are wittingly content to pay 20s. for one article when another of similar quality and kind is to be procured for 17s., and, further, that they would accept an income of, say, £10 a year did they only know that the same capital sum could be invested with identical safety to yield an annual income of £11. The reason for the existing anomalies in English Stock Market values is that the British Public is too much occupied with the pressure of its every-day business to devote sufficient attention to investment questions. The commercial instinct of the nation is so busied over the making of trading profits that the ultimate investment of such profits, when they have been made, is regarded as a matter of quite secondary importance.

So that Englishmen of keen commercial instincts are content to assume that the market-

basis of quotations is subject to some sort of systematic adjustment, and they are strongly convinced that if one stock happens to be cheaper than another, or if it returns a larger income to its holders than another, the less esteemed stock must on the face of it suffer from some sort of inferiority. Such a conclusion is, however, frequently a mistaken one, and these price-variations are the natural result of the small amount of investment information which is at the disposal of the average investor.

Let us, therefore, turn aside for a moment to examine the nature of the Money Articles in the daily Press, which form the foundation of the investment knowledge of the nation. Now, these Money Articles, from their reliability, from their honesty, and from the amount of painstaking research which is employed in their compilation, are productions of which both the Press and the public may be very justly proud. The only fault which can possibly be found with them is that they are written so much over the heads of their readers. The very enterprise of English journalism, which supplies such an epitome

of the world's news as is to be found in the daily Press of no other nation, necessitates the curtailment of the Money Article within strict limits. Now any writer who is compelled, no matter what may be the incidents of a particular day, to confine himself to a certain set space is bound at times to so greatly curtail his subject as to render it difficult of comprehension. More especially is this the case when dealing with so highly technical a matter as financial movements and their causes, and it comes to pass, therefore, that though excellent in quality and teeming with information to the financially expert, the money article is of small use to the general reader.

Such articles invariably commence with a brief description of the day's events in the Money Market itself—that is to say, the transactions of discount brokers and the fluctuations in the value of money when lent for certain fixed periods. But to the general public the movements of bullion and the rates of exchange with various banking centres abroad convey no information—indeed, these details are Greek to many of the greybeards of the Stock Exchange. Briefly the number

of people who are possessed of a comprehensive knowledge of trade balances and the exchange of money which they involve is extremely small. Altogether, the opening paragraphs of the conventional Money Article are calculated rather to bewilder than to enlighten the ordinary investor.

Following the money movements come the actual changes which have taken place in Stock Exchange quotations. Thus one reads that—

> Cape Three-and-a-Half per Cents. fell ½. Great Northern Deferred showed a slight tendency to harden, Peruvian Corporation Preference rose ½. Allsopp's Trust Certificates were weak, at a concession of 1¼ from the previous day's closing quotation.

At times, of course, an investor does happen upon the name of a stock which he knows, or in which he is directly interested, but otherwise this part of the Money Article conveys to him little more practical information than was to be gleaned from the discount paragraphs which preceded it.

Usually some dividend reports follow upon the record of market movements, but it can only be at rare intervals that the investor

will come across the half-yearly or yearly statement of a stock with which he is familiar ; because, it must be remembered, there are some 30,000 joint stock companies in existence, and the limited space of the Money Article only permits of the publication of the figures relative to about 1,000 of these in the course of a year.

Next come the weekly traffic statements of various English, colonial and foreign railways ; but, here again, lack of space compels the City Editor to compress his information so closely as to afford practical guidance only to those systematic statisticians who have tabulated, for their own information, the traffic particulars of the preceding portion of the current year, and who have also the traffic figures of previous years before them for the purpose of comparison. So that although it may be pleasing news to an actual holder of Great Western Railway stock when he reads that his railway's traffic receipts have increased by £1,500 for the tenth week of the current half-year, yet we greatly doubt whether the average investor is in a position to appreciate the effect of this announcement

upon his future dividend prospects or upon the realisable value of his stock.

The typical Money Article then concludes with a set of tabular matter, giving the price-variations of the previous day in the case of a limited number of stocks, together with the "marks" of actual "business done," as reproduced from the Stock Exchange Official List.

In itself the Money Article is altogether excellent, but it is compiled on the unfortunate assumption that the average investor is possessed of both the leisure and of the inclination to engage in statistical investigations on his own behalf. But as the majority of investors are active business men with no time for such researches, and the minority of investors consists of ladies and professional men with no aptitude for such arithmetical exercises, it follows that the conventional daily Money Article fails to enlighten its readers save by implication and guesswork. For even the most conventional of Money Articles has its regular readers, who dutifully plod through its contents, partly from a dogged determination to have their money's

worth and partly because few investors have the courage to confess that their mental digestion is not sufficiently active to assimilate the exceedingly strong meat which the average City Editor sets before them.

The perusal of the Money Article becomes largely a matter of habit. Having a certain amount of money invested in stocks and seeing his neighbours poring over the Money Article the average investor not unnaturally follows suit. He scarcely cares to admit to himself that the subject, as therein treated, is entirely foreign to him, and for the sake of appearances he seeks to mask the shallowness of his own knowledge by the use of the technical phrases and expressions in which the Money Article abounds. We particularly remember at one time carrying on a long and a most intricate correspondence with an investor on the subject of his investment list. In order to prove to us the value of a certain debenture stock he went into the most elaborate calculations, based upon traffic receipts, Board of Trade Returns, and such-like arrays of statistics. Never having had the advantage of personally meeting our cor-

respondent we almost came to the conclusion that we were dealing with a financial expert, until one day a small postscript attached to one of his letters let the cat out of the bag. The postscript ran as follows :—" Would you mind explaining in your next what debentures really are ? "

Here was a painstaking reader of money articles whose native shrewdness had enabled him, in spite of his ignorance of the elements of finance, to string together a plausible but fallacious argument which had led him to form a wholly erroneous estimate of his stock's intrinsic merit.

Neither is this want of technical financial knowledge a matter concerning which the average investor need feel any false shame. We have no hesitation in admitting that we approach the Commercial Market Reports in wondering ignorance. Occasionally, for our own personal instruction, we have attempted to decipher the Special Intelligence from the Meat Market, the Corn Market, or the Metal Market, and we have puzzled our brains in unsuccessfully endeavouring, for example, to find an intelligible meaning to the following : —

English Beef	3/4 —3/8
Scotch Sides	3/10—4/–
Do. Shorts	4/– —4/5

We were aware that the retail price of beef varies between 8*d*. and 1*s*. 4*d*. per lb., but why Scotch sides should be cheaper than shorts, and why English beef, which we, in our ignorance, had always deemed to be the best, should be quoted nearly 1*s*. cheaper than Scotch shorts completely passed our understanding. Further, the precise quantities of meat represented by the above quotations still remain an unsolved mystery.

And again, of the Seed Market we have read: "Wintry weather has naturally imparted more life to blue peas and haricot beans."

Can it be, we have asked ourselves, that the population consumes more peas and beans in wintry weather? For this would seem to be the only feasible explanation of the above; for neither of these two crops would have yet been sown, and therefore the frost could not have affected the future supply.

And of the Metal Market, the special report concerning Iron states that: "Much business

has been done in Cleveland, closing 49*s.* 11*d* cash, 50*s.* 3½*d.* one month. Standard Foundry 49*s.* 6*d.* cash."

To an ironmaster such information is doubtless perfectly clear, but to us it affords no guide to the cost of a hundredweight of iron.

No doubt it is with feelings of similar bewilderment that the average investor culls from the Money Article such uncut gems as "Daïra Sanieh Ordinary declined to 17⅞."

Having thus reviewed the limited avenues of information which are open to the average investor, we have often endeavoured to compute, at some approximate figure, the amount of loss which individual investors incur through their lack of a right understanding of investment questions. For it must not be forgotten that money is after all absolutely essential to the material comfort and well-being of civilised man, and that, further, every walk of life, or, rather, that success in every walk of life results in the accumulation of capital. Be he poet, painter, sculptor, actor, doctor, or university professor the satisfaction of each man's ambition is tinged with money-making. For, however

far from the vulgar greed of gain a man's ideals may seem to travel, yet worldly success of every sort brings with it the responsibility of money, and upon the intelligent investment of that money depends the worldly comfort of the family and dependants of the most exalted of visionaries.

But intelligent investment implies an intimate knowledge of the investment market; for without knowledge no man can hope to deal successfully in any market. The snares for the unwary are as great amongst Stock Exchange securities as they are in any other market in the world, and the man who handles his hardly earned accumulations without knowledge exposes his capital to unnecessary danger. The unskilled investor may perchance possess a financial adviser upon whom he relies to guide him through the quicksands of investment, but such blind reliance is at best unsatisfactory, and how is the inexperienced investor to discriminate between good and bad advice when the subject matter of the advice is entirely beyond his comprehension ?

At the outset of this article we mentioned

the danger to which a limited investment vocabulary exposes its owner. This danger is the greater because it is usually quite unsuspected by the investor whose familiarity with investment stocks is but small. Conscious that his financial information requires to be supplemented by additional knowledge, it is not unnatural that a painstaking investor should apply himself to the task of perusing the Money Article regularly and carefully. Herein would seem to lie the path of knowledge, and it would be with incredulous astonishment that a financial inquirer would receive the statement that nothing so greatly tends to warp the judgment as does a systematic daily course of the Money Article. A moment's reflection would, however, suffice to convince him of this important truth. As its very name implies, a "newspaper" exists for the purpose of purveying "news," and the stocks which provide the most constant succession of startling and unexpected developments are obviously the stocks whose careers furnish the best journalistic material. But these sensational qualities are the very characteristics which, above all, an investor

should seek to avoid when selecting securities. Stocks which display the smallest amount of fluctuation are those which pay the most regular dividends, and whose capital value displays the greatest stability: these are the securities which an investor should diligently search for, and these are, of course, the stocks which hardly ever are mentioned in the Money Article. This is only reasonable and natural, for the Money Article would become precious dull reading did it attempt to chronicle the humdrum existence of the most suitable investment stocks.

In this connection what is true of stocks is equally true of humanity. Your season-ticket-holding, church-going, rate-paying and altogether exemplary suburban resident is, as a rule, a steady money maker. Yet, undeniably, he would provide a novelist in search of a hero with very little material to work upon. Consequently the reckless Adonis who wildly whirls across a hemisphere in a motor-car, accompanied by a mysterious lady in goggles, is allowed to elbow the unromantic suburban money maker off the bookstalls in the same unceremonious fashion as the steady-going

investment stock is elbowed out of the Money Article by the speculative gambling counter whose fluctuations are material for endless comment.

Occasionally it happens that some thoroughly old-fashioned security which habitually does not move at all suddenly commences to make wild upward and downward movements. Thus—for example—for many years Hudson's Bay shares (the Hudson's Bay Company was established in 1670) were never mentioned by a single newspaper. In those days the stock was non-speculative, and returned a fair rate of interest. Recent developments in Canada have raised the price of this stock from about £22 a share—at which figure it commonly stood—to £92 a share. No sooner had this rise commenced than the newspapers began to give reports regarding the stock daily. Now, let us ask ourselves: Is it prudent for any investor to interest himself in a stock at over four times the price at which it stood a few years ago ? It is possible —but not probable—that the present rise will be maintained. But, in any case, a question of this sort seems to us rather to lie

within the province of a speculator than within that of an investor. Yet our knowledge of the Stock Markets confirms us in the belief that five times as many real old-fashioned investors have entered their names on the share register of the Hudson's Bay Company during the last two years at the present enormous price than did so during the preceding ten years at the lower price.

It is in this way that the investor with a limited investment vocabulary sets a snare for himself, and the pathetic part of it is that this man does not realise for one moment that he has degenerated into a mere speculator when he purchases a popular fancy like Hudson Bays, and he ultimately bemoans what he is pleased to term his ill-luck if he subsequently loses his money.

Every one knows that eager competition to buy has a tendency to raise prices, and that where there are a few sellers and many buyers opportunities of picking up a real bargain do not occur. Almost all the daily papers in England give—with some local exceptions, of course—quotations of the self-

same stocks. The whole of the British investing public has its eyes concentrated, therefore, upon this limited number of securities. How, then, can any one hope to pick up anything in the nature of a bargain in the midst of this enormous competition? Indeed, it naturally follows that the over-eager purchaser will find himself possessed of a very bad bargain, because, in nine cases out of ten, the much-quoted securities are the dearest and most unremunerative of their class. For these reasons it is quite evident that the regular reading of money articles and periodical conferences with a stockbroker will not prove the high road to permanent investment success.

Having now fully discussed the drawbacks of a limited investment vocabulary, let us analyse how this state of affairs is to be remedied. To begin with, we should like to dispel the only too-prevalent notion that understanding stocks is a difficult matter, and to eradicate the superstition that a lifelong experience is necessary to acquire this knowledge. We have, throughout our entire experience, always worked upon the principle

that a client who does not understand stocks is an additional trouble both to himself and to ourselves. We have found that the best efforts on our part to improve such a man's investment position have been constantly baulked by his erroneously preconceived notions, and that, altogether, little good could be done in the case of a person who is ignorant of the first principles of finance. Therefore, to every new client we show the main elements of successful investment.

In this way, during the twenty-five years of our experience, we have spread a good deal of investment knowledge among investors, and we have invariably found, with a little goodwill on the part of the client, that quite a short space of time suffices to make him acquainted with the fundamental principles of sound investment. Our experience has also taught us that ladies with no business experience of any kind usually grasp the subject in an amazingly short time, and eventually become quite expert investors after a comparatively small amount of study.

The great trouble with the majority of

investors is that they will insist on attempting to spell before they have learned the alphabet. The alphabet of investment is just as simple as the alphabet of a language; but simple as it is, it requires to be learnt, and to be learnt thoroughly. By the alphabet of investment we mean a proper understanding of what a company really is, of what difference exists between the rights and privileges attached to the various classes of stocks, and of how a speculative stock is to be distinguished from a non-speculative security; also by what means it can be ascertained whether a particular stock at a given price is cheap or dear. When an investor has assimilated these preliminary points, the next step is to convince him that building up a sound investment scheme is very much like building a house, and that too much roof and too limited bedroom accommodation is as much at fault in the one as in the other. The investor who simply piles up a list of stocks regardless of whether they fit in with each other in respect both of quality and quantity is just as poor an architect as the man who, desiring to build a house, accumulates without calcu-

lation a quantity of bricks, stones, mortar, and timber, and then commences his edifice by building walls of various thicknesses without a plan and without a foundation.

This is a subject on which even experienced stockbrokers are curiously ignorant. They, like many investors, look upon investment results largely as a matter of luck. They consider if every individual stock held is safe and intrinsically sound that the total result of the investment list must of necessity be satisfactory. How very wrong they are in this respect recent years have proved, for even on the soundest Trustee List of investments 20 per cent. of capital loss has been recorded during the past few years.

The harmonious distribution of capital in an investment scheme is, therefore, quite as important as the preliminary investigation of the individual securities. This branch of investment knowledge is to be easily acquired from a small volume, a few hours reading of which will explain the right construction of an Investment List to the most unskilful of financial inquirers.

When the investor has once grasped, first,

the method of selecting individual securities, and, secondly, the systematic blending of them into a properly balanced investment scheme, the subsequent attention which his investments will require will take the shape of an interesting study, possessing a peculiar fascination of its own for the intelligent investor.

The *Financial Review of Reviews* contains over one hundred pages of tabular matter, which will prove very interesting and profitable to all those who have once grasped the main outlines of the subject of investment. We should advise our readers, after having perused this article, to give a cursory glance at these tables, and they will find, particularly in the commercial and industrial section, a number of points which are bound to prove interesting. They will notice that there is a column next to the price quotation which gives the yields obtainable from the various stocks at their present prices, and that almost every page shows a vast difference between the yields obtainable from securities which are identical in type. Thus some Debenture stocks will yield under 4 per

cent., whilst others yield over 5 per cent., and, similarly, the yield from Preference and Ordinary stocks will show similar but even greater variations.

All investors who have taken the trouble to learn the right method of comparing one stock with another will be able to discern for themselves which stock is the cheaper, and which stock is the dearer. They will then refer in their mind to the results which they personally are obtaining from their own investments, and they will, in this way, be in a position to ascertain whether their own holdings are the cheapest, safest, and most remunerative of their kind.

No one can do better than the best, and the certainty that one's capital is invested to the best advantage ought to give not only a feeling of satisfaction, but also a feeling of pride.

The tables contained in the *Review* should prove a ready means of increasing the reader's investment vocabulary, and the greater number of names of individual securities which the investor adds in this way to his vocabulary the more certain he is to enter the ranks of the really successful investors.

Consols and National Credit

THE British investor has had rather a rough time of it during the last decade. It is now ten years ago since all British securities rose to what in reality were fabulous and untenable prices. Yet the rise in quotations which took place between 1894 and 1897 was so steady and so gradual, and the reasons which were put forward in explanation of the movement were so plausible, that many people accepted the price-level which was reached during that period as natural. So strongly were the majority of Englishmen impressed with the conviction that the pinnacle-prices of 1897 were reasonable that even now they are to be found expressing surprise and indignation at the very natural reaction which has succeeded to that bygone period of inflation. Yet, whilst the boom of 1897 was at its height, no analytical student of finance believed for one moment that such a price-level could

possibly be maintained. Some idea of the recklessness of this gigantic rise may be gathered from the fact that stocks like Lancashire and Yorkshire Railway Ordinary had risen from 102 to 156, Metropolitan District 5 per cent. Preference from 78 to 120, London and South-Western Railway Deferred Ordinary from 60 to 98, Manchester Corporation 4 per cent. from 129 to 152, Bass's Brewery 5 per cent. Preference from 124 to 156, and Vickers, Son and Maxim 5 per cent. Preferred from 103 to 134. Naturally enough this enormous rise in prices had reduced the yield from all classes of British securities to a level which was too unremunerative to be permanent.

In the natural course of events a reaction set in, and the rebound unfortunately has so far outstripped the rise that to-day some of the best and most cherished British investments are selling at figures which are materially lower than the low records of many decades ago. In fact, the present position of first-class Home investments is regarded by the majority of Englishmen as nothing short of a national disaster.

If, however, the controlling influences both of the rise and the subsequent reaction are investigated, it will be seen that the position which British investments occupied was, up to a few years ago, an exceptional one. First of all, it must be remembered that the important stocks of nearly every other country in the world except Great Britain enjoy considerable investment popularity amongst investors who belong to other nations. British stocks, with the exception of a very few, are exclusively held by British investors, so that the reduction in capital value of British securities falls almost entirely upon the British people. But this is only part of the trouble, for whilst a great many foreign investors have habitually split up their investments among various nations, there is a very large—one may almost say predominating—number of British investors who up to a few years ago entirely eschewed foreign investment in every shape or form.

It is upon these people that the burden of the loss has fallen, and these are the people who feel the present position most keenly. During the past few years this state of affairs

has changed considerably, and the British investor is now beginning gradually to appreciate the truth that an international distribution of investments is the only way in which capital safety is to be attained. The gradual spread of this belief has to a certain extent aggravated the fall in British securities, and has tended somewhat further to weaken the market for English investments, thus helping to bring about the present state of affairs, which is typified by the unwelcome fact that Consols are selling at 85. Not so very many years ago Consols were selling at 113. The difference between the two fluctuations amounts to 28 points—truly a large reduction in the selling value of so fine and so safe a security.

Some thoughtless people are inclined to compare prices alone, forgetting all about the question of yield. Consols used to pay $2\frac{3}{4}$ per cent. in 1896, when the first record highest prices were reached. They now pay $2\frac{1}{2}$ per cent. only. The reduction in yield is tantamount to a reduction of £9 5*s.* in capital value. Therefore, although it seems that Consols have fallen 28 points, yet, if

true values are compared with each other, they have really only fallen 19¾ points. There is a vague idea prevalent that the price of Consols indicates the standard of the credit of the British nation. This, I venture to submit, is an absolutely erroneous way of approaching this subject. It is, of course, quite impossible to appraise the real safety of any Government Stock, as a Government Stock is, after all, only a promise to pay without any special collateral security for principal and interest being offered. It is true that in the case of Powers of the third class sometimes special hypothecations are made to the nation's bondholders, but the mere fact of such hypothecations being requisite indicates a want of national credit.

When the respective amounts of credit which various nations enjoy are considered, there are only a very few Powers which can be mentioned in comparison with Great Britain, viz., perhaps, France, Germany, and the United States. As a merchant's credit is measured by the discount which he has to pay when melting his paper into money, similarly the only way to measure the esteem

in which the credit of a nation is held is to compare the rate of yield afforded by its Loans with the yield obtainable from the Loans of other Powers. I have accordingly prepared a table showing the yield of the Government Stocks of Great Britain, the United States, France, Prussia, Austria, Italy and Russia at their present ruling quotations :—

LOWEST PRICES OF NATIONAL SECURITIES IN 1907 AND COMPARATIVE YIELDS.

Issuing Nation.	Lowest Price in 1907.	Rate %	Yield %
			£ s. d.
Great Britain . . .	84⅜	2½	2 19 3
United States . . .	129	4	3 2 0
France	93	3	3 4 6
Prussia	95	3½	3 13 8
Italy	100	5	4 0 0*
Austria	97	4	4 2 6
Russia	77	4	5 3 11

* Italian tax of 20% deducted.

It will be seen that in this list Great Britain takes the lead with a yield of £2 19*s.* per cent., the United States are a good second with the low yield of £3 2*s.* In France so much as £3 4*s.* 6*d.* per cent. is paid, whilst Russia,

which, owing to unfortunate wars and political complications, has so sadly impaired its national credit of late, foots the list with £5 3*s*. 11*d*. per cent. How fickle national credit really is can clearly be seen by the present yield of Russian Stocks. Only a short time ago such a yield would have been considered impossible, and yet here it is a live fact.

The Government Loans included in the above table, pay various different rates of interest. For this reason it is impossible, without reducing the interest paid to a common denominator, to see clearly how the respective prices of the several stocks compare in reality with each other, from the point of view of income-yield.

To meet this difficulty I have imagined that, prior to 1870, all the Governments mentioned in the table following had adopted an uniform rate of 3 per cent. as payable on all their loans, without thereby affecting the yield they afforded in any way or at any time. In this way I have reduced the average market prices ruling during the years included in the table to a uniform standard. The resulting

figures can now be fairly compared one with another, as they are based on the actual standard of yield which did prevail. By this means the figures arrived at disclose the only true comparison which can be made between the respective price-levels at which these various loans were actually dealt in.

TABLE SHOWING THE REAL COMPARATIVE VALUE, FROM THE POINT OF VIEW OF YIELD, OF THE STOCKS INCLUDED THEREIN. (*The average price ruling in each year included in the table has been taken as the standard of value for that year*):—

Year.	Great Britain 2½% Consols.	French 3% Rentes.	Austrian 4% Gold Rentes.	Prussian 3½% Consols.	Italian 5% Rentes.	Russian Railway 4% Bonds.	United States. 4% Bonds.
	Average Yearly Prices reduced to the basis of a uniform 3% interest rate.						
1870	87½	50⅜	—	—	34½	49	52⅛
1875	93 11/16	42¼	42	—	47½	62¾	54⅜
1880	99 1/16	83	54½	—	57	57	79⅜
1885	99	78¾	64¼	76¾	63½	60¾	92¼
1890	104¾	90¾	70⅛	78¼	65½	71½	94¼
1895	115¼	100¾	76½	78⅝	65†	75½	92⅛
1896	119	101¼	77¼	78¼	68½	76	89¼
1897	123½	103½	77⅝	88¼	68	76¾	94¼
1898	120	101	76	86½	68¾	76½	95¼
1899	114	99¾	74¼	84	69¾	75⅝	99¾
1900	109	100	73	81½	70	74¼	102¼
1901	103¾	101	74¼	83¾	72¾	75	105
1902	104	100	76	85¼	75¾	75¾	104¼
1903	108¼	98	76	88¼	76¾	75	102⅝
1904	105¾	96	75	85¾	75¼	69¼	101
1905	107¾	98¼	75¼	85½	77¾	66¼	101¼
1906	106	97¼	74¼	83½	77½	59¼	99¼
*1907	102	95	75	81½	75	57¾	100⅝

* Last line represents present price on 3% basis.
† Italian tax increased from 13·20% to 20%.

This table clearly shows the relative positions of the financial credit of the countries included therein: and it will be seen therefrom that throughout nearly the whole of the period English credit led the way. During the years 1901 and 1902 the credit of the United States stood slightly higher, but this was principally owing to the legislative enactments relative to Bank Reserves and Government Bonds which exist in the United States. The position, however, was soon reversed, and English credit again resumed the lead. A careful study of the figures contained in this table I recommend to all who are interested in the question of International credit. The table clearly establishes the fact that English credit still occupies the premier position.

We see then that 102 is on a three-per-cent. basis the equivalent of the present current price of Consols, namely, 85. Now let us consult past financial history in order to discover how often Consols, when they actually were a 3 per cent. Stock, ever did stand at 102, and if 102 is such a very low valuation. The very first time that Consols ever went over

par after their conversion to a 3 per cent. Stock in 1844 was in 1852, but that price was not long maintained. The Stock soon fell again to 85⅛ during the Crimean War in 1854, then gradually recovered until it became very steady in the 'seventies, and it was not until 1880 that the price of over par was again recorded. The price then fell to 94⅝ in 1885, and as a matter of fact **there are only three years in the whole history of Consols in which at one time or another they were not purchasable below par.**

The above facts will perhaps seem startling to some of my readers, yet they remain facts all the same, although there does seem to be an impression amongst investors that speaking generally 3 per cent. Consols used habitually to be quoted over par.

As I have already stated, 3 per cent. Consols would now have been selling at 102, if only there had been no conversion on to a 2½ per cent. basis. The question then forces itself to the front whether or no the late Lord Goschen's conversion scheme was a well-conceived idea. If the history of Government Stocks generally is taken as an argument, this scheme certainly

was well conceived, because all countries of the world were gradually reducing the rate of interest they were paying on Government Loans, and why should not England do so too? especially as since 1844, or for a period of over half a century, no reduction in interest had taken place. If conditions had remained the same, and if the world's trade had not so vastly altered during the last decade, Lord Goschen's conversion scheme would have certainly been justified. The world's trade has increased enormously, but of that increase the United States and Germany have taken the lion's share; and although Great Britain's trade continues to grow, the growth is comparatively small. Moreover, the esteem in which foreign securities are held by English investors has materially grown. These changes Lord Goschen could not foresee. But it can hardly be laid to his charge that as Chancellor of the Exchequer he failed to provide for the unforeseeable.

I enlarge upon the subject of the financial development of the world's trade, during the last decade, at some length in the introductory

chapter of "The Investment of Trust Funds" —a fact which I mention because it is impossible in the limits of this article to deal in any way adequately with it here. I may, however, mention one salient fact: that whilst formerly British Government Loans formed 50 per cent. of the loans of the whole of the world, they now only amount to 10 per cent. of the world's Government Loans, which, taken together, amount to SEVEN THOUSAND MILLIONS STERLING. Half a century can only be considered a very short time in the life of a nation, but in the history of finance the last half-century has proved to be an epoch-making period. It is only about fifty years ago that the Limited Liability Act was passed and the Limited Liability System began gradually to creep into popularity all the world over. The amount of money represented by all the limited liability companies of the world would, if the figure could be ascertained, amount to some FIFTY THOUSAND MILLIONS STERLING. Some years ago British stocks were the only stocks which were regarded as really safe. Now, owing to the general enlightenment on financial questions, the former bogie of foreign

investment risks has almost entirely disappeared. Stocks, in fact, are now regarded by investors very much as Bankers' Drafts are regarded in the Discount Market, and whether the bank is situated at Pernambuco, Kamschatka, Vladivostock, London or Paris, the discount rate at which it can place its bills remains practically the same, provided the bank is of first-rate standing. Nowadays investors do not ask where a stock is situated, they simply ask whether the stock is safe, sound and non-speculative. This altered attitude on the investment question has brought British stocks into direct competition with stocks situated in every quarter of the globe, and the competition has been enhanced by the fact that it is beginning gradually to be realised that only a Geographical Distribution of Capital can produce real capital safety.

Now, let me explain how this competition works out in practice. In the last issue of the *Financial Review of Reviews* there was an article explaining the solidity of the position of the 4 per cent. Bonds of the Land Mortgage Bank of Hungary. This article proved to me—and it seems to have had the same effect upon the

British Press and British Public—that it is indisputable that these Bonds are as safe, both as to capital and income, as any security in the world can possibly be. What then has been the effect of this discussion of the merits of a gilt-edged stock of high yield upon the English Investor? The holder of, say, London and North-Western Debenture Stocks, or any first-class British security, has said to himself, "Why should I continue to hold British stocks when I can get as good a security, which will yield me from ½ per cent. to 1 per cent. more than my present stock does?" And in thus reasoning the investor has taken a perfectly logical line. Because, however patriotic a man may be, it clearly is no duty of his to devote his private fortune to propping up the price of Home Investments. Indeed, exhaustive particulars of first-class foreign investments are at present being most eagerly considered by all those British investors who are desirous of improving their capital-safety and income. They are now daily discussed in the Press and compared with the results obtainable from British securities. Such a standard of comparison

having once become prevalent, is likely to continue, with the result that the artificial support which Home Investments have hitherto enjoyed, owing to the circumscribed horizon of the British investor, is rapidly being withdrawn. And no means legislative or otherwise, suggest themselves by which the former state of affairs could be re-established. For, so far, almost every combination which has been engineered to uphold or depress the price of any great commercial commodity artificially has failed; and, as artificial support has failed to permanently enhance the price of commodities, so is a temporary demand equally doomed to failure in the maintenance of a false price of stocks. For a clear example of this we have not far to seek.

Contemporaneously with the date of the last Conversion of Consols the Government broker paid an almost daily visit to the Consol Market, where he openly bid for stock on behalf of the Government, with the consequence that Consols rose to 113. This artificial price lasted for some three years. As no special enactment appears to have been contemporary with this unusually large de-

mand for Consols on the part of the various Government departments, and as the published figures of the Post Office Savings Bank, etc., do not disclose any abnormal rise in the amount of public deposits which would have justified such a demand, I can only come to the conclusion, more especially as no official explanation has ever been given of these mysterious purchases, that the Government of the day, in their anxiety to make their Conversion scheme a success, strained every effort to support the Consol Market artificially. But when this unusual demand for Consols gradually tapered off the price of Consols once more slipped back to the basis of par for a 3 per cent. issue.

It may be urged on patriotic grounds that British capital should be kept in this country and utilised for the purpose of raising the price of Home Securities, rather than that the foreigner should be allowed the use of it. This, however, is impossible, as the trend of time cannot be stopped, and a certain train of thought having once been started cannot be hindered in its progress by Act of Parliament or otherwise. Further thought on this sub-

ject will indeed incline the intelligent investor to take the view that the foreign employment of British capital is a positive national benefit.

England as a nation depends for its food supplies almost solely upon the foreigner. This food supply has to be paid for: it is at present being paid for to a great extent by the export of manufactured articles. But let it not be forgotten that, whilst England in regard to international trade held somewhat the same position as Consols in respect of investments fifty years ago, this position is being gradually altered, and all the nations are gradually increasing their commercial activity. To give a homely example: let us imagine all the nations to be brothers, England, as it first gained the bulk of the world's trade, being the eldest of them. Whilst the younger brothers were growing up, the eldest brother was increasing in age, and although the eldest brother had matters all his own way whilst the other were minors, they have now grown to maturity and are steadily becoming keener competitors. Not for one moment do I wish to suggest that England is losing

ground : far from it, English exports are daily increasing. But what I do wish to make clear is that the exports of other countries are increasing also, and, as Mr. Schooling very ably proves in an article which I had the advantage of reading prior to writing this argument, England's share of the world's exports used to be 18 per cent. seventeen years ago, and has now fallen to considerably under 13 per cent. Here, again, we are face to face with a progress which no power in this world can stop. This progress makes it inevitable that English traders must make up their minds to meet keener and keener competition as the world grows older. The British nation will always be under the necessity of paying for its food supplies. It now does this with the proceeds of the manufactured articles which it exports—will it be able to continue to maintain this position for centuries to come ? This is a matter of grave doubt.

Under these circumstances would it not be wise to lay up provison for a rainy day, and is it not well advised so to arrange our investments as to enable us to pay for our food

supply with the interest on the capital we have lent to foreigners ? This is really what every British investor is helping to do who uses his money in purchasing foreign investments. Surely, after all, this is not so basely unpatriotic. The time has gone by when British securities can be compared solely with each other, and the new era compels attention to the investments of other nations. Whilst the predominating sway of British securities remained almost unchallenged, the prices ruling prior to the present fall might perhaps have been to a certain extent justified, now they certainly are not.

I have for the last ten years persistently advised the sale of Consols and the sale of all first-class British securities, as I foresaw to a certain extent what was likely to happen. It is useless to look back upon the price-records which ruled during the three years of mania—if I may call them so—during which Consols stood at 113. The conditions on which the quotations of that date were based have disappeared for ever, and a new basis of value now controls quotations. Yet it is idle to lament needlessly over the

fact that Consols stand at 85, and it is foolish to attempt to argue from this fact that British National credit is on the wane. As I have shown in the introductory part of this article, British credit holds its old supremacy as it has done ever since people first began to invest their money in loans and Joint Stock enterprises. I feel convinced that this present state of affairs will continue for some time to come, but perhaps not long enough for the real old-fashioned British investor to realise the competition which he now has to face. Whether the value of money will increase or decrease in the future no man can possibly foretell. It is really on the value of money that the international standard of the value of investments depends, and the fact is now generally dawning upon investors, that it is only by basing capital safety upon the world's trade, and by not depending upon the trade of any individual country, that such perfect capital safety can be achieved as is at all times and under all circumstances to be relied upon.

The lesson to be learnt from recent financial developments is that the standard of

measurement of British national loans is no longer other British stocks of lower grade, but rather the national loans of other powers. At the present day, when Consols at 85 are judged by this standard, it will be found that this stock is standing above rather than below its true comparative value.

In short the actual position seems to be this :—It is idle to look for a recovery in Consols inasmuch as that Stock already stands at a level which, had the Stock not been converted to a $2\frac{1}{2}$ per cent. security, would be the equivalent of 102 on a 3 per cent. basis. Such a price is decidedly high, and therefore it is clear that it is a confusion of terms to debate whether or not a security standing at a decidedly high level can be expected "to recover." Consols, then, cannot recover because their current price is exceedingly adequate, and because even now, when the superficial observer regards the stock as exceptionally depreciated, its current price shows that English national credit is well maintaining its supreme position.

Our Unjust Taxation and its Remedy

An open Letter to the Chancellor of the Exchequer.

Sir,—

The growth of the rate of National Expenditure is continuous year by year. Without taking into account the temporary increase caused by the South African War, the expenses of the nation are steadily expanding. Owing to the colossal shipbuilding programmes of foreign Powers our present navy estimates can scarcely be reduced: indeed, during the next ten years, if we are to keep pace with the projected naval armaments of the rest of the world, it is inevitable that our future naval expenditure shall be upon a scale considerably larger than hitherto. Under these circumstances the calculation is justifiable that Budgets of approximately 120 millions are likely to remain permanent.

It would, therefore, seem timely to examine whether the present system of taxation is adequate to provide the apparently indispensable amount of National Income or whether the enormous increase in the amount requisite does not call for an entire re-modelling of the present system of taxation.

Simultaneously with the increased expenditure a Democratic wave is rising, and financial provision will have to be made for a number of measures, such as Provision for the Unemployed, Old Age Pensions, the Housing of the Working Classes, and other schemes involving large expenditure. Everything, in short, points to the fact that a general broadening of the basis of taxation is inevitable. For these reasons it is requisite, first of all, to review the present system of taxation, and to analyse how far the rich and the well-to-do contribute to the National Exchequer in comparison with the poorer and humbler classes of the population. Secondly, it will be desirable to show how, by the adoption of a more scientific system of taxation, all classes of the population might be so brought into line, that each class

would bear its fair share of the national burden, whilst an adequate sum would be raised to furnish means for the nation's growing requirements.

It is not proposed to criticise here the national expenditure in any way whatsoever, but to confine this argument solely to the gross income of the country, for the raising of which the executive government is responsible. For this purpose the National Revenue has been grouped into three main divisions. All figures are stated roundly, so as to dispense with unnecessary detail; and in order that the broad facts may not be obscured by immaterial complications. The three main divisions, after taking off the already abolished Coal Tax, are as follows:—

THE PRESENT NATIONAL INCOME.

I. *Items paid almost exclusively by the well-to-do*—	
Income Tax, Estate Duty, Game, Dog, Carriage and Armorial Licences, and the tax on male servants.	£52,250,000
II. *Items paid by all classes of the population*—	
Customs and Excise Duties . .	67,000,000

III. *Items which are partly beyond the control of Government and partly of minor importance*—	
Post and Telegraph Service, Crown Lands, Suez Canal Shares, Stamps, Land Tax, Inhabited House Duty, and all other items not included in Groups I. and II. . . .	35,250,000
Total Revenue collected .	£154,500,000
Less amount paid to Local Authorities	11,000,000
Leaving the available Imperial Revenue	£143,500,000

Item III., £35,250,000, I do not propose to discuss hereafter. It may therefore be opportune here to state in detail that it is made up as follows :—

Post and Telegraph Service . .	£21,425,000
Crown Lands, Receipts from Suez Canal Shares and other Loans .	1,618,000
Stamps, Land Tax and House Duty and Miscellaneous . . .	12,207,000
	£35,250,000

The Government can but slightly influence the receipts derived from the Post and Tele-

graph service and the Stamp Duty. These are paid directly or indirectly by all parts of the population in proportion to the personal benefits they derive from their use. The Land Tax and House Duty do not appear capable of expansion, as land values are falling and houses are already overburdened by Municipal Taxation. These, therefore, call for no attention at the hands of a reformer.

There are now left for consideration the other two main items, namely :—

I. Amount paid exclusively by the well-to-do . . .	£52,250,000
II. Amount paid by all classes	67,000,000
	£119,250,000

Next let us determine in what proportions this total of £119,250,000 ought to be contributed by the different classes of the population, and then let us ascertain how in fact this sum is raised at present. Unfortunately the statistics furnished by the Government are most inadequate, and to a certain extent it is only possible at times to rely upon conjecture. The following three main figures, however, are adopted by most political

economists as correct: they are the result of the most careful research and calculation, so that they may be taken as being so approximately accurate that the existence of any small discrepancy between fact and estimate would not alter the broad result arrived at:—

The population of the United Kingdom is taken to be 44,000,000, and it is estimated that of these 5,000,000 are the rich, the well-to-do, and the moderately well off—in brief, all those who are income-tax payers, upon whom estate duty is levied, and who take out dog, carriage, and other establishment licences. It is not asserted that all persons included amongst the 5,000,000 rich are living in comfortable circumstances. It is admitted that a curate with an income of say, £200, and a wife and children to support would be classed as rich; this, however, is the weak point of a system of direct taxation. Allowing for 5,000,000 as well-to-do, there remain 39,000,000 of the population who pay no income-tax. They are the work-people in trade and commerce whose incomes do not exceed £160 per annum, the labourers, the poor and needy. Here, again, it is not implied that many per-

sons in this latter category are not infinitely better off than many included amongst the well-to-do. These are the facts as to the population and income classification of the United Kingdom.

The income earned by the individuals, comprising the nation, is computed by most political economists to stand now at 2,000 millions per annum, and very careful investigation shows that this income is divided as follows :—

5,000,000	Rich and well-to-do enjoy the income of .	£1,100,000,000
39,000,000	Workpeople and poor earn the income of . .	900,000,000
44,000,000		£2,000,000,000

The fact that a nation's most valuable asset is its population, without which its natural resources are valueless, should, in strict equity, entitle the man with a family dependent upon him to some remission of taxation. But, as all systems of taxation must of necessity be based upon income regardless of the individual's domestic responsibilities, let us see how £119,250,000, here reviewed as the sum

now raised by taxation, should be collected. Calculated on the basis of income,

The 5,000,000	Rich who receive millions should pay	1,100	£65,587,500
The 39,000,000	Poor who receive millions should pay	900	53,662,500
44,000,000		2,000	£129,250,000

The division of taxation on the basis of income regardless of domestic responsibilities is admittedly unfair, and it would be more reasonable if the rich contributed at least 70 millions and the poor 49½ millions of the sum annually raised by taxation. But let us content ourselves with the division of taxation-liability calculated strictly in accordance with income as set forth above, and let us see how far this mathematically correct division is carried out in practice. But we find that in practice the division of taxation on the basis of income, which in itself would unduly favour the rich, is still further warped in favour of the well-to-do by the system of taxation which actually prevails. The rich pay :—

Income Tax, Estate Duty, and Licences . .	£52,250,000	
One-eighth of Customs and Excise . . .	8,375,000	
		£60,625,000
The poor pay :—		
Seven-eighths of Customs and Excise		58,625,000
		£119,250,000

Whereas, if the above calculation as to the respective incomes of the two classes is assumed to be correct, their respective contributions to the National Revenue should be as follows :—

Five millions of Well-to-do Persons should pay on £1,100,000,000 income	£65,587,500
Whilst they actually do pay only	60,625,000
The Rich, therefore, escape paying their minimum share of taxation to the extent of	£4,962,500
Thirty-nine millions of the poorer classes should pay on £900,000,000 income	£53,662,500
Whilst they actually do pay .	58,625,000
The Poor, therefore, appear to be over-taxed to the extent of . . .	£4,962,500

These calculations so clearly show that a

heavier burden of taxation should be laid on the shoulders of the well-to-do, and that at the same time the load of the poorer classes should be reduced in like proportion, that it is obviously essential to examine whether these figures are based upon any miscalculation. To begin with, it would seem certain that there are 5 millions of well-to-do and 39 millions of the poorer classes, for nearly all economists are agreed on this point: they also agree that the distribution of income is as nearly as possible $\frac{9}{20}$ to the poorer classes and $\frac{11}{20}$ to the well-to-do. These figures have been subjected to so frequent and to so close a scrutiny that it seems unlikely that any miscalculation can underlie them. Therefore the only point, upon which a miscalculation might have crept in, is as to whether the amount collected, under the present system of raising Imperial Revenue, is fairly divided between the two main divisions of the population.

The Revenue derived from the Postal and Telegraph Services, the Crown Lands, and the national holding of Suez Canal shares can scarcely be considered as taxation,

therefore these may be left out of the calculation. But the Revenue from Stamps, Land Tax, Inhabited House Duty, and miscellaneous items has been assumed to be borne in equitable proportion by all classes of the population so that these matters require no further consideration. It may possibly be argued that this assumption is rather in favour of the poorer classes: this may to some extent be the case, but the unevenness of the proportion can be in no degree important, and cannot be considered to redress the inequality of nearly five millions set forth in the preceding calculations.

The next point for inquiry is whether it is fair that the Custom and Excise Duties should be divided in the porportion of one-eighth amongst the well-to-do and seven-eights amongst the poorer classes. These two items of Revenue are made up of duties on beer, spirits, sugar, tea, coffee, tobacco, wine, raisins and other kinds of dried fruit, and of the charge for licences to deal in these dutiable articles. In fact, taxation is levied exclusively on the main articles of consumption, which are used by rich and poor alike, and

these are assessed for taxation—with a few exceptions which will be considered later on—upon the quantity and not the value of the article consumed. This is where an injustice is done to the poor man: because, however rich a man may be, he does not take more sugar in his tea, than does the poorest labourer, and quantitatively he does not consume more tobacco than a healthy navvy; whilst his consumption of alcoholic beverages has lately decreased rather than increased in quantity. So that, to arrive at a correct estimate of how this tax is divided between rich and poor, it would be fair to accept a purely numerical division between the rich and poor portions of the population: that would be to divide their respective contributions in the proportion $\frac{5}{44}$ to $\frac{39}{44}$, their numbers being respectively 5 millions to 39 millions, as explained above. But by way of allowing for a more liberal consumption of dutiable articles by the rich, their share has been calculated at $\frac{1}{8}$ as against $\frac{7}{8}$ the share of the poorer classes, whereas when calculated on the basis of their numbers, the rich would only be credited with paying $\frac{1}{9}$ of this tax. Allowance has thus been made

for a possible less economical consumption on the part of the well-to-do by crediting them with the payment of $\frac{1}{8}$ of it, and these estimates of consumption, therefore, appear to represent as accurately as possible the actual facts.

Objection might be raised to these estimates of the amounts of duty respectively paid by the rich and the poor on the ground that the articles consumed by the rich pay a heavier Import Duty than do those consumed by the poor. To some small extent this is true in the case of cigars, cigarettes and manufactured cocoa, but, when the actual figures of this difference in Duty are examined, it will be seen how insignificant it is. Thus the duty on cigars is 6*s.* per lb., on cigarettes 4*s.* 10*d.* per lb., and on raw tobacco only 3*s.* per lb. But whilst the total amount of tobacco of all kinds, imported during the year ending December 31, 1907, amounted to 98 million pounds in weight, and the Import Duty on this quantity amounted to over 15 million pounds sterling; yet it is a noteworthy fact, upon which I shall comment in greater detail later on, that of this 98 millions of pounds weight

of tobacco only 2 millions of pounds weight consisted of cigars, cigarettes, and snuff, and that the Duty on this whole quantity of manufactured goods only produced slightly over half-a-million sterling, or about one-thirtieth of the entire amount of Duty levied. The Duty raised on Manufactured Cocoa is considerably under £100,000, a sum almost too insignificant to inquire into. So that it will be seen that the contention that the rich contribute comparatively per head of the population a very much larger proportion to Revenue in the shape of Customs and Excise, is absolutely baseless. Wine has been left out of the calculation for the simple reason that the Duty on Wine is relatively far lighter than is the Duty on Beer. It may be stated roughly that on a quart bottle of champagne costing, say, 10*s.* 6*d.*, a duty of 7½*d.* is levied, whilst this same duty of 7½*d.* is charged upon only the value of 2*s.* 2*d.* in even beer of the lowest quality. Furthermore, whilst Beer produces thirteen millions sterling of Revenue, and Spirits twenty-two millions, the Revenue derived from Wine amounts only to one and a quarter millions sterling. Here

again the rich man's contribution to the National Revenue is comparatively paltry—a fact to which I shall also recur, later on, as worthy the consideration of a reformer of taxation.

We have now closely investigated the present methods of raising Imperial Revenue, and we have arrived at the following main conclusions :—

I. The well-to-do classes contribute under 61 millions sterling, whilst they should contribute at least 65½ millions. The poorer classes contribute over 58½ millions sterling, whereas they should contribute a maximum of 53¾ millions of the total amount of Revenue here analysed.

II. The remaining 35¼ millions collected are to a very large extent beyond the reach of legislation, are not capable of expansion, and are fairly divided amongst the various classes of the community.

These two conclusions make it patent that the present methods do not work satisfactorily. Next let us endeavour to formulate a practical scheme for raising Imperial Revenue, whereby the existing inequalities of taxation

could be remedied, and adequate provision made to meet the nation's growing expenditure.

At the outset it is obvious that no additional burden ought to be laid upon the 39 millions of people who are the poorest part of the population. Already their lot is by no means enviable, and a heavy duty is now levied upon their small and only luxuries, namely beer and tobacco, tea, sugar, and currant cake. Any tax placed upon staple articles of consumption falls upon the poor to the extent of seven-eights of the total Revenue so raised. Therefore, it is clear, that justice demands that no additional Revenue shall be raised in this direction.

The situation makes it requisite that the well-to-do should be taxed to a greater extent than they are at present. To this they will cheerfully agree, so soon as they realise that, at present, they are not contributing their fair quota to the National Revenue. It is true that the rich form the great majority of the govering class, but England's governing class can justly claim that they have never attempted to evade bearing their full share of

National Expenditure. Indeed, to their credit be it said, the rich at present voluntarily contribute over ten millions sterling per annum to public charities, besides numberless private benefactions of which no record is made, and of which no estimate is possible. It is only essential that the form in which additional taxation is raised should be fair and equitable, and that above all things, it should not entail an additional burden upon those whom, for want of a better classification, I must describe as the poor-rich. But to enable the well-to-do to contribute more liberally to the National Revenue, and at the same time, in a manner unoppressive to them, is a problem the solution of which does not seem possible so long as the present basis of taxation remains in force.

It has already been shown that it is idle to attempt to make an inroad upon the rich man's purse by imposing duties or taxes on staple articles of consumption, because goods of this class are consumed in such comparatively small quantities by the rich, owing to the fact that, numerically, they are so small a minority. If any proof of this fact were required, the present incidence of the Tobacco

tax furnishes the requisite evidence. An attempt to tax the luxuries of the rich has been made in the imposition of a double duty on imported cigars. But this effort has completely failed to accomplish its purpose. For although the declared value of imported manufactured tobacco (cigars, cigarettes, etc.) is one-quarter of the total value of the entire quantity of tobacco entered for home consumption yet this choice portion of our importation only produces about one-thirtieth of the revenue derived from tobacco. A fine Havana cigar pays only one-eighth of its cost in duty, whilst the working man pays $2\frac{1}{4}d.$ in duty on his ounce of tobacco which costs him $3d.$ Yet if an *ad valorem* duty of say 80 per cent. were imposed on imported manufactured tobacco, this levy would only raise the present sum collected in tobacco duty by about one twenty-fifth. For this reason it is not amongst staple articles of consumption that the means of increasing the Imperial revenue must be sought.

A tax is at present in force upon Carriages, Motor Cars, Male Servants, Armorial Bearings, Gun, Dog, and Game Licenses. The

object of this tax was no doubt to make the best-filled purses contribute to the Exchequer, and for the purpose of the present argument all these payments have been allocated, as exclusively paid by the rich, although Dog Licenses, which produce nearly £650,000 per annum, are also paid for by poor men. Yet all these licenses, taken together, only produce 1¾ millions per annum, thereby affording additional proof that the numbers of the well-to-do are comparatively insignificant, and that any effort to tax them individually is bound to result in failure.

Under the existing system of taxation the principal method of taxing the well-to-do is, of course, by means of the Income Tax and the Estate Duties, and these taxes alone produce 50½ millions of Revenue per annum. It is the fashion amongst democratic politicians and would-be reformers, with no practical knowledge of matters financial, to assume that these two forms of taxation must be the panacea to be applied whenever the National Revenue appears to be a little run down. But the belief that Income Tax and the Estate Duties can be screwed up indefinitely, without

mortally injuring the whole community, is professed by no Statesman who has attained the position of Chancellor of the Exchequer.

For both Capital and the Income resulting from it are easily removable commodities. By means of Acts of Parliament it is impossible permanently to retain them in the country, and if unduly onerous taxation is laid upon them, they are certain to betake themselves to more congenial climes. In this connection it is important to remember that England already affords a less remunerative field for the employment of Capital than any other country with the solitary exception of France. When the Income Tax was raised from 8d. in 1900 to 1*s.* 3*d.* in 1903, quite a number of cases of investors shifting their permanent addresses to countries where no Income Tax is levied, came under my personal notice, and by this means they have escaped the British tax-collector altogether. Again, when the Estates Duties were raised to their present level, recourse was had to a number of devices, to avoid the impost either partially or entirely. These facts are well-known to the better informed officials of the Inland Revenue, and

they prove conclusively the great danger of further straining this already overworked device for raising Revenue.

There are quite a number of limited liability companies, whose business is situated abroad, and whose capital is largely held abroad, but whose central offices are situated in England, which for this sole reason pay British Income Tax, on their entire earnings. Such concerns would gradually dispense with their London offices and would slightly modify their present constitution, with the result that their profits could no longer be made to contribute to the National Revenue. These are but a few reasons, out of many, which go to show, how dangerous it would be to increase the Income Tax and Estate Duties; but, in point of fact, no one who really deserves the name of statesman could seriously contemplate any measure calculated to drive capital and the income which capital earns, out of the country. For it must be clear to an intelligent observer, that, if the pressure of taxation is increased in these directions that capital will take flight in order to avoid the Estate Duties, and income will accompany it in order to escape Income Tax.

To a far-seeing statesman, it must be evident that the people who invest their capital abroad, but who continue to live in this country, are doing an excellent work in so far as the dividends they are entitled to draw from foreign countries go to provide in part the funds which it is so necessary to send abroad to pay for the nation's food supply. On the other hand, the people who take both their capital and income out of the country, are to that extent reducing the wealth and the spending power of the nation. It is these latter, who should be offered every inducement to desist from a policy of migration which cannot but tend to diminish the spending power of the United Kingdom.

There is another point to be considered in connection with the Income Tax and Estate Duties, that, although they are reasonable means of raising Imperial Revenue, and in theory and in practice they are paid by the wealthy, yet, when these two imposts rise beyond a certain level, the first reacts very harshly upon the small tradesman and the great army of clerkdom, whilst the second tends to increase further the grave evil of

unemployment from which the country is already suffering. It is almost superfluous to point out how difficult must be the task for a father who has a large family to support on, say, £200, to pay his Income Tax. The results of high Estate Duties are not so clearly understood, but they press even more harshly on the poor. For the reason that when pushed beyond a certain point they tend to deprive the labouring man, not of an undue proportion of his earnings, but of the very entirety of his wages. The heir to an entailed property, confronted by the payment of a heavy succession duty, may well find himself compelled to dismiss, at least, the majority of the out-door servants on an estate, and to deny his tenants the improvements which, otherwise, he would have been glad to have assisted them in carrying out. It is in this way that heavy Estate Duties are conducive to unemployment.

We have now seen the futility of attempting to reach the rich man by taxing staple articles of consumption, and we have examined the danger of further straining the special existing taxes. It is obvious, therefore, that some new basis of taxation will have to be adopted

if the burden of the cost of maintaining the Empire is to be evenly distributed between rich and poor, and the present amount of the Budget is to be maintained or enlarged. But, in addition to the all-important question of broadening the fiscal basis of the Empire, there are three other almost equally momentous questions of national policy which call for an immediate solution, namely, the Unemployed Problem, Old Age Pensions, and the question of the relations between the mother country and her colonies and dependencies. As the propositions, which I shall now proceed to put forward, seem satisfactorily to dispose of every one of these vexed questions, it will be expedient briefly to digress from the subject of taxation and to examine these questions in detail.

It is roughly estimated that there are at present 250,000 people in the country who are well able to work, but for whom no employment offers. This state of affairs leads to increased emigration and it is not the undesirable but the most desirable of the working classes who are the first to emigrate. Every good workman who emigrates, impoverishes the nation, be-

cause national wealth is made up of the surplus of the value of work performed, over and above the cost of maintaining the workman. The cost is invariably smaller than the value of the work produced by a capable workman, so that emigration should be regarded as the draining away of a nation's heart's blood, and every true patriot should endeavour to find productive work in this country, in order that every capable workman may be encouraged to remain at home. This productive work is readily to be found in England at the present time, for the following argument will prove that if all the work necessary to provide for the needs of the nation were done within the country itself, there would not only be work for all, but there would be an absolute shortage of labour in place of the existing dearth of employment.

At present nearly £250,000,000 worth of food is imported annually. This food could not, of course, all be grown in the British Isles, but a certain amount of it could and formerly was. For, whilst the value of imported food has risen at an average rate of over £7,000,000 sterling per annum, the number of persons

employed in producing food, in the United Kingdom, has fallen at an average rate of considerably over 5,000 persons per annum during the same period. Consequently the number of persons now working outside the United Kingdom in the production of food for her considerably exceeds 1,500,000 persons, and a number of these are actually taking away the work which British-born subjects might perform within the British Isles.

An investigation of the figures relating to imported manufactured goods, other than food, reveals the existence of a similar state of things in that branch of industry. The total value of manufactured articles imported is £154,000,000 sterling per annum. A very careful analysis of the list which comprises these articles gives the following figures:—

Value of raw material out of which imported manufactured articles are made	£74,000,000
Value of labour employed in producing these imported manufactures	80,000,000
Total value of imported manufactured articles . . .	£154,000,000

This calculation shows, that on the import of foreign manufactured goods, the country pays £80,000,000 for foreign labour. Now, if 5*s.* per day is taken to be the average wage of the working man, and if he works 300 days in the year, £80,000,000 will pay the annual wages of 1,066,666 men. We by this means arrive at the following conclusion :—

Persons employed in producing £250,000,000 worth of imported food, say	1,500,000
Persons employed in manufacturing £154,000,000 worth of imported goods, say	1,066,666
Total number of workers employed by the United Kingdom outside of the country	2,566,666

The number of unemployed in the country is, as has been already stated, estimated to be 250,000 men. It seems probable that this is an under-estimate, but if we assume it to be correct there would be a shortage of 2,316,666 workmen if the British people themselves did all the work necessary to support the nation. This state of affairs

can only be remedied by forcing foreign food and manufactures out of the country, and the only known means by which this can be done is by a Protective Tariff. It comes to this, then, that a Protective Tariff would not only solve the unemployed question, but, as I shall be able to show later on, it would also provide the means of dividing the burden of taxation more equally between the well-to-do and the poor, and of so broadening the basis of Imperial Taxation as to enable it to meet all possible future contingencies.

There are some members of the present Cabinet who do not believe that a Protective Tariff could either solve the unemployed question, or foster British industries. Fortunately there is an indisputable set of figures at hand which completely confutes this disbelief. At the present time we have a protected industry in the country in the manufacture of tobacco. The manufacture of tobacco is protected because the manufactured article pays twice as much duty as the raw article. The figures of this trade are as follows:—

Total Tobacco Imported (Part Re-exported).		1891.	1907.
Unmanufactured	lbs.	59,996,176	99,063,830
Manufactured	,,	3,497,408	3,393,235
Total	,,	63,493,584	102,457,065
Consumption per head of the population		lbs. 1·40	lbs. 2.
		Census Returns, 1891.	Census Returns. 1901.
Persons employed in Tobacco Trade		29,970	44,366
Estimate for 1907			52,000

In the above statement the figures of the 1901 census had to be taken as the means of arriving at an estimate of the number of persons employed in the industry in 1907, as there were no nearer official figures available. But in the face of the fact that the quantity of raw tobacco imported in 1901 was only 84,620,000 lb. as against 99,063,000 lb. in 1907, it is a moderate estimate to assume the 44,366 persons employed in 1901 had increased to 52,000 in 1907.

The above figures establish two facts beyond the possibility of dispute, namely, that in a thoroughly protected trade an increase in consumption does not increase the import of

manufactured goods, but rather the import of raw material ; and, further, that an increase of the importation of raw material naturally produces additional work in the country.

The depression which reigned over our home agriculture between 1891 and 1906, is vividly portrayed by the comparative figures of the entirely unprotected article, wheat :—

	1891. Tons.	1906. Tons.
Grown in Great Britain .	2,028,579	1,661,956
Imported into Great Britain . . .	3,315,648	4,648,360
Total consumption .	5,344,227	6,310,316

Here again the increased consumption is considerable, but whilst the home production has markedly decreased, the quantity imported has increased by 40 per cent. That the growth of 1,661,956 tons of wheat has afforded employment for fewer people than does the growth of 2,028,579 tons is again self-evident. In fact, the respective figures of tobacco manufacture and of the home wheat crop afford an excellent insight into the comparative merits of Free Trade and Protection, so far as they affect national employment. In the

figures of tobacco manufacture, which is protected, we see a very large decrease of foreign manufactured imports, and a correspondingly large increase in the amount of British Labour which these industries employ: whilst in wheat, which suffers from the foreign competition inseparable from Free Trade, there is a sharp falling off in the demand for British Labour.

With figures like these before him, who can still doubt that Protection inevitably brings with it an increased demand for Labour. Under these circumstances it seems only reasonable to believe that Protection would, at least, solve the problem of unemployment in the United Kingdom, although, so far as I understand, the following apparently formidable array of arguments hinders the adoption of a Protective Tariff:—

I. The possibility of an increased Cost of Living.

II. The Uncertainty of Tariffs upsetting Traders' Calculations.

III. Manufacturers, more especially those who export, suffering through the increased cost of Raw Materials and

through retaliation on the part of other nations.

IV. The Belief in the impossibility of devising any system of Protection affording equitable protection to all Industries.

V. The Dread that haggling over Tariffs would interfere with the ordinary work of Parliament and the risk that these bargainings might demoralise our legislators.

VI. The assertion that Capitalists alone would benefit by the imposition of a Tariff.

Now let us inquire whether it would not be possible to outline some form of Protection which would meet every one of these objections. This is purely a business subject which must be discussed from the standpoint of an intelligent business man, to the exclusion of all theoretical arguments and economic theories. To begin with, there is no need to labour the point that it is necessary to raise the sum requisite to meet the increased Budget requirements in one form or another. The form is immaterial, provided only that all classes

of the population contribute their fair share to the Exchequer. Earlier in this letter it has been pointed out how Government, provided that sufficient statistics are collected, can adjust the burden of taxation to a nicety among all classes of the population, by actually ascertaining who pays the indirect taxes. It has been shown that the poorer classes are now taxed through their beer, spirits tobacco, sugar, tea, etc. We know that they pay seven-eighths of these taxes, and we agree that the proportion of Imperial Revenue raised in this way from them is excessive. If, therefore, it should be found in practice that a general system of Protection would put a further burden upon the poor, why should not some of the existing taxes upon the necessaries and the cheaper luxuries be remitted, and by this means a fair adjustment of taxation be arrived at, somewhat on the lines suggested by Mr. Joseph Chamberlain in various speeches made in 1903 and succeeding years ?

That some of the present imposts will sooner or later have to be materially reduced, must already be patent to most statesmen.

For example, although the tax on tea was reasonable when that article was principally imported from foreign countries, it has now become a grave injustice, since 279,000,000 pounds weight are now grown in British India and Ceylon, out of a total of 316,000,000 pounds weight which this country imports. So that foreign countries to-day only supply us with 8 per cent. of the total consumption. This being so, is it not a state of affairs which cries aloud for alteration, that although 92 per cent. of an article is produced by the poorest population living under the British flag, and although more than half of the article thus produced is consumed by the most needy classes in the United Kingdom, nevertheless the English Government should levy a tax of nearly six million pounds sterling per annum upon this article ? It should be needless to remind our statesmen that European enlightenment is rapidly spreading in Asia, and that India must inevitably resent this treatment one day. Rather let us appeal to the English love of justice, and let us remember that India is the only country in the world which in her trading imports and exports on balance

buys more from Great Britain than she sells to her in return. Surely this fact alone should suffice to prevent the Mother Country putting up a tariff barrier against her own Dependency, the great majority of whose population is constantly scourged by only too frequently recurring famine—above all, a Mother Country which at present professes strenuously to advocate Free Trade. So that, if it should be found that Protection did throw an additional load upon the working classes, it is by remitting taxation upon articles of general consumption, like tea, that a sound and statesmanlike way would be found of lightening the poor man's burden, and at the same time of doing tardy justice to our great Asiatic Dependency.

I have already explained the impolicy of increasing either the Income Tax or the Estate Duty in order to levy a larger amount of revenue from the well-to-do, and I have shown how futile it is to attempt to reach them by taxing staple articles of consumption, for the reason that the wealthy only pay one-eighth of the total of such taxation. Under these circumstances it naturally follows, that the only

possible means of making the well-to-do increase their contributions to the national Exchequer, is by imposing a general Tariff upon all goods of foreign manufacture imported into this country. But we have already agreed that no scheme of Tariff Reform would be worthy of consideration unless it were so consistent in operation that all trades could make their calculations of working expenses years ahead ; that it must in no way increase the cost of raw material used in the manufacture of articles which we export ; that it must so equally hold the scale between the various nations with whom we trade, that no individual nation could justly or reasonably retaliate ; that all our home-industries must enjoy a precisely similar degree of Protection : and that the working man must stand to derive the maximum of direct benefit from the Tariff, whilst Capital's share must be subservient. The basis of such a scientific Tariff scheme must be that it shall be devised with the object of so stimulating home production, and home manufacture, that, so far as possible, the work which the nation requires shall be executed at home by its own resident popula-

tion. In fact, the practicable maximum of foreign labour executed abroad should be excluded. With this main object in view, it would be useless to frame a Tariff on the basis of taxing goods as such, because a tax of this description would involve the taxation of the raw material of which these goods were composed. In brief, the only scientific way of increasing the National Revenue would be to levy taxation upon the amount of foreign labour which is comprised in an imported article. To do this it would be necessary to separate the raw material from the labour in the cost of an imported article, then to tax the item of labour, and allow the item of raw material to come in free.

In order properly to appreciate the result of this method of raising Revenue, it is essential to understand that the chief distinction between the goods used by the rich and the goods used by the poor is the quality and quantity of the Labour employed in their production. There is, of course, also some difference in the quality of the material used, but this difference sinks into insignificance in comparison with the quality and

quantity of the Labour. For instance, a poor man spends 10*s.* on a pair of boots, whilst a rich man's boots cost him £2 2*s.* The difference in quality between the two kinds of leather does not exceed 4*s.*, yet the one pair costs fully four times as much as the other; the difference consists in the higher quality of labour upon which the rich man insists, and upon the higher scale of profit which he is content to pay to his boot-maker. As it is with boots, so it is with almost every article used by the rich. In short, it is only the well-to-do who import articles the production of which involves a quantity of high-grade labour. So that it naturally follows that the simplest way in which the rich man can be made to contribute more liberally to the Exchequer, is by taxing him upon the value of the foreign labour which he chooses to employ.

This would involve a Tariff upon all imported manufactured articles. At the same time, such a method of taxation would prove no burden to those whom I have described above as the *poor-rich*, for this class can always adjust their expenditure to their in-

come, and need not indulge their fancy for foreign goods.

Now, at present there are two forms of Tariff in force throughout the world: the one levies taxation upon quantity or weight, the other upon value. Neither of these forms is suitable to the requirements of Great Britain. But she, as the pioneer country, which first admitted Democracy to the enjoyment of real political power, might very fittingly be the first nation to frame a scheme of Tariffs, based upon the purely democratic principles of the greatest happiness for the greatest number, and of regularity of well-paid employment for the working classes. Such a tariff would be based solely upon the taxation of the quantity and quality of foreign labour which is imported into this country.

The great recommendation to such a Tariff, would be the extreme simplicity and the great rapidity, with which it could be carried into almost immediate practice. It would only be necessary that the Custom House authorities should furnish a very full detailed list of all imported manufactured

articles. Then, the exact nature of our imports of foreign manufacture having been established by means of this list, it would be by no means a formidable task for a committee, representative of the various Chambers of Commerce throughout the Kingdom, to decide how the value of each article divided itself into (1) cost of raw material; (2) labour and profit. On the decision of the Associated Chambers of Commerce, a body which already enjoys a corporate existence, and, consequently, obviates the necessity of hastily improvising an advisory committee, a Custom House list could be drawn up settling, once for all, the proportion of value of labour and raw material in each imported article. Such a list would furnish the exact value of the amount of foreign labour imported, and upon this list the scheme of Tariffs would be based. This practical suggestion would obviate the difficulty of Parliament involving itself in the morasses of a lengthy Tariff list, containing many articles, with which the majority of our legislators can only be vaguely familiar. The function of Parliament, thanks to the preliminary work

of the Associated Chambers of Commerce, would thus be simplified down to deciding merely upon the exact percentage of Duty to which foreign labour should be subjected. Thus, for example, if the value of Foreign Labour, imported in the shape of manufactured goods, is ascertained to be £80,000,000 per annum—and investigation will show that this is a fairly accurate estimate—and if it is intended to raise say £30,000,000 additional revenue, then a tax of say 50 per cent. should be levied upon the value of imported labour. It will be observed that this rate of taxation makes an allowance for the shrinkage of the demand for foreign goods under the new Tariff. But the nation would view a dwindling importation of foreign manufactures with delight, as every sovereign less which was spent on manufactured imports would mean ten shillings more spent on British wages, thus benefiting the British working man, and indirectly the whole of the rest of the nation besides.

Such a shrinkage of imports of manufactured goods would invariably be accompanied by an increase in the imports of raw material.

In fact, the nation would do the same as a prudent and economical labourer's wife does. Instead of buying expensive bread, she buys wheat, grinds it up in a hand mill and bakes the bread herself, thus saving the miller's and baker's profit. If that miller and baker lived in the same country as the consumer, then it would not be disadvantageous, from a national point of view, to buy the ready made bread, but whenever the manufacturers live abroad, then the nation is impoverished by paying for labour and profit to foreigners, and by the ensuing drain of value out of the country, perhaps never to return. This is exactly what happens to all nations who encourage the import of manufactured goods. Nations should encourage the import of raw material to the utmost, and especially of such raw material as is permanent and not eaten or burnt. Those nations which import the maximum of raw material, and the minimum of manufactured goods become, as a natural consequence, the richest in the long run. England's enormous and ever-growing imports of raw cotton, wool, iron, copper and other metals, have created her

wealth and not the imports by other nations' manufactured articles.

If the Tariff basis proposed here were adopted, experience would soon show what the amount of permanent decrease in the importation of foreign manufactures was likely to be. Further, as time went on, it would, by tabulating the nature of the articles upon which Tariff duty was paid, be possible to decide beyond question, which class of the population was paying the new tax. If it were found that the burden of the rich was becoming unduly heavy, then the discrepancy could be adjusted by a reduction of the Income Tax. The amount of Tariff Duty paid by the working-classes would be comparatively small, as the imported foreign manufactures, which they use, include proportionately a very small amount of foreign labour. But here, again, the precise amount could easily be ascertained, and, as Mr. Chamberlain has already proposed, a compensating allowance could be made by a reduction in the taxes on beer, spirits, tobacco, sugar, tea, etc., all of which are consumed by the working classes and the poorer population to the extent of seven-eighths.

To a Tariff of this description a perfect system of Custom House drawbacks would be indispensable, in order that the country's export trade might not be injured, because there are certain manufactured articles which constitute the raw material of some of our exported manufactures. In all such cases the Tariff Duty originally paid on importation would have to be remitted to the manufacturer on the re-exportation of the goods. Otherwise our manufacturers would not enjoy their present ability to compete in the world's markets, a trading advantage which legislature could not afford to imperil.

If the history of taxation, as now existing in any country, be studied, it will be found that taxes and tariffs have been instituted, and then abolished, and then instituted again, in a haphazard way as necessity dictated. In no country has the Chancellor of the Exchequer had the good fortune to begin with a clean slate, and thus be able to consider the question of taxation as a whole. Before framing a reformed scheme of taxation, the statesman responsible for it should first ascertain with exactitude how much each

portion of the community should, and does contribute towards the expenses of the State, and to decide by what judicious adjustment of the Budget such purely business questions as the lack of employment, unfair competition, provision for old age and sickness, and the housing of the working classes are to be met. This opportunity of reconsidering the very basis of taxation now occurs in Great Britain.

If the question of the practical working of the Tariff system here advocated were to be submitted to the present Custom House and Board of Trade officials, they, no doubt, would find it bristling with difficulty; but I frankly confess that I can see none. Indeed, I should only be too pleased to explain to the permanent officials the practical means of surmounting any obstacle which may baffle them.

The advantages of the suggested system of taxation are undeniable, and it does not appear that any political party or faction will be able to raise any well-founded objection to it. If it should entail any increased cost of living—and I deny that there is any likeli-

hood of this—the cardinal fact must not be overlooked, that the increased expenditure, if any, would entirely remain in the country, and it would almost wholly take the shape of additional wages paid to British working men. There would be a permanent stability in the amount of Tariff chargeable, because every manufacturer knows precisely how much labour is requisite to turn out the type of goods which he produces, and the actual percentage of Duty, charged upon the importation of Foreign Labour, would only alter fractionally from year to year. Besides, the probability of any forthcoming alteration would be obvious months in advance. Our exporters would be in quite as favourable, if not in a better, position than they now occupy, because they would pay for their raw material, were it entirely raw or partly manufactured, the world's market price plus only the unavoidable freight. Such a Tariff could scarcely provoke retaliation by Foreign Powers, and in reality England has little cause to feel apprehensive on this subject, because, after all, she is one of the largest buyers in the world, and therefore

a Power to conciliate. Moreover, Foreign Tariff Walls have already been raised against her to about their maximum. Then, again, as the amount of Tariff levied on each article would automatically adjust itself, all trades would be protected in an identical degree; and, as it would be impossible for Parliament specially to favour any particular trade, all jobbery, lobbying, and political corruption would be made, not only impossible, but utterly unavailing. Finally, the Protective Tax would be levied mainly in the interests of the working man, and only quite secondarily in the interests of capital, although, as every practical business man is well aware, the interests of capital and labour are, after all, so inseparably bound together, that any fresh departure in our commercial policy, which benefits one, must inevitably react favourably upon the other. By making British labour a valued commodity, by means of a Protective Tariff, the British working man would find there was a real dignity attaching to labour, such as has been scarcely observable whilst our English working classes have been elbowed out of their own home-

market and deprived of employment by the unrestrained dumping of foreign manufactured goods.

Thus far in this argument manufactured goods only have been considered, but as the Taxation Question would be quite incomplete if I failed to deal with the question of Food Supplies from abroad, this subject now comes up for discussion. At the outset it is only right to admit that it is useless for Tariff Reformers and others to pretend that a tax on food is likely to benefit the working man directly. Beyond question it will benefit the agricultural labourer, and prevent his migrating to our industrial centres, there to swell the ranks of the unemployed. But the agricultural labourer, and those who are dependent upon him, only make up about one-ninth of our total population. Therefore it would be scarcely fair to tax the other eight-ninths of the community for the benefit of a single industry. If the interests of the agricultural classes were the only arguments in favour of the taxation of food, such a proposal ought to be met with a stern negative.

But the food supply of the nation must be considered from a wider standpoint. First of all, the native soil is the country's natural food-producer. This native soil forms a considerable part of the fixed assets of the nation. No sound business man would willingly permit one of his principal assets to be made valueless, neither should a nation be guilty of such an act of folly. Besides, the soil of the country may be said to represent the reserve fund of the working classes. Because not all members of the community are adapted to manufacturing pursuits, whereas almost all able-bodied men are capable of tilling the soil, provided only that the soil is able to afford them remunerative employment. So that it really constitutes a working class grievance, that the highly productive soil of the country should be allowed to go out of cultivation owing to foreign competition.

I will merely allude to the fact that the fighting line at Waterloo was largely made up of drafts from the militia, a force raised solely amongst agriculturists, and that the crews which fought under Nelson at Trafalgar were recruited by the press-gang, chiefly

from the agricultural districts of Kent and the West of England, to show how much the country owes in the past to its sturdy agricultural backbone, and I will pass on to consider the question of food in relation to modern warfare. It is the duty of every nation to prepare for war. Last year Great Britain spent £59,199,000 on her Army and Navy. In 1905 a Report of a Royal Commission, presided over by His Royal Highness the Prince of Wales, was published, showing that at times the country's wheat supply falls below eight weeks' requirements. It demonstrated clearly how absolutely dependent the country is on foreign food supplies. The Report contains a number of tables explaining how the home-produced food is gradually diminishing: that, for example, the quantity of wheat grown in this country had decreased by 33 per cent. in one dozen years, yet this Report fails to refer in any marked degree to the clear remedy for making the country safe, by increasing the home production of food. Nearly 60 millions sterling are spent annually on preparing for war, and the chief necessity of war—an

ample food supply—is almost lost sight of.

Let the superior officers of our fighting forces make it their business to insist upon this vital point being constantly held up before the eyes of the nation, whom it is their duty to protect. For what would be the advantage of protecting the country from invasion if its inhabitants were doomed to die of starvation during the siege? The agrarian policy of Germany is disapproved of, and jeered at, by the Socialists, but the stern ministerial reply invariably is: "We must have bread and meat in case of war"; and this is the true explanation of Germany's taxation on food. As a rule it is unsafe to argue regarding the economic policy of one nation from the economic experience of another, because the underlying conditions, such as climate, soil, sea, and river transport, etc., are wholly different in every country. But war is a great leveller, and food is an universal necessity: so that, in the matter of food supply in case of war, England might very advantageously take a leaf out of Germany's book. For it is certain that in time of war every additional bushel of grain grown on English soil,

and every ox in English pastures, will be worth an additional soldier and sailor.

Last, but not least, there is the question of the Colonies. And in order to understand the future of the Colonial Question aright, it is necessary to glance at past history. It was by being the workshop, the banker, and the carrier of the world, that England accumulated her wealth in the past. Fifty years ago, all countries which only had raw produce to offer in the markets of the world were the paupers, whilst those nations who had manufactured articles for sale were the kings. Slowly and gradually, but with dead certainty, the tables are turning. Already England has ceased to be the exclusive workshop of the world, her banking position is being assailed by foreign competition, and every foreign nation is rapidly increasing its mercantile marine. The former producer of raw material is not only now manufacturing almost enough for himself, but, in many instances, he is now offering his surplus manufactured goods in the world's markets. Manufacture can be carried on in almost any clime, but raw material is only to be found in certain

limited areas. Raw material and certain food products cannot be grown everywhere. Consequently, in time, the producer of raw material and food will be the king, and the manufacturers will be dependent upon his royal favour.

Where will England be then, if she abides by her present policy of doing everything for her manufactures, and neglects the truly Imperial policy of securing her entire future by means of a close business alliance with her Colonies? The British Empire to-day is of a magnitude which the world has never before seen, and Great Britain can only permanently maintain her present exalted position, by encouraging her Colonies to supply her permanently with all she can ever reqiure. Assisted by men and money, the British Colonies and Dependencies are capable of producing five times as much raw material and food of all descriptions as Great Britain can ever want, and the hundreds of millions sterling paid by her for these supplies of food and raw material would be capable of stimulating an Export of English Manufactures to the Colonies, equal to England's present

export trade with the entire world. There can, in short, be no question that with a wise and far-seeing statesman at the helm, a man capable of initiating a truly Imperial Policy, Great Britain, her Colonies, and her Dependencies would be knitted up into one unit, which would not only be self-supporting, but entirely independent of the whole of the rest of the world. It is no argument to point to the present figures of colonial imports and exports, because we have never given our Colonies sufficient encouragement. It is, however, very much to the point to remember that, not so very many years ago, the United States made no export of grain to Europe whatever, and that many at present uncultivated square miles in our Colonies are just as climatically capable of growing grain as the famous wheat-belt of the United States. Statesmanship should not dwell upon either the past or the present—its eye should be upon the future, and the future possibilities of our Colonies are boundless. Yet how can our Colonies and Dependencies develop in the interests of the mother-country, so long as they are so scantily sup-

plied with capital? Is it not pitiful to see quoted in the Official List of the London Stock Exchange such a scanty array of Colonial Industrial Companies? We have squandered our capital in colonial mining gambles, but have we made any serious attempt to promote the welfare of colonial agriculture? Why are we permitting the United States gradually to acquire a controlling interest in the Canadian Pacific Railway? Why do we allow the Americans to push their way to the front in Canadian financial matters? Why is India starving for capital, and why has that country of enormous undeveloped wealth permanently a higher rate of discount than any other Eastern nation, and this after generations of English occupation? In fact, why does British statesmanship habitually neglect colonial enterprise?

The present relations between England and her Colonies can only be described as visiting terms of a cordial nature. For the sake both of England and the Colonies, it is requisite to bind the two together by means of permanent, and mutually satisfactory, intimate business relations. It will not be

enough for England to provide the Colonies with the most advantageous market in the world for their food-produce. If she is wise, she will also assist them with men, tools, and money, to develop their great natural resources. England can only secure her food markets for the Colonies by placing a tax upon all the kinds of food stuffs which the Colonies can produce, and by making this tax entirely inoperative against the Colonies themselves. Mr. Chamberlain once said that the Custom House made a federated Germany possible, and sealed the bonds of Imperial Unity. Why should not the same result be attained by a Customs Union between the Mother Country and her Colonies ?

It has already been explained that a tax on food would fall upon the working classes of Great Britain to the extent of seven-eighths. It would be necessary, therefore, to make a simultaneous reduction in the duties now levied upon staple articles of working class consumption, such as beer, spirits, tobacco, sugar, tea, etc., or else, in common fairness, the entire proceeds of the taxes upon food must be solely devoted to the improve-

ment of the conditions of life of the working population. A food tax can never be popular, and certainly only in case of dire national need should a tax of this description ever be used as an expedient for increasing Imperial Revenue. For these reasons intelligent statesmanship would apply itself to the task of making it clear to the British Nation that this tax is solely made in the interests of the national welfare, and as a means of more closely uniting the Colonies with the mother-country. A politician, ambitious of proving himself a capable leader of national thought, should strive to impress upon the British working man, that it is not intended that the food tax shall be used as a means of grinding additional funds out of the poor; but that, as the tax is a political necessity, the money, which it is instrumental in raising, shall be solely devoted to ameliorating the lot of the working man.

The questions of Old Age Pensions and of the Housing of the Working Classes are largely to the front at the present moment. Why should not the funds necessary for both

these reforms be produced by means of a food tax? The annual value of foreign food imported stands at present at about £250,000,000; so that a tax of only 15 per cent. on this value would produce an annual income of about £30,000,000, after allowing for an increase of £50,000,000 in the value and quantity of home-grown food, thus providing the funds required for these boons to the working-classes. Why should not the working man provide for his old age by paying a trifle more for his bread and meat? The difference in cost he would never feel—the present constantly recurring variations in the price of food conclusively prove this—yet by this means he would insure himself against the present dearth of employment, he would insure the country against starvation in time of war by fostering home agriculture, and he would also insure the supremacy of the British Empire by means of a close business alliance with the Colonies. The love of the Colonies is so ingrained in the British people that they would cheerfully submit to any sacrifice in order permanently to attach them to the mother-

country. But under the scheme of Tariffs outlined in this letter, the working man would not be asked to make any sacrifice, but merely to lay by a prudent provision for his own old age.

It is true that the well-to-do portion of the population would pay one-eighth of the entire expense of Old Age Pensions, but, again, they are likely to save in the Poor Rate. If, however, they did not, they would have the satisfaction of knowing that they were doing their share in eliminating poverty and privation from the British Isles, and that they were at the same time assisting in the federation of the British Empire.

The only class of people who, perhaps, might unduly benefit by the imposition of a food tax, would be the farmers and farm labourers. But Free Trade has already played such sad havoc with their Capital and Income during the last thirty years, and they have been so long-suffering, almost during the entire lifetime of the present generation, that no one can justly begrudge them this windfall, more especially when it is remembered that their welfare is so closely bound up with

that of their native soil, which must always be the nation's most cherished possession.

I am, Sir, your obedient servant,

HENRY LOWENFELD.

What Income Should Investments Yield?

THE actual income derived from capital invested in stocks and shares is, with many investors, purely accidental. Some of them, the desire of whose hearts is to receive a large income, contrive to make the minimum, and others, whilst making the question of income quite subservient to that of capital safety, yet make a large income. There are very few investors who realise that the extent of their income can, within reasonable limits, be so adjusted as to meet their actual requirements, and that there are simple rules by the application of which certain income results can be confidently counted on.

Many investors believe that a high rate of income is synonymous with insecurity of capital. This axiom, so fondly adhered to by some capitalists, is only true when applied to

loan money. In the case of Stock Exchange investments it is misapplied, as I shall be able to prove in the course of the present article. But even if it were true that a high yield cannot be obtained without imperilling the safety of the capital, it does not necessarily follow that a low yield must mean capital security. This, however, is unfortunately the inference frequently drawn, and it is the prevalence of this erroneous idea which is the primary reason why so many investors are receiving an inadequate income.

There are a considerable number of investment lists now in existence which, on account of the faith of their owners in out-of-date axioms, are producing for them a rate of income totally inadequate in proportion to the amount of capital and the degree of security obtained. The existing conditions of the money and investment markets offer particularly suitable opportunities for adjusting such anomalies, so that a discussion of this most important subject should now prove to be not only of interest but of considerable profit.

The laws by which the investment markets are governed are not understood by all in-

vestors, and many of them argue that the quality of a stock can, to a certain extent, be gauged by its income yield. By the same course of reasoning they arrive at the conclusion that the mere fact that an investment shows a large income-producing capacity at its market price is sufficient to mark it unsafe at once, and they hold the belief—equally without foundation—that a stock from which the minimum yield is being received must necessarily be good, or people would not pay so high a price for it. The following examples will show that the yield has but little relation to the quality and safety of stocks.

We will take for our illustration two classes of investments, which, to all intents and purposes, are on common ground as regards capital safety, viz. : the Ordinary shares in first-class British banks and insurance companies. If anything, the bank shares are the safer of the two, and yet a glance at the tables in the *Finacial Review of Reviews* will prove that first-class insurance companies' shares yield an average return of 20 per cent. less in income than bank shares of the same standing do. The following are a few *exceptional* examples of present yields :—

Div. for last 4 yrs.		Insurance Companies.	Yield.	Banks.	Yield.
60%	Bonus 37/6, '02	Clerical Med. & Gen. Life	2$\frac{1}{10}$%	London & Westminster Bank	4$\frac{1}{4}$ %
10$\frac{1}{2}$%	—	Life Association of Scotland	3$\frac{1}{10}$%	London Joint Stock Bank	4$\frac{1}{2}$ %
20%	—	Sun Life Assurance	2$\frac{1}{10}$%	Union Bank of Scotland	4$\frac{1}{2}$ %
45%	—	Commercial Union Assurance	3$\frac{1}{2}$%	Lloyds Bank	4$\frac{9}{10}$%

It might be said that the insurance companies have comparatively larger reserves, that in some cases the bonuses compensate for low yields, or that their assets have been under-valued, and thus the capital safety of their shares has been increased. This argument, however, does not apply, as it will be remembered that a single catastrophe, such as the San Francisco fire, was the means of reducing the value of certain insurance shares to an alarming extent. Thus, the *Royal Exchange Assurance Company's* shares fell from 310 to 175, *Caledonian* from 30 to 14, *Scottish Union* from 4 to 2$\frac{7}{8}$. Banks are not subject to any such sudden risks; yet insurance shares return a smaller average yield than bank shares do. This drastic example proves that a low rate of income does not indicate capital safety. Now let us take another example.

There is a vast difference between the yield

to be derived from railway debentures and that obtainable from the debentures of trading companies. In order to analyse the facts we give the following representative groups of stocks from both classes: —

Railway Debentures.	Yield.	Trading Debentures.	Yield.
Great Central Rail Debs.. .	3½ %	Brit Insulated & Helsby Debs.	4⅛%
London, Chat. & Dover Debs..	3¾%	Bovril Debentures	4¼ %
South-Eastern Rlv. Debs.. .	3⅛%	Lipton Debentures. . . .	4½ %
Highland Railway Debentures	3¾%	United Alkali Debentures . .	4⅜%

I have purposely chosen for my argument Railway Debentures which are not Trustee Stocks in order that the comparison may be quite fair. On Trustee Railway Debentures the yield, of course, is still smaller. These few examples prove that the rate of income received from Home Railway Debentures is very much lower than that to be obtained from Trading Debentures, and yet a glance at the steady fall during recent years in the prices of the Railway Debentures seems to show that, from a capital point of view, the Trading Debentures are safer. During the last decade *Great Central Debentures* have decreased 26 points in value, *London, Chatham and Dover Debentures* 30 points, *South Eastern Debentures* 40 points, and *Highland Railway Debentures* about 27 points, whilst the Trading Deben-

tures, having fluctuated very narrowly, are now only slightly below the prices at which they stood in 1896. I have no desire to encumber this article with many tables, and would prefer my readers to look at the price records of a number of Railway and Trading Debentures given in the Statistical Record of the *Review*. The result of the comparison will show them how very stable the prices of Trading Debentures are, as contrasted with Trustee Stocks or non-Trustee Railway Debentures. Capital stability is but another term for capital safety. A stock, like *South Eastern Railway* Debentures, which is capable of falling 40 points in value in a few years, cannot be called safe. Of the two classes given the Trading Debentures, having shown such a small margin of fluctuation, are undoubtedly the safer. I have now cited the two extreme examples, viz., Ordinary Shares and Debentures, and have shown that, if securities of a similar kind are compared with each other, the yield fails to indicate the degree of capital safety. Now let me prove that a larger rate of income is not followed by any lack of capital security.

The Six per Cent. First Mortgage Debentures

of the *Costa Rica Railway* have paid regular dividends almost since the inception of this line, and during the last ten years their realisable value has not varied more than 8 points. The shares of the *New Zealand Shipping Company*, having moved but little from a steady price level, have yielded over 6 per cent. Between 1896 and 1906 the Debentures of the *Land Company of Egypt* have only varied 5 points in value, and yet yield nearly 5 per cent. *Kimberley Waterworks* Six per Cent. Debentures have fluctuated in value only to the extent of 10 points during the last ten years, although these ten years have seen a fateful war break out and work its way to a long-protracted end; throughout the whole period these debentures yielded from $5\frac{1}{2}$ per cent. to $5\frac{3}{4}$ per cent. *Henry Clay and Bock* Preference Shares have since 1896 not varied to much extent in value, and have yielded in income over $6\frac{1}{2}$ per cent. The safety of all the investments now cited as examples is fair, and the balance sheets issued by the respective companies are satisfactory. They should be taken as fair average sample cases, proving the erroneousness of the idea

that capital insecurity must go hand-in-hand with a high yield.

When a writer attempts to illustrate his argument by laying before the reader particulars of specific cases, there is very often a suspicion in the mind of the reader that the cases quoted cannot be taken as a fair average. I always, therefore, much prefer my readers to look out examples for themselves, and thus verify my facts to their own satisfaction. This has now been made a fairly easy matter, as the *Investor's Shilling Year Book* publishes records of almost any stock about which the investor is likely to require information. A reference to this book will not only strengthen my case in the mind of the reader, but will also give him a practical lesson in the selection of investments.

Having proved that the yield derived from investments has but a remote relation to their capital safety, let me explain the reason why some investors hold low yielding stocks, to their own disadvantage. On the face of it, it seems absurd that an investor should be content with an income of, say, £35 per annum from a capital sum of £1,000 invested in *Com-*

mercial Union Insurance shares, whilst he might be deriving £45 from the same sum by exchanging this investment into *London and Westminster Bank* shares; and yet such anomalies are the order of the day. The *Commercial Union Assurance* shares are £50 shares, £5 paid, with a liability attached to them to the extent of 90 per cent. of uncalled capital. The *London and Westminster Bank* shares are £100 shares, £20 paid, with a liability of 80 per cent. only. Banking is a safer business than insurance and not liable to sudden calamities. The *Commercial Union* shares have risen from 40 in 1896 to 77 at the present time. They have, therefore, reached a dangerously high price level. The *London and Westminster Bank* shares are now at about the same price at which they stood ten years ago; in this investment there is, therefore, little likelihood of capital depreciation. The pros and cons of both investments might be summed up as follows:—

LONDON & WESTMINSTER BANK SHARES.		COMMERCIAL UNION ASSURANCE SHARES.	
	Comparatively high yield	Small yield	
	Safe business	Liable to sudden calamities	
	Small chance of depreciation	Dangerously high in price	
	Smaller uncalled liability.	Large uncalled liability .	

If these facts were put before a holder of

Commercial Union shares, he perhaps would aver that the figures, so far as he is concerned, are incorrect, as he bought his shares at 40, at which price they yield him, not 3½ per cent., but 7 per cent. He would tell us that, as they now stand at 80, it is highly improbable that they will drop below 40 again, and that, therefore, there is no chance of his capital depreciating; in fact, that the whole argument does not apply to him. Such a reasoner forgets that it is not the price he gave for his investments that constitutes his capital and yield, but the *present value* AND YIELD of his holdings. He does not take into consideration the probable fact that he has other stocks in his list of investments which have fallen in value and have decreased their dividends, and that, following his reasoning, the value of these, also, should be calculated on the basis of cost. If he were to work his income account on these lines and endeavour to arrive at an average yield, he would obtain curious results, and, in fact, would find that current market yields are much higher than the yields he claims to be receiving. Let us assume that he bought, say, *North London Railway* Ordinary at 200

when a dividend of $7\frac{1}{2}$ per cent. was paid on that stock, and the yield, at that price, was at the rate of $3\frac{3}{4}$ per cent. Now this stock is paying a dividend of $4\frac{3}{4}$ per cent., and thus yields $2\frac{3}{8}$ per cent. on the cost price of 200.

Every investor is forced to join the flow of financial events from the moment in which he has become an investor. It is useless for him to imagine himself on an island on which everything stagnates, while the stream of financial events is flowing past. He must base his calculations on what is, and not on what has been, and for this reason the cost of an investment is no foundation on which to work out returns. The present value *invariably* should be the basis of all reckonings. One of the chief reasons for such a large number of anomalies in yields is that so many investors calculate their yields on cost.

There is one other reason why investors retain securities which have ceased to be remunerative, and why they show such a disinclination to make any decisive move. It is that they believe they know all about the stocks they hold, and nothing about those to be bought. They have lost sight of the

consideration that the present holding was once a stranger to them, and that they have now far better facilities than they ever had for learning all about a new investment. A certain lethargy holds them to the old unremunerative stocks. If "to be idle is the ultimate aim of the busy," the thoughtful man will find it reasonable to believe that to be busy will eventually be the sad condition of the idle. It is this financial lethargy, together with a certain amount of prejudice and a totally mistaken way of calculating yields, which prevents investors from making the income which they ought to make.

Every investor who really wants to use his capital to the best advantage must take facts as they are, and not as they have been or as he would like to have them. He must learn to profit by the opportunities which offer themselves for the improvement of his position, and thus make up for the losses which the most provident and careful investor is bound to make from time to time. He must regard his stocks exactly as income producing machines, and, in the same way as any machinery is discarded when the pattern is

becoming obsolete, he must discard the stocks which have ceased to "work" properly, and adopt a sounder and more profitable method of employing his capital. Each investment must be placed in its proper category, regardless of the sentimental notions and inherited beliefs which he may have been accustomed to apply to them. Money is a merchandise like any other commodity, and the most profitable markets for it alter from time to time. It is by always taking one's money to the best markets that satisfactory results are obtained.

In 1897 the following were the best rates obtainable :—

From trustee investments in stocks .	3⅛%
From other gilt-edged stocks . .	3⅝%
From Miscellaneous Debs. and Pref. Shares	4⅛%
From medium investments . .	4¾%
From speculative stocks . . .	5¼%

Since 1897 the value of money has gradually increased until it has now reached what is comparatively a very high figure, and the following rates are now obtainable :—

		Increase in yield since 1897.
From trustee investments in stocks	$3\frac{5}{8}\%$	$+ \frac{1}{2}\%$
From other gilt-edged stocks	$4\frac{1}{4}\%$	$+ \frac{5}{8}\%$
From Miscellaneous Debs. and Pref. shares	5%	$+ \frac{7}{8}\%$
From medium investments	$5\frac{1}{2}\%$	$+ \frac{3}{4}\%$
From speculative stocks	$6\frac{1}{2}\%$	$+ 1\frac{1}{4}\%$

This table shows clearly that to-day every £1,000 invested in stocks can be made to produce from £5 to £12 10*s.* per annum above the average sum which was obtainable from it ten years ago. The progressive investor will profit by this increase, but he who desires to stand on his little island and refuses to move with the stream of events, will suffer the loss consequent upon letting the present exceptional opportunity escape.

The rates which I have quoted above are not theoretical; they are absolutely practical, and by means of a Geographical Distribution of Capital they can be obtained attended with the highest degree of capital security. For this reason from £45 to £65 should be derived from each £1,000 represented in the value of investments held at the present moment. These rates of income should be quite stable,

and not liable to any appreciable degree of fluctuation, and any present Investment List which does not produce them is obviously badly constructed. To re-organise such a list without delay should be the investor's object.

The argument which I have here advanced should prove to the investor the two facts: That the actual yield derived from an investment is no index to the capital safety afforded by such investment, and that the yield obtainable from investments varies considerably from decade to decade.

The average yield obtainable from any particular group of investments indicates the esteem in which the investing public holds the stocks comprised in such group. But such esteem is, in a great many instances, based more on prejudice than on inherent merit, and therefore those investors who have trained themselves to form original opinions should not be misled by it. For example, Coal and Iron investments have, for many years past, produced a larger yield than other similarly staple industries; Shipping and Cable stocks are in somewhat the same position, and the extreme example is to be

found in the case of Theatrical Enterprise, which, although the yield from investments in such companies reaches practically the maximum and the degree of capital safety is very fair, is yet looked upon by investors as being highly speculative.

My long and varied experience in financial matters has taught me that a low average yield derived from any group of investments is not accounted for by the fact that that particular class of investment is *safe*, but the reason rather is that nearly all the companies floated in that line of business are successful. It has proved to me, too, that wherever the average yield is high the indication is that among the companies in which these investments are made many are absolute failures. In further explanation I may point out that water company shares are considered safe (and therefore yield the minimum) because so few water companies go into liquidation. Theatrical enterprises yield a large return on an average, because a large number of them prove failures.

The general trend of a particular trade is thus taken as a sure indication of individual

merit, or demerit. Are we, then, to consider all bookmakers rogues because some of them fail to pay winners their bets? For the above reason it appears to the thoughtless investor that the better plan is to confine himself to those investments which have been approved of as safe by *vox populi*, whilst the thoughtful man will rise above prejudice and judge each particular investment on its own merits, and, as a reward for his independence, will obtain the maximum of income coupled with the minimum of capital risk.

The final question which arises out of my argument, and on which the reader might like to have some information, is the following: Every investor naturally desires to derive the greatest benefit he can from his money. I have shown by the two tables given that there is a large permanent difference in the average yield to be derived from certain classes of investments. Thus whilst gilt-edged stocks produced in 1897 $3\frac{5}{8}$ per cent. (now the yield is $4\frac{1}{4}$ per cent.), speculative stocks at the same period returned an average of $5\frac{1}{4}$ per cent. (now $6\frac{1}{2}$ per cent.) on the capital sum. The statement that

most of my readers would probably make here is that with the 4¼ per cent. safety is obtained as regards both capital and income, and that the increased yield of from ¾ per cent. to 2¼ per cent. is obtained as a premium for a certain amount of additional risk sustained. This, however, is again one of those popular fallacies which are so difficult to disprove to the satisfaction of those placing their faith in them. In my opinion, a really carefully constructed list of investments, producing an income of 5½ per cent. per annum on the capital sum represented is not one iota less safe than a scheme which embraces only gilt-edged securities and produces 4½ per cent. to the investor.

To construct an investment list calculated to return 4¼ per cent. is, of course, a much easier matter than the construction of a scheme to produce 5½ per cent., as each separate item in the former scheme would be selected from groups of stocks which for generations past have produced good results. It would, therefore, be hardly possible to make a mistake in a list of this description. In a scheme planned and evolved on the basis

of a 5½ per cent. return, however, the constituent parts might be recruited from groups of investments which are considered unsafe *as groups*, and each individual item would have to be so chosen as to offer practically the same degree of capital safety as stocks constituting the 4¼ per cent. scheme. Furthermore, after completion the 4¼ per cent. scheme requires the minimum amount of supervision (every item composing it being a safe item), whilst the 5½ per cent. scheme would have to be tended and cared with much more thoroughness.

It is, therefore, not by risking one's capital that one makes sure of additional income. It is the extra trouble entailed by properly looking after the 5½ per cent. scheme that ensures for the investor the higher yield. This is as it should be, and is a perfectly natural law of compensation. The lethargic investor obtains the minimum, and to him of an active tendency and an inclination to learn is granted the maximum, in both instances the capital safety being very much alike. I know of a good many most experienced investors who even consider a 4¼ per cent.

investment scheme more risky than a 5½ per cent. scheme. This, of course, is tending towards the extreme, but there is a good deal of foundation for their argument, as the following table will show.

For the purpose of this argument I am using two stocks which have already been referred to in the course of the present article, viz.: the *South Eastern Railway* Debentures, and the *Costa Rica Railway* (this time the Prior Lien) Debentures. The *South Eastern Railway* Debentures are looked up to as something very sound and choice in the shape of an investment, simply because they come under Home Railway Debentures, and, belonging as they do to a very fine group, are considered safe, and yield on an average between 3⅛ per cent. and 3⅝ per cent. On the other hand the *Costa Rica Railway* is considered highly speculative, partly because it is a foreign railway and partly for the illogical reason that it suffers for the shady reputation the Costa Rica Government loans have made for themselves. Therefore this investment yields 5 per cent. Now, what are the facts on an investigation of the position

of both these stocks? The *South Eastern Railway* distributes annually about £1,250,000 in the shape of dividends on all its classes of stock. About £350,000 of this sum goes to the debenture-holders and £900,000 to the shareholders. The *South Eastern Railway* Debentures are therefore secured, so far as income is concerned, to the extent of about $2\frac{1}{2}$ times. The *Costa Rica Railway*, on the same basis of calculation, distributes about £105,000 annually. Of this sum, however, only about £12,500 goes to the debenture-holders, and £92,500 to the classes which stand behind them. Therefore, *Costa Rica Railway* Debentures, from the point of view of income, are secured over sevenfold, and hence are the better secured of the two stocks. If, however, the reader prefers to take the average capital value as a criterion, he will find the following figures in keeping with the results arrived at from the income comparison:—

AVERAGE PRICES.

	1897.	1898.	1899.	1900.	1901.	1902.	1903.	1904.	1905.	1906.
Costa Rica Rly. Prior Mt. Deb.	105	104⅝	103⅜	103	103¼	102⅜	100¼	99⅞	103¼	102¼
S. Eastern Rly. 5% Debs.	190¼	183⅜	176¼	168¼	158¼	157	151	149¼	147⅛	146⅜

It will be observed from this table that this year's average price of the *Costa Rica Railway* Debentures is only $2\frac{3}{4}$ points below that of 1897, and that in those ten years there has been a fluctuation to the extent of $43\frac{7}{8}$ points in the *South Eastern* Debentures. Almost any stock mentioned in this article, which is subjected to a similar analysis, will show a like result. In other words, it will prove to the reader that the high yielding stock, properly chosen, is by no means weaker in capital safety *because* of its high yield than the low yielding stock.

Briefly, then, the following sums up the principal points in my argument :—

1. Any investor who at present obtains a smaller average yield than the average yields mentioned in this article is simply wasting income.

2. The intelligent investor who is willing to take some trouble, and expend a certain amount of care on the construction and maintenance of his Investment List, is entitled to receive almost double the amount of income that his less alert and active brother investor will make.

3. The yield received from an investment cannot rightly be regarded as an indication of the safety afforded by that investment.

One of the greatest follies that can possibly be committed by an investor is to gather into a list a miscellaneous collection of stocks, some yielding a large income, and some giving the lowest possible return, with the idea of arriving at an average income. In all such cases capital stability is entirely sacrificed without any compensation being obtained. I laid it down as a rule in *Investment an Exact Science* that "*safety of capital is obtained by its even division over a number of sound stocks identical in fluctuation, and every stock held must be subject to an entirely different market influence.*"

The mixed list mentioned above cannot possibly conform with this rule, as the fluctuation of the investments would not be consistent. A scheme of this description, then, would be unsound, even in its fundamental principles, and this is the reason why I have not thought it necessary to touch upon this point throughout the course of this article.

How the British Public Invests

TAKING it all in all, "John Bull," is by no means a bad investor. Like everything else in connection with this gentleman, his investment list is very bulky. Indeed, it is infinitely more bulky than that of "Brother Jonathan" and "Madame La France," although they are both considerable investors, yet they have neither of them laid by anything like so considerable a list of stocks as "John Bull." Being of a very enterprising turn of mind "John Bull," at the very outset of his investment career, turned his attention to all parts of the globe, and, in this way, he secured a truly international list of investments. There is hardly any considerable spot on the face of the whole globe which has not attracted his capital. Consequently he has not only participated in his own prosperity, but has practically made all other nations work for him. As a result, a world-wide distribution of

investments has been achieved, and although he has experienced some nasty knocks at times, on balance he has done rather well.

There is a very curious fact in connection with British investment which is hardly sufficiently realised by the public at large. Although the Britisher is very businesslike in most things, in the matter of investment a somewhat haphazard want of method prevails with him. Of the 250,000 individual people who hold stocks in this country there is but a very small proportion who give to their investments that attention which they really deserve. A large number of people who live entirely upon the income produced for them by their investments have, in a great many instances, not worked for their invested capital. The money which their stocks represent has been handed down to them by their fathers or grandfathers, and they, therefore, do not consider it any part of their duty to look after the welfare of their stocks, and, as a matter of fact, they leave these stocks to pretty well take care of themselves. There is another large proportion of the investing public who regard the funds represented by their stocks

and shares as of quite secondary consideration. These are engaged either in some trade or profession in which they are making money fast. Whenever these people find their bank balances assuming unduly large proportions, they send a part of them to some stock-broker to be safely invested. No sooner has that act been accomplished than, to all intents and purposes, they do not trouble any further than is necessary about the progress of their invested fund. A large amount of invested capital is placed in the care of trustees, and in this way really great fortunes invested in stocks are left practically untended and take care of themselves. The small investor as a rule does not consider it worth his while to trouble much about his stocks. The few five-pound notes produced per annum by his investments are so small in proportion to his earnings that he looks upon the whole matter of investment as a kind of side-show, and he would consider it an extraordinary idea if some one suggested that it would be wiser on his part to take a little trouble over the matter.

As a matter of fact the whole method of in-

vestment in Great Britain and the attitude adopted by the British public towards their investments are rather wasteful. This is, of course, a general characteristic of everything in connection with British life. War Office scandals, municipal extravagance, and conversion of civic funds into huge dinners are not due to the lack of a high code of national honour. They are simply a form of the large wasteful joint which the British "Mother" provides for her family without due thought as to whether another form of cookery would be more advantageous for the family exchequer, like the British navvy working in the sweat of his brow for a small wage, and then buying a steak at a shilling a pound and burning it up on an extravagant fire in order to prepare it for his breakfast.

We know of many cases where funds amounting, in the aggregate, to six figures are left by their owners practically to take care of themselves. If it is pionted out to such an owner that, by a little care and attention, he might vastly improve his capital safety and income, the answer frequently returned is, that he is fully aware that something ought

to be done, and that it has been his intention all along to do that something some day. It is not that the ordinary investor does not feel that he is by no means doing justice to himself and his capital, he is much too shrewd for that! It is simply his want of appreciation of the importance of the subject which prevents him from taking the necessary steps.

Great Britain was at one time an uncultivated island, and although this island possesses a vast number of natural advantages, yet its present wealth could never have been produced from the soil itself. It was by trading with the whole world that England became rich, and if the vast fortunes which are prevalent at present in England are traced to their origin it will be seen that the nucleus has invariably been made in trade or commerce of one kind or another.

For these reasons the Englishman is not only naturally wealthy, but he is a business man by heredity, and the centuries of money-getting which have passed over the country have made him perfect. It naturally follows, therefore, that the instinct of the British investor is good. If put to the point, if forced

to give the subject due consideration, he invariably does well with his money. The great point, therefore, is to show him the avenue which leads to improved capital and income, and also to impress him with the fact that in this instance the game is really worth the candle.

As soon as this is done, and done to a sufficiently large extent, the London Official Stock Exchange List will cease to be the true "Tom Tiddler's ground" which it is at present.

However, we do not wish to be misunderstood by our readers. We do not want them to think that, in our opinion, money is to be picked up by studying the "Official List" of Stock Exchange prices in a haphazard manner, or by any kind of speculation, as nothing is further from our thoughts.

Our long and very varied practice and experience have proved that all speculations, sooner or later, result in disaster. This is the reason why we should advise every investor to adopt the same view in his own interest, unless some really remarkable and extraordinary opportunity presents itself. No large

fortunes are, in our opinion, to be made rapidly by the study of investment, but capital safety can be improved upon and incomes considerably increased by this study. If due attention is constantly and persistently paid to these two factors the aggregate result taken for a number of years will lead to fortune. "Take care of the pence and the pounds will take care of themselves"; avoid capital losses, and add slightly to your income, so that you are able gradually to build up a Reserve Fund, and every investment list, however humble at the commencement, will steadily increase, and will assume unthought of proportions. It is not the sudden accumulation of wealth which is lasting! It is the saving nature of an investment account which gradually rises that ultimately produces great results.

Now the question will be asked, What is the nature of this "Tom Tiddler's ground," and how are the coins to be picked up in it? The answer is much simpler than many people may suppose, viz., do not be simply satisfied with what you are doing, but compare your own results with those achieved by your neighbour,

and only rest contented if you find that your results are equally as good as his.

The *Financial Review of Reviews* gives in each of its issues the highest and lowest prices of nearly 5,000 of the principal securities, also the dividend obtained on these and the yield obtainable at their present price. If this exhaustive list, which really represents the bulk of all British investment is compared with a list of another country, say France or Germany, a startling fact is immediately discovered. The total French or German list exhibits an extraordinary amount of similarity, that is to say, there is a certain standard of yield and safety which invariably governs the price of the investment. All safe debentures or debenture stocks give within a second decimal fraction the same yield, and all shares of a non-speculative kind do the same, so that there is very little to choose between two equally safe investments. This result is brought about by the fact that the Frenchman is thrifty and the German is poor; the one egged on by his thrift and the other by his poverty, they both study the whole field of investment very closely before putting

their money out. Both these nations are studious, and the German particularly good at arithmetic. Hence the minutest advantage offered by one class of investment over another is immediately detected and an army of investors, like a set of vultures, pounces down upon it and thus raises the prices of that stock to its normal level.

In England nothing of the sort takes place. The Englishman, when he goes out investing, does not look upon it, as we have already said, as a serious business, and therefore he is quite ready to accept whatever stock happens to be most handy. This is the reason why some of the most extraordinary anomalies are produced.

Let us turn, quite at random, to one of the pages of tables contained in the *Review*. On page 45 we find the Three-and-Three-Quarter per Cent. Debentures of the City of London Real Property Company, also the Three-and-Three-Quarter per Cent. Debentures of J. and P. Coats. Both these Debentures return the same rate of interest, and if they are selling at different prices there ought to be a difference in their safety. As a matter

of fact, the City of London Debentures are selling at 96, with four months' interest accrued; their real price is, therefore, about 95, whilst the Coats' Debentures, which are just ex-div., are selling at 109. Here, therefore, is a difference in price of 14 per cent., which is equal to about one-seventh of their total nominal value. Now, how is this price-difference justified? By turning up the *Investor's Shilling Year Book* we find that the City of London Real Property Company was established in 1864, that it has a reserve fund of £343,000, that its Ordinary shares are quoted at about 250 per cent. premium if calculated upon the money paid thereon, that large and steady dividends are paid on its Ordinary capital. In fact, here we have one of those rich, old-fashioned concerns which practically melts in its own fat, and its Debenture stock is as safe as anything possibly can be. Having established this fact we think it is superfluous to turn to the safety of Coats' Debentures. The Real Property Debentures are butter on bacon—surely, whatever the qualifications of the others may be, they cannot be better than that. We have therefore established the

fact that on a single page of the tables, taken quite at random, there are two stocks which, for all intents and purposes, are absolutely of equal value, and yet the one can be bought £14 cheaper than the other. This is where the "Tom Tiddler's ground" comes in.

Naturally the comparative merits and cheapness of the two stocks cited are points which will only interest the relatively small circle of investors who hold debentures of a similar type. But to those who are thus directly interested, and whose capital thus invested returns them a yield of under £3 15*s.* per cent., the above analysis should provide both food for thought and a stimulus to take active steps to improve their own individual investment positions.

Now the Statistical Tables of the Review will be found to teem with debentures which can be judged by the self-same standard of desirability as is displayed by the City of London Real Property Debenture. For example, pages 14, 15, 16, 17, and 18 of the Tables contain debentures, preference stocks, and guaranteed shares, and yet on these pages not a single instance will be found of a stock of

similar intrinsic value which returns the same substantial yield to a present purchaser as does the City of London Real Property Debenture. In the aggregate these pages represent fully £250,000,000 of invested capital, and our Tables show that on an average these two hundred and fifty millions are earning 10*s.* per cent. per annum less income than is obtainable from the purchase of City of London Real Property Debentures. The practical value of this information is now obvious: as, by means of it, the investor is afforded an opportunity of increasing his income by 15 per cent. at a single stroke, whilst at the same time he attains this desirable end without in any way diminishing the safety of his invested capital.

We want it, of course, to be clearly understood that we do not particularly advocate the purchase of City of London Real Property Debentures. As a matter of fact we do not, as a further search will show yet better investments. But we have simply used this stock in order to illustrate broadly the anomalies of the London Stock and Share List, and how, by a little trouble and attention, every indi-

vidual investor can improve his own position.

Prior to the publication of the *Financial Review of Reviews*, there was no periodical in Great Britain which gave the same information as the tables of this journal give month by month. It was with a view of drawing public attention to the market anomalies which exist on the London Stock Exchange that these tables have been published, and the main object of the present article is not only to illustrate their use, but also to explain how the present contradictory prices have come into existence.

We have previously stated that the British investor as a rule does not give that attention to his investments which the subject deserves. When he loses money on his investments the chief cause of the loss is usually to be traced to his want of experience in considering the nature of the investment which he selects. It is his lack of comparative analysis which renders the average investor so easy a prey to the company-promoter. Curiously enough it is in so important a matter as the investment of capital that the British public fails to display that strong conservative instinct which is

the chief national characteristic. Strange to say the very man who would almost regard a change of bootmakers as a step towards revolution is the most prone to fall a victim to the insidious wiles of a well-concocted prospectus—the man who venerates the old-fashioned bootmaker as a god, turns lightly aside from the contemplation of an old-established security to offer incense to some idol with feet of clay in the shape of a brand new company, the name of whose chairman or the wholly fanciful estimate of whose profits may have happened to attract him. This folly the British investor continues to repeat throughout his life, regardless of the fact that only about 18 per cent. of the new companies floated ever survive to celebrate their tenth birthday.

What makes this neglect of the well-established company and this wild worship of new ventures the more inexplicable is the fact that even if it were safe to accept prospectus promises at their face value, and implicitly to believe in the forecasts of the future as set forth by the over sanguine promoter, it would still be found that the actual achievements of existing well-tried companies eclipse most effectu-

ally the piecrust promises of the imaginative prospectus.

If, for example, a new Five per Cent. Brewery Preference Stock were to be offered at par, then, before applying for an allotment, the tables giving particulars of this class of stock should first be consulted. On the face of it, a Five per Cent. Brewery Preference at par would seem to be a very fair investment, but when it is found that Alton Brewery Five per Cent. Preference can be bought at 20 per cent. discount, Arnold Perrett Six per Cent. Preference at 5 per cent. discount, Arrol (Archibald) Five-and-a-Half per Cent. Brewery Preference at 37 per cent. discount, Ashby's Brewery Five per Cent. Preference at 5 per cent. discount, all of these paying regular dividends, the gloss which seemed to shine on the prospectus proposal forthwith entirely loses its lustre. The brewery shares instanced above are selected at random, without reference to their present desirability, and are merely mentioned to illustrate the method in which our Statistical Tables should be utilised.

Of course there are a good many pitfalls to be guarded against when comparing one invest-

ment with another, and in order to be able to carry out this work satisfactorily a knowledge of the different classes of stocks and how they compare with each other, in regard to safety both of capital and income, must be acquired. Attention must also be paid to the varying character of the investment opportunities which present themselves in the case of stocks selling at a premium and of stocks selling at a discount, and to the risks attendant upon holding partly-paid shares, which expose the investor to the possibility of further capital-calls in the future. All these cardinal points of investment are fully discussed in *How to Manage Capital*, a small handbook published from the same office as the *Review*. This book is designed to inform anyone, however ignorant of financial matters he may be, as to the main features of the investment question.

All readers of the *Review* who grasp the importance of subjecting their own investment holdings to strict analytical comparison by means of our Tables, and who realise that money is to be made without the slightest taint of speculation by exchanging a compara-

tively sterile investment for another of more abounding yield, will be well advised to obtain a copy of *How to Manage Capital* before proceeding to put our Tables to practical use.

In this matter the investor will find that his investigation will also be greatly facilitated by using the form for the index of one's own holdings contained in every issue of the *Review*. Such an index, once prepared, serves as a true guide to what the investor has actually accomplished, and also to what he might accomplish.

In the tables all stocks are grouped according to their kind. So that, by comparing the revenue received on one's own holding with the revenue yielded by similar stocks contained on the same page, the investor, without any trouble at all, sees at a glance whether his stock is really the most advantageous to hold.

But it is not by considering each individual stock separately that the safety of an investment list is ascertained! Capital safety is only obtainable by a true system of averages, and that system of averages can only be arrived at by a good international distribution of investments.

We have stated at the outset of this article that one of the chief reasons why "John Bull" is successful with his investments is, and has always been, the truly international character of his investment list and the wide area over which his investments are distributed.

The advantages to be obtained by distributing a capital sum to be invested over a world-wide area are fully set forth in "Investment an Exact Science." Within the limits of this article it is impossible to do more than outline the system of the Geographical Distribution of Capital. Suffice it to say that in no two countries of the world are the same investment influences at work. Different climates beget constant variations in agricultural prosperity, for instance. When the Argentine wheat crop is a failure it is compensated for by an abundant harvest in Russia or elsewhere. Similarly when the English iron-trade is brisk, it is probable that there is a simultaneous depression in the iron interests of the United States or of Germany. But over and above these cycles of local prosperity and depression there stands out the fact that owing to the world's ever-increasing population

the trade of the world, viewed as a whole, is constantly expanding. It follows, therefore, that an investor who makes the whole world his investment field, instead of confining his investment area to one country, must benefit by the perpetual growth of the world's trade. The result of this investment discovery has been to render it a matter of primary importance that an investor's capital should be systematically distributed over a world-wide area.

To many of our readers our whole method of approaching investment questions will be a revelation of a new system, and the idea of instituting an analytical comparison between kindred investments will possibly strike them as a novelty. Consequently they may desire some initial aid when turning our Statistical Tables to practical use. It is with the view of meeting such a contingency that an Inquiry Coupon is bound up in the *Review*. Our subscribers purchase with their *Review* the right of making inquiries respecting their investments. This right, if freely availed of, will put our readers in a position to obtain the maximum practical advantage from the statis-

tical information which we publish. Should an investor feel in any way doubtful of the wisdom with which his own Investment List has been selected, he should submit a list of his holdings to us, together with our Inquiry Coupon, and we will, in return, send him a short and concise report upon his entire position, indicating in which directions an improvement is possible.

By amending the Limited Liability Acts the Government have endeavoured by law to guard Investors against pitfalls. This is, of course, a very laudable attempt, but, in our opinion, not quite the right direction in which the desired object is to be accomplished. For grandmotherly legislation of all kinds has never achieved any practical success in this country. The British investor merely requires to be put in possession of sufficient technical knowledge to enable him to form an independent opinion of his own, and, with this assistance, his own strong commonsense will prove to be his best investment protection.

"John Bull," as a whole, has done very well on his investments, but only if the whole of British investments are grouped to-

gether. The benefits of these results are unevenly distributed among the large crowd which constitute the army of English investors. Thus there are some who manage to make very large incomes out of their invested capital, whilst there are others who have but poor results to show. It is with the object of increasing the proportion of successful investors that our financial investigations have been conducted and our financial handbooks have been published.

Money Scares and Their Origin

If the subject of the present money scare[1] were not such an extremely serious matter to all classes of society almost the world over, the majority of the innumerable articles which are just now filling the newspapers would afford rather amusing reading. To the man in the street it would appear from these articles as if we were face to face with some calamity which could neither have been foreseen nor guarded against. As, however, the present crisis appears to me to have merely been the inevitable result of certain universally accepted principles of banking, perhaps it may be timely to examine into the actual cause of the scare through which we are now passing.

As in the course of my argument I shall be compelled to make use of an array of rather disconcerting figures, I should like to make it clear at the outset that I am by no

[1] Written December, 1907.

means an alarmist. On the contrary, I am convinced that the present crisis has so thoroughly exposed the shortcomings of the Monetary System adopted by the principal commercial countries that humanity cannot but benefit by the exchange of views which must now almost inevitably take place between responsible Statesmen and leaders of Finance.

The point which I shall first seek to establish is that the origin of all financial scares is the logical sequence of the world's methods of banking. In order to prove this point, I will explain the origin of panics to my readers, who, I take it, all have banking accounts, by an illustration of how a feeling of uneasiness amongst those who have banking accounts rapidly develops into a national panic. Now in all countries in which banking exists in its highest state of development, the current account with a bank takes the place of the cumbrous pocket-book bulging with notes and gold. The idea of a banking account is that the customer's money lying in the bank, is there for safekeeping, and at its owner's disposal whenever he chooses to

withdraw it. So long as such withdrawals take place in the normal way, the bank's customer draws a cheque and hands it over to the customer of another bank to whom he is indebted. The recipient of the cheque in his turn pays in to his own bank the cheque which he has received, and by this means an exchange of an amount of money from one man's credit to that of another takes place between two banks without any actual cash being used in the transaction. But in abnormal times financial trouble immediately arises when a large number of panic-stricken men with banking accounts suddenly make up their minds to withdraw their balances, for in a financial emergency actual cash enters into such withdrawal transactions, because the bank's customers withdraw their balances in cash and hoard their money in their own safes. Indeed, under the banking system of Great Britain, it would be immaterial whether they withdrew their bank balances in gold or in Bank of England notes, as every Bank of England note represents a certain amount of gold being kept against its issue by the Bank.

The reason why trouble must immediately

ensue upon any large withdrawal of cash from our banks is obvious when it is appreciated that whereas £900,000,000 are deposited with the banks of the United Kingdom, yet the total amount of cash in existence in the Kingdom is only estimated at £125,000,000.

Therefore rather less than 3*s.* of each pound sterling, which is owned by banking depositors, has any actual existence. Further, the £125,000,000 of cash in the United Kingdom includes the loose cash which all of us carry about in our pockets. As it would be impossible to collect such loose cash by any means, I am fairly within the mark in stating that only about one-tenth of all the deposits in English banks could possibly be forthcoming if all the depositors simultaneously called for their cash. And this one-tenth could only be raised by denuding the Bank of England and every other bank in the Kingdom of every shilling in cash which they hold.

As throwing a further curious sidelight upon a situation which is sufficiently curious in itself, it is noteworthy that the cash in hand and the cash at short notice, as set forth in the balance-sheets of the United Kingdom on

June 30 last, amounted to £250,000,000. But, as already stated, the total cash in existence in the United Kingdom is only £125,000,000. So that if every bank were to try to lay its hands upon its own cash in precisely the same way as its depositors do in times of panic, then there would only be sufficient cash in the country to allow of a payment to the bankers of 10s. in the pound all round. This extraordinary state of affairs is accounted for in the following manner: A country bank keeps an account with a London clearing bank, and the clearing bank in its turn has an account with the Bank of England. Now, supposing this country bank has, say, £40,000 cash in its balance-sheet, then this very same £40,000 also figures in the balance-sheets of the London clearing bank and the Bank of England—in fact, it does service three times over.

These are the figures of the available cash in the United Kingdom. I will not weary my readers by giving similar sets of figures for other civilised countries, but I will content myself with stating that the result would practically be the same in nearly all other countries. In brief, by far the larger

portion of the cash, which people imagine they have in their banks, the world over, does not actually exist at all. In order to substantiate this statement, I append a table giving the proportions of cash in hand as against deposits, held on behalf of the public, of eighteen representative banks of eighteen countries. In this table I confine myself to two principal columns: one is the cash in hand at call—in fact, at the command of the banks at short notice—the other is the cash due to customers by the banks on current accounts, deposits, etc. I have already stated that, in the case of England, the banks themselves could only obtain 10*s.* in the pound of the sums due to them if they simultaneously attempted to call up the cash to which they were entitled, and I should like my readers to bear this point in mind when comparing the cash nominally in hand with the amounts actually due to customers by the various foreign banks depicted in the table.

As an instance of the very high esteem in which the finest Continental banks are held, the Credit Lyonnais owes 1,796,000,000 francs to its customers and has under 138,000,000

Country.	Date.	Bank.	Cash.	Due to Customers.
England .	June 30, 1906	London & County . . .	£10,573,488	£43,497,899
Germany .	Dec. 31, 1905	Deutsche Bank	£8,560,163	£53,217,007
France . .	June 30, 1906	Crédit Lyonnais . . .	Frs.137,695,960	Frs. 1,796,832,181
Austria . .	Dec. 31, 1905	Oesterreichische Cr-Anstadt	K. 12,666,116	K. 448,593,238
Russia . .	July 31, 1906	Banque d'Escompte de St. P.	Rbls. 2,486,263	Rbls. 40, 665,503
Italy . .	Dec. 31, 1905	Banca Com. Italiana . .	Lire 47,785,653	Lire 416,128,651
Spain . .	Nov. 30, 1905	Banco de Castilla . . .	Ptas. 1,564,507	Ptas. 4,072,999
Portugal .	Dec. 31, 1906	Banco Lisboa & Azores .	Milr. 1,085,884	Milr. 7,675,929
Hungary .	Jan. 1, 1906	Hungarian Gen. Credit-b. .	Kr. 4 776,657	Kr. 139,451,837
Switzerland	Dec. 31, 1905	Banque Fédérale . . .	Frs. 4,898,450	Frs. 102,609,248
Holland. .	Dec. 31, 1905	Amsterdamsche Bank . .	Fl. 1,525,745	Fl. 30,566,302
Belgium .	Dec. 31, 1905	Bank de Bruxelles . . .	Frs. 2,611,532	Frs. 41,150,850
Denmark .	May 31, 1906	Danske Landmans-b. . .	Kr. 4,385,965	Kr. 160,111,302
Norway. .	Dec. 31, 1905	Central-b. for Norge . .	Kr. 1,608,909	Kr. 58,194,512
Sweden . .	Dec. 31, 1905	Stockholms Intecknings .	Kr. 1,352,856	Kr. 20,517,152
U.S.A. . .	April 6, 1906	First National of Chicago .	$40,913,103	$99,291,302
Japan . .	June 30, 1907	Yokohama Specie . . .	Yen. 44,209,443	Yen. 156,671,784
Argentina .	Dec, 31, 1905	Banco de la Nacion Arg. .	$62,586,119	$173,090,383

francs ready to meet this possible demand. The Oesterreichische Credit-Anstadt with 13,000,000 kronen in hand owes 448,000,000 kronen to its customers, and yet finds this seemingly slender amount sufficient for its needs, so deeply rooted is public confidence in the stability of this institution. Or again, the Central Bank of Norway and the Danish Landmans Bank enjoy such reputations that they find themselves able to conduct their business satisfactorily with their cash in hand representing only about 3 per cent. of the sum for which they are liable to the public.

Having thus clearly established the fact that all over the world there is a very large discrepancy between the amount of cash in existence and the amount of cash which the inhabitants of the world severally own, let us now examine how this extraordinary state of affairs comes about. When approaching this subject, every reader must draw a sharp line of distinction between cash on the one side and property of all kinds, including Government loans, stocks, bonds, lands, and houses on the other side—in fact, everything

which is of value to mankind. Such property truly represents money's worth, but, before it is possible to employ that value as a medium of purchase, it is first necessary to sell the property or, in other words, to convert it into cash which at any time will buy anything which is purchasable. The distinction between cash and property is, that the first is an universally recognised medium of exchange, whilst the second is not.

The customers of a bank pay cash into their drawing accounts simply and solely because they have not made up their minds into what class of property they will ultimately convert it: they leave their cash with their bank in order that it may lie there at their ready disposal. Now the banks are all anxious to create revenue for themselves by the employment of the cash so entrusted to them. But it is only when cash is lent on loan that it is capable of producing revenue. Consequently, the banks lend out their customers' cash at interest as fast as they receive it, with the result that the cash paid into a bank promptly leaves the bank and passes into the hands of a borrower. Again, the borrower

only applies to the bank for a loan, in order that he may employ it to his own advantage, and directly he so employs it, the borrower thereby converts the cash which he has borrowed into property which he acquires. It will, therefore, be seen that in the ordinary way of business it is the function of banks to receive cash from their customers and to convert the cash so received into property. This is the reason why the cash of which the public is possessed largely ceases to exist in cash form, it being converted into property by the everyday transactions of bankers.

Naturally the bankers, as is shown by the Table already given, do not turn the whole of the cash entrusted to them into property. They are careful to retain sufficient cash resources to equip themselves with till-money and to provide for the ordinary emergencies of business. With the result that so long as ordinary conditions prevail, and so long as the cash withdrawn from one bank by one person is promptly paid into a second bank by another person, the monetary world revolves steadily enough on its own axis. But so soon as there is the slightest clog in

these delicately balanced wheels, the whole machinery is thrown out of gear, and this is precisely what has happened in the United States at the present time; for in that country a deep-seated distrust of the banks is causing people to withdraw their cash and to store it in private hoards.

This withdrawing of cash from circulation is most crippling to the banker: for, although he practically never lends money except against ample security, the cash which he has lent is locked up in property. So that whilst he may be quite incapable of meeting the simultaneous demands of his depositors, yet the banker always has solid security in his hands; and, if he were only given time, any banker conducting a prudently managed banking business would have no difficulty in paying 20*s.* in the pound. Unfortunately, however, promptitude of payment is the very essence of the contract between the bank and its depositors, and it is the slightest suspicion that payment may be delayed which causes a panic. The nervous impatience of the agitated depositor will brook of no delay, and this is the menace which con-

stantly overhangs the banker, who does no more than employ the funds entrusted to him with the most scrupulous observance of the strictest canons of finance. Unfortunately, the traditions of the banking world have rather tended to foster this wild unreasoning demand for money on the part of depositors. For instead of adopting a policy of candour with their depositors and accustoming them in times of serenity to grow familiar with the fact that the normal condition of a bank is to employ its money up to the hilt, bankers have, in a spirit of over-cleverness, attempted to throw dust in the eyes of their depositors by indulging in the process known as window-dressing on the eve of each recurring half-yearly balance-sheet. This process consists in the banks calling in as much cash as possible in order to present an appearance of artificial strength in their published accounts. If instead of pursuing this vicious system, bankers were boldly to enlighten the public and to allow them to see the true cash basis upon which the pyramid of credit is built up, it is at least probable that bank depositors would in no long time become

educated to steady their nerves and keep their heads cool in times of financial crisis. It would certainly be to the advantage of the banking community if every depositor thoroughly understood the actual position, and if he were to realise that, given only reasonable time, all soundly constituted banks can meet their engagements without faltering.

The above argument establishes the fact that so long as money and money's worth are taken to be one and the same thing no trouble can arise. But property is money's worth, and it is in times of crisis that property cannot be converted into money. The root of all banking trouble lies in the fact that the cash resources of the world would only suffice to convert a very minute proportion of the property in the world into money.

Leading European commercial nations have adopted what is known as the gold basis for their monetary system, that is to say, gold is supposed by them to be the only kind of property which can be converted into money without any intermediate process of sale—by simply minting it into sovereigns, marks, francs, or dollars. As there is not enough gold

to furnish a sufficiency of currency, Government Bonds have to a certain extent been substituted for gold as the basis for an issue of paper-money. Thus, the Bank of England, for example, is empowered to issue notes not only against gold, but also against Government Bonds. Some people seem to be of the opinion that gold alone is capable of forming the foundation of a Monetary System. They seem to forget that for generations past this duty has been successfully fulfilled to some extent by Government Stocks. Gold, of course, is not money, as it is only the mint which converts gold into money. But Government Stocks are certainly not money but property, and yet this property has served very successfully as a basis for currency, so that it is in this direction, doubtless, that the solution of the whole monetary problem lies. It would seem as if Statesmen and Financiers would have to agree upon some process whereby some special description of property could be converted into money, without the necessity of its being first sold. We can convert money into property at any time, and if we could reconvert property into

money in sufficient quantity, when the necessity arose, the whole monetary and banking problem would be solved. The United States are taking a step in this direction by their contemplated issue of Panama Bonds. Let us hope that this issue will prove efficacious, and that it will indicate the direction in which a more elastic system of currency is to be found. For it is by this time patent to every one that the quantity of gold in existence is insufficient to meet the demand for currency which the present trade and commerce of the world entail. Further, there is no possibility that the stock of gold can increase sufficiently to satisfy this demand. Therefore some substitute must be found to supply the place of the gold which is not forthcoming. To some of my readers silver and bimetallism will here intrude themselves; they will say, why not simply add the stock of silver to the stock of gold, as used to be the case, and thus increase the quantity of the whole. These means would, however, prove quite inefficient; no, it will be necessary to demonetize gold, just like silver has been demonetized, and to start on an abso-

lutely new basis. I have worked out such a basis—but this is not the subject of the present article.

To the man in the street the whole banking position must seem ludicrous. He hears that one bank alone in the United States has failed for £40,000,000, and that many other institutions of similar size are hard pushed for money. He knows that the London Bankers' Clearing House turns over in the course of one year over £12,000,000,000, and on Stock Exchange Account Days alone more than £2,070,000,000 ; whilst the provincial Clearing Houses swell this total to the extent of £203,000,000 at Liverpool and £263,000,000 at Manchester, with proportionate amounts at other large industrial centres. Against this huge marshalling of millions he suddenly hears that, as a great concession, the Bank of France has arranged to allow three millions of gold to go to America and a further two millions is being shipped from England to the accompaniment of much head-shaking and knee-trembling on the part of our financial authorities, and with the Bank rate rocketting up to a point which

is calculated to strangle legitimate trading activity. In the midst of all this fuss and flurry it must appear to the disinterested spectator that these few paltry millions of gold sent out to allay a trouble involving thousands of millions of property is very like placing a fly in the path to arrest the charge of a stampeding elephant.

What reduces the position to a further point of absurdity is that statistical tables, showing the entire gold movement of the world, prove that this merely consists of shuttlecock shipments backwards and forwards, and that the permanent stock of gold in any one country, although it fluctuates, never fluctuates to any appreciable degree. It is true that some countries are steadily increasing their stock of gold, but the backward and forward movement of gold, whose function is supposed in some way to balance the trade of the world, is absurdly out of proportion to the volume of business done, for, according to Mr. Holt Schooling, the world's exports alone amount to over £2,000,000,000 per annum, and, as a matter of fact, the backward and forward gold move-

ment between nations has but little to do with the real settlement of balances between Debtor and Creditor Nations.

Only those who are directly affected and those who have gone deeply into the subject realise the amount of havoc which the present unsatisfactory monetary system of the world plays with trade and commerce. All commercial and manufacturing transactions are based upon careful calculations as to cost, and it is only when all the factors which enter into these calculations are stable, and alter but slowly by small degrees, that satisfactory results are to be obtained. Now, credit plays a leading part in every branch of commerce. Such credit has to be paid for in the shape of interest on borrowed money, and the amount of interest charged depends upon the BANK RATE, which is the official rate at which the leading bank of the country—with us, the Bank of England—is ready to lend.

This BANK RATE is used for the purpose of stopping the export of gold from the country, and whenever there is a money scare in any important commercial centre the

Bank Rate ruling there promptly moves up. By this means the price of credit is advanced and all trading calculations are forthwith upset. Although the average stock of gold in the Bank of England is only about £30,000,000 the actual amount of money lent for the purpose of trade in the United Kingdom exceeds £1,000,000,000. The question of whether 30 millions remains intact or not governs the interest charged on over 1,000 millions. Surely this is not as it should be. Again, the normal rate of the Bank of France is 3 per cent., and during the last twenty-five years it has never been below 2 per cent. nor above 4½ per cent. In Belgium the rate is even steadier, for it has averaged between 2½ per cent. and 3½ per cent., any movement over that figure being for a few days only. In England, on the other hand, there is no such thing as a normal rate, and traders have the greatest difficulty in keeping touch with its fickle movements. The reason for the comparative stability of the Bank Rate in other countries as compared with England is that England is the only country in which the export of gold is not hindered by legislation, so that this is the only coun-

try in which there is a free market in gold. Further, of recent years England has made no effort to increase her stock of gold, which from £22,000,000 in 1887 has to-day only increased to £29,000,000, whilst France, who held £45,000,000 in 1887, now holds £108,000,000.

But great fluctuations in the cost of credit, although they affect the trader seriously, inflict the greatest injury on the working-man, because a very large amount of credit is required for all permanent works, and consequently, so soon as the rate of discount becomes abnormally high, money is unobtainable for such purposes. The reason of this is that in times of dear money, although bankers will still lend to those who are likely to repay at short notice, they refuse to grant accommodation to borrowers who intend to lock it up in permanent works. So that in such times permanent works are brought to a standstill, and all classes of workpeople engaged upon them are thrown out of employment. The saddest of all news which we have recently received from America has been that 100,000 men have thus been suddenly deprived of work.

Only under conditions which insure the stability of the cost of credit can either labour, trade, or commerce prosper. These conditions depend upon a properly elastic monetary system. A system by means of which a sufficient amount of cash to meet all emergencies can be created at will, when and as it is required; and not a system, such as we have at present, under which there is not a sufficient amount of cash to go round, and all nations, consequently, have to work against one another to enable each nation to hold its own.

The whole of the national property of Great Britain is estimated to have a value of over 12,000 millions sterling, the annual national income is estimated at about 2,000 millions, and the whole stock of gold in the entire country is 125 millions. In other words there is about 2*d.* in the £ of property represented by gold, and the whole of this amount of gold is insufficient to pay one month's income to the nation. Truly these figures are utterly out of proportion to one another; but, in my opinion, it is not the stock of gold which should be increased. On the contrary, I want bankers and statesmen

to grasp the fact that some new system is required by means of which a large stock of gold could be dispensed with, and yet a very solid monetary system be established which, independently of the stock of gold, would prevent the English bank-note falling to a discount in the world's money market, and I maintain that such a system is quite possible.

Hitherto the obstacle to any great change in the monetary system has been that the bankers of the nation have been called in to advise on the proposed reforms. Such a proceeding appears to me to be analogous with calling in your enemy to advise on your plan of campaign. For statesmen appear to entirely forget that it is the banker who has brought about the present unsatisfactory state of affairs and that it is entirely contrary to the interests of the banking community that the existing conditions should be changed. If the entire nation had kept in their own possession the cash which now figures in bankers' balance-sheets as "Customers' Money on Drawing Account," we should now have at least £300,000,000 of cash in the country, and in that case no money scare and no con-

siderable fluctuation in the BANK RATE would be possible. It was the bankers' cunning which invented the cheque system by which the banker keeps his customers' banking account free of charge in consideration of the money therein being placed at the bank's disposal. As soon as the customer pays in money, the bank immediately lends it; with the result that the same sum of money appears many times over in various accounts and that about 90 millions of actual cash in the hands of all banks, including the Bank of England, stand for 900 millions, which these banks owe their customers.

If there were £300,000,000 of cash in the country, interest would be lost on £175,000,000, which at 3 per cent. per annum would amount to about 5 millions per annum. The annual income of the nation is 2,000 millions sterling and the National Budget has been raised about 40 millions in ten years, so that this 5 millions of loss in interest—although a large sum in itself—would make no appreciable difference to the nation's annual income. Besides, in reality, this loss would fall entirely upon one class, namely, the bankers,

and what do they afford the nation in return for the millions entrusted to them ? Nothing, except the gratuitous keeping of banking accounts. In fact, the entire banking community, although of very great importance, is insignificantly small when compared with the trading community and the general welfare of the nation. The amount of loss which the United States has sustained by the recent panic has exceeded many-fold the entire capital of all the American Banks.

Lastly, let us consider the manner in which money scares affect the private capitalist who has money invested in stocks. On the speculator or the speculative investor their influence is disastrous, and in many cases they cause the loss of large fortunes in a short space of time. The reason of this is that only those securities which fluctuate considerably appeal to the speculator who wants to make money out of the rise in stocks, and naturally enough these are the very securities which experience the largest set-back in times of money trouble. Such stocks are not held by strong investors, who have bought them as dividend-earning

securities, but they are rather in the hands of persons who propose to re-sell them at a profit. Speculative purchases of this sort are usually financed by bankers and brokers, and so soon as credit becomes restricted blocks of stocks, thus financed on loan, are pressed for sale upon markets incapable of absorbing them. Thus, for example, Chicago and Milwaukee Railroad Ord. have fallen 24½ points during the last two months, as they were held by speculators who were compelled to close their accounts, whilst the Gold Bonds of this railroad remained unaltered in value, the bonds being in the hands of solid investors who were under no obligation to realise. In the same way Northern Pacific Ordinary shares fell 29 points and Union Pacific 24 points, whilst the respective bonds of these railroads remained steady. This experience endorses the wisdom of the advice I constantly impress upon investors, namely, never to hold stocks which have a very free market, but confine themselves to securities in which purchases and sales are matters of negotiation. This latter class of stock is invariably strongly held, and no

speculators are interested in it. Therefore, passing spasms of the Money Market have no effect upon it, and for this reason violent fluctuations are unknown.

There is a class of perfectly sound gilt-edged investments which do suffer very seriously in money scares, and these are the new debentures and bonds issued in connection with companies whose work of construction still remains unfinished. Bonds of this sort are held by underwriters or are sold by the contractors as money is needed to continue the work in hand. Such forced sales naturally depress selling prices out of all recognition of intrinsic merit. But let us ask ourselves whether such a set-back in price entails any hardship upon an actual holder of stock. I venture to assert that it does not, always provided, of course, that the security held is really sound; in fact, under such circumstances, the fall in price is rather an advantage, as it affords holders an opportunity of making a further purchase on advantageous terms. And here I come to the point where the general disaster of a money scare becomes an opportunity to a fortunate few.

For during a money scare anyone who can command cash and who knows how to use it intelligently is king. There is no necessity for him to have the actual money in his bank, provided that he has stocks which he can sell, and thus raise cash. This is the explanation of the fact that during the very time when business has been almost at a standstill on the Stock Exchange the business of which I am a director has been brisker than ever. We are in communication with thousands of investors who hold millions of pounds' worth of stocks, the intrinsic merits of which are well known to us. Amongst these securities are many which do not pay a sufficient rate of interest, and are not so perfectly secured from a capital point of view as some of the stocks which are now to be picked up at bargain prices. Moreover, many bankers and brokers are aware of the advantageous position which my company occupies, and whenever there is a block of first-class securities on offer the refusal is usually submitted to us. We, after a thorough investigation, and having satisfied ourselves or the soundness of the stock so offered,

submit it in turn to our customers in exchange for some of their holdings of lower quality. We find that our customers are by no means slow to avail themselves of so excellent an opportunity of improving the character of their Investment Lists. The suggested exchange is effected, and thus a transaction equally satisfactory to all parties is completed. Our customers are pleased because they have obtained greater capital safety and a better income-yield without finding themselves under the necessity of providing any additional cash; the original holders of the depreciated stock are pleased because they have been enabled to obtain the money they required; and my company is pleased with the profit which it makes on the transaction.

Thus, in some businesses money ... are distinctly advantageous, as in the case of mine. Hence my comments upon banking methods are directed practically against my own personal interest, and are made solely with the view of contributing my share towards removing a block in the way of the world's progress.

Professional Men as Investors

THE readers of the *Financial Review of Reviews* are very largely recruited from the ranks of professional men. Amongst them, of course, there are many who have not only large professional incomes, but also private fortunes of considerable magnitude; but, taken as a whole, the professional class cannot be called wealthy. In the first place, the years of preliminary study, with their attendant expenses, have usually made a considerable inroad into the capital accumulations of the young professional man's parent, consequently his personal fortune is small if it be not altogether non-existent; secondly, the first years of professional life are proverbially barren. So that, in his early manhood, the average professional man, owing to his lack of private means, combined with the scantiness of his professional income, is possessed of no incentive to study the question of investment. Yet,

in order to provide for those who some day will find themselves deprived of his income-earning power, the professional man feels it peculiarly incumbent upon him to make every possible provision for a rainy day.

Finding themselves placed in the above position, with little or no investment knowledge and enjoying an income which is entirely dependent upon their individual health and strength, it has been natural enough that a large number of professional men who are subscribers to the *Review* should have used their inquiry coupons to ascertain what, in the opinion of the *Review*, a professional man should do with his money. Therefore the Editor asked me to deal with this important subject in detail in an article. I will, therefore, leave out of consideration here wealthy professional men and apply myself solely to the financial necessities of the less well-endowed majority.

In the professions a man is fortunate indeed if, after having attained to the position of a fully-qualified man, the expenses of living, studying, and the final examination fees have not swallowed up his entire capital. No matter which profession may be selected, be it

that of clergyman, doctor, lawyer, architect, or any other calling requiring special technical knowledge, the initial struggles in all of them are practically identical. It is open to a professional man to commence his career in two ways—either by setting up for himself and patiently waiting until capricious fortune may elect to send him work and a consequent opportunity of professionally distinguishing himself, or by joining himself in partnership with others who have already achieved some professional foothold. In the case of a man who starts upon a single-handed career the initial struggle is harder and fiercer, but the spoils of victory, when victory is finally won, are larger, owing to the fact that there is no other claimant to a share of the booty. Whereas in the case of the man who joins an already going concern, although his period of waiting for public recognition may thus be expeditiously bridged over, his income at the outset is generally an exceedingly modest one. But, whichever line of procedure he may adopt, it is practically certain that some considerable time must elapse before the young professional man will be able to detect any symptoms of ex-

pansion on the credit side of his Banker's Pass Book beyond the necessities of his daily wants. It is only when income begins markedly to outstrip daily necessities that the time arrives when the question of finding a "home" for surplus earnings becomes at all a burning one.

At first sight the idea of providing capital with a "home" may seem somewhat peculiar, but I have used the expression advisedly, as, in my opinion, the resemblance between the homes of living creatures and the homes of capital is very complete. Both types of home vary very widely in comfort and security, and having been under the necessity of working hard for his capital, the professional man is inclined to regard it with a certain amount of affection, and is anxious above all things that it should be particularly well housed. I do not wish to suggest that there is any special tendency on the part of the professional man to indulge in a miserly contemplation of his small hoardings; but I am convinced that one of the consequences of the high educational standard which prevails amongst professional men is that it makes them intelligently alert to the endless vista of misery which might

follow upon any neglect properly to house the first nucleus of capital. At some time or other all of us have to experience a rainy day, and we are all aware of the misery which the want of an umbrella entails upon us. Figuratively speaking, the umbrella represents the invested reserve fund, and, like the umbrella, the reserve fund should always be immediately getatable and in a perfect state of preservation when its services are suddenly called upon.

It will be seen, then, that it is essential that the first beginnings of capital should not only be safely invested, but also be so invested that such a portion of it as might be suddenly required should be promptly available. But before proceeding to indicate the best means of achieving these objects I had, perhaps, better preface my explanation by a few preliminary observations on the subject of investment generally.

With reference to investment, the public appear to entertain one or two extremes of opinion: they either regard it as an extraordinarily difficult problem which baffles any attempt at understanding it—and this type of capitalist generally falls into the error of leav-

ing his money on deposit at his bankers at an altogether inadequate rate of interest—or else they consider investment to be the simplest matter in the world, which consists merely of purchasing some security, indicated by a banker of broker as a safe stock. I need hardly say that both these extremes of opinion are incorrect and the only question is whether excessive timidity or excessive complacency ultimately proves the more expensive to those who indulge in them. Now my experience has proved to me that investment is a business, and that like every other business it requires to be learnt. I am also satisfied that it is as essential that every money-making member of society should learn to invest as that he should learn to behave at table. For without such knowledge a man becomes a nuisance to himself and a trial to all who have anything to do with him. Precisely as nature assists us to accumulate fat in our bodies, so that we may possess a reserve of strength to draw upon in case of illness, when the usual organs are incapable of providing the indispensable means of sustaining life, similarly do accumulated funds perform the same function for us

financially. But with this wide difference, that whereas the essential fat is provided by nature, the equally essential reserve fund has to be first created by our own individual exertions and subsequently systematically husbanded by our own individual care. The reserve outside our bodies is quite as important as the reserve within our bodies, and as the former is not self-creating it follows that the necessary attention must be given to its gradual formation. Neither is the gradual creation of a financial reserve and its sedulous protection when created by any means the difficult matter which many people appear to imagine it to be.

The publishers of the *Financial Review of Reviews* also issue some small Investment Hand-books, the most important of which on the subject of safeguarding capital are *How to Manage Capital* and *Investment an Exact Science*. The former of these books, whilst dealing with the whole of the Investment question, addresses itself more particularly to a discussion of the method of selecting individual securities. In *Investment an Exact Science* the main question discussed is the harmony

which must exist between the various types of securities comprised in a properly adjusted Investment Scheme. The latter of these two books I wrote myself, and my chief object in doing so was to explain in the most simple and direct fashion possible to the investor possessed of little commercial knowledge the various influences which control Stock Exchange values. Although both these publications were written for the information of the unskilled investor, it should not be imagined that they are in any way rudimentary books: indeed, the man of average intelligence, who studies them carefully, will rise from the perusal of these works fully competent to traverse the too prevalent investment heresy that the investor who contents himself with purchasing stocks, which are in themselves intrinsically sound, has achieved all that there is to be done in the important matter of endowing invested capital with permanent stability of realisable value.

In addition to these two treatises of Investment methods the same publishers are responsible for the *Investor's Shilling Year Book*, a book of reference containing valuable statis-

tical information as to all the chief investment stocks, and also for *The Eyar Investor's Account Book*, a handy form for investment book-keeping which will be found specially useful to those large and small capitalists who have drawn up their schemes of investment in accordance with the teachings of *Investment an Exact Science*. The intention of this set of books is to cultivate the investor's own self-reliance in the matter of investment. The reader is told not only what he should do, but also it is minutely explained to him why he should do it. He is encouraged to form an opinion of his own as to the eligibility of every security he purchases, and he is warned against the speculative elements which are likely to undermine the safety of his Capital.

For many reasons blind reliance on a banker or a broker for investment advice is unsatisfactory. Precisely as a doctor has difficulty in diagnosing his patient's symptoms, unless he is made fully acquainted with his past history and present habits ; and precisely as a lawyer is unable to express a reliable opinion unless the whole of the circumstances affecting a

case are candidly revealed to him, so financial advice in order to be applicable to the needs of an investor must be based upon an intimate knowledge of that investor's past accumulations and future prospects. Clearly, then, there can be no more competent financial adviser than the investor himself: for he is possessed of an inside knowledge of his own circumstances such as is possessed by no other living individual. A banker or a broker may recommend a stock sound enough in itself but altogether unsuited to the particular case under consideration. For this reason "Every man his own Financial Adviser" is a saying embodying far more wisdom than many people might suspect.

The next point the investor must fully grasp is that Stock Exchange securities possess both life and growth, and that like every other living thing which grows they require constant supervision. This is the elementary truth concerning every security from Consols downwards, and yet it is in strong contrast to the attitude of the average investor towards his own possessions. He buys what he considers to be a good security, and forthwith locks up

the stock certificate; subsequently he draws any dividends which may accrue, and then considers that he has faithfully discharged his duty to himself as a capitalist. It would be with open-eyed surprise that an investor would hear that in reality a stock certificate —or at least the security which it represents —is fully as much alive as any plant. That there are prosperous seasons in which a stock branches forth into luxuriant growth, and, again, that there are inclement seasons when rough weather strips the plant of boughs which have been the result of years of slow development, is an aspect of the investment question which the average investor is only too prone to neglect. A glance at the 164 pages of tabular matter at the end of the *Review*, giving the extreme quotations, dividends, and yields of 5,000 stocks over a period of four years, will suffice to show how individual securities shrivel up in value during the frosts of adversity and blossom forth into fresh records of high values in the sunshine of prosperity. These tables include every known type of investment, from the safest to the most speculative, and it will be found

that all of them, without exception, are constantly altering in value and in the actual yield which this value produces to their owners, and, consequently also, in desirability. With his perception quickened by a reference to these tables the investor will have no difficulty in appreciating the folly of locking up in forgetfulness an investment which if it is to thrive requires fully as much attention as any plant.

I hope I have now established in the investor's mind the two fundamental principles which are absolutely indispensable to profitable investment of capital sums of all kinds, whether large or small, and these are:—

1. A knowledge of the main investment principles.
2. A conviction that every investment is alive and demands periodical supervision.

Having settled these essential but general points I will now return to the more particular consideration of the case of the professional man at the time when he first begins to find himself possessed of a surplus cash sum at

his bankers. Now, the leading banks of this country may fairly be assumed to be perfectly safe so far as their depositors are concerned, and cash deposited with them may be regarded as always readily available. But in return for the responsibility which the banker assumes, in relation to his depositor, he allows him the very smallest known rate of interest on his deposit. The banker, in fact, exerts his own investment knowledge in the employment of his depositor's capital, and naturally enough he makes the depositor pay for his expert investment experience. Therefore it is important that the professional man should understand that when he ceases to thus employ his banker as his medium of investment he is undertaking to assume in future the responsibility and the supervising care which the banker has hitherto exercised on his behalf.

Let the investor, therefore, before he assumes this responsibility, fully make up his mind that the game is worth the candle; that is to say, that the sum to which he proposes to devote his personal attention is sufficiently large to make the sacrifice of some portion of his time worth his while. Here, doubtless,

some of my readers would like me to suggest a minimum specific amount as representing my own idea on this point. So much, however, depends upon the amount of spare time that the investor possesses that a hard and fast minimum cannot be laid down. Suffice it to say that the sooner a professional man accustoms his mind to deal with commercial questions the better, and that, in some cases, £100 capital would be sufficient to induce a man to assume the responsibility of investment; yet, in others, £1,000 would scarcely repay a man of many engagements for the demands upon his time in which the personal care of his capital would involve him. In his early days as a capitalist the professional man may possibly find that the Post Office Savings Bank will allow him a more liberal rate of interest than his own banker, but on no account should capital be entrusted to the safe-keeping of any person or institution of less financial stability than the two classes of banks which I have named.

Sooner or later the time will arrive when the professional man will have a sufficient amount of money accumulated in his bank

to make it worth his while to seek an investment for it. At that moment, and prior to deciding on the purchase of any security, he should make a survey of his entire position in order to make a rough estimate as to how much money he is likely to have to spare annually for the purpose of investment.

In *Investment an Exact Science* I have explained why all investments should be made on a previously constructed Investment Scheme, and such a scheme as is there indicated he ought now to make for himself, taking his present position and future prospects into consideration; he should, in short, choose his first investments in such a manner that they can be added to year by year as further sums become available. In constructing the scheme he should, so far as possible, follow his own personal inclinations and desires, that is to say, if he is satisfied to allow his capital to grow slowly he should choose only stocks of the greatest stability: if, on the other hand, his natural tendency should happen to be impatient, and he is desirous of exerting his capital strength, so to speak, to the utmost, let him choose more

speculative ventures. But in arriving at a decision on this point he must never lose sight of the fact that capital safety is the first consideration, and, further, that all investment schemes, in order to produce satisfactory results, must consist of stocks of a kindred kind. He will find all these points fully explained in the books already mentioned.

Let me impress upon him the necessity of implicitly following the instructions therein given. Capital which is earning between four and four-and-a-half per cent. is doing its ordinary work. Capital which is producing a larger return is working "overtime," so to speak, and therefore requires infinitely more care and attention than that which is working at more normal pressure. Let the investor also remember that quite unforeseen events may occur to him personally which may make free cash a sudden necessity, therefore let a part of his capital be placed in such securities as can be realised at all times without any trouble or delay.

If the professional man will follow the lines which I have laid down above he will obtain the following advantages :—

1. He will understand clearly in his own mind "how" his own capital is invested.
2. He will protect himself against capital losses.
3. He will always be able to realise and to turn a part of his capital into cash in case of an emergency.
4. He will, most important of all, accomplish these objects without any taint of speculation.

Let me here say a few words on the subject of speculation. If any one deliberately, and with his eyes open, enters into a speculative venture, then he knows what he is doing, and he has no right to be surprised if the results achieved are disastrous. But to speculate without being aware of it is nothing short of a calamity, and to be quite frank this is the snare into which professional men are somewhat apt to blunder. They usually commence their investment operations without clearly understanding that anyone who invests his capital exclusively in the stocks of any one country—no matter which may be the country selected, nor what may be the quality

of the securities chosen—is simply staking his investment position on the trading prosperity of that particular country. Now, a nation's trading prosperity is a very fluctuating commodity, and any investor who is improvident enough to stake his capital upon such an uncertainty is, in fact, gambling; and, moreover, he is gambling so blindly and unconsciously that he naturally neglects to take any precaution. And to raise another point, he does not know that out of every ten new companies which are promoted, only one sees its twentieth birthday, and at least half of them result in entire loss to their shareholders. He does not understand that buying shares at a high premium is tantamount to buying the good-will of a company at an enormous inflation; in fact, he has not taken the trouble to learn the rudiments of sound investment, which he could have done by reading some sound literature on this subject. Although he never intended to speculate he suddenly finds himself face to face with a disastrous capital depreciation, and ultimately perhaps he is involved in a very heavy loss.

I have analysed the existing lists of invest-

ments of many hundreds of professional men, and I have found that only in the very rarest instances have proper precautions been taken for really safeguarding capital. I feel quite certain that most of the professional men who read this article will find that they have not followed the simple rules here laid down for investing their surplus funds, that their investment lists are not constructed on a systematic plan, and that the results which they have obtained in the past on their investments have been by no means satisfactory. The tests which should be applied to investment lists in order to find out whether the capital is properly laid out are as follows :--

In the first place the total capital value of all stocks held should not vary materially year by year.

Secondly, the investor throughout his career should always find himself in possession of at least one stock which is realisable without loss.

Thirdly, the total amount of income derived from the aggregate investment should be stable, or if it alters it should be working upwards on a rising scale.

These three objects can only be attained

by a proper distribution of capital risks, and such a distribution can only be arrived at through a knowledge of the influences which affect the realisable value of invested capital.

When an investment list does not exhibit the three main characteristics of sound investment mentioned above, namely (i) stability of capital value, (ii) one or more stocks standing above cost-price, (iii) a steady income with an increasing tendency, then it may be taken as proof positive that it is faulty in its construction. To amend an existing faulty investment list is a much simpler process than many investors imagine, and it is imperative that some steps should be taken at the earliest possible moment to remove the impediment to success. At all events an expert opinion on the scheme, as it stands, should be obtained speedily, as knowing the cause of the trouble is already half-way to removing it. If there was no means of achieving an investor's aims with certainty, there would be some excuse for incurring severe investment losses, but as such a system does exist, and as the simple rules laid down herein explain how success can be ob-

tained, there really is no excuse for exposing invested capital to possible loss.

To a gambler, or one with a bump of speculation strongly developed, this whole argument is not likely to appeal, but to every investor who does not desire to speculate it should appeal, and if he will simply leave his money in his bank on deposit until the sum is sufficiently large to make it worth his while to learn the simple art of investment, and he will then construct a properly balanced investment scheme and follow it implicitly, he will find that instead of his capital accumulations constituting a source of worry and of loss, they will prove a pleasant problem capable of a scientific solution.

If, on the other hand, the investor has already started and found from results that his existing scheme is faulty, he should forthwith set himself the task of acquiring the requisite amount of knowledge and then proceed to reconstruct his investment scheme on sound lines. If this plan were universally followed we should hear no more of losses on capital made by professional men of limited means. Most professional men have to work

very hard indeed for their money, and they have frequently to deprive themselves of many little luxuries in order to be able to lay up a nest-egg for the future. Considering the difficulty with which professional men accumulate capital, it is surprising to see the recklessness of results with which they invest it.

I have now explained that the fault is their own, that although they may have expended no matter what amount of personal exertion to acquire capital, they do not hesitate to expose it to every kind of imaginable danger, and this almost criminal carelessness simply arises from the want of easily-acquired knowledge and a little foresight. I have, of course, approached the subject from my own point of view, and I should be very glad to hear the other side of the subject (if there is such a side) from any investor who has, without following the lines laid down in this article, achieved investment success, and I feel quite sure that nothing will please the Editor of the *Financial Review of Reviews* better than to receive information as to the construction of an investment

scheme compiled on principles differing entirely from my own and yet producing satisfactory result. The Editor would welcome any discussion which tends to enlighten the readers of the *Review* on the important subject of profitable investment, for, as I understand it, the object of the *Financial Review of Reviews* is to spread amongst its readers investment knowledge and investment experiences culled from every reliable source of information.

In the course of this article I have been compelled to refer somewhat freely to the teachings of a book of my own entitled *Investment an Exact Science*. I have done so with a reluctance which will readily be understood, but, without such references, it would have been impossible to compress so large a subject as scientific investment within the short compass of a *Review* article.

The Money Market Article and the Private Investor

THE values of all commodities are in a constant state of change, and a correct record of all these changes is one of the most important points in every trade. For this reason all newspapers devote a certain amount of their space to the record of the changing conditions of various markets, and among these the article which deals with Money and Stocks holds the first position. This is only natural when it is considered that whilst, say, the Iron Market, the Fish Market, the Copper Market, or the Timber Market is directly interesting only to one particular class of traders, the Money Market is interesting to all of them, as it governs to a very large extent the prices of all commodities. This is the reason why the Money Market, both in position and in the amount of space

allotted to it, takes precedence of all other items of commercial intelligence.

The private Investor may or may not be interested also in the price of commodities, but as soon as he has money invested in stocks the general trend of the Money Market influences the value of his stocks, and is therefore interesting to him. On the surface it would appear that the average Investor has indeed a very large interest in reading the Money Article of his daily newspaper, as he will there find recorded the upward and downward tendencies of a considerable number of Stock Exchange securities, some of which it is probable are included in his own Investment List. In thus following the movements of the Money Market his object naturally is to know the condition of his own stocks, and probably he also hopes to profit by the knowledge thus gained. Let me analyse, then, how far the average private Investor is capable of profiting by the study of a daily record of the movements of the Money Market.

The British Stock Market comprises some 35,000 securities of various types; of this

number about 2,000 or 3,000 may be catalogued as really important stocks. The important securities are, of course, those chosen by the City Editor as forming the basis of his daily writings. Now the average Investment List embraces about 15 stocks. Although there are all sorts and conditions of private Investment Lists, the capital value of which varies almost infinitely—the man of great wealth investing millions whilst the proper disposal of £100 or less engages the attention of numerous small capitalists. The small Investor is, perhaps, interested in two or three stocks while the multi-millionaire will find it prudent policy to confine his attention to not more than, say, 100 investments; so that an Investment List composed of 15 stocks may, as I have said, be taken to represent the holding of the average Investor. It will be seen, then, that the average Investor is interested in $\frac{15}{3500}$ of the investments known on British Stock Markets; so that his interest in the important stocks to which the City Editor confines his attention is infinitesimal. When the matter is thus expressed it is clear that

the average Investor's personal interest in the Money Article, as far as his own holding is concerned, must be very minute.

If the only result of reading the Money Article by the individual Investor should be that he thereby is enabled to follow the movements of his own Stocks, the result so obtained, as we shall show hereafter, would indeed be paltry, but although many readers of the Money Market Article believe that they should make this their chief object, quite the contrary is the case.

It is not the movements of individual Stocks which should be looked for in the Money Article, but it is rather the general movements in the value of money which form the important information to be gained therefrom.

We have shown above how very few Stocks in which he has a particular interest, each individual Investor is likely to find recorded in his Money Article. The Stocks which he does find recorded, however, are representative samples of large groups, and it is by knowing how the representative Stocks of a group have moved that the altered value of stocks not quoted is to be ascertained. Thus,

for example, when the Money Article reader sees that the Japanese Government Securities quoted in London have risen, say, 5 points in value, he can infer justly that Japanese local investments like Nagasaki Docks, Kobe Waterworks, and such like, are likely to have appreciated to a similar extent. Again, when he sees that the general rate of discount in Brazil has considerably receded he can take it as a natural consequence that his local Brazilian investments which are not quoted, have gone up in value. It is, as we shall be able to show, these changes which should be watched in reading the Money Article. In fact, the Money Article is a general indication of the rates of interest stocks should produce, and it is not intended for merely watching the fluctuations of individual investments.

City Editors, whether they are attached to Conservative, Liberal, Progressive, or even Revolutionary journals, are still nearly all conservative in their methods. A stock once placed on their list for daily discussion stands every chance of being included in that list for a considerable period of time; as such a

list is only subject to very gradual alteration. So that an Investor who habitually reads the same paper may, if he invests his available capital in stocks which are regularly mentioned by his favourite City Editor, have the satisfaction of reading something about his own property daily—at least for some time. Sooner or later, however, one or other of his investments will certainly be deleted from his City Editor's list. Therefore, in order to retain only such stocks as are mentioned in his newspaper, the investor would find himself compelled from time to time to make considerable changes in his Investment List. Those who wish to indulge in an interesting and profitable study should scan the financial columns of their to-day's paper, and then compare them with the contents of the same columns, say, two, five, and ten years ago. Such an investigation would reveal the fact that, although City Editors are conservative in their habits, yet the daily list of the stocks which they discuss varies considerably with the lapse of time. As it is exceedingly doubtful whether any Investor, in whatever degree of reverence he might hap-

pen to hold his City Editor, would go so far as to change his list of stocks with the view of having the pleasure of seeing them discussed in his daily paper, the conclusion is inevitable that the number of private Investors who find many of their holdings thus reported upon is very limited.

Having shown, then, that in many cases Investors do not really follow the movements of their own stocks in their perusal of the Money Article, I now desire to examine how far the daily reading of the progress of these stocks, or of stocks remotely connected with them, can be turned to the profit of the Investor. With this object in view let me take two cases—one where a stock held has risen appreciably and another where some security quoted daily has receded in value to a considerable extent.

Taking the former case first, there are two chief reasons to account for the upward price-movement of a security. Either the price goes up on the improved intrinsic merits of the stock or because some individual or group of individuals believe, or announce that they profess to believe, that its future prospects

are particularly bright. Whichever of these reasons may be responsible for the upward movement, the reasons in themselves are simple and devoid of complication and do not admit of a daily continuous discussion. Hence the amount of butter which the City Editor has to distribute over his very large slice of bread is decidedly small—a rise of the kind indicated above sometimes taking years to accomplish. He is forced, therefore, either to repeat himself constantly or to revert to market gossip and street rumours. If he chooses the latter course his readers who make a point of reading the bewildering imaginary reasons so given for a rise in their stocks, naturally work themselves into an unsettled and unreasoning frame of mind. Their judgment becomes clouded and they read of so many causes why their property must fulfil the various sanguine anticipations as to its future that the conviction gradually forces itself upon them that it would be unwise to sell their stock and to secure their profit, no matter how large might be the profit they would realise by so doing.

A notable example of a movement of this sort has occurred quite recently in the case of Hudson's Bay shares. Here was a stock which was selling at only £33 per share about three years ago, and in December last touched 123. The tables of quotations show the rise to have been quite gradual; in 1903 the average price being 39¼, in 1904 45½, in 1905 69¼. During the three years which have witnessed such an extraordinary change in the value of these shares, there has probably hardly been a single Money Article which has not mentioned the Hudson's Bay Company, with the result that this continuous rise and the daily discussion of it during its progress have effaced the past history of the concern from the memories of those who acquired shares at low quotations. They now overlook the fact that as three years ago the company's shares were selling at a total market valuation of £3,300,000, and have now reached a valuation of about £12,000,000, it is quite possible that the shares are considerably overvalued. These being the facts of the Hudson's Bay Company's history, the action of an investor in retaining the stock without most seriously

investigating the real present position of this company shows him to be wanting in foresight. One of the most difficult things in the world is to induce an investor to turn his paper profit into a cash profit, i.e., to realise his stock at its enhanced temporary market price. This difficulty is rather increased than diminished by its holder being constantly confronted by the prominent position which his stock has evidently assumed in the eyes of such financial experts as the great run of City Editors undoubtedly are.

Again, for example, it was quite obvious to the careful investigator that London and North-Western Railway Ordinary Stock was not worth 209¾ when that price was reached in 1897. The present price of the stock is about 153. Yet how many Investors were there who took practical advantage of the inflated quotation ten years ago and realised their paper profits ? As a matter of fact such prudent holders of North-Westerns were exceedingly few, and I happen to know that those who did thus benefit by the rise in price were, for the most part, not amongst the assiduous students of the daily Money Article.

The constant microscopic study of price fluctuations rather cripples than develops an Investor's power of taking profits; therefore, in the case of the rise in prices the regular reading of a Money Article is detrimental rather than useful.

Now conversely I should like to show how the constant study of price-movements works out in the case of a fall. Every one feels a natural disinclination to sell for 19*s.* 6*d.* anything for which £1 was obtainable a short time ago, and he experiences an even greater reluctance to accept 18*s.* 6*d.* for the same article later on. I should like my readers to consider the following case: Supposing they own something which cost them £1 and that without warning they see it only worth 15*s.* The suddenness of the alteration startles them. Is it not sudden calamity, in any shape, that impels a man to pull his wits together, to set his teeth, and to face the situation squarely? On the other hand, had the investor merely witnessed a gradual dwindle in the price extending over a number of years, and ultimately culminating in a similar fall, he would have found that the

very persistency of the decline had softened the fall to such an extent that he had never properly appreciated how disastrous it had been. He consequently continued and will continue to hold his unsatisfactory investment regardless of the amount of dissipated capital which it represents. A gradual decline of this description reminds me of the story of a man who had a dog fancier for a neighbour. He found himself disturbed evening after evening by the piteous howling of a dog next door, and believing that the animal was being ill-treated, he spoke to the owner on the subject of the noise. The dog fancier, whilst expressing every sympathy for the dog, explained that he was desirous of cutting off the animal's tail to make it look fashionable, but as he could not reconcile his conscience to the cruelty of cutting the tail off all at once, he had adopted the expedient of cutting off a small piece each evening, so as to accomplish his purpose the more humanely and gradually. Investors will find by experience that it is better suddenly to be made aware that their capital is diminishing than to perceive that it is

slowly wasting away by small fractions at a time. My arguments will, I hope, prove that whether one of his stocks has risen considerably or whether it has seriously declined, the constant reader of the Money Article will find himself a sadder but not so wise a man as the non-reader.

I will now take a stock, in the shape of the Egyptian Unified Debt, to illustrate what happens when there are constant fluctuations without any ultimate result. This stock during the last few years has occupied a prominent place in the generality of Money Articles. It has fluctuated to some considerable extent, and yet to-day the price is much about the same as it was some five or six years ago. The fluctuations have, in fact, been non-resultant, and the Investor has been kept on tenter-hooks meantime by his attention having been daily called to the fact that his stock has gone up so much or down so much, and now at the end of five years he finds himself in exactly the same position as he started from. It is clear, therefore, that neither in the case of a rise nor in the case of a fall. nor in the case of a placid pendulum

movement, does the daily reader of newspaper finance profit by his reading.

But because many of its readers wholly misunderstand the purpose of the Money Article the average investor must by no means jump to the conclusion that Money Articles generally are useless institutions. I shall be able to show presently that this inference is erroneous; but before doing so I would touch upon one other danger which besets the "constant reader" who is also a prospective purchaser of stocks. His reading makes him familiar with a certain number of investments which form the topic of constant allusions in print. Such stocks being thus made the centres of discussion become familiar to him, and he is therefore prone to infer that it is amongst securities of such general interest that he will find the best material out of which to construct his own Investment List. The fallacy of this belief is, however, obvious. For an intending purchaser should always go to the cheapest market, and by the law of supply and demand it would be foolish for him to think of making his purchases in a market which is over-crowded with buyers.

As nearly all the Money Market Articles in the British newspapers record the movements of practically the same stocks, these stocks are the most advertised. With the eyes of so many Investors upon them, it is surely improbable that a real bargain can be obtained in these much-discussed stocks. On the other hand, of the 33,000 "unimportant" stocks, some are merely quoted locally, some are recorded in journals like the *Financial Review of Reviews*, and a number of others are never discussed at all, the result being that some of the finest securities are never brought to the notice of the average Investor. Every company's list of shareholders records changes of proprietorship from time to time. There are deaths, which necessitate a sale of the shares by the executors; other holders desire to realise, in order to put their capital to some other use, and thus the shares and debentures of these neglected properties come into the market. They are known to but few Investors, which fact ensures but few buyers. Amongst these few are to be found the Investors who are determined to secure a bargain by purchasing a sound security at a

comparatively low figure. Here I am going to anticipate the argument that it is not good to own a property which cannot be immediately realised at any time. This argument, however, does not apply. Those who buy a stock with the definite object of shortly selling it again—in other words, Speculators—must, of course, consider the immediate marketability of a stock before any other qualifications, but an Investor who purchases with the view of holding his investment for years need have no qualms on the question of its being readily saleable or not. In an emergency a good stock will always find a ready purchaser, and I have never known of a single case where a really sound security has gone begging. Therefore, to pre-suppose the case of a good investment ever being unsaleable is a mistake, as such cases do not occur. In any well-arranged Investment List there should be no difficulty about selling one or two of the stocks held at any time. In any case the immediate marketability of a stock is a volatile qualification, and cannot be said to be a permanent characteristic of any stock. To-day a stock might be very readily

saleable, and a year or two hence it is possible that the Investor would experience some difficulty in disposing of precisely the same stock.

One of the most forcible examples of this kind is to be found in the case of the *London, Brighton and South Coast Railway Company Preferred Ordinary.* I have in my mind a time when any quantity of this stock up to, say, £30,000, could be sold at a moment's notice; and this without affecting the price-current of the stock. I had £10,000 of this stock on sale last summer for six weeks, and then could not realise a proper market price for it. *Mexican Railway Second Preference* is another extreme example of the fickleness of a stock's saleable quality. I remember trying to sell a quantity of this stock some years ago. The transaction fell through, as I could neither realise a fair price for it, nor was it possible to borrow money on it. To-day, any reasonable quantity of this stock can be disposed of on practically the same easy conditions as those which governed transactions in *London, Brighton and South Coast Railway Preferred Ordinary Stock* some years ago.

What, then, doth it profit a man if he read

the Money Market Article and gain nothing? All reading should produce some good. In the Highlands they have a proverb to the effect that the man who has grown wise has learnt from fools. No matter what may be the subject matter of the book or newspaper, the reader should be able to gather a certain amount of knowledge or information from it. It is thus that an Investor should read his Money Market Article: he should put his own case before himself as follows:—"I have a certain amount of money invested, therefore a section, however small, of the Money Market Article belongs to me. My money, being merchandise, must be taken to the best market if I wish to obtain the most satisfactory results. I have employed my capital as seemed most profitable to me at the moment, but I am in no way fettered as regards my investments, and, if a better method of employment for my merchandise were to present itself, I would alter my *modus operandi* without the least hesitation."

Having convinced himself that this is the right position to take up, the Investor should look upon the Money Market Article as a

barometer from which to judge the existing conditions of markets generally. He will there learn not only how the value of money generally is moving, but also how the value of each particular group of investments is trending. From a study of the conditions of, say, Foreign Bonds, he will notice that *Argentine 4 per cent. Bonds*, which, in 1900, could be obtained at about 60, have crept up to about 93 at the present time, and he will thus know that the Argentine Republic is not now so suitable a place for laying out his capital as it was a few years ago, when he could get over $5\frac{3}{4}$ per cent. on money loaned to that Government. The $4\frac{1}{2}$ per cent. obtainable now is not sufficient to counterbalance the disadvantages attendant on having one's capital invested in a quarter of the globe where the time is divided between the anticipation of political excitements and the actual experience of them. *Russian 4 per cent.* is an example of the opposite type. Those who used to obtain a yield of 4 per cent. on that stock can now procure it at a price at which it yields $5\frac{1}{4}$ per cent. In former years the Investor may have eschewed the Preferred

Ordinary Stock of the Home Railways as not being very remunerative, as they only returned a yield of 3¼ per cent.; now, however, 4 per cent. can be obtained on these stocks, which seems a much better rate on such old-established investments.

Supposing, then, that the Investor, from a study of the Money Article, has been able to watch the trend of the different markets of the world, he should now be in a position, if he applies his knowledge rightly, to so adjust and re-adjust his investments from time to time as to always remain in the best market. It will be seen that he would not be able to compile a good list of investments from the very limited selection he finds in the newspapers, but he ought to take his cue from his reading, and make his selection as opportunities offer. For instance, having come to the conclusion that Home Railway Stocks are cheap, he should not make random purchases in that particular investment department, but he should study a complete list of British Railway securities and their yields, and then make his selection carefully in accordance with the past histories of the

respective stocks. *City and South London* 5 *per cent. Preference Stock* yields, at the present price, about 4½ per cent.; *Dublin, Wicklow and Wexford* 4 *per cent. Debentures* about the same, and *Isle of Wight* 4 *per cent. Consolidated Preferred Ordinary* 5 1/16 per cent. True, the *City and South London Railway* may be subject to some competition, as are all pioneer enterprises, and the *Dublin, Wicklow and Wexford Railway* (now the Dublin and South-Eastern), though not subject to competition, is said to request its passengers not to alight in order to gather flowers during the journey. But these facts do not alter the central truth that the stocks are fairly cheap, considering the high esteem in which the Home Railway group is held. Such stocks as the above do not come under the notice of the ordinary newspaper reader, and yet, from a capital point of view, they will be found just as good as, if not better than, stocks which find daily mention in the Money Article.

To confine one's selection to the few stocks contained in the Money Article is like dealing in a small shop which you may have entered merely for the sake of verifying your own

opinion that you will not find what you want there. It is possible, however, that something in the small shop may remind you of a similar but better-class article that you do require, and thus, when you arrive at a large store, you will know exactly what to buy. In the same way, the intelligent Investor, after first deciding, from knowledge acquired by reading the Money Market Article, what securities will most nearly answer his requirements, and then consulting an extensive list such as the tables given in the *Financial Review of Reviews*, will obtain the finest opportunities of making those comparisons which are the one great essential to successful investment. It would be curious if, after having thus closely studied respective merits, he were to fail to make a proper selection.

It is with stocks as with every other commodity in the world. If some of them are held in high estimation by a great number of Investors, there will be more buyers than sellers, and the consequence will be a high range of prices which altogether precludes the possibility of their being attractive and remunerative investments.

A good bicycle would be just as good were it a Humber, a Swift, or a Rover. The practical prospective buyer, who knew it to be first-class, would make up his mind that a Rudge-Whitworth by any other name would run as well, and buy according to his opinion of the innate merit of the machine. It is really much easier to know whether a stock is of first-class quality than it is to know whether a bicycle is sufficiently perfect for use. For the latter, a certain amount of technical knowledge is required, while in the case of the former, the simple rules laid down in *How to Manage Capital* are sufficient for any one of ordinary intelligence.

Although the realisable value of stocks is said to change, it is equally correct to say that it is the value of the money which purchases them that varies. The value of money is measured by the amount people are prepared to pay for its use, i.e., by the income yielded by it. At the present moment money in England is worth from £4 to £5 for every £100. In Japan it is worth from £5½ to £6½. In Russia from £5 to £6 per £100 is its value. Formerly money was worth from

£3½ to £4 in England, and from £4 to £5 in Russia. In this way the value of money constantly changes, according to the supply and demand of the moment, and it is by watching the trend of values by means of the excellent information contained in the Money Article, and applying the knowledge for one's own benefit, that one makes sure of receiving the largest income compatible with safety.

Every Investor should insist first upon keeping his capital sum intact. When once the value of money has risen, and in consequence when the realisable value of his securities has declined, the Investor will find it difficult to improve his position, as he will then be dealing with a diminished capital sum. Nowadays, the guarding against a possible loss of capital is much more easy of accomplishment than was the case formerly, as, by applying the system of Geographical Distribution of Capital, the Investor will, in the first place, make a point of properly distributing his risks, and then, by means of reading the Money Article, he can ascertain in which quarter of the globe the most satisfactory yield is obtainable for

the time being. Then, as advantageous opportunities offer themselves, he will know how to make the most successful moves with his capital on the geographical chess-board. It is this type of Investor who succeeds in obtaining the largest return with the minimum amount of risk.

There is a last and final point which I have not touched upon, which treats of the question of speculation. It is natural to suppose that the person who is ignorant of the fluctuations of a stock will never be attracted to it from a speculative point of view. The Investor, however, who watches the persistent rise of one of his stocks, and sees it eventually fall again, is vexed with himself that he did not profit by the opportunity. In this way, the reading of the Money Market Article becomes an incentive to stock speculation, and experience has proved that these half-and-half speculators invariably lose by their ventures. The man who takes up speculation from a professional point of view might be able to make it pay, but not so the Investor who has acquired a taste for it from reading the Money Article. This is another

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The Investor's Mind

THERE never was a time in the history of the globe when trade competition was keener than it is to-day. In the same ratio as the population of the world increases, the battle for existence becomes fiercer until, to the onlooker, it appears almost impossible to discover any branch of business-activity offering an opening for a successful departure from the beaten track, which already bears the footprints of the countless thousands of wayfarers who have travelled by it. Every trade and profession seems to be over-supplied with men of energy, resource, and ideas; and yet, in the midst of this multitude of workers, anxious to be doing something useful to their fellow men, there is, in my humble opinion, a most important section of the British public which is by no means adequately catered for—namely, the investor.

There exists, of course, an enormous army

of Bankers, Brokers, Stock Jobbers, Company Promoters, and others whose calling in life consists almost exclusively of supplying the investor with what they think he really wants. But it is my conviction that but few of these people have gauged the investor's requirements with sufficient accuracy to discover his real mind. Let us then first of all examine what are the wants of the vast majority of investors, and then let us consider to what extent these wants are supplied.

To probe the inner minds and the actual intentions of so large and miscellaneous a throng as is comprised in the British investing public is obviously a task quite beyond any single individual. But in the same way as all enormous masses may be satisfactorily tested by fair average samples indiscriminately drawn from the bulk, so I may claim to have a wide and general knowledge drawn from personal experience, because for upwards of five and twenty years I have been engaged in the investigation of the merits of stocks and shares, and I have availed myself of my opportunities of studying the investor closely. Very early I discovered

that, although the investor knew his own mind intimately, he had great difficulty in making his intentions clear to others. The investor was possessed of all the necessary decision, but his decision was inarticulate; he was too prone to assume that the particular type of investment securities which he personally desired was the one type invariably selected for all investment purposes.

The investor had ideas of his own, but his trouble was to give coherent expression to what was in his mind. To meet this difficulty I commenced a system of examining my customers verbally as to their requirements. But I soon discovered that it was a more effective plan, in order to render the investor perfectly explicit as to his wants, to supply him with a question paper to fill up at his leisure. The question paper which I drew up contained a number of alternative investment propositions, and it was pointed out to its recipients that the ultimate selection of securities suitable to their requirements would depend upon their written replies. It will be seen, therefore, that the replies which I received were the deliberately thought-out

intentions of men who were on the point of dealing with capital sums of great importance to themselves. Under such conditions I may fairly claim that the replies given actually represented the investors' real minds on the subject.

Some thousands of such replies were examined by me, including investors from every class of society, ranging from thrifty workers who had saved up sums approaching £100 to noblemen and commercial magnates, whose investments ran into six figures. The view I have thus been permitted to take of the investor's mind has therefore been a wide one, and it has led me to make the following observations.

The questions asked naturally varied in each individual case; but, briefly summarised, they first of all directed themselves to the Safety of Capital, then to the matter of Income, and, lastly, whether a probable increase in Capital Value was considered essential. Also, if such increase in Capital Value were desired, whether the investor was prepared to incur additional risk. I further inquired if the investor had a preference for

any particular class of investment, or for any particular country, or whether he had an objection to any class of stock or to any country.

When I first drew up these question-forms, my business friends derisively assured me that every one would answer that he wanted absolute Safety of Capital, a very large Income, and at the same time the opportunity of increasing the Value of his Capital without running any risk; they further asserted that almost every investor craved for a small gamble, and they tried to prove this assertion by the indisputable fact that more than 90 per cent. of all the business which takes place on British Stock Exchanges are speculative transactions.

Actual results, however, entirely falsified these predictions, for the great majority of investors replied that the question of Capital Safety was all important to them: they declared themselves satisfied with a most moderate rate of Income, provided that their Capital was safe, and hardly any of them desired to incur the slightest risk, however tempting the chances might be of an improvement either in capital value or in income.

This result conclusively proved how sound were the fundamental ideas and intentions of British investors, and how undeserved were the investment losses which they incur with such deplorable frequency. Almost without exception they expressed no particular wish as to the class of enterprise or as to the country in which they were willing to invest. Whenever special views were given I noticed that they were connected in some way with the calling of the individual investor, or that they were based upon religious convictions or personal prejudices quite unconnected with the actual question of investment. For example, more than half my clerical customers objected to investments connected with the manufacture or sale of alcoholic beverages; others declined to lend financial support to businesses which were carried on on Sundays; whilst quite a number of investors, whose opinions had been moulded by travel, objected to particular countries because they disliked their form of government or the national character of their inhabitants. Some investors had a prejudice against all places of amusement, and in one

instance drapery businesses were excluded as calculated to encourage an extravagant outlay on feminine finery. The manufacture of guns and military equipment was naturally enough regarded with aversion in some quarters, and one old country squire considered shipping companies a national danger, as they facilitated the importation of foreign wheat and were, by this means, ruining English agriculture. Such was the nature of the reasons expressed for excluding certain classes of investment and certain countries; but, in the great majority of cases, a perfectly free hand was given as to selection, and the requirements as to income were of the most modest description.

It is true that there were some few exceptions to the general reasonableness of the investors' demand, but in most instances these were traceable to sheer necessity rather than to actual greed. There were some investors so situated that they were bound to insist upon a high yield of interest in order merely to subsist; but the actual gamblers who craved for capital safety, an income-yield of over 6 per cent., and a chance of an

enhancement in the realisable value of their capital, were the smallest sprinkling out of an ocean of investors. It is scarcely necessary to add that those capitalists who regarded the act of investment as a short cut to fortune, invariably lost most of their capital in a comparatively short space of time.

As a matter of fact, the British investor, when closely examined, proved himself to be a most modest, moderate, and easily satisfied individual, for whose financial requirements it should be easy to cater efficiently. More than sixty per cent. of all the investors who have come under my notice were so very much in earnest in their endeavour to obtain capital-safety, that the most moderate rate of interest seemed ample to them and, actuated by the belief that a stock yielding more than 4½ per cent. must be unsafe, they refused to hold securities of high yield.

Having by means of the Question Form thus settled the investor's requirements, the next step was to send him a list of stocks from which he should take his choice: this afforded an opportunity of testing the financial knowledge of the British investing public, and here

a wonderful want of discrimination was laid bare. For some reason or another it appeared that the majority of English investors were quite incapable of distinguishing between a sound solid investment and a speculative venture. This poverty of judgment was by no means confined to people who lacked a business training; for in many cases shrewd, hardheaded business men who had made their money in trade, lawyers in large practices, and others seemingly qualified to form an opinion on business matters, were worse judges of what was cheap or dear, or of what was safe or speculative in investments than members of the Upper Ten Thousand who had had no business experience whatever to guide them.

I remember a case of a solicitor who had held £15,000 London Chatham and Dover Ordinary Stock for upwards of twenty years, and who consequently had never received a shilling in the shape of interest on his capital throughout the period, and yet refused to sell his stock at the excellent price of 27, although I urged him to do so. It was in vain that I proved to him by past records that in no possible set of circumstances could this stock

ever come within the prospect of a dividend; he was a persistent holder of an unremunerative stock, who was wasting his investment strength over a hopeless security, and he declined to budge from his unsatisfactory position. The present price of the stock is now 11, and I have no doubt that he still continues to hold it, and to waste his substance and his care on the endless effort to incubate addled eggs. Again, in 1897, I had a discussion with one of the ablest men in this country as to the comparative desirability of British Railway Debentures and of American Railroad Bonds of the first class; on that occasion the most formidable array of figures entirely failed to convince my opponent that both types of stock were equally well secured, but that British Railway Debentures were greatly overvalued and American Railroad Bonds were very considerably undervalued at the then pervailing level of quotations. Similarly I have a vivid recollection of a manager of one of the largest London banks assuring me not many years ago that neither of us would live to see *Goschens* again quoted below par; indeed, I could fill pages with

kindred specimens of the want of discrimination displayed by otherwise first-class business men. Descending from men of special business capacity to the average investor, it is surprising to find how many people there are who fail to understand the broad difference between Debentures, Preference Stocks, and Ordinary Capital: whilst the problem of calculating the actual income-yield obtainable from a stock quoted either over or under par would floor so large a proportion of stockholders as would appear incredible if expressed in figures in cold print. Or, again, an investor who is really capable of analysing a balance-sheet is quite the exception, and the feat of appraising the difference in value and in relative capital-safety of two stocks is beyond the power of most men. Yet these are a few pieces of fundamental financial knowledge quite indispensable to the proper management of capital invested in joint-stock enterprise.

To me this lack of elementary knowledge seems doubly regrettable; firstly, because the necessary information is so easily to be acquired, and, secondly, because the want of

it constitutes all the difference between a successful and an unsuccessful investor. As I shall show later on, this incapacity on the part of the general investing public exercises a deep and a disastrous influence upon British national finance. Yet the British are beyond doubt, to my mind the most business-like nation in Europe, so how is it that they carelessly neglect so important an item as their Stock Exchange investments? The only answer to this most puzzling question would seem to be that every investor has endeavoured to discriminate between what is safe and what is speculative in investments, but has finally abandoned the problem in despair. It may be that he has analysed a few stocks and formed an opinion as to their respective merits: some he found undesirable and dear, and these he mentally marked down as likely to fall in value; others he decided were exceedingly good and cheap, and these he was convinced must ultimately rise in price. But on following the subsequent careers of the subjects of his investigations he not improbably found that the good stocks receded in value, and that the un-

sound stocks improved in price. Finding that theory was so entirely set at naught by actual practice, the belief gradually gained ground that a study of finance was useless, and the present indifference to financial investigation has naturally followed.

Singularly enough, in England there are very few stocks which are really stable in value; whereas in France, Germany, Holland, Sweden, Norway, and even in the United States, there are many such investments. Fluctuations there are of some kind in all stocks, owing to the constantly fluctuating value of money. But whilst some first-class English stocks fluctuate to the extent of 25 to 40 points during a single decade, stocks of similar class in other countries only fluctuate from 5 to 10 points. In proof of this fact I append the following table:—

Great Britain:—	1898-1907. Lowest Average.	Highest prices.	Diff.
Bristol Corporation 3½% Debentures	99¼	127¼	28%
Manchester Corporation 4% Stock	117½	146	28·50%
Great Western Railway 4½% Debentures	118½	150	31·50%
London, Brighton, & S. Coast 4½% Debentures	127½	165½	38%

Average difference in fluctuation of British Stocks = 31 50%.

Germany:—	1897-1906. Lowest.	Highest.	Diff.
Berlin 3½% Municipal Loan	9455	101²⁰	665%
Preuss Bodencredit Bank 4% Mortgage Bonds	9782	10275	493%
Deutsche Hypotheken Bk. 4% Mortgage Bonds	9725	10110	385%
Deutsche Hypotheken Bk. 5% Mortgage Bonds	11000	115	490%

AVERAGE DIFFERENCE IN FLUCTUATION = 5·08%

France :—

	Lowest.	1896–1905. Highest.	Diff.
Paris Municipal 4% Loan 1865	543⁶⁹	576³⁵	6·8%
Credit Foncier de France 3% Obligations.	437¹⁷	470²¹	6·7%
Chemin des Fer du Nord 3% Obligations.	459⁷⁸	485⁶⁸	5·18%
Compgne. des Chemins de Fer de L'Est. 5% Obligations	659²⁷	681⁵⁸	5·06%

AVERAGE DIFFERENCE IN FLUCTUATION = 5·57%.

Austria :—

	Lowest.	1896–1905. Highest.	Diff.
Vienna Municipal 5% 1867 Loan	102⁴⁰	105³⁰	2·90%
Lemberg Czernowitz Jassy Railway 4% Prior Lien Bonds	86⅞	94¹⁰	7·35%
Austro-Hungarian States Railway 4% 1883 Prior Lien Bonds	115⁵⁰	122	6·50%
Austrian Hypothekenbank 4% 1886 Mortgage Bonds	96¹⁰	100²⁰	4·10%

AVERAGE DIFFERENCE IN FLUCTUATION = 5·21%.

Holland :—

	Lowest.	1897–1906. Highest.	Diff.
Amsterdam 3½% Municipal Loan 1861	96½	100⅜	3·62%
Rotterdam Hypothbk. 4% Mortgage Bonds	100½	101⅝	1·12%
Amsterdam Hypothbk 4% Mortgage Bonds	95½	101	5·75%
Arnhem Hypothbk. 4% Mortgage Bonds	96½	100½	4·50%

AVERAGE DIFFERENCE IN FLUCTUATION = 3·75%.

Norway and Sweden :—

	Lowest.	Highest.*	Diff.
City of Bergen 4% Loan 1901	99¹⁵	101½	1·19%
Christiania 4% Municipal Loan	100	102	2·00%
Norwegian Hypothekenbank 4% Mortgage Bonds, 1896–1905	95	101½	6·50%
City of Stockholm 4% Bonds, 1900.	100½	104	3·50%

AVERAGE DIFFERENCE IN FLUCTUATION = 3·30%.

* Last six years' price only.

United States —

	Lowest.	1897–1906. Highest.	Diff.
Louisville and Nashville 6% General Mortgage Bonds	117¼	122¼	5·00%
Illinois Central Railroad Co. 4% Gold Bonds, 1888	104½	109¼	4·75%
Minneapolis St. Paul 4% First Mortgage	97⅞	104¼	6·75%
Buffalo, Rochester and Pittsburg Railway Consold. 6% Bonds	123½	128⅛	4·81%

AVERAGE DIFFERENCE IN FLUCTUATION = 5·31%.

Total 24 Stocks, embracing six countries, mean average fluctuation during a period of ten years 4·70%.

Perhaps the most surprising fact contained in the above statement will be that there are in the United States securities which are

practically stable in value, as solid Railway stocks of that country move faster than do similar British stocks.

The wide fluctuations of British stocks exercise a most pernicious influence upon individual investors, and upon British National Finance. Because, if an investor sees the Irredeemable 3½ per cent. stock of a city like Bristol fall from 139 in 1896 to 100 in 1903, or nearly one-third of its value, what encouragement is held out to him to endeavour to appraise the worth of any investment stock? For here is a stock practically removed from the influence of International Politics, and issued by a prosperous and growing city, and yet, if such a stock proves a pitfall for the investor's capital, wherein shall he find Capital-Safety?

Why is it, moreover, that it is impossible to find a parallel case to that of Bristol Corporation stock in any of the other investment countries which are included in the above table? The municipal issues of their cities move to some small extent, but how is it that they fluctuate in nothing like a similar degree to the municipal stocks of

this country? The answer is simple. The investors of all these countries have a much better understanding of the real value of stocks than the English investor has. They devote care to their investments whilst the English investor does not. They are more thrifty than the Englishman, and their thrift impels them to realise any of their investments which rise in price to such an extent as to render it unprofitable to hold them any longer owing to the diminished income-yield which they return at the higher level of value. Last, but not least, when a continental investor is deficient in financial knowledge he is put right by his banker or broker, whilst the British investor receives no such co-operation from his financial agents.

It would be absolutely impossible that any 3½ per cent. stock, which carried no other privilege with it beyond its interest-earning power, should rise in either Germany, France or Holland to 139, as Bristol Corporation stock rose in this country in the year 1896. The utmost limit to which such a stock could have risen in any of these countries during the last twenty years would have been about

118, at which price it would yield just under 3 per cent. This limit would have been fixed by the fact that at over 118 every holder would have been eager to sell and to invest his money in a more profitable manner and a more profitable method of investment has always existed in each of these countries and in Great Britain as well.

In Great Britain there does not seem to be any such limit. In this country stocks are bought without regard to the income-yield they afford on the capital-sum represented by their purchase-price, and but very few holders seize the opportunity to sell when stocks have risen to a point when it is unprofitable to hold them longer. That such is the case is easily to be seen by the present price of Guinness Brewery Ordinary stock, which stands at 560, at which price it yields about $3\frac{7}{8}$ per cent. The average price of this stock since the South African War has been 550, and it now stands above that average in spite of the fact that Consols, Home Railway Debentures, and Corporation stocks have all fallen in price very materially. Amply secured Brewery Debentures can

be bought to yield 4½ per cent., yet Guinness Ordinary stock only yields 3⅞ per cent. at its current price. Although the realisable value of this stock is £14,000,000 and some thousands of investors are holding it, yet the great majority of them fail to appreciate the sheer absurdity of their position, and there are no bankers or brokers to explain to them the folly of this extreme valuation. Similarly, it can only be a complete indifference to the income-yield on the realisable value of their capital which restrains the holders from selling such stocks as Hertfordshire County Council 2½ per cent. stock, quoted 79–81 and yielding 3 1/16 per cent. (*Financial Review of Reviews*, tables, p. 3); Corporation of London, quoted 96–103 and yielding 2 11/16 per cent. (tables, p. 1); Harrod's Stores 5 per cent. Cum. Pref. shares, quoted 6-6½ and yielding 3⅞ per cent. (tables, p. 48); J. Lyons and Company 4 per cent. 1st Debentures, quoted 104–107 and yielding 3¾ per cent. (tables, p. 52); J. and P. Coats 3¾ per cent. Debentures, quoted 104–107 and yielding 3½ per cent., and the same firm's 20 per cent. non-cum. Pref. Ord., quoted 470–490 and yielding

$4\frac{1}{16}$ per cent. (tables, p. 45), because it requires no great amount of research amongst the stocks quoted in the *Review* tables to reveal securities of precisely the same class returning considerably higher yields of income.

Or, again, it is impossible to attribute to anything but deplorable carelessness the apathy with which holders regard extraneous events vitally affecting the values of their stocks. For instance, on the projected absorption of the Port Talbot Railway and Docks by the Great Western Railway the £10 Ordinary shares of the former concern have risen to the high price of $10\frac{1}{2}$–$11\frac{1}{2}$ (tables, p. 13), at which price they afford the paltry yield of only $1\frac{5}{16}$ per cent. Clearly, then, at this price the market has already discounted the completion of this purchase on the most favourable terms likely to be conceded to the Port Talbot shareholders; in other words, should the present sanguine forecasts be finally modified by the event, the price of Port Talbot Ordinary threatens to recede considerably, whilst if the projected deal goes through, as anticipated, the current quotation of Port Talbot Ordinary affords little or no

scope for a further rise. So that a holder of this stock now stands the risk of a substantial fall, with no compensating prospect of a rise. Clearly, this being the position, shareholders ought not to hesitate to sell—yet no sales take place. To give yet another instance of a stock whose position has been materially altered by a recent event, let us consider the position of Somerset County 3 per cent. redeemable 1923–33, quoted at 88–90 and yielding $3\frac{5}{16}$ per cent. (tables, p. 4). Now Somerset has just issued (see "The Month's New Issues" in Nov., 1907, number) debentures of £100 at par, bearing interest at £3 10*s.* per cent. Obviously, then, Somerset's 3 per cent. issue cannot fail ultimately to fall into line with the price of this new $3\frac{1}{2}$ per cent. issue, or, in other words, its price must recede to 85. More especially is this the case because the redemption of the 3 per cent. stock can be varied by purchases of stock in the open market, so that it is improbable that the redemption at par of the 3 per cent. stock will ever become operative. The price of the 3 per cent. stock has, therefore, practically no redemption price to support it. Clearly,

here again holders of the old 3 per cent. stock should not hesitate to sell at current quotations—yet no sellers are forthcoming.

Precisely as there is a limit to which Fixed-Income stocks can rise outside Great Britain, so there is a limit below which such securities cannot fall. For so soon as a stock begins to sell below its comparative value an army of investors, bankers and brokers is on the watch to purchase it, with the result that the price very soon recovers. Such, however, is not the case in England, for here it seems to be very dimly understood that very frequently a stock is depressed from causes which have nothing to do with its safety or desirability. I had a very convincing example of this sort a short time ago, when I was endeavouring to sell £10,000 Midland Railway Debentures. No Stock Exchange jobber would take this parcel of stock at the officially quoted price until ultimately a jobber offered me one point below the lowest nominal quotation, and in order that I should be able to justify this apparently bad price to my customer, the officially quoted price was lowered one point. Now there are £40,649,280 of Midland Railway

Debentures issued, so that a difference of one point on this amount of stock was equal to £406,492, and it was to this extent that the national wealth of Great Britain was reduced by the sale of £10,000 stock. Not only so, but I verily believe that many investors who saw their stock had fallen rather felt that they would like to sell their holdings also. Further, I very gravely doubt whether any of the thousands of holders of Midland Railway Debenture Stock paused to think what their stock was really worth and whether it was good to buy at the lower price. Similarly it frequently happens that a stock is quoted at a certain price, but if even a small quantity, say, £1,000 is wanted, the price has to be raised gradually many points until an actual seller puts in an appearance.

These indiscriminate upward and downward movements of the official quotations of the finest stocks in the world can only have a most deadly effect on investors, and they are simply due to the general want of investment knowledge on the part of English investors coupled with the apathy of their bankers and

brokers, who fail to enlighten the public as to the opportunities which market fluctuations afford them. This is one of the chief reasons why I am driven to the conclusion that the wants of the British investing public are insufficiently catered for. Yet where is the British investor to obtain investment knowledge? It is a subject which is not taught in schools, and his financial advisers refuse to take the responsibility of giving advice, and even decline to explain their reasons for any scanty suggestion they may ever make.

Educated in such an atmosphere the investing public never grasp the elementary principles upon which investment should be based. With the result that all confidence in his own judgment is shaken out of the British investor and he stands, hesitating and irresolute, unable to trust himself to appraise the relative values of sound fixed dividend-paying stocks. So that on the one hand great bargains in stocks go vainly begging, whilst on the other hand, securities are forced up to unremunerative price-levels without the investor being able to recognise and take advantage of these follies of extreme depres-

sion and of undue inflation. British market prices are actuated by a policy of drift, and the realisable values of some of the finest securities in the world become a matter of pure chance.

There is another grave disadvantage which arises out of the want of investment knowledge from which England suffers, and that is the enormous influence which passing fashion exercises on the value of investments. Let me quote two striking examples of the whim of fashion dominating market-values. Some years ago the public fancy was centred on Brewery investments, with the result that the prices of Brewery Mortgage bonds and shares were carried up to unwarrantable levels —although the investing public altogether failed to understand that this was so. Then the Legislature began to interfere with licenses and with their renewals, and a feeling of nervousness seized upon all holders of Brewery stocks, and prices gradually fell until to-day the opposite market extreme has been arrived at, and many fine brewery investments are selling much below their real values when compared with other industrial

issues. Thus enormous sums of money have been lost through a once-fashionable investment becoming altogether unfashionable. But have investors learnt anything from this disaster? No—so little have they learnt that we have to-day a similar investment movement taking place amongst us. For tube railways, motor omnibuses and other improved facilities of communication have brought vast crowds from the suburbs and the outlying districts in the metropolitan area for the purpose of shopping to the West-end of London. This movement has given an enormous stimulus to all West-end shops which cater for the middle classes, and has given a temporary prosperity to the trade of tea-shops and large drapers, with the result that shares in drapery and light refreshment establishments have climbed to such giddy heights that they now yield less than first-class brewery debentures secured upon property of unimpeachable value. This fashion, like all other fashions which fly in the face of common sense, will suddenly pass away and we shall then have the brewery experience repeated with painful

fidelity in the case of drapery and catering shares. It is this lack of proper discrimination on the part of the investing public which gives rise to these disproportionate upward and downward movements and is the primary cause of losses amounting to hundreds of millions sterling which are sustained by the investing public.

Lastly, let us consider the question of new issues of public companies. For precisely the same reasons that the investing public fails to appreciate the solid merit of an unfashionable stock, it also fails to give adequate encouragement to the solid *bonâ fide* company promoter. So that it matters not how cheap and sound an offer of new stock may be, there is never any certainty as to whether it will tempt the palate of the fickle public—and prospectuses of many first-class issues do undoubtedly fall absolutely flat—whilst the less conscientious promoter—who is eloquently lavish in his prospectus promises—stands a far better chance of arresting public attention. Consequently, some of the most palpably un-

sound ventures are eagerly over-applied for by the undiscriminating investor.

To sum up my argument, the British investor's mind inclines naturally to solid securities. But unfortunately his want of sound financial knowledge prevents him following his own mental bent. It is want of judgment rather than any reckless desire to gather riches quickly which causes by far the greater part of the investment losses which occur. I am convinced, then, that a future full of golden promise lies before those investors who will take the trouble to study and profit by the experience of the past, and in no small measure they will stand to benefit by the want of discrimination displayed by their less well-informed fellow investors. Let the investor take a little trouble to master the fundamental principles of investment and he will be astonished to find how simple and logical these principles are, and then, with a proper investment equipment, he will find that he cannot fail to achieve solid investment success.

The Investor's Defence Against Labour's Attack upon Capital

ONLY those investors, who make a constant study of our national commercial position are able to appreciate the unending struggle which is going on between Capital and Labour in this country, and the far-reaching effects which this strife is producing on the values of all classes of British investments. To begin with, taking the total value of Home Railways alone, say, ten years ago, and comparing it with the present value of these same stocks, we are confronted with a capital shrinkage of about two hundred and fifty millions sterling. During the years 1904 and 1905 it seemed as if the tide had turned for the better, but increasing competition and the recent demand for about seven million pounds additional annual wages on the part of the Railway employees, have entirely swept away any benefit which British in-

vestors derived from that brief period of investment-revival, with the result that tens of thousands of Capitalists, who had invested their money in all good faith in this most solid form of investment, contenting themselves with the very minimum of income, now find that their caution has availed them nothing, and that their losses in respect of depreciated Capital and diminished Income have become exceedingly serious. The most pathetic part of this sad state of affairs is that the actual sufferers are in most cases non-combatants who suddenly find themselves in the line of fire without having in any way provoked the fight, and without having the most elementary notion of how to take cover from the hail-storm of missiles which are falling amongst them.

It would be idle to waste compassion upon the gambler who recklessly stakes his money, carried away by the hope of landing some enormous coup. But every one must feel sympathy for the solid old-fashioned investor, guiltless of the least taint of gambling, who suddenly finds that an unexpected catastrophe has swept away a large slice of his capital

in spite of his willingness to accept a moderate return of interest in the hope of thereby securing himself against the risk of losing a part of his money. As a matter of fact the majority of those who have lost their money over solid British stocks imagined that their capital was most securely invested in stocks of stable character, far removed from all suggestion of speculation. It is in the interests of these people that the present article is written.

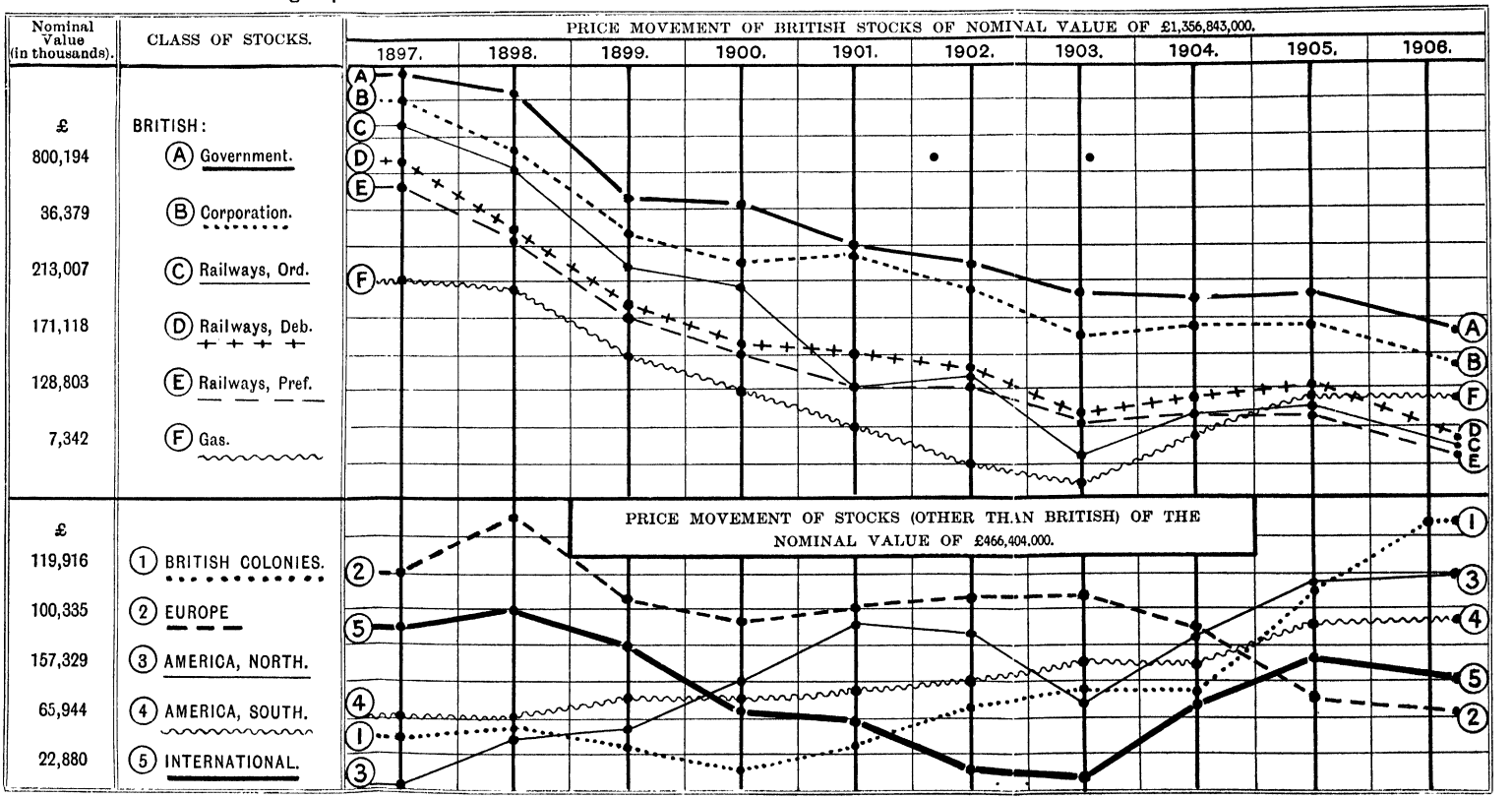
At all times finance has been considered an intricate subject, and but few people are able to gauge financial causes and effects. I do not propose here to enter into any lengthy discussion of these subjects, which have already been dealt with exhaustively in the financial handbooks which I have written. I will merely content myself with observing that there is a bright side to the darkest of clouds, and that all those who have suffered financially in the past and are willing to benefit by the sad lessons they have received can do so in the following simple and effective manner. It is said that a pound of practice is worth more than a ton

of theory. As my plan is based solely upon practice there should be a good deal of solid value in it.

It is given to no man, no matter how experienced he may be, correctly to foretell the future of an individual security with any degree of certainty. It, therefore, naturally follows that to invest in one class of stock only must always be a hazardous enterprise, and that a number of stocks, which are totally different in their price-movements, alone can effect a compensating balance by means of which the total realisable value of all securities held can be steadied. Or, in other words, it is only when an investor has succeeded in so dividing his capital that no single event can seriously affect more than one or two of the total number of stocks which he holds, that he can be said to have protected himself against any serious capital-depreciation. Now let us ask ourselves, how is this best to be done? One of the most deplorable features in connection with investment in stocks and shares is that guesswork is so largely resorted to when stocks are selected. Moreover, the individual idio-

PRICE-MOVEMENT OF THE STOCK EXCHANGE VALUES GIVEN BY THE *BANKERS' MAGAZINE.*

For the past ten years (1897-1906) the *Bankers' Magazine* has published the aggregate values of 387 representative securities divided into groups. These groups of securities are here arranged, as far as this was possible, on the principle of Geographical Distribution of Capital, in two sections, the top section representing the British stocks, the bottom section the stocks of other countries. The value at the end of each year has been taken for ascertaining the zig-zag price-movement lines of each group.



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[*To face p.* 388.

syncrasies of the guesser are permitted to sway him in his efforts at guesswork. Now the element of guesswork is so detrimental to investment success that steps must be taken to eliminate it. This is accomplished by means of a few fundamental principles, which I have formulated and may briefly outline in the following system.

For the purpose of illustrating my plan I have taken certain figures, published by the *Bankers' Magazine*, and I have depicted the variations of these figures in the form of a chart. With the aid of this chart it is easy to see what are the pervading and predominating influences which govern the prices and values of all Stock Exchange securities. As I have already explained, capital-safety can only be obtained by spreading the amount of capital to be invested over a number of stocks which are dissimilar in their price-movements. For this reason a knowledge of the influences which affect price-movements is the first essential to investment success. These influences I have described in full detail in *Investment an Exact Science*, and lack of space precludes my

attempting to discuss them within the limits of this article.

Returning again to the figures published in the *Bankers' Magazine* I should, perhaps, first of all explain that it is the custom of that periodical to group together large numbers of certain kindred stocks and, month by month, to give the variations in capital-value of each of these groups. These variations I have displayed in chart form, showing how the total value of each group rose or fell throughout the period under review, that is say, for the ten years from 1897 to 1906. The average investor—and these form the majority of the audience I desire to address—does not, as a rule, understand charts, neither does he wish to be troubled with lengthy explanations. Accordingly, I will make the task easy for him by asking him to follow the lines on the chart from the left to the right; he will then be tracing the fluctuations in value of each individual group in the order in which they occurred—an upward tendency of the line denoting a rise in value, and a downward tendency a fall in value. Thus, for example, in the group of British Government securi-

ties, which is the top zig-zag line of the chart, we see one steady downward movement; whilst, on the other hand, if we take the lowest line of the chart, representing the movement of American securities, we see a gradual rise up to 1901, followed by a fall up to 1903, which was again succeeded by an upward movement extending to the end of the period depicted in the chart. This explanation will, I hope, suffice to render the meanings of the zig-zag lines of price movement clear to the reader, and it is from these lines that the practical lesson of this article is to be learnt.

I may mention that I have taken the figures of the *Bankers' Magazine* in preference to any figures selected by myself for the following reasons:—First of all, investors who are not practical statisticians themselves are habitually shy of statistics and are inclined to suspect that exceptional cases may have been selected to prove general principles. Another point which lends additional strength to the testimony of the figures from the *Bankers' Magazine* is that they do not represent the fluctuations of any

one individual stock which might have been affected by special causes, but they include entire groups of stock; so that the price-movements depicted by these figures must be taken not only as representative, but as absolutely conclusive as to the general market tendency. I have divided my chart into two sections. The upper one represents British investments, the lower one embraces investments outside of Great Britain, viz., those of the British Colonies, Europe, America North, America South, and General International investments.

The *Bankers' Magazine* has so arranged its groups of investments that it is easy to separate all those groups which represent purely British stocks from those which represent stocks which are chiefly held outside of Great Britain and consequently are not subject to the influence of British trade. This system I have followed in my charts. The reason for this separation was simplicity of comparison, for my object was to show that whilst the principal investments of any one country move harmoniously together in value, the stocks of various countries move

each in different directions. The year which illustrates this diversity of price-movement the most clearly is 1899. At the commencement of that year the lines of price-movement of all the British stocks started at almost an identical angle, and at the conclusion of the year they all terminated in the same uniform fashion, whilst in the case of the securities situated outside Great Britain the angles of entry and of departure are different in every instance. It is needless to mention that all the stocks on the chart are in investors' hands, and that the rise and fall of the zig-zag lines displayed on my chart depict actual capital gains and capital losses made by individual investors. Let us then examine the difference between the position of an investor who confined himself solely to British securities and the position of another investor who held an assortment of British and Foreign securities during the year 1899. In the first case, in which the stocks held were entirely British, there was a general all-round depreciation. In the second case, however, of the International List, some stocks moved up and other stocks

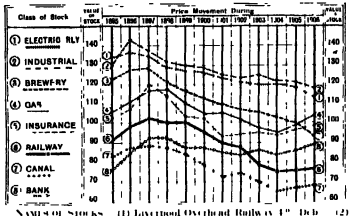
moved down, and, therefore, capital losses were off-set by capital gains.

It requires no explanation to show that, if it is possible for all the stocks held by an individual investor to move in concert either upwards or downwards, then the investor is no better off than he would be if he had staked his entire capital upon one single venture; in fact, he has derived no sort of protection from distributing his capital amongst a number of stocks. The two divisions of my chart show the difference between a good and a bad distribution of capital. The upper part is a bad distribution, as it fails to effect its purpose, owing to all the stocks moving together; the lower part is a good distribution, as all stocks move independently and in different directions. In fact, this chart illustrates, in an obvious form, the best method of safeguarding capital; for it shows that to hold only British securities is practically to stake one's investment future upon the future trading prosperity of the United Kingdom—a line of action which is simply speculating upon a single event, the event being the course

TYPICAL PRICE MOVEMENT OF THE REPRESENTATIVE STOCKS OF GREAT BRITAIN, FRANCE, GERMANY, SWITZERLAND, BELGIUM, CANADA, JAPAN, UNITED STATES OF AMERICA, AND ARGENTINA.

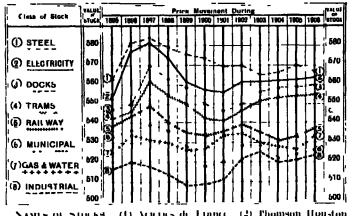
(These charts are taken from "Investment an Exact Science" and may not be reproduced without permission of the Publishers, 2, Waterloo Place, S.W.)

I.—GREAT BRITAIN (General Investments)



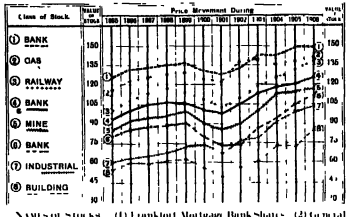
NAMES OF STOCKS (1) Liverpool Overhead Railway 4% Deb. (2) L & P Consols 4% Cum. Pref. (3) Bass Ratcliff & Gretton 7% Cum. Pref. (4) Brentford Gas Consolidated Stock. (5) Guardian Assurance Company. (6) London & North Western Railway Company Consolidated Stock. (7) Grand Junction Canal Original Shares. (8) Peel's Bank Shares.

FRANCE.



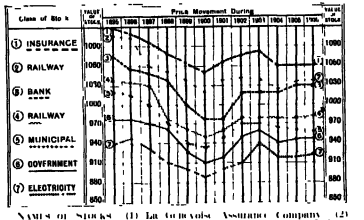
NAMES OF STOCKS (1) Aciéries de France. (2) Thomson Houston (procédés). (3) Docks du Havre. (4) Lyon Omnibus & Tramway Companies. (5) Lyon 3% (6) Ville de Bruxelles (7) Gaz de Bank. (8) Société Générale de Paris pour l'Eclairage et Chauffage.

GERMANY.



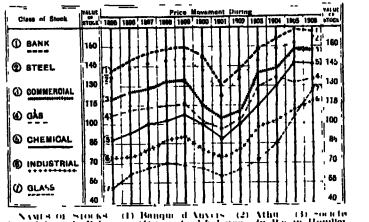
NAMES OF STOCKS (1) Frankfort Mortgage Bank Shares. (2) General Gas Company of Magdeburg. (3) Lübeck Buchen-Hamburg Railway. (4) Deutsche Bank. (5) Gelsenkirchen Mine. (6) Schaaffhausen Bank. (7) Westphalia Wire works. (8) Hessian Building Society of Berlin.

SWITZERLAND



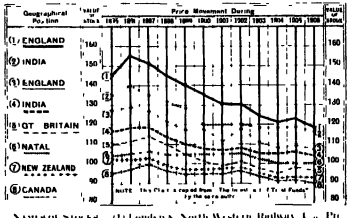
NAMES OF STOCKS (1) La Genevoise Assurance Company. (2) Jura Simplon. (3) Banque du Commerce. (4) Central Swiss Deben ture 1903. (5) Ville de Genève. (6) 4% Bonds. (7) Industrie Electrique de Genève Debentures.

BELGIUM.



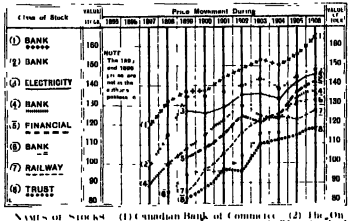
NAMES OF STOCKS (1) Banque d'Anvers. (2) Allan. (3) Société Immobilière de Belgique. (4) Société d'Eclairage du Bassin Houiller de Mons. (5) Produits Chimiques de Droogenbosch. (6) Prayon. (7) Glaces de Charleroi.

II.—GREAT BRITAIN (Trustee Stocks).



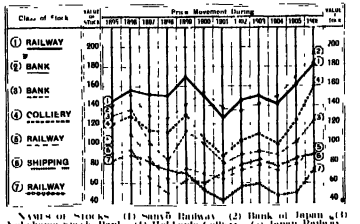
NAMES OF STOCKS (1) London & North Western Railway 4% Preference. (2) Southern Mahratta 4%, Debentures. (3) Birmingham Corporation 3½%. (4) India 3½%. (5) British Local Loans 3%. (6) Natal 3%. (7) New Zealand 4%. (8) Canada 3%.

CANADA



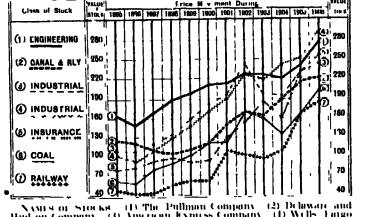
NAMES OF STOCKS (1) Canadian Bank of Commerce. (2) The Ontario Bank. (3) Toronto Electric Light Company. (4) The Standard Bank of Canada. (5) Toronto Mortgage Company. (6) The Dominion Bank of Canada. (7) Grand Trunk 1st Pref. (8) Real Estate Loan Company.

JAPAN



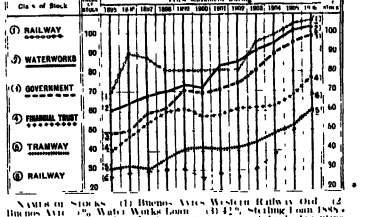
NAMES OF STOCKS (1) Sanyo Railway. (2) Bank of Japan. (3) Yokohama Specie Bank. (4) Hokkaido Colliery. (5) Japan Railway. (6) Japan Steamship Company. (7) Kwansai Railway.

UNITED STATES OF AMERICA.



NAMES OF STOCKS (1) The Pullman Company. (2) Delaware and Hudson Company. (3) American Express Company. (4) Wells Fargo and Company. (5) Home Life Assurance Company. (6) Consolidation Coal Company. (7) New York Chicago and St. Louis Railroad Company.

ARGENTINE REPUBLIC.



NAMES OF STOCKS (1) Buenos Ayres Western Railway Ord. (2) Buenos Ayres 5% Water Works Loan. (3) 4½% Sterling Loan 1887. (4) River Plate Trust Loan & Agency Company. (5) Anglo-Argentine Tram. (6) Argentine South-Eastern Railway Ord.

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(To face p. 914)

of English trade, whilst spreading capital over different countries entails a variety of price-movements, and this variety of movement affords the compensation by means of which capital is preserved intact.

But it must not be imagined, because the lines of price-movement of the British stocks all display such a uniformity of fluctuation as renders any Investment List consisting entirely of British stocks highly risky to hold, that England is a peculiarly dangerous investment-centre. This is not my meaning. For what is true of British stocks is true also of the stocks of all other countries in the world. In every country the stocks which are held mainly in that country fluctuate with a similar identity of movement to that displayed by the British stocks. Readers who desire to follow this subject further will find in *Scientific Investment in Daily Practice* by Sir John Rolleston a number of charts representing the fluctuations of English, French, German, Swiss, Belgian, Canadian, Japanese, American, Argentine and other stocks.

From these it will be seen that there is

precisely the same objection to making any other country the receptacle for the whole of an investor's capital as exists in the case of Great Britain.

But not only does the Geographical Distribution of Investments tend to safeguard Capital, but it also contributes in a very direct manner to an increase of income. The reason of this is that every country has its own standard of income-yield. For example, gilt-edged British securities yield under 4 per cent. although gilt-edged Japanese securities of the same class yield 5 per cent.; in Europe a slightly higher yield of income is obtainable than is afforded by English investments, whilst in America the standard rate of interest is from 1 per cent. to 1½ per cent. higher than that which prevails in England. From this it will be seen that, whereas a selection of high-class British securities will only yield 4 per cent. on an average, a precisely similar selection of International securities will yield from 4½ per cent. to 5 per cent. There can be no question that the safety of Capital ought to be the first consideration of every

investor, and that high-class stocks are safer than low-class investments. But these high-class stocks yield a small income only, and for this reason many investors are so placed that they cannot afford to hold them. To all investors so situated an International Investment List is absolutely indispensable, because it enables its holder to increase his income without in any way reducing the safety of his capital. I have constructed many Lists of Investments, which are based upon international lines, to produce 5, 5½, 6, and even 6½ per cent., and some good judges of finance have pronounced these to be infinitely safer than a list composed exclusively of British Trustee Investments from the point of view of Capital maintaining a stability of average value.

The advantage to be derived from the Geographical Distribution of Capital is, therefore two-fold, and it consists of a marked increase in capital safety, and of a simultaneous increase in income. In fact it is only from a properly adjusted list of International securities that an investor may hope to achieve the maximum stability of Capital accompanied

by the maximum of annual income. Moreover, there is no country which can be said to be safe from sudden legislation which might entirely undermine the realisable value of investments in that country. Formerly the war which is being waged between Capital and Labour was a departmental war which affected certain classes of trade only. Now socialistic legislation is being framed in a spirit which affects every class of capitalist. Fortunately there are some countries in which statesmen still see that, if Capital is to succumb, Labour must suffer, and that both are the two arms of the same body and draw their sustenance from the same source. So that this terrible new danger to which capital is exposed does not manifest itself in an equal degree the world over. This is another very strong point in favour of the Geographical Distribution of Capital.

To expose one's fortune to the socialistic element in any one country has to day become a highly dangerous position. The mere demand of British railway men for increased wages has caused a set-back of over one hundred millions sterling in the value of

British securities, but it has not affected the value of any class of investment situated outside of Great Britain. This one practical object lesson should show the way to safety to every prudent capitalist.

I should be sorry if anyone were to infer from this article that I am a plutocrat, and that I am opposed in any way to the just demands of Labour—quite the contrary, I am rather inclined than otherwise to hail with delight the improving outlook for Labour. In this article I only desire to explain to the individual capitalist how he can protect himself against altered conditions.

Since the system of the Geographical Distribution of Investments was first statistically proved by me and then practically applied to the construction of investment schemes, a large number of Capitalists have availed themselves of it with the best possible results. The position of these investors is so very different from the position of the ordinary investor that it may be useful to explain exactly how the Geographical Distribution of their Capital affects them in practice. It is the custom of the ordinary

investor to have a "pet" country in which he invests the bulk of his capital. Naturally enough England is the "pet" investment country of the great majority of English investors. But whichever may be the "pet" country of the ordinary investor, he finds himself compelled to follow the political and financial events of that country with keen interest, and its welfare is a constant source of anxiety to him. On the other hand, the investor whose capital is evenly distributed over the earth's surface in accordance with the tenets of Geographical Distribution, can have no "pet" country, and has no preponderating interest in any quarter of the globe. Consequently he gradually comes to look upon political and financial events in a purely detached manner. Politics may interest him, but they no longer touch his pocket. A financial crisis at any of the world's stock exchange centres no longer alarms him; his local interest amounts to a mere fraction of his total capital. He preserves his equanimity, and he considers whether he may not be confronted by a promising buying opportunity. He becomes in

fact a scientific whist-player, playing at his best because he is playing for small stakes. Under the system of Geographical Distribution of Capital the sum of money at stake at any one centre is never sufficiently large to upset the nerve of the player, or to divert his attention from the strict science of the game. Consequently he finds himself, to his great material advantage, no longer reluctant to realise his profit upon such a one of his investments as shows a substantial increase in value, and he feels himself less nervous of reinvesting the proceeds of such a sale in some quarter of the globe where depression temporarily reigns supreme.

It has been proved that travel enlarges the mind. I have found that International Investment not only enlarges the horizon of the investor, but also tends to free him from the narrow prejudices which are the chief stumblingblocks to a successful investment career.

In the April (1907) number of the *Financial Review of Reviews* Mr. Holt Schooling wrote a very interesting article on the subject of the World's Trade and the Geographical Distribution of Capital. In the course of that

article Mr. Schooling conclusively proved that whilst the trade of any one country is subject to considerable fluctuation the trade of the world, as a whole, is constantly on the increase. As it is the country's course of trade which directly affects the price-movements of the stocks of any one country, so it is the course of the world's trade which controls the price-movement of an Investment List which is endowed with a world-wide distribution of capital.

Yet there are a certain number of investors who, although they are quite convinced that capital safety is only obtainable by means of a Geographical Distribution of investments, are slow to adopt the system, for the simple reason that the stocks which they hold show them such a large capital depreciation, at the present moment, that they prefer to wait until their holding recovers in price before they commence the task of re-arranging their lists. This reasoning is natural; but, at the same time, it is based on a fallacy. The fallacy lies in the fact that the individual investor wrongly imagines that his own stocks are suffering from exceptional depression,

whereas the truth is the whole world is experiencing an unusual demand for money. This demand has arisen from the general extension of trade and the large rise in the price of raw materials, which have increased the quantity of cash requisite to carry on the world's trade. This unwonted demand for liquid cash has increased the rate of income obtainable from first-class securities. Indeed, as a matter of fact, although a further large fall has recently taken place in the value of British securities, yet these still rank among the smallest dividend-payers in the world. For this reason anyone who sells his British securities at the present moment and carefully constructs an international list of investments will not only immediately increase his capital safety, but he will also increase his income at the same time. Whether, in this process, he sells some stocks at prices which are below their original cost or not will make but little difference to him in the long run.

To sum up, it is quite clear that the present outlook for British investments is by no means reassuring; for Labour's demands

are likely to cause infinite trouble in the future, and their total effect on capital-values is an ungaugeable quantity. For this reason investors should consider their position without delay; and, if the argument which I have put forward urging the Geographical Distribution of Capital as the investors' best future defence becomes of practical service to them, the object of this article will have been fully attained.

Shareholders and Directors

THE ideal conception of a Joint Stock company is that a number of investors should combine their capital for the purpose of carrying out an enterprise upon a far larger scale than would be possible for any of them to attempt as individuals. Further, the Joint Stock principle assumes that the conduct of the business, which is thus jointly undertaken, shall be controlled by such individual shareholders as possess special trade knowledge and experience, or who have a large personal interest in the company's welfare. The reduction of working costs, which is to be arrived at by means of a large output, accompanied by highly technical skilled management on the part of the directors, are the two chief attractions which Joint Stock companies lay before the investing public. Under the Joint Stock principle, moreover,

the investor, although he surrenders the employment of his capital to the discretion of his directors, retains a very effective check upon their proceedings owing to the fact that it is usually provided by the company's Articles of Association that at the end of each financial year one or more of the directors shall retire by rotation, and be under the necessity of submitting themselves to the whole body of shareholders for re-election. The shareholder, therefore, although he surrenders the control of his capital to his directors, is still in a position to exercise a very effective control over the directors, whom he has deputed to control his capital. Again, the Articles of Association under which Joint Stock companies are formed stipulate, in the very great majority of cases, that the directors shall publish either half-yearly or yearly balance sheets setting forth their company's financial position prior to the general meeting of shareholders; so that the directors, who compulsorily retire by rotation, are, in effect, compelled to render an account of their stewardship to their shareholders before submitting themselves for re-election at the

meeting. It is true that some few companies do not publish their balance sheets. But these " silent " companies, as they are termed in the city, are so few in number, and they are so obviously to be avoided by the reasonably prudent investor, that they are scarcely worth mentioning.

The Joint Stock principle provides, in theory, for a very efficient control by the majority of shareholders ; but in practice the weak spot of Joint Stock enterprise will be found to lie in the fact that the majority of shareholders wholly abdicate the authority which the law and their company's Articles of Association have placed in their hands. The average investor is altogether too supine, and it is to his own indolence rather than to any deficiency in our company law to which the want of success of an unnecessary number of Joint Stock companies is due. It is, in short, the function of shareholders to exercise an intelligent supervision over their directors, and when a Board of Directors falls into financial error it is generally due to the lack of that very supervision which the shareholders themselves should supply. Indeed, one of the

most extraordinary phenomena with which advisory experts on investments are confronted is the extraordinary, and at times even culpable, negligence of investors. Although financial history does contain at least one instance in which negligence has proved to be of advantage to an investor or his heirs, yet this case was so exceptional that it may be entirely disregarded. It is, for instance, a well authenticated fact that a mislaid certificate of an undivided share in the New River Company, which was found in a Jacobean tea-caddy, did lay the foundation of the family fortunes of a popular present-day politician. This is perhaps the only well attested instance of investment-negligence which has resulted in a princely profit. Apart, however, from an isolated case of this sort, it is an indisputable fact that it is through negligence and want of common prudence that the majority of investors find themselves involved in serious losses of capital. So universal, indeed, is investment-negligence that professional financiers may, broadly, be divided into two classes, namely, those who appreciate that their own permanent success depends

upon the investment successes with which their names are connected, and those who deliberately convert the culpable negligence of the investing public into their own personal profit.

Grandmotherly legislation has never been popular in England; but the development of Joint Stock enterprise in this country has been attended by spasmodic legislative efforts to protect the investor from the consequences of his own imprudence. At regularly recurring intervals, Parliament makes some sort of an attempt to save the investor from himself and from his own folly. But as investment discretion cannot be provided for the public by any process of inoculation, and as, even if an investment vaccine were discovered to-morrow, the probability is strong that the majority of investors would forthwith declare themselves to be convinced anti-vaccinationists, legislative enactments have hitherto proved powerless. How futile is the effort to protect investors against investment irregularities by means of legislative enactments is to be seen in the practical working of the Companies Act of 1900.

This amendment of the law relating to Joint Stock companies had for one of its chief objects an increased stringency as to the information which was bound to be furnished by a prospectus. The amount payable for goodwill, the contents of the memorandum of association, the amount of promotion money paid, and the date and parties to every material contract were, amongst other details, to be specifically set forth. The object of stipulating for the publication of this information was the enlightenment of the would-be investor. It was intended that the important inside facts relative to a flotation should be readily accessible to the general public, and that the prospectus should furnish the requisite information. Furthermore, directors and managers of companies were enjoined to file certain particulars at Somerset House, which would enable shareholders to obtain an insight into the actual progress which their companies were making.

If it is asked whether this enactment for the fuller publication of details at the time of the creation of a new company has been productive of real good, it must be frankly con-

fessed that the Act has altogether failed to accomplish its purpose. Indeed, in practic this Act, which aimed at affording more definite information to the investing public, has resulted in even a greater suppression of material facts than was customary prior to its passing. Because, alarmed at the financial secrets which he would thus have been compelled to disclose, the wily promoter forthwith bestirred himself to circumvent the provisions of the new Act. So definitely, however, was the Statute worded that it was only possible to evade the stipulated publicity by the promoter contracting himself out of the Act altogether. Accordingly the supple-minded promoter accommodated himself to his new legislative surroundings, and he cut the Gordian knot of the too-inquisitive prospectus by abstaining from issuing anything whatever in the shape of a prospectus. Now if the generality of investors had approached the question of investment with that alertness of mind with which they address themselves to other business matters, it is obvious that the appearance of a prospectusless company ought immediately to have aroused their

suspicions. The very fact that the company-promoter was anxious to withhold certain information which the legislature had decided that he ought to be compelled to furnish, should have been sufficient to warn the intelligent investor that he was being invited to tread on dangerous ground. It was indeed only because the investor had weakly consented to be an accessory to the evasion of the law concerning prospectuses that the prospectusless company did not stand straightway condemned. If the investing public had not with foolish good-nature encouraged the promoter in evading an Act passed for the public protection, prospectusless companies would never have appeared in such undesirable profusion. Had the public only displayed a firm disposition to cold shoulder any flotation which did not present the necessary credentials in the shape of a properly explicit prospectus, the prospectusless company could never have enjoyed any vogue. So far, however, from the public treating prospectusless ventures with disdain, their popularity has been so enormous that both in numbers and in amount of capital they altogether eclipse

the concerns which duly file prospectuses and are introduced to the investor in accordance with the Act of 1900. The following comparative figures as to the flotations made during the years 1901, 1902, 1903, 1904, 1905, 1906, and 1907, are taken from the Report of the Board of Trade :—

Period.	With Prospectus.	Without Prospectus.	Percentage of Companies without Prospectus.
			Per cent.
January to June, 1901 .	91	65	41
July to December, 1901 .	55	36	39
January to June, 1902 .	66	63	48
July to December, 1902 .	54	61	53
January to June, 1903 .	38	59	60
July to December, 1903 .	27	43	61
January to June, 1904 .	19	42	68
July to December, 1904 .	28	20	41
January to June, 1905 .	25	33	56
July to December, 1905 .	37	25	40
January to June, 1906 .	50	22	30
July to December, 1906 .	67	24	26
January to June, 1907 .	43	35	44
July to December, 1907 .	33	21	38

The whole truth concerning the relations which exist between shareholders and direc-

tors lies in the fact that the public carelessly choose to assume that the standpoint of directors and shareholders is in every case identical. The inert shareholder elects to justify his own indifference as to his financial welfare by the soothing reflection that he and his directors are in precisely the same boat, and that therefore, with every confidence, he can leave the management of the said boat to his directors. So that the shareholder pays insufficient attention to the point that it is inevitable that directors cannot reasonably be expected to see eye to eye with their shareholders. In discussing the attitude of directors thus generally, it must be understood that the typical English director of Joint Stock companies is a man of high commercial probity, of good social standing, and of an intelligence well above the average. He is of the class of man which furnishes our magistracy, and which is appointed to public and private trusteeships. In brief, the typical director is an excellent specimen of the Englishman of the upper and middle classes; at the same time it should not be overlooked that the director is, after all, only human,

and that he is burdened with the defects of his many excellent qualities.

Now the very social and commercial position which the average director occupies renders him perhaps a little too self-confident and a little too dictatorial in his manner. He is accustomed to lay down the law on the magisterial bench and in his own business, and he conducts himself as a benevolent despot in his family circle, with the natural result that he is exceedingly loth to admit that he could ever have made a mistake, or that he could have been guilty of an error in judgment. As a rule the average director's business acumen and his close attention to detail have enabled him to build up an adequate private fortune. But his own hard-won success does not logically justify his refusal to admit the possibility of mismanagement in a Joint Stock concern, to which probably he devotes no more of his time than a few hours weekly. It is the exception when the director devotes himself as whole-heartedly to the welfare of a Joint Stock enterprise as a struggling tradesman does to his private business. The result is that mistakes are

made and then the *amour propre* of the Board of Directors prevents them making public acknowledgment to their shareholders that works' extensions have been needlessly undertaken, or that money has been wasted in the invasion of new but unremunerative markets. In this way perfect candour ceases to exist between directors and shareholders. So that a situation is created in which the directors have knowledge of unremunerative developments undertaken whilst the general body of shareholders are entirely unaware that all is not going perfectly smoothly with their company. It may be, and it usually is, the case that the board are convinced that the new policy will ultimately result in the prosperity which they originally anticipated ; but in the meantime shareholders are kept in the dark, and the directors, when the date of the balance sheet comes round, gloss over the situation by neglecting to write down the value of leaseholds, or by failing to set aside an adequate sum to cover the depreciation of plant. In some way or another the directors cease to observe the strict canons of sound finance, and by this means they are enabled to present to

their shareholders a more prosperous statement of affairs than the actual position altogether warrants. There is no cold-blooded determination to embark upon a policy of deception; merely a situation arises in which men whose past commercial career has been uniformly successful display a not unnatural reluctance to make a public confession of partial unsuccess. It is the humiliation of a public confession of misfortune which a statement at a company's general meeting would entail which leads directors to couch their yearly or half-yearly reports in unduly sanguine phraseology.

It is also only fair to directors generally to admit that the average shareholder dearly loves a sanguine chairman. It would be impossible without descending to personalities to instance the magnetic influence which a sanguine chairman exercises over the spirits of disheartened shareholders, who, perhaps, have patiently listened to him during many years of disappointment and of dividends delayed. But no man who habitually attends the meetings of Joint Stock companies can form any other opinion than that shareholders do

encourage by rapturous applause the Board of Directors which belittles present difficulties and enlarges in a boldly prophetic vein upon the brilliance of future prospects. It is no over-statement of fact to assert that the too-sanguine chairman is created by the unhesitating loyalty which the too-sanguine shareholder displays to his Board.

The history of Joint Stock finance in this country may in short be summed up in the fact that the English shareholder possesses the very type of director which he deserves. Now the main characteristics of the shareholder are a strong historic sense and an ingrained respect for constituted authority. The mental attainments and the past achievements of his Board appeal to his historic sense, and his respect for constituted authority leads him to resent as a personal matter any attempt to criticise the policy of the Board either at a meeting or in the columns of the Press. Beyond and above which, there exists a strong sporting feeling that no man who is playing to the best of his ability should be interfered with during the progress of the game. This attitude,

though admirable enough in its way, results in deplorable negligence on the shareholders' part. Indeed, so long as directors manage to pay good dividends, shareholders do not trouble to ascertain whether these dividends have been actually earned or from what fund they may be drawn; neither do they pause to reflect whether this distribution of the concern's cash resources in the shape of dividends is in the best interests of shareholders; further, they are singularly indifferent as to whether the Balance Sheet and the Directors' Report exhibit the company's position with sufficient clearness. In short, shareholders are content to leave everything to their directors, and it is only when the directors find themselves compelled to announce that the steed has been stolen that the generality of shareholders manifest any interest in the fastenings of the stable-door. Prosperous companies, with shareholders numbered by hundreds, find it difficult to form a quorum at General meetings; whilst so soon as there is a cessation of dividends shareholders attend in large numbers. Were the shareholder more alert to his own interests

the principle of attendance at meetings would be precisely reversed. Fortune is ever fickle, and it is only by close attention to business in times of prosperity that prosperity can be induced to become permanent. Whereas it is idle to imagine that querulous speeches at public meetings can restore prosperity when prosperity has been choked by long neglect.

Shareholders would do well to appreciate the fact that Great Britain is a country where brains are well paid for, although, as a rule, directors' fees are inadequate. They seldom are sufficiently large to compensate a really brainy man for devoting himself entirely to the service of a company which has appointed him one of its captains. So that it has come about that the *Directory of Directors* shows that the highly capable men habitually hold so large a number of directorships that they are unable to attend in any great detail to the various concerns which they control.

Any one who has any inside experience of company-management is aware that, as a rule, one or two directors eclipse the rest of the Board in intelligence and application. So that, in many cases, concerns which nomin-

ally are managed by half a dozen or more directors are in reality in the hands of one man—a position which has much to recommend it, provided always that the one man is capable and honest, and that it is worth his while to devote himself entirely to the concern's best interests. Indeed, a North-Country company which had floundered for years in a dividend-less condition was restored to prosperity by a strong-minded director appealing for the election of a capable committee of directors to manage its affairs. As he went on to explain, in his opinion, a capable committee was a committee of one, and he himself was that one man. The perfect self-confidence, which this suggestion conveyed, was completely justified by results, and the capable committee consisting of one director restored the company to the dividend-paying list. But directors who are prepared thus whole-heartedly to devote themselves to their shareholders' interests are the exception; for this reason shareholders in protection of their own capital must, of necessity, exert themselves to follow the vicissitudes of their company's fortunes.

In the case of the great majority of companies shareholders are put in possession of information which would be instrumental in saving them a great deal of money if they would only utilise the opportunities which they enjoy. It is quite an exceptional case where the Articles of Association do not provide that shareholders shall be regularly supplied with a balance sheet and a properly drawn-up statement of profit and loss. Until the amendment of the Companies Acts of 1907, there was no penalty enforceable if a company neglected either to hold an annual meeting or to publish a balance sheet; but the Law now insists that every company shall hold an annual meeting, and shall supply the Registrar of Joint Stock Companies with an audited balance sheet, which is to contain :—

(*a*) A summary of the Capital.
(*b*) A summary of the Liabilities.
(*c*) A summary of the Assets.
(*d*) Particulars as to general nature of Liabilities.
(*e*) Particulars as to general nature of Assets.

It is, however, the exception when a company only furnishes its shareholders with the bare legal limit of information. So important is it that a company should make a full disclosure of its position, that it is a salutary rule for an investor to make not to entrust any portion of his capital to a Board of Directors which does not supply him with ample balance sheet details. If only investors would avail themselves of the balance sheet information, which is supplied to them, they would at least receive timely warning that their company's assets were disappearing and that its liquidation, or its reconstruction on a reduced basis of capital, was becoming inevitable. For instance, after the Board of the Sweetmeat Automatic Company had been reconstituted in 1904 the new chairman informed his shareholders that "the average nett profit per machine had been steadily and continuously shrinking since 1899. This circumstance was masked by the constantly growing capital expenditure which kept adding to the number of machines without, however, any proportionate increase in profits. Dividends were

paid in advance of profits instead of profits being earned in advance of dividends." Now it was well within the power of any shareholder by the aid of a simple arithmetical calculation to have ascertained for himself from the company's balance sheet figures that capital expenditure was increasing rapidly without there being any corresponding increase in profits. To arrive at this fact required no access to special "inside" information. Long before the company had involved itself in a maze of unsound finance the investor who submitted its published accounts to analytical scrutiny must have received timely warning that it had embarked upon a course of unremunerative capital-expenditure, the outcome of which could only be financial disaster.

Or, taking the British Westinghouse Electric and Manufacturing Company, which found itself compelled to write off as a total loss £1,375,000 from its Capital Account in January, 1907; here again was a case in which the balance sheet figures ought to have raised a timely alarm in the mind of a shareholder who was only moderately observant. For in

November, 1904, when this company arrived at the end of its first year of manufacturing, credit was taken in the balance sheet for Patents and Goodwill, £794,867, and for Works at Trafford Park, Manchester, £1,069,009, whilst the depreciation allowed for on these two items, totalling £1,863,976, merely amounted to the obviously inadequate sum of £10,500. So that the shareholder who had subjected the balance sheet figures of 1904 to no very exhaustive analysis would have had no less than fully two years' warning of the catastrophe which took place in 1907.

At times the shareholder who takes the trouble to investigate balance sheet figures receives even more ample warning of impending trouble than two years. For instance, there was no less an interval than ten years between the times when Spiers and Pond, Limited, first began to deviate in their balance sheet figures from strictly orthodox finance and when the company finally was driven to purge its accounts by a drastic scheme of reconstruction. In illustration of this I will first exhibit in tabular form the

variations in the capital account of this company :—

					£
Year ending March	31,	1897,	Share and Loan	Capital was	1,306,000
,,	,,	1898	,,	,,	1,306,000
,,	,,	1899	,,	,,	1,308,641
,,	,,	1900	,,	,,	1,908,281
,,	,,	1901	,,	,,	1,908,281
,,	,,	1902	,,	,,	1,908,281
,,	,,	1903	,,	,,	2,206,000
,,	,,	1904	,,	,,	2,206,000
,,	,,	1905	,,	,,	2,206,000
,,	,,	1906	,,	,,	2,206,000
,,	,,	1907	,,	,,	2,206,000

It will be noticed that throughout this period the tendency of capital account was to expand; yet, at frequently recurring intervals, it was stated in the Directors' Reports to their shareholders that the company's assets were being steadily diminished. For instance, in 1902 the directors made mention of the fact that the Gaiety Restaurant and the Yorkshire Grey, a valuable property standing at the junction of two tramway systems, had been sold for £100,000; in 1903 the contract for the supply of refreshments at Waverley Station, Edinburgh, had expired and had been diverted from Spiers and Pond, also the refreshment contracts with the Metropolitan District Railway, the Zoological Society's Gardens, and the Manchester South

Junction and Altrincham Railway had been renewed, but all at considerably increased rents. In other words the revenue-producing powers of these depôts had been materially diminished by their enhanced rentals, therefore their value as assets had been similarly diminished; so that in sound finance it was obligatory upon Spiers and Pond to write down their Capital Account correspondingly. This, however, was not done, as the above table clearly shows. In the Directors' Report issued in 1905 it was stated that the lease of Winchester House Restaurant in the City of London and the London, Chatham and Dover Railway refreshment contract had expired and had not been renewed. Mention was made in 1906 that the Dover Harbour refreshment bars contract and the lease of Freemasons' Tavern had expired and had not been renewed, and in 1907 it was admitted that the refreshment contract with the Cheshire Lines had expired and had not been renewed. Then the crash came, and in June, 1907, shareholders were asked to consent to £480,000 being written off Capital Account, and also to write off the amount standing at

the credit of the various Reserve Funds amounting to a further £123,023.

The point I wish to establish by these examples is that the shareholder is already placed in command of most valuable information which, as a rule, he entirely disregards or at least he fails to apply it advantageously to his own holdings. On broad principles I admit the injustice of directors, with the aid of proxy-power entrusted to them by their fellow-shareholders, smothering discussion at general meetings; but, on the other hand, I by no means withhold my sympathy from directors who are harassed and wearied by the irrelevancies of inquisitive shareholders who have not even taken the trouble to inform themselves as to the figures which are placed before them. It was with the view of remedying the obvious disadvantages under which shareholders labour in the interpretation of balance sheets and reports, and to enable them to arrive at a definite opinion as to the wisdom or unwisdom of a particular dividend distribution that the *Financial Review of Reviews* instituted its system of publishing digests of companies' accounts, of reprinting

topics interesting to investors culled from the world's Press, of opening its pages to correspondence, and of including in each number which it issues an Information Coupon for the use of investors who desire a gratuitous expert opinion on any particular point. Unfortunately, however, although many avail themselves of the facilities which are thus placed at their disposal, there is still a large body of subscribers to this periodical who do not appear to be aware of the privileges which they habitually neglect. It is with the view of enlarging the circle of those readers who derive their full twenty shillings in the £ from their *Review* subscription that I have been prompted to write the present article.

It was one of the presidents of the Institute of Accountants who once said that balance sheets are unfortunately more frequently used to conceal facts than to throw light upon them. So true is this that a volume could be filled with instances in which the manipulation of balance sheet figures has completely blinded shareholders to the true state of affairs. On the principle that it takes a thief to catch a thief, it frequently requires a skilled

accountant to extract the true meaning from a statement of accounts, which another accountant has compiled. Shareholders may therefore be pardoned for failing to appreciate the real meaning of a balance sheet when it is put together by an accountant who does not intend to be more communicative than he can help. Bearing this fact in mind the *Financial Review of Reviews* has instituted a system of supplying special information on balance sheets prior to a Shareholders' Meeting. This has been done in order to prevent shareholders passing and adopting vague and unsatisfactory balance sheets. The result of this fresh departure has so far been extremely gratifying. For owing to the pertinent questions which shareholders have by these means been enabled to put to their directors, in several instances balance sheets, which once were unsatisfactory in form, are now being published in proper shape. The shareholder, whose inquiries are foolish and irrelevant, annoys his directors without benefiting either himself or his property; whilst intelligent criticism is always productive of good results. There are, of

course, some classes of investments which require little watching: these consist principally of fixed-income stocks, which are so well secured, both from the point of capital and of income, that it is scarcely possible that they should be adversely affected by mismanagement or other malpractices. Such stocks as these naturally constitute the ideal of investment, but how few investors there are who in reality confine themselves to this class of holding.

Considering the difficulty there is in amassing capital it is astonishing how little trouble investors are prepared to take to safeguard it when it has been acquired. If only the readers of this article would carry its principles into practice and would determine no longer to pursue a policy of drift in regard to their investments, then they would forthwith set about seriously investigating their own financial position. In any case of difficulty, or whenever they found that they had neglected to file the bygone Reports and Balance Sheets relative to their holdings, a consultation with the Publishers of this *Review* would soon supply

the deficiency. By closely following the information which the *Review* affords, investors will rapidly acquire practice in estimating the strength of their own investment positions and they will also equip themselves for the task of intelligently criticising their own directors, and of extracting from them such information as a Company's balance sheet and report can reasonably be expected to furnish.



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