



eCOMMONS

Loyola University Chicago
Loyola eCommons

Master's Theses

Theses and Dissertations

1933

Financial Education of the Public - In Regard to Investments

John James Hackett
Loyola University Chicago

Follow this and additional works at: https://ecommons.luc.edu/luc_theses

 Part of the [Economics Commons](#)

Recommended Citation

Hackett, John James, "Financial Education of the Public - In Regard to Investments" (1933). *Master's Theses*. 448.

https://ecommons.luc.edu/luc_theses/448

This Thesis is brought to you for free and open access by the Theses and Dissertations at Loyola eCommons. It has been accepted for inclusion in Master's Theses by an authorized administrator of Loyola eCommons. For more information, please contact ecommons@luc.edu.



This work is licensed under a [Creative Commons Attribution-Noncommercial-No Derivative Works 3.0 License](#).
Copyright © 1933 John James Hackett

3602

FINANCIAL EDUCATION OF THE PUBLIC - IN REGARD
TO INVESTMENTS

A THESIS SUBMITTED IN PARTIAL FULFILLMENT OF
THE REQUIREMENT FOR THE DEGREE OF
MASTER OF ARTS IN
LOYOLA UNIVERSITY
CHICAGO, ILLINOIS

JOHN JAMES HACKETT

AUGUST, 1933

V I T A

BIRTH

MARCH 24, 1906, CHICAGO, ILLINOIS

EDUCATION

ST. PATRICK ACADEMY, CHICAGO, ILLINOIS

LOYOLA UNIVERSITY, CHICAGO, ILLINOIS

P R E F A C E

In the present state of affairs in the financial market, the writing of this work is indeed timely. The public at this time may take a more appreciative view of a study of this sort. One thing however is certain and that is that in the near future the public will investigate to a greater extent before investing than they have in the past. It is, therefore, the purpose of this paper to examine various educational devices offered as aid to the investment public in the purchase of sound investments.

Two sections that the author wishes to stress in particular and which he believes will be of great help to the investor are those on "Analysis of Financial Statements as an Educational Device", and "The Kinds of Practices Requiring Education of Investors." If the investor thoroughly understands the former he will not foolishly gamble his money on questionable and hazardous investments. In the latter section suggestions are offered to the investor, and if applied, he will not find himself an easy victim of the dishonest seller.

Certain technical terms used in this paper are explained in the Dictionary of Financial Terms appended to this paper.

Sources for suggestive reading are likewise included at the end in the Bibliography.

Acknowledgements are due to the following for assistance offered in the writing of this thesis: Mr. McDonald of the Better Business Bureau of Chicago for advice given as well as for permission to use valuable in-

formation which was used in this discourse; Mr. Samuel O. Rice, Educational Director of the Investment Bankers Association of America, Chicago, Illinois, for advice given and for invaluable literature placed at the disposal of the writer; Mr. Brian J. Ducey of Jackson Bros., Boesel and Co., Chicago, Illinois, for valuable suggestions; Mr. Clemins of the Securities Department of the office of Secretary of State for literature; Mr. Kenneth B. Backman, General Manager of the Boston Better Business Bureau, for advice and material given; Mr. John V. Barrett, Head of Commercial Department, High School of Commerce, Boston, Mass., for information given; Rev. Eneas B. Goodwin, S. T. B., J. D., Department of Economics, Loyola University, for valuable advice and suggestions. Special thanks are due Peter T. Swanish, Ph. D., Head of Department of Economics and Business Administration, Loyola University, under whose scholarly guidance it has been the privilege and good fortune of the writer to work.

John J. Hackett.

C O N T E N T S

	<u>PAGE</u>
CHAPTER I - THE NEED OF EDUCATING THE INVESTING PUBLIC.....	1
Education defined.....	1
The viewpoint of the investor regarding education....	1
How to attain your financial objective.....	3
The basic aim of investment.....	4
Distinction between investing, speculating and gambling.....	5
Survey concerning activities and methods of profes- sional promoters of investments and so-called in- vestments.....	7
Summary.....	9
CHAPTER II - THE KINDS OF PRACTICES REQUIRING EDUCATION OF INVESTORS... 10	
Curriculum of a school of the financial underworld, and language commonly used by them.....	10
Tipster Sheets and some noted tipster operators.....	12
Governmental action against the tipsters.....	15
A few noted schemes - Gold Bullion Scheme, Free lot scheme, Contract Raiding.....	16
"Puts" and "Calls".....	17
"Switching".....	18
"Packaged" Stock.....	18
Bucket Shops.....	19
Summary.....	19
CHAPTER III - EUROPEAN AND AMERICAN INVESTMENT MARKETS AND THE INVESTOR. 20	
Five points of difference between investment banking in this country and abroad.....	20
Common stocks as a safe investment?.....	25
Investment institutions and devices.....	27
Summary.....	29
CHAPTER IV - PUBLIC AND PRIVATE EDUCATIONAL AGENCIES IN INVESTMENT..... 31	
History of regulation.....	31
Blue-Sky Laws.....	32
Regulation of Dealers.....	35
Regulation of Specific Issues.....	36
Investment Trust Regulation.....	36
Anti-Fraud Laws.....	37
Federal Regulation.....	37
Security Issues Under Federal Control.....	38
Cooperative Regulation.....	40

C O N T E N T S

	<u>PAGE</u>
Regulation Vs. Education.....	41
Utility securities to be supervised by power board...	44
Control of the Capital Market.....	44
Summary.....	45
 CHAPTER V - ANALYSIS OF FINANCIAL STATEMENTS AS AN EDUCATIONAL DEVICE.	 46
Causes for loss and suggestions for avoiding loss....	47
The purpose of the financial statement.....	48
Short discourse on the balance sheet.....	48
Short discourse on the income statement.....	49
The use of statistical units of measurement in analysis.....	49
Summary.....	53
 CHAPTER VI - MISCELLANEOUS FACTORS IN THE EDUCATION OF INVESTORS.....	 54
Brief comparison between investor and investment banking houses.....	54
Banking houses in relation to railroad and industrial development of this country.....	56
Four Questions that will tell whether you're dealing with a "wolf".....	59
Three Questions toward protection against unwise investment of funds.....	59
Summary.....	62
 CHAPTER VII - THE INVESTOR AND THE FUTURE.....	 63
Capital needs of corporations.....	63
Money rates an encouraging factor.....	64
Distribution methods.....	64
The results that the Rayburn-Fletcher Securities Bill will have.....	64
 DICTIONARY OF FINANCIAL TERMS.....	 67
 BIBLIOGRAPHY.....	 94

CHAPTER I

THE NEED OF EDUCATING THE INVESTING PUBLIC

Education is a process by means of which the individual acquires such experiences as make his future actions more efficient. The life of the individual is limited. Apart from the educational process each generation must practically repeat, step by step and re-create denovo the life of its predecessors. Under such circumstances the only chance for improvement would lie in the ability to change habitat or in the proclivity to congenital variation. When, however, the individual has at his disposal not only his own experiences and those of his lineal predecessors, but, with both these, the experiences of his contemporaries and of his ancestors' contemporaries, the equipment that he possesses for his struggle with the environment is far and away superior to that of any other animal, and his chances for improvement and progress are far greater.¹

The investor of today is, indeed, in need of education concerning the fundamentals of investment. This need finds its support in the failure of investors to make a rational choice of alternative forms of investment open to them in the market.²

Who is this investor? He is the citizen who is only recognized when he apparently does something exceptional, regardless of whether he is

¹William Chandler Bagley, The Educative Process, p. 22.

²Harvey Alvaro Blodgett, "The Education of 'John Per Capita,'" New Outlook, October, 1932.

the small business man, the farmer, retail clerk, stenographer, mechanic, student, or housewife.

If one were to talk with this abstract investor, he would learn much of his shortcomings and understanding of first principles of investment. The investor would be the first to confess his inability in planning his own economic life intelligently. The investor also admits in the face of his failure as an investor that for practical purposes he was an "economic illiterate." This he attributes to his lack of education in the rudiments of every day finance, a knowledge of which would probably have saved him from being stampeded along with the herd a few years back, when the mob rushed blindly in its quest for the pot of gold at the end of the rainbow. He would tell you that this education was not available, that he was consequently, forced to learn by trial and error. The investor would further emphasize that such losses as he suffered were the product of what he termed playing the market blindly. He would concede that while he was winning he had no interest in making an intelligent study of sound investment rudiments, and that such data as were available was written over his head.

What kind of education is it that will be really useful to the investor? Schools and universities offer almost every brand of learning except that particular brand of financial education that is most useful in safeguarding of property. Seldom is a well-organized program in the principles of money management to be found on the secondary level. So long as this condition exists, each generation will be obliged to learn through trial and error just as did our abstract person, the investor. The question arises, however, that even should the secondary schools be equipped to offer such

education, of what benefit would it be to that great majority which makes up the investing public and is unable to take advantage of such materials as are offered in the schools. Where then is such education as is needed by the investor to be had?

The radio is supposed to be one of the greatest popular educational mediums, but only rarely does it bring the helpful guidance that might enable one to figure out a safe road to intelligent financial behavior. The newspapers print articles by economists and financial experts in which one contradicts the other. Apparently the need is for education where a disinterested teacher comes down and talks to the investor as an adviser. The banker's advice is to "save systematically," but the faith of the public in bankers as public servants too has been severely shaken. The facts are that today there is no organization of financial or other interests that offer a consistent and concrete program of public economic education, even though it is one of the greatest needs of the present time.

There is a story told¹ by Arnold Bennett, of two travellers, one of whom was apparently just traveling but did not know where he was going, and the other who although knowing where he was traveling did not know why. Such is the case also in relation to financial planning of most men. Investment house experience shows that it is the exceptional investor who has any idea of how he will be fixed when he writes finis to an active business career. Even if it were possible to find an investor who has a goal set, he will not in all probability have any well-conceived plan for reaching it.

¹"Your Financial Objective and How to Attain It" Investment Talks by the Old Counsellor, February 12, 1930, pp. 9 - 11.

The so-called guesswork in one's financial trip through life can be eliminated to a large extent if the following three ideas are realized; have a financial goal in life set; also have a plan set out for attaining it; and then in relation to selecting individual issues have a well-defined investment policy to govern it. If these three ideas are carried out one may know where and why he is going, as well as how and when he will arrive.

A wide variety of answers could be given to the solution of one dependable and unfailing test of sound investment. This no doubt is due to the fact that in relation to the basic purpose of investing there is too much general misunderstanding. Motive can be said to be an important factor in figuring out if a certain transaction is really an investment or perhaps something else. The real investor aims no doubt to obtain the maximum degree of well-secured income consistent also with the other qualities of investment that are necessary to his individual situation. The following two facts¹ if remembered, will help those desiring to invest from falling into the usual pitfalls. The first is: "that the individual owes an obligation to himself, and to those dependent upon him, to replace his personal earning power with more permanent investment income. Logically, he should work toward a goal, the accomplishment of which will enable his dependents and himself - if he survives the usual period of personal earnings - to maintain the standard of living to which they have been accustomed. For instance, a \$10,000 a year man should work toward a goal of \$200,000. A proportionate goal should be set by those in other circumstances. Lest this seem unattainable, let me

¹"The Basic Aim of Investment" Op. cit., March 4, 1931, pp. 19 - 21.

say, parenthetically, that in one's productive life-time, over half this total may usually be attained from compound interest - assuming regular investment at about a $5\frac{1}{2}$ per cent average yield." The second is: "that neither the pursuit of profits, nor the accumulation of assets without regard to their income-producing qualities should be confused with sound investing."

There is one important thing that the public is in great need of enlightenment, that is the difference between investing, speculating and gambling. First of all, take the case of investing. "The word 'invest' means literally 'to clothe.' The literal meaning of 'to clothe' is 'to protect.' An investment is the placing of money in a form where it will be protected against risk and loss, where it will return a regular, definite income and where the investor may also recover the principal invested."¹ An example of investments is that of "life insurance and sound bonds because the return of the principal invested and the interest yield are assured. Life insurance gives greater protection; bonds a higher yield. Both are created and handled on the narrowest possible margins of expense or profit. They are safe and dependable, which is the first great essential in any investment."²

Secondly, take the case of speculating. "Looking into anything thoroughly or getting the counsel of reliable persons who have looked into it thoroughly, and then buying or selling, that's speculating. To do otherwise is gambling, usually very silly gambling."³ The speculator may include

¹Samuel O. Rice, "What It Means to Invest" The Common Sense of Sound Investing, pp. 2 - 3.

²John W. MacGregor, "Investing, Speculating and Gambling" Life Insurance and Investments, pp. 3 - 5.

³"What It Means to Speculate" Safety Zones For Dollars

"every capable farmer, merchant, manufacturer or other business or professional man. He knows what he is doing and he can exercise a reasonable judgment as to the forces that affect his business."¹ "Anyone who has the money available has a right to speculate, but he should realize that speculating means studying the thing carefully and obtaining reliable information. It doesn't mean accepting so called "hot" tips. That's usually a losing gamble."² "The true 'speculator' is not a gambler. He has a certain knowledge or control of the forces involved. He can minimize risk and guard against loss."³

One authority⁴ has the following to say regarding investing, speculating, and gambling. Investing if it is defined properly in the strict sense is nothing more than the commitment of funds for use in production, which are entrusted to the management of another in exchange for which the receiving of an income in return is the primary purpose. Speculation can be said to be not only the act of making a purchase that involves risk of loss, but that it also offers a chance for profit of a considerable degree. It can be said to be the intelligent assumption of risk for the purpose of rendering a definite service. In the case of gambling, it is simply the blind assumption of risk solely for the sake of profit and being heedless of whether one is rendering service or disservice. In the case of speculation, it can be said to have economic use because it provides a constant market in which securities may at any time be bought and sold. On the other hand, gambling has nothing to commend it and everything to condemn it.

¹Samuel O. Rice, "Speculation" Op. cit., p. 5.

²"What It Means to Speculate" Op. cit.

³Samuel O. Rice, "Speculation" Op. cit., p. 5.

⁴Roger W. Babson, Investment Fundamentals, p. 280.

The conclusions arrived at on the basis of a survey¹ covering a period of two months, in which inquiries respecting hundreds of companies received from organizations of all kinds and from individuals in every walk and station of life: schoolmasters, newspapers, chambers of commerce, stock exchange members, laborers were made including five hundred and fifty-three inquiries in all, show that 'mining still remains the most beguiling gold brick with which to brain the sucker.' Seventy-five per cent of the inquiries received were assigned to the following classifications:

	<u>Per Cent</u>
Mining	20
Oil Production	12-1/2
Real Estate	10
General Securities Dealers	8-1/3
Oil Royalty	7
Manufacturing	7
Business Service Firms	4-1/2
Automotive	2-1/2

One-fourth of the inquiries were about companies and men of unquestioned standing. Some interpreted this as a possible reflection on the selling methods and 'literature' of legitimate investment banking houses, for the reason that the investor was not able to distinguish the good from the bad.

It can be said, however, that no matter how the reputable houses act, the disreputable promoters are found to act as nearly like them as possible. Therefore, the investor who proceeds cautiously and takes nothing for granted is going to fare better than his neighbor who relies only upon outward appearances. One fact to be noted here also is the fact that the inquiries from dwellers in the urban sections outnumbered those from the rural districts

¹Paul Tomlinson "Where The Investor's Money Goes", Harper's Magazine, February, 1928, pp. 1 - 12.

by four to one. It might, therefore, be deduced that the city dwellers are more on their guard against promoters, or that they are better acquainted with the fact that it is possible to secure investment information and where to secure it; or that the promoter may find it easier and more profitable to concentrate his efforts on the closely populated areas which certainly would be true if personal solicitations were to be made; or that average city dwellers undoubtedly know more about securities than their country cousins and therefore are aware of the fact that it is good business to investigate before buying.

That the people of this country lose about a billion dollars a year in unsound and fake investments is well known. Let us suppose that the bankers dealing in sound investments make an average profit of only one per cent on the securities that they sell, one per cent on a billion dollars is ten million dollars a year, a sum sufficiently large to justify strenuous efforts to divert it from the fake promoter to the reputable investment banker. If this capital of a billion dollars were invested in productive enterprises rather than in fake mines, fake oil wells, fake manufacturing business, fake real estate deals, and automobile promotions, the welfare of the country as a whole would be far more advanced.

The lay investor should not be blamed for not being able to distinguish between the good and the bad for the reason that a man not trained in the business of investing money is not supposed to possess such technical ability. On the other hand, there is no reason why a person should fail to make inquiries about a thing of which he has no knowledge. Motor cars are much more familiar to the majority of people nowadays than are investments,

but still people buying motor cars inquire into respective merits of various makes before they decide upon any one.

In this chapter the viewpoint that the investing public is in some need of financial education has been emphasized. An attempt was made to bring out the basic aim of investing as well as stating one's financial objective and the means to its attainment. The distinction between investing, speculating and gambling has been underscored. In the chapters to follow an attempt will be made to enlighten further the general public on investing, some of the facts to be covered being as follows: kinds of practices requiring education of investors; public and private educational agencies in investments; analysis of financial statements as an educational device; and the investor and the future.

CHAPTER II

THE KINDS OF PRACTICES REQUIRING EDUCATION OF INVESTORS

The purpose of this chapter is to show various practices that are used by the so-called financial underworld, and that require the education of the investor in order to combat them.

To begin with we see that the financial underworld is keenly intelligent, but this sort of intelligence is applied toward the dishonest aggrandizement of a single or small group at the expense of innocent and ill-informed investors. An example of the curriculum that is offered in a regular educational course given to the "dynamiters" and telephone salesmen who act as sort of shock troops in any "big job" for bucket-shop operations is as follows:¹

1. Bucket Shops, - their operation and management.
2. Phone Rooms - their operation and management.
3. The Merger Game explained.
4. The Stockholders' Committee Racket.
5. The Fractional Share Scheme.
6. Reloading.
7. One Call System.
8. Tipping.
9. Puts and Calls.
10. Blind Pools.

A course of this sort probably is very often given in some eminently respectable office building in the very heart of the financial district of the city.

The jargon of the financial underworld is rather picturesque and illuminating. In the usual speech of finance, the following words and phrases

¹William Leavitt Stoddard, Financial Racketeering And How To Stop It, pp. 2 - 3.

are quite common.¹

- Airedale - Fashionably dressed and "upper class" appearing salesman.
- Bird Dog. - A "tout" used by the "dynamiter" to furnish prospects and boost the securities among his friends, receiving therefore a cut in the commissions.
- Boiler Room - A telephone room from which a battery of salesmen work a telephone "razz."
- Coxy - An inexperienced salesman who can make small sales that later can be followed up by the "reloader."
- Clean Deal - A cash sale.
- Deal - Usually a thousand dollar sale with sufficient cash collected to pay the commission. Also a contract to sell an issue of stock.
- Dynamiter - A high pressure, fly-by-night salesman who can close big "deals." A common expression for a salesman using the telephone to sell fraudulent stocks.
- Front Money - Money advanced to a salesman before commissions are earned.
- Money paid by companies for the purpose of securing finances, such money being paid to so-called "financial engineers" on their promises to secure finances, which promises are seldom carried out.
- Hot Stuff - Literature pertaining to a stock issue that is good selling propaganda, irrespective of its truth or otherwise.
- Hundred Percenter - Salesman or broker who trades something entirely worthless for a security having a market value.
- Kit Deal - A deal requiring the use of a kit. Objected to by "dynamiters" unless the kit is made up of letters from bankers, etc., approving the deal or the principals.
- Lily - A "high brow" synonym for a sucker.
- Morch - A sucker who will tumble easily for a good canvas. Known to buy without investigating on the lure of big profits.
- P. O. - The much feared Post Office inspector.
- Racket - The current activity in which the promoters salesmen are engaged.
- Reloader - A "dynamiter" who understands the science of selling more stock to an individual who has made a small investment.
- Scenery - A Board of Directors whose names carry weight. Sometimes used to refer to dividend checks carried by reloaders.
- Spieler - The orator who makes the talk when "lunch and lecture" system is used.
- Squawk - A complaint to the authorities.
- Sucker List - Names of people likely to fall for a blue-sky scheme.
- Tagged - Indicted.
- Tipster Sheet - An alleged financial publication which boosts stock issued to aid their sales.
- Up and Up - An honest transaction on a legitimate deal is said to be "on the up and up."

¹William Leavitt Stoddard, Op. cit., pp. 4 - 5.

A. Tipster Sheets

The financial underworld is not without its means of publication for it has its own independent and rather extremely interesting and clever press, that is edited by unscrupulous reporters, "sold" by application of wary brains to that well known easily secured sucker lists, and is subsidized by the profits of deals. Its publication is known as "tipster sheets" and they have again and again demonstrated their great value to their publishers.

In establishing a tipster sheet the first thing that has to be done is to set up offices in a recognized financial center, the preference being either in the New York or Boston financial district. Then it is necessary to have a name for the tipster sheet. An idea can be had of a probable name from a few that were prominent a few years back:¹

The Investment Digest
Wall Street Chronicle
Financial Criterion
The Market Barometer
Financialistic Debater
Jones' Daily Trader
The Pendulum
Market Wisdom
Spears Ticker Topics
Financial Record; and, with a flavor all its own-
Market Prudence Finance Service!

These tipster sheet articles are supposed to present disinterested financial analyses and the paper itself is given somewhat the appearance of a financial newspaper. However the columns of the paper are used to create an inflated market for the reason that the editor, owner or allies of the

¹William Leavitt Stoddard, Op. cit., pp. 15 - 16.

tipster sheet are interested themselves in the securities that are described therein. In such cases there can be little doubt that the advice given is prejudiced and quite certain to be as poor as the security that is recommended. A practice has developed assuming the character of an option on a whole outstanding issue. A market is subsequently created by means of "wash" or fictitious sales on the unlisted market. Next, 'manufactured' quotations are published in the columns of the tipster sheet, and finally the issue is disposed of at a made or manufactured quotation.¹

These tipster sheet publications in order to disguise their real purposes, which is to unload on the public an issue, in which the house is interested, create an appearance of respectability by devoting the larger part of their space and columns to comment regarding the possibilities of securities of such companies as General Motors, United States Steel, American Telephone and Telegraph and other high-grade equities. A case is on record of a house and its sheet which devoted its columns to crusading against the dangers of margin trading, bucket shop operation, and in this way concealed its own designs with a mask of righteousness. However, what the public is lulled into not suspecting, is that favorably boosting material about pet issues in which the promoters are interested is subtly sandwiched in with comments and articles regarding the well-known dividend-paying and listed stocks. The psychology of the whole scheme is nothing more than to classify the promoters' stocks with the worthwhile-securities receiving prominent mention, as well as to make the scheme doubly safe and certain of results

¹"Worthless Market Services and 'Tipster Sheets'" Activities of The National Better Business Bureau Incorporated - 1927 - 1928, p. 7.

for the promoters.¹

Security swindlers or "tipster" promoters can be divided into two types as follows: (a) those that "crusade" against established business and thus depend on their success in the destruction of public confidence in legitimate companies and publications; (b) those that apparently imitate to a detail, the investment letters of legitimate firms, and thus masquerade as apparently disinterested stock market advisers.²

In a 'bull' market period such as that in the years 1928 to November 1929, there were some fifty or sixty of these tipster sheets issued in various eastern cities. Approximately 15,000,000 people in the United States and Canada received these publications either in the form of "market letters" "daily bulletins" or as magazines and newspapers. In dull market periods, as is to be expected, this flood dries up, only to be let loose all over again at the opportune moment.³

Some of the noted "tipster" operators were Jacob S. Herzig, alias "George Graham Rice," editor of one of the most prominent pseudo-financial "crusader" of "tipster" publications, "The Wall Street Iconoclast." This had a circulation of 600,000 at \$10 per year which subscription price was never paid as is always the case. Charles Beadon under the name of "Horace Browne" addressed recommendations to subscribers to a "tipster sheet" known as "Trend of the Market." Frank L. Epps edited a "tipster sheet" known as "Daily Market Service." The "Stock Market Service" was published by an experienced "tip-

¹William Leavitt Stoddard, Op. cit., pp. 16 - 17.

²"Tipster Sheets" National Better Business Bureau, Inc. - New York, September, 1928, p. 2.

³William Leavitt Stoddard, Op. cit., p. 14.

ster operator" by the name of John Warren Jarrett. G. H. Stratton & Company were publishers of the "Stock Market Trader and Investors Interest." The "Wall Street Indicator" was published by John A. Fogg, Inc., of whom two of its principals were Sidney Strauss and John A. Fogg.¹

B. Governmental Action Against The "Tipsters"²

Various means and remedies have been tried in an endeavor to try and combat the widespread activities of "tipster sheets." A number of states have obtained injunctions under their securities laws against offenders working within their borders, or they have issued 'cease' and 'desist' orders against non-resident operators soliciting residents of a given state through the mails.

Canadian Postal Authorities issue fraud orders against such publications in their effort to achieve the effective suppression of "tipster sheets" mailed to and from Canada.

There are two federal statutes in the United States that enable postal authorities to take protective and punitive action in some important cases. Section 215 of the Penal Laws provides for a maximum penalty in the form of imprisonment for five years and a fine of \$1,000 for use of the mails in schemes to defraud. Second, there is the so-called "Fraud Order," which closes the mails to offenders found guilty of fraud. If the fraud is consummated through misrepresentations by telegraph or over the telephone, the promoter can be brought within the purview of the statute if the mails are used only incidentally. In the case of a promoter mailing to his bank funds

¹"Tipster Sheets" Op. cit., pp. 3 - 4.

²Ibid., p. 4.

received from a sale made through verbal misrepresentation, or even in acknowledgment thereof by his bank, it has been held that the offender can be brought within the jurisdiction of the mail fraud statute.

C. A Few Noted Schemes

One of the most ingenious and barefaced swindles of the first quarter of the twentieth century was that of the famous "Gold Bullion Warrant Scheme" in which thousands of people succumbed to the lure of "buying gold at \$4.50 an ounce," which was to be sold to the United States Treasury Department at a market price of \$20.67 an ounce.¹

Land is one of the oldest types of property to be bought and sold professionally and otherwise. The free lot scheme is one of the most over-worked and universally employed devices that is used by the financial underworld.² It is a dead-sure money-maker several times in each generation and at least once in a given locality regardless of its antiquity. The lots are never free for in the end the "winners" always pay for their "prizes." The promoter collects ample profit for his trouble by insisting upon payments of sums varying from \$4.85 to \$68 and more, from excited "winners." This payment is held out to deceived winners as the "cost of searching the title, drawing the deed, making the transfer, etc." In the case of these free lots, it is quite common for such lots to be located in remote places where the land is practically worthless. If this does not happen to be the case then the "free" lot is usually too small. However, the adjacent lot is always for sale and the scheme is to get the winner to buy it which he invariably does

¹William Leavitt Stoddard, Op. cit., pp. 37 - 39.

²Ibid., pp. 88 - 90.

thinking he is getting a bargain. When he tries to sell it, his disillusionment is complete and he was shown that water, sewer, and gas probably will not be put in for the next fifty years.

Another common practice of unscrupulous operators, is that known as "Contract Raiding,"¹ in which the operator secures the names of a competitor's customers and writes or calls personally upon them. His purpose is to discourage such persons from their purchase and to switch them into another company. The practice of "Contract Raiding" has the elements of fraud and in so far as the old contract is allowed to lapse, it is a clear indication that the allowance in the new contract was added to the original price and that therefore all payments on the original contract are lost.

D. "Puts" and "Calls"

"Puts" and "calls" are legitimate market devices of recognized standing. As the word implies, a call is an option to buy while a put is an option to sell. Take for example, a case of where a person believes that a stock is going up. He buys a call. In this case the broker who sells the call agrees to deliver the stock within the specified time at the price named in the call or option. If the market rises, and at the specified time is above the option price, the stock can be sold at market and a profit realized. In case the stock does not move up, all that is lost is the relatively small cost of the option or call. The "catch" in the scheme is that here the broker fixes the terms of the bet so that he is, practically certain to win. In the case of a put the operation is in "reverse English," and instead of

¹The Report of The Chicago Better Business Bureau - July, 1928.

appealing to the "bull," appeals to the "bear."¹

E. "Switching"

One of the most common and lucrative devices of swindlers is the so-called "switching" practice.² A worthless new stock may be switched for bad old stock; or bad new stock switched for more newer holdings that are good. Then there is the case of worthless "merger" inviting the switching of bad old stock plus a per share charge (for commissions) into securities of the new combine. An example of a sub-variety is that of the salesman finding a prospect that owns some securities which can be converted into cash and in turn into the stock which he is offering.

F. "Packaged" Stock

One of the most recent innovations in selling stock is that of the case of "Packaged Stock"³ A large number of single shares are grouped into a "unit" or "package" and sold at an attractive price to the public. This carries a strong appeal to small and unknowing investors. The number of shares of stock in the "package" varies from a minimum of 10 to a maximum around 50. Accordingly as the trend of the market varies the usual price of the lot is around \$100. The purchaser is also advised of the fact that if one share of each of the stocks in the package was bought, the regular one share commission would have to be paid. The vendors of these packages are silent as to the expense that must be incurred by the purchaser when selling single shares comprising a package. An important and expensive item to be considered here

¹William Leavitt Stoddard, Op. cit., pp. 125 - 127.

²Ibid., pp. 130 - 131.

³The Report of the Chicago Better Business Bureau - Oct. 13, 1932.

is the commission cost of selling one low-priced share of stock as compared with its market price.

G. "Bucket Shops"

The term "bucket-shop,"¹ about a decade or two ago, was used to describe brokerage houses that accepted customers' orders to buy or sell securities or commodities without however actually making a purchase or sale on the exchange. The term bucket shop, however through general usage, has been broadened to include any house that uses tipster sheets, long distance telephone solicitation, or extremely high pressure direct salesmanship in the distribution of securities of doubtful value.

In this chapter there has been shown the various practices that are used by the so-called financial underworld which require the education of the investor in order to combat. A curriculum offered by a school of the financial underworld was given as well as the language that is commonly used by them. Then a section was devoted to tipster sheets and included some noted tipster operators. Governmental action against the tipsters was then discussed. This was followed by a section on some noted schemes, among them being the "Gold Bullion Scheme," "free lot" scheme, and "Contract Raiding." The chapter closed with an explanation of "puts" and "calls," "switching," "packaged" stock, "bucket shops." In the next chapter the European and American investment markets and the investor will be discussed.

¹Carl H. Henrikson, "Our Bucketeers," The University of Chicago Magazine, January, 1933.

CHAPTER III

EUROPEAN AND AMERICAN INVESTMENT MARKETS AND THE INVESTOR

The outstanding differences between investment banking in this country and abroad are summed up in the following sentences. The first difference is found in the role played by the bond salesman; second, is the frequently artificial character of markets for new issues of securities; third, the peculiar organization of the stock exchange; fourth, is the great volume of speculative and manipulative activity which is carried on; fifth, the large amount of direct public investing in common stocks.

The most important difference, as far as the individual investor is concerned, is perhaps that of the large role that the bond salesman plays in this country. He has established personal contact between the investment banker and the purchaser of securities, and thus, has been very important in furthering the extension of popular investment. In the past his function has, indeed, been a vital one, and to bond salesmanship is due, in considerable measure, the credit for the rapidity with which the American investment market has grown. The well-articulated branch banking system which exists in France and Germany permits of personal contact between the client and the bank without the mediation of salesman. The small-unit banking system of America has worked to keep local commercial banks out of the security business. This partially explains the presence and need of the security salesmen in the investment banking field. The bond salesman in this country, on the other hand, has been and is today frequently motivated by considerations

which, in the long run, are not always sound. His task is to sell securities, and in order to increase his sales volume, there is always a strong temptation to switch investors from one issue to another equally or even less desirable. Again, the selling of new securities, is what the salesman is primarily interested in. In many instances he prefers to sell a new and perhaps unseasoned and less desirable issue rather than an outstanding one on which he will make no commission. There are individual salesmen who do not permit their self-interest to dominate their actions, but the temptation is always strong to do so.

Under any system of security selling the same motives operate to some extent. However, the responsibility for the substantial lack of disinterested advice available to the American investor from his investment banker is not alone due to the individual bond salesman. Due to the fact that the security retailers play so prominent a role in the origination of securities, and that most of them combine retailing and wholesaling functions, there is a result, therefore, in most security houses of their having a limited number of favored issues for sale. The pushing of these issues is not always consistent with giving wholly disinterested advice to the security buyer.

In the British capital market, on the contrary, we find it so organized as to give the individual investors much more disinterested advice. The broker often makes about as much on an old as on a new issue. In France, conditions are nearer those of the American market in character. The branch bank manager often acts very much as does a bond salesman in this country in seeking to push issues sponsored by his house. In Germany, the big banks can give clients fairly independent advice on securities, without damage to their own

interests, since they have such wide interests.

In the preceding three paragraphs there has been shown the comparative standing that the bond salesman holds in the point of view of the investor of America, Great Britain, Germany, and France. No doubt, this has been of extreme benefit in educating the investor.

The frequently artificial character of markets for new securities is a second important characteristic of the American investment banking which differentiates it from foreign practice. All over the world there exists to some extent the pegging of quotations. But only in this country is it so pervasive and regular a thing in new issues of securities. The broad geographical expanse of the United States, and the speculative proclivities of even conservative investors explains the existence of this practice in a very large measure. During the process of primary distribution, pegging is generally regarded as necessary, since it takes longer to distribute an issue here than abroad. Furthermore, it seems that nowhere else do investors pay so much attention to quotations, as against stability and safety of income over a period of years, as they do in the United States.

So long as the return is satisfactory over a period of years, the British investor does not care much if his bond sells four points below the subscription price at the opening of trading. In this country, on the contrary, when a security declines soon after its issuance, the tendency is strong for purchasers to throw bonds overboard and take whatever loss has been incurred as soon as possible, rather than run the risk of further price depreciation.¹ In this respect it might be well to state that a pegged mar-

¹H. Parker Willis and Jules I. Bogen, Investment Banking, pp. 508 - 510.

ket is a stationary market, neither rising nor falling.¹

Simultaneously, perhaps nowhere else do so many people like to "hop on" as in England, in order to make a "scalping profit" of a few points when a promising issue is being publicly offered for the first time. The scramble for promising new offerings of the speculative type results from the attraction of such issues to speculators who cannot trade on margin as easily as here, and who consequently prefer to buy new issues on which only a small initial payment at the time of offering may be required. Pegging of the market is not usual in England. In France, pegging of the market has been done on numerous occasions, although there the market in new issues does not generally show much activity.

Another factor brought about in our process of educating the investor is that of pegging quotations as has been quite ably shown in the preceding three paragraphs.

A third characteristic of the American market is the organization of the stock exchange, with its daily clearings. The latter calls for a vastly greater amount of clerical work than the European term settlement system. It also ties up a much larger amount of bank credit in the shape of broker's loans. On the other hand, there is at the same time some advantage in a system which gives the broker an income for holding a speculative security through the payment of an excess interest charge on the debit balance. Here the broker is given a somewhat smaller motive for inducing customers to turn over their speculative holdings rapidly. The gain, however, is largely offset

¹H. L. Barber, Investing for Profits - A Guide in Making Money Through Investments, p. 281.

in many cases, through the customers' man's desire to show a larger amount of business done by him, and results from interposing between the brokerage house and the customer an individual who has assumed an advisory capacity, in addition to executing the routine task of receiving and recording orders.¹

What might be said to be the outstanding feature in the organization of the London Stock Exchange in the conduct of its business is the division of its members into two groups namely brokers and jobbers, each having a separate function. The brokers do not buy and sell securities as principals, but merely act as intermediaries between the public and the jobbers. The jobbers are the actual dealers in the market. They do business with each other, and with the brokers, but not with the public. Therefore, since the jobbers are the real dealers, they obtain their profit from the difference between the prices at which they buy and sell, while on the other hand, the brokers being agents for their customers, are remunerated by a commission on the business done. This separation of the functions of brokers and jobbers has contributed undoubtedly to the strength and freedom of the London market. The jobbers are free to concentrate the whole of their attention on the market since the brokers relieve them of the trouble of dealing with the public. This arrangement also gives members of the public the advantage of expert bargaining with the dealer.²

In discussing in the preceding two paragraphs the stock exchanges of America and England there has been shown the part played by the customers' man in the American system and the part played by the broker and jobber in

¹Willis and Bogen, *Op. cit.*, pp. 510 - 511.

²H. Parker Willis and B. H. Beckhart, *Foreign Banking Systems*, p. 1234.

the British system.

Still another feature of the security market in this country is the relatively greater volume of speculative and manipulative activity carried on. There are more individual speculators in the American market than in any other country, and the range of stock price fluctuations is generally wider. Pool operations and other manipulative phenomena are more highly developed in the United States than elsewhere. Conditions here are specially favorable for such practices. Among the conditions conducive to speculative activity is the existence of a large investment demand which sharply cuts down the floating supply of stock issues; the highly developed call loan market; the large number of stock exchange brokers, which make competition for business, especially of the big speculators, so keen as to result in a relaxation of the usual margin requirements in their favor; and, finally, "in certain instances the fact that specialists on the floor of the exchanges are not segregated and specially supervised, as is the case in London and Berlin. The specialist, knowing intimately the condition of the market in any one issue, since he receives the bulk of the buying and selling orders in it, is in a specially favorable position to direct or participate in speculative manoeuvres.

The large amount of direct public investing in common stocks in the United States since the beginning of 1920 is still another distinguishing feature. The European investor generally prefers government securities and corporate bonds. Exceptions to this general practice are found in Germany and Belgium. Investments in common stocks in England, mainly foreign shares, are made through the medium of the investment trust. In France and Germany

the banks act in many instances, as large investing organizations in equities. In the United States the rank and file of investors have for a long time shown an interest in common stocks. Since the war this tendency has been far more noticeable than ever before. Indirect investing through the formation of investment trusts and trading organizations has also developed on a large scale.¹

The investor who claims to be shrewd may attempt to defend his savings against unjust losses by certain expedients. One might be where the investor, in anticipation of inflation, might sell bonds and mortgages and purchase common stocks and real property. In this respect some observers have advanced the proposition that under any and all conditions, but especially under price inflation, common stocks are a safer investment than bonds. There have also been many various studies made which warrant the tentative inference that when prices are rising a diversified list of common stocks is much superior to bonds from the standpoint of assurance of real yield and of sustained purchasing power of the market value of the security.²

In looking at Germany for example, one finds that there has been an extraordinary growth of large-scale investment as compared with pre-war times. Common stock issues (Stammaktien) predominance is one characteristic of the German system of share issues. The preferred share was very unusual in pre-war days and generally had only an assured prior claim to dividends or a preferred claim to assets. It was a form of investment intended for the small shareholder. However, during the years of inflation, the preferred

¹Willis and Bogen, Op. cit., pp. 511 - 512.

²Lionel D. Edie, Money, Bank Credit and Prices, p. 79.

share naturally lost all attraction because of its preferred claim to paper mark dividends. Moreover, the guaranteed repayment of the nominal paper mark value of the share had the reverse of the intended effect, for it resulted in placing it at a marked disadvantage as compared with the common stock which represented a substantial equity in the business.¹

The large amount of direct public investing in common stocks since the war was shown in the preceding three paragraphs with special emphasis on the United States and Germany.

The remaining sections of this chapter will deal with various investment institutions and devices that operate in one market and are absent in others. This should be considered very important in our process of educating the investor.

Institutions offering facilities for saving, including those that specialize in their promotion, are also included among investment institutions. Savings devices of various types are also in this class since they supply their customers with means and forms of investment. Some of these institutions specialize in the investment branch of the business. Among these are bond houses, investment companies, land banks, building and loan associations and cooperative banks.

Bond houses include the following: corporations, partnerships or individual firms that specialize in the purchase and sale of bonds. They seek out and make connections with corporations, states and other political units that wish to borrow through bond issues. They perform all the business,

¹Willis and Beckhart, Op. cit., pp. 654 - 655.

such as seeing to the legal regulations covering an issue; looking after the writing or engraving of the bonds, market the bonds, either by outright purchase and subsequent sale to investors or by their sale on commission wholesalers. Some houses specialize in the purchase and sale of special kinds of bonds only, such as government, municipal, railroad, public utility, and so on while some deal in all or in several kinds.

The term investment companies in a broader sense includes all kinds of investment institutions. Sometimes the term covers firms that specialize in the purchase and sale of real estate securities and real estate mortgages. The market for such obligations is made up of persons who desire to lend on this kind of security. Such institutions undertake to perform all the business connected with both the issue and the sale of mortgages and real estate bonds. Just as in the case of the bond companies, there is here an opportunity for specialization within the field.

A highly specialized and very important form of investment company is the so-called Land Bank. This is an institution designed especially to guide streams of savings into agriculture or into the construction of residences and business buildings in cities. It secures a part, frequently the largest part, of the funds it invests by the sale of its own bonds and it sometimes buys real estate as well as mortgages and constructs buildings.

Building and loan associations are especially designed to promote home ownership by people of moderate and small means. They loan to such people on mortgage security the funds needed for the purchase of building lots and the building of houses, on terms that permit the repayment of the loan in installments at short intervals extending over a comparatively long period

of time. The funds so loaned are derived from repaid loans previously made and from contributions by people who, without being borrowers, intrust their savings to these companies for investment. A considerable number and variety of devices in the form of stock issues and shares that are paid for in installments and mature serially, are used by these companies to accomplish the purpose for which they exist.

So-called cooperative banks are organizations of groups of individuals, frequently neighbors or people engaged in the same occupation, such as artisans, small tradesmen, farmers, etc., who become mutually responsible for the obligations of the bank; borrow from it funds needed in their business; intrust their savings to it and share in its management, its profits and its losses. Banks of this type are common in European countries especially in Germany, and are also found in the United States. Since they involve joint and several responsibilities of each person in the group for the payment of the debts of defaulting members, they flourish best among people who know each other well and are in a position to keep a watchful eye on each other's affairs.¹

In this chapter the characteristics of American and foreign investment markets were compared. The essential points of difference may be summarized as follows: (a) the role played by the bond salesman; (b) the frequently artificial character of markets for new issues of securities; (c) the peculiar organization of the stock exchange; (d) the great volume of speculative and manipulative activity which is carried on; (e) the large amount

¹William A. Scott, Money and Banking, pp. 180 - 182.

of direct public investing in common stocks since the war; (f) finally, peculiar investment institutions and devices, operating in one market while absent in others.

CHAPTER IV

PUBLIC AND PRIVATE EDUCATIONAL AGENCIES IN INVESTMENT

Radical regulation of securities was enforced by Massachusetts and Texas for a number of years, without even a modified acceptance of their legislation by other states. With the establishing by New York and Wisconsin of public utility commissions the present day regulation received complete political sanction. With the initiation of similar legislation by a number of states, the commissions were given direct control over capitalization and security issues. Later this power was included in amendments to other statutes that had not granted it at the start.¹

The security business has escaped specific regulation until recent years. Although there were laws regulating the issuance of securities in Germany and France before 1900, and in England at the opening of the present century, it was not until 1911 that any general laws appeared on the statute books of an American state. This first law which regulated the sale of investment securities was passed in Kansas, and bore the name of "blue-sky" law, a term which has since been applied generally to this type of legislation. It was too extreme in its original form, being passed without regard to European experience and the nature of the investment banking business. There was created a Charter Board which was to allow the sale within the state only of security which held out promise of dividend payments and which were issued by businesses which were "honestly, fairly and justly man-

¹Walter Edwards Lagerquist, Investment Analysis, p. 198.

aged." Later, Kansas modified its law to involve less jurisdiction over the speculative quality of securities by the Charter Board. Almost immediately the Kansas statute was copied by the Province of Manitoba, Canada.

Other states in this country successively passed laws along similar lines. In 1917 a series of cases declared the blue-sky laws of Ohio, Michigan and South Dakota constitutional as an exercise of the police power of the state. A leading case bringing out this doctrine was the *Merrick vs. Halsey*, 242 U. S. 568. Then there was the case of *Hall vs. Geiger Jones Company*, 242 U. S. 539 which declared such sales made from outside the borders of a state to be interstate commerce, and hence subject to the jurisdiction of the federal government. It was held in this latter case that the states have the power to license and regulate all persons who dispose of securities within the state, even when they originate from the outside, as "a police regulation strictly."

There are now a total of forty-three states that have blue-sky laws. Into the hands of security commissioners is placed the jurisdiction over security issues in these states, and they have formed a National Association of Securities Commissioners. New York, New Jersey and Maryland have not adopted such legislation in name, but have, in effect what is known as an anti-fraud type of law. Only Nevada and Delaware have no security legislation at all. Finally, the federal government has taken action to prevent security frauds through the use of the mails.¹

The theory behind the blue-sky laws is simply that a corporation,

¹H. Parker Willis and Jules I. Bogen, Investment Banking, pp. 479 - 481.

being a creature of the state, has an implied approval by the state to issue its securities. Security issues are regulated by "blue-sky" laws chiefly through two important channels. In the first place, dealers and brokers offering securities are required in most cases to get a license from the securities commissioners or cognate officer, or at least to register with him. Secondly, specific issues of securities are under certain circumstances required to be licensed by the securities commissioner. These two requirements prevail in most states, but there are several, say such as Texas, which rely upon the registration of securities or the issuing corporations themselves, rather than upon the dealers putting them out.¹

Taking the scope and effect of the Illinois securities law or "blue-sky" law as a case in point, the following salient provisions are set forth. First of all, the law requires a company desiring to sell securities in this state to file a comprehensive statement of its history, business and financial conditions with the secretary of state. In detail this comprehensive statement must contain specified data, such as date of incorporation, purpose for which organized, amount of authorized capital, names of officers and directors and the prior occupation of each for at least ten years, the latest balance sheet and income statement for the last two years, or during the period of the company's existence. All this must be sworn to by two officers of the company. Secondly a purchaser of such securities as are sold in violation of this law is granted the right to recover sums paid.

In respect to the blue sky law affording the right of recovering

¹Willis and Bogen, Op. cit., pp. 481 - 482.

the entire purchase price of securities sold in violation of the law, paragraph 37, section 1 of the Illinois securities law is quoted in full as follows:

"Every sale and contract of sale made in violation of any of the provisions of this act shall be void at the election of the purchaser, and the seller of the securities so sold, the officers and directors of the seller, and each and every solicitor, agent or broker of or for such seller, who shall have knowingly performed any act or in any way furthered such sale, shall be jointly and severally liable, in an action at law in equity, upon tender to the seller or in court of the securities sold, to the purchaser for the amount paid, the consideration given or the value thereof, together with his reasonable attorney's fees in any action brought for such recovery."¹

Another case in point in reference to the Illinois securities law or "blue-sky" law is that of a survey by Secretary of State Edward J. Hughes into the conditions resulting in the large losses to investors in recent years. As a result of this many loop holes in the Illinois "blue-sky" law were plugged up with the passage by the 58th General Assembly of Senate Bill 628. Several of the sections of the new law are herewith presented.²

There has been removed the exemption that heretofore granted to stock of insurance companies which could be sold in Illinois without qualification with the securities department. There is also placed a limit on the exemption granted to operating utility companies. There is the provision that public utility companies issuing securities to the public must be under the supervision of either the interstate commerce commission or the Illinois commerce commission.

¹S. B. Parkinson, "How the Blue Sky Law Protects Investors", Investors' Guide, pp. 44 - 46.

²Chicago Sunday Tribune, July 2, 1933, part 2 - p. 9.

The securities department under the amended act is given the power to withdraw from public sale any security listed on an exempt exchange when further sale would constitute fraud.

There is also removed the exemption to securities senior to listed securities. There is also eliminated the provision of the old act which gave exemption to securities guaranteed by a company whose common stock is listed on a qualified exchange.

Under the new act the immunity heretofore enjoyed by banks and trust companies in selling securities is done away with for such securities must be qualified in the regular manner.

There are also incorporated more rigid requirements in the law that governs the disclosure of material facts in connection with security sales. Financial statements filed with qualification application must be made by public accountants. This rule applies also to the listing of securities on exempt exchanges.

With regard to the qualification of securities and the registration of securities larger fees will be paid to the department.

In general the new law removes certain exemptions which led to abuses under the old law and also clarifies many of the ambiguous sections of the present law.

The blue-sky laws have two distinct aims through regulation and licensing of dealers. First, many of the laws seek to elicit enough information before granting a license to assure that the dealer is solvent and financially responsible. Secondly, by the mere act of registration, the state authorities are enabled to keep watch on the activity of these dealers, and

to trace those who are engaging in doubtful or fraudulent practices. Most blue-sky laws in their regulations licensing dealers also distinguish between "investment companies" which offer securities in their own names. In several states, there has been a tendency in the law to favor dealers resident within the state at the expense of those operating from without who send salesmen and other representatives into the state.¹

The first important task facing the investment banker in securing a permit to make a specific issue, is to determine whether or not any given offering is subject to the provisions of blue-sky laws in the various states. There is an advantage to the originating house to make new issues exempt, for thus an important cause of delay and a large amount of trouble and uncertainty may be avoided. Government securities, which are generally exempt in most states, are the first important class of exemptions. This applies not only to obligations of the United States government, the states and municipalities, but also to foreign governments and often to government guaranteed obligations as well. Securities listed on specified exchanges are the second important class of exemptions. The theory is that in both cases, these issues have been adequately investigated by the exchange before listing.²

There are about sixty per cent of the investment trusts under control of investment banking houses, while there are another ten per cent affiliated with banks and trust companies. This relationship is so important that on numerous occasions the investment trust has been identified in the mind of the public by the name of its banking or underwriting affiliation or

¹Willis and Bogen, Op. cit., pp. 482 - 485.

²Ibid., pp. 485 - 487.

fiscal agent rather than by its own name. It seems that in view of the keen competition which has developed among the various investment trusts in seeking to interest investors, there is to be a continued tendency looked for in the direction of unified control. As to the fact that concentration has not been more in evidence, it might be explained by the degree to which the investment trusts have been linked up with investment banking houses.¹

New York, New Jersey and Maryland have security laws of anti-fraud type, in that no attempt is made to set up a securities commission to pass on new issues as made. In the case of the new Connecticut law of 1929 the former strict blue-sky law is transformed into the anti-fraud type of law. It might be said that the chief difference between the blue-sky and the anti-fraud types of securities is that the first is largely preventive in character, while the latter is punitive. It might be said that in many instances blue-sky laws - although this is on the whole decreasingly true - seek to prevent frauds before their commission by seeking preliminary scrutiny of security offerings and dealers before the actual sale to the public. But then in the case of the anti-fraud law there is a machine for facilitating the prosecution and making more severe the punishment of those convicted of already having committed such frauds.²

Legislation of anti-fraud character is on the federal statute books to govern interstate security selling. Governing the sale of securities there are two series of federal laws. The first is Section 215 of the U. S. Criminal Code, and makes it a crime and provides a penalty for using the mails in

¹John Francis Fowler, Jr., American Investment Trusts, pp. 25 - 28.

²Willis and Bogen, Op. cit., pp. 490 - 492.

furtherance of "any scheme or artifice to defraud" (Also U. S. Code, Title 18, Section 338). The fraud order sections are the other series of laws and they authorize the Postmaster General to issue "stop orders" forbidding delivery of mail and payment of money orders to anyone found conducting any "scheme or device for obtaining money or property of any kind through the mail by means of false or fraudulent pretenses, representations or promises."¹

During the first week of July of the current year the Federal Trade Commission will begin the active control of security issues in American financial markets. This is brought about by the signing of the act by President Roosevelt on May 27, which grants the regulatory powers to the Commission. Forty days after signing the act will take effect. The main features of the act by which the investor can inform himself or will be protected are as follows:² registration with the Commission of information about forthcoming security issues, supervision of the advertisements of securities, power on the part of the Commission to issue stop orders against any issue, exemption of certain Federal, State and municipal issues, personal responsibility of officers for misinformation concerning their security offerings. There are also four specific remedies in case of fraud. Some of the features are explained briefly in the following:

(1) Thirty-two different statements must be filed with the Commission by any group issuing securities when the securities are registered. Copies of any or all of these statements, designed to show the condition of the company and the reasons surrounding the security issue, will be furnished to

¹Willis and Bogen, Op. cit., pp. 492 - 494.

²The United States News, Vol. I - No. 2, June 2, 1933.

investors who ask for them at a fee which the Commission may fix. Among other things which these statements will show are the balance sheet of the issuing company, its profit and loss statement, its articles of incorporation and the underlying agreements affecting the issue. Other statements will show the estimated net proceeds to be realized from the issue, the specific purposes for which the money is to be used, and the expenses surrounding the issue including commissions and fees paid to underwriters. The price at which the security is to be sold to the public must be also listed. To show the general character of the issuer, one statement must state the business engaged in. In addition the funded debt, capitalization and higher salaries of the company must be disclosed. In the act also are two separate lists of statements laid down, one for domestic issues and another for offerings of foreign governments. In general, however, the two lists follow the same outline. All this information will be on file with the Commission 20 days before the issuance of securities actually begins. During this "cooling off" period the Commission may investigate the proposed issue, the prospective investors are free to inform themselves on it through examination of the statements.

(2) Supervision of advertisements is another method whereby the act seeks to protect the investor. The commission may call for the filing of any prospectus issued in connection with any registered security. If the prospectus takes the form of a radio statement, the filing is obligatory. Unless the Commission rules otherwise, each prospectus must contain most of the information required when the security is registered and listed above. Certain documents, like the articles of incorporation, are specifically exempt.

(3) Another device for protection involves Government intervention. Its

most important part provides that the Commission may issue a stop order against any security about which untrue statements have been made in the registration statement. This section now reads as follows: "If it appears to the Commission at any time that the registration statement includes any untrue statement of a material fact or omits to state any material fact required to be stated therein or necessary to make the statements therein not misleading, the Commission may, after notice by personal service or the sending of confirmed telegraphic notice, and after opportunity for hearing (at a time fixed by the Commission) within 15 days after such notice by personal service or the sending of such telegraphic notice, issue a stop order suspending the effectiveness of the registration statement. When such statement has been amended in accordance with such stop order the Commission shall so declare and thereupon the stop order shall cease to be effective."

Behind this act which is known as the Rayburn-Fletcher Securities Bill, is the basic intention of informing the investor of the facts concerning the securities to be offered for sale in interstate commerce. In addition also it is the intention of the act to protect investors against fraud and misrepresentation.

Investment banking interests have organized cooperative agencies of their own to detect security frauds and raise the general standards of practice in the security-selling business. One important factor in this situation is the nation-wide system of Better Business Bureaus. Organized in 1927 the National Better Business Bureau keeps extensive files concerning new promotions and doubtful security dealers, and sends out a corps of investigators to check up on these matters. In this way there is developed what

might be said to be the most complete existing collection of data on security frauds, and all of this evidence is made available to both prospective investors and legal authorities by the Better Business Bureaus.¹

Regarding the distribution of facts by Better Business Bureaus, nearly all channels of public information are open to them. The news columns of the daily press have been increasingly available in this work of public protection. Magazines and other periodicals, particularly trade journals, have in the past, frequently sought information for instructive articles, which usually say a report of action benefitting some section of business and the public. Wide audiences have been enabled to be reached by means of radio addresses, through the cooperation of certain stations or firms using the radio as an advertising medium. Business leaders and public officers have been provided material for radio addresses, as well as for meetings of clubs and associations. Again its publications are always in demand by leading public and university libraries throughout the country. Bureau facts and performances are followed with interest at Columbia University, New York University, Harvard University and institutions of similar standing. And also there has been extended quite frequently cooperation from these institutions.²

In its ninth annual report the Pennsylvania Securities Commission gives credit to newspapers, chambers of commerce and Better Business Bureaus for cooperation in the suppression of fraudulent transaction in securities.³

It has generally been recognized that the best protection against

¹Willis and Bogen, Op. cit., pp. 494 - 495.

²Facts....Then Action, The Better Business Bureau of N. Y. City, Inc., 1930, pp. 54 - 55.

³The United States Daily, Oct. 28, 1932.

security frauds lies in the education of investors, although it must still be remembered that steady efforts have been made to improve and simplify the operation of blue-sky laws. Jesse V. Craig, president of the National Association of Securities Commissioners, said on October 15, 1928 that his Association was making an effort to broaden the economic education of our grade and high schools so that the generation coming on will not only know how to make a dollar but will have a better knowledge of taking care of that dollar after it has been earned and has gone into surplus. He further states that he has appointed a member of the Association to head a committee to establish this education effort, and that he hoped that in time it would be extended to every state in the Union. A conception of the magnitude of this undertaking can be realized if one recalls that there are about 800,000 school teachers in this country. Then say if several hundred thousand of these give a small part of their time to the task, the financial illiteracy that is now so outstanding a handicap in the economic situation, would largely disappear and the opportunities for the faker would be pushed toward the vanishing point.¹

An example is given below of what is done in this respect in the city of Boston, where in The High School of Commerce there is offered a course in Banking for one period a day for a year, and this course is open to seniors. It might be well to note at this time that several headings are included in the course which has been already discussed in the treatise of this thesis, for instance the dealing of stocks and bonds, the cooperative

¹Willis and Bogen, Op. cit., pp. 495 - 496.

banks and building and loan associations, the agricultural banks, etc. At the present time there are sixty-nine pupils taking the course. A general outline of the course is as follows:¹

Money

Credit

Credit Instruments

(Includes Stocks and Bonds.)

Types of Banks

Commercial Banks

National

Organization and Operation

State

Organization and Operation

Savings Banks

Cooperative Banks and Building and Loan associations

Trust Companies

Private Banks and Bankers

Consumptive Credit Organizations

Agricultural Banks

Federal Reserve System

Elements of Finance

Securing funds for a corporation.

Securing funds for small concerns.

Meaning of a Balance Sheet.

Then, also there was a course given, dealing with investments, by Samuel O. Rice, Educational Director of the Investment Bankers Association of America, at the Y. M. C. A. in Chicago in 1925. There were 105 men in attendance, about three being directors, and the others were bond salesmen and bankers. One interesting fact seems to be that the general public however did not seem to care to come to the course. Mr. Rice is quoted as saying that: "A course in Investments for undergraduates in college is necessary." He further went on to say that what was absolutely necessary was a popular course in Economics.²

¹Taken from a letter received from John V. Barrett, Head of Commercial Department, High School of Commerce, Boston, Mass., dated November 4, 1932.

²Taken from an interview with Samuel O. Rice, Educational Director of the Investment Bankers Association of America, November 3, 1932.

The Federal Power Commission hereafter will regulate the issuance of securities of public utility corporations licensed by it. Chairman Otis Smith stated on Nov. 15, 1932 in making public a resolution of the Commission unanimously adopting Public service corporations and other companies within the jurisdiction of the Commission must submit to the commission "satisfactory evidence" in support of the security issue. It was provided that approval of securities by a duly constituted State agency will be accepted by the Federal Commission.¹

A proposal is made by Robert Weidenhammer of the University of Minnesota that the control of the long-term loan market be approached through the gradual development of three organizations, the second and third being created only if the forerunner proved a success. The first of these organizations would be the American Investors Institute which would be of a purely private and advisory nature, with its functions being best compared to those of "Consumers' Research." The second would be the Federal Investment Commission which would put its authority as a governmental agency behind its investigations; facts would be open to it that would not be disclosed to the American Investors Institute as a private organization; and also their findings, when published, would attract more attention and their implications would carry more weight. The third would be the Federal Investment Board and would exercise the control of the long-term loan market with the purpose to assist in the direction of the flow of national savings into national or foreign investments.²

¹The United States Daily, Vol. VII. No 208. - November 16, 1932.

²Robert Weidenhammer, "Control of the Capital Market," The American Economic Review - Vol. XXII. No. 3 - September 1932.

In this chapter dealing with public and private educational agencies in investment there has been shown the following: a history of regulation, blue-sky laws, regulation of dealers, regulation of specific issues, investment trust regulation, anti-fraud laws, federal regulation, cooperative regulation, regulation vs. education. Then also was shown a recent ruling handed down by the Federal Power Commission, and also the substance of the Rayburn-Fletcher Securities Bill whereby security issues come under federal control in July of this current year. Then the distribution of information was dealt with, and the part that newspapers play in this respect was stressed. Finally a discourse on a proposal offered in relation to "Control of the Capital Market" was given. The next chapter will deal with the analysis of financial statements as an educational device.

CHAPTER V

ANALYSIS OF FINANCIAL STATEMENTS AS AN EDUCATIONAL DEVICE

Aside from fundamental, but rather general factors, there are many details of a specific nature which should be kept in the foreground by the prospective investor. First of all, the investor should exercise the same degree of intelligence and the same care in getting unbiased expert advice as he would were he to operate a private business.¹

A person might well ask as to the reason for obtaining an understanding of security values, if in the end the advice of the investment banker is to be sought out. The answer lies in the fact that it is only when the investor has a full appreciation of the requirements of sound investments that he will seek the advice of his banker, and then weigh such counsel as is given.²

The impact of changing conditions upon the organization and operation of security markets, and upon securities themselves, emphasizes the necessity on the part of the investor to study all facts bearing on a given investment situation. No longer should the prospective purchaser of securities be content with only the promise in a rhetorical prospectus as a basis for determining the worth of an investment. The investor should appreciate that there are underlying causes for the continued stability and large earnings of a corporation. Consequently, analysis should begin with underlying or

¹Roger W. Babson, Investment Fundamentals, p. 229.

²Walter Edwards Lagerquist, Investment Analysis, p. 3.

basic factors which are more or less steady before proceeding to the variables.

Nearly every analysis of a security necessitates some variation in the application of analytical principles. This is a point that is too frequently and commonly ignored. No "rule of thumb" procedure can be used off-hand to decide practical problems for they are continually changing. The starting point of analysis is, however, based upon recognized and fundamental principles of analytical procedure.¹

In the selection of the 'ideal' investment, the fundamental elements to be taken into account are safety of principal, certainty of income, the rate of income, legality, stability of market price, marketability, appreciation and diversification.²

Because of the organization of large markets and rules of operation some insurance against loss by a small trader is found in a well-seasoned and listed issue as such. Very often the fact that somebody solicits one to buy a security is reason in itself for not buying it.

Overspeculation is a further cause of losses. The smaller the capital, the more serious is any loss. When a decline takes place, the speculator of small means is in no position to "average up" and therefore profits are wiped out and principal depleted. The result is that big losses are caused by inability to take small losses.³ It is axiomatic in stock market buying and selling, that one should cover losses immediately and be slow in the taking of profits.

¹Walter Edwards Lagerquist, Op. cit., pp. 4 - 5.

²Ibid., p. 12.

³Roger W. Babson, Op. cit., pp. 315 - 317.

It is possible to find securities which are selling at unduly low levels at all times in the market. Such investment opportunities will often be revealed by analysis of balance sheets and income statements. However, it might be well to emphasize that security markets would be dull and dreary if all investors and speculators went into them on the basis of a cold analysis. One can safely count upon a very large percentage of the general public investing as blindly today as they did in the South Sea Bubble, the Dutch Tulip Craze, or the Ponzi Scheme. The existence of stock brokers is in itself a priori proof of this statement. This again emphasizes the fact that there are usually good opportunities for those who base their activities in the security market on analysis instead of guess.¹

The main purpose of a financial statement is simply to show the condition of a business in a more condensed form than that which is available from an examination say of all the facts that are shown in the records. If arranged in an intelligible and readable form, this information will be used by the management and also by persons outside of the management, such as for example, bankers, stockholders, and investors. In checking up the efficiency in the operation and in management these statements will be examined, as well as being used to determine the value of the assets, the present financial condition, and the probable future earnings.²

The object of the balance sheet is to show the financial condition of a corporation at the end of a specified period, and the contents of the statement should be constructed with sufficient detail so as to disclose

¹Roger W. Babson, Op. cit., p. 126.

²Leo Greendlinger, Financial And Business Statements, p. 6.

accurately, the character of the assets and liabilities. The balance sheet is further a representation of the assets and liabilities. The difference between assets and liabilities represents the net worth of the property of the owners. Since the balance sheet reveals only the condition of assets and liabilities at a specified time, the necessity of rendering statements at regular intervals calls for no argument. However a large percentage of investors forget this limitation, and when they examine a statement eleven months after the original date of issue, they place as much emphasis upon the financial condition shown at the latter date, as upon the date of issue. The investor should know whether temporary shifts in the condition of a corporation express any tendency toward permanency. As a rule he is not interested in this phase of analysis at all. An indication of the normal allowances that should be made in the interim can be had from an examination and comparison of the last four or five annual balance sheets.¹

The income statement is a historical summary of the business over a period of time, and is commonly published once a year. Frequent reports are not so essential to the investor, for he selects securities of sound value, and is not interested in temporary fluctuations but rather in permanent trends. The investor must be alert to distinguish any tendency that portends evil effects upon the financial condition of a corporation. The careful analysis of annual reports will give the danger signal in most instances.²

In the process of analysis the use of statistical units of mea-

¹Walter Edwards Lagerquist, Op. cit., pp. 58 - 59.

²Ibid., p. 77.

surement is a quite general practice, although in no single instance, should a single one of these units of measurement be used as giving final evidence. Therefore in the next few paragraphs various means of finding the necessary information desired are indicated.¹

A useful check of sales or income which can be used in checking all working capital requirements, is a comparison of these accounts with sales. The period required for making and selling of the product must be first ascertained in making such a comparison. Then if the inventories are too large for the volume of the sales, a needless investment is being carried which may be indicative of a lax management. It also might indicate a considerable quantity of dead inventory. However, where the purchase of raw material can be made at certain periods at lower cost, a large inventory may indicate a decided advantage. Then, if the gross profits from operations compare favorably with the earnings of the former periods, there is little likelihood of inflations.²

In securing the net profits the items to be considered and deducted from gross returns in the income statement can be obtained by a comparison of the total operating expenses to gross income. To make the comparison more comprehensive, it is made on a ratio or percentage basis, and is called the operating ratio.³ This operating ratio is obtained in the following manner: the gross revenue is given a standard of 100 per cent, so that the difference between this percentage and the percentage of total expense gives the net

¹Walter Edwards Lagerquist, Op. cit., pp. 88 - 89.

²Ibid., p. 81.

³Ibid., pp. 81 - 82.

gross expense. Take the case of any type of business that has a high operating cost, it will have a small margin upon which to insure itself against a depression of business, providing other things are equal. In a business of this sort, certain years would yield very large profits, and then again in other years the margin of gains would be very small. Such a condition would make it unsafe to carry a very large fixed charge. The reverse would be true with a low operating ratio. It will normally be found that as the amount in the fixed property account increases, the operating ratio decreases in the corporation which can be classed in the investment group of corporations.¹

Among the items included in fixed charges are sinking funds, rentals, taxes, lease charges, interest, etc. Interest charges is the most important of these as related to investments. Since the fixed charges are assumed for the purposes of operation, the provision for these charges should be met by this fund and its safety determined by the margin of the operating net income over the fixed charges. Regardless of the fact that the total net income is available for interest, the real test however is the margin of net operating income over the fixed charges as the actual success of the corporation's earning power as a going concern is measured by the income derived from its operations. Fluctuations in operating expenses will not rise or fall to an equal degree with the gross returns. Take the case of the operating expense, which will always increase at a more rapid rate than the actual rate of decline of gross. To illustrate this, say that the maximum gross returns for a particular period were made equivalent to 100 per cent and the

¹Walter Edwards Lagerquist, Op. cit., p. 91.

operating ratio to 75 per cent of gross, and gross returns should decline 25 per cent and operating expense at the same time should go to 90 per cent, a smaller amount would be left for net income.

		Actual Rate of Decline	Actual Am't After Deducting Am't of Decline.
Gross Returns.....	\$1,000,000=(100%)	25%	(75%) \$750,000
Operating Expense.....	750,000=(75%)	15%	(90%) 675,000
Balance left for fixed charges.....	25%-\$250,000.....		\$ 75,000

The reduction of this latter amount correspondingly decreases the margin of safety for the interest charges. This also would apply as well to any comparative analysis with other companies and to all of the other constant fixed charges. By this test can be determined the maximum amount of fixed charges which a corporation should carry with safety.¹

Then there is the so-called "rate of turn-over of working capital," which is the ratio of gross sales to the working capital carried during a given period. The average is based upon the amount of working capital carried during the year. Sometimes this measurement is made to total assets, but in this case it is not so accurate. A corporation is interested in the problem of turn-over according to the amount of its funds which are invested in working capital. The necessity of working capital would be of little importance of course, if long time credit could be procured and goods sold on short time credit. Then again, the more rapid that the turn-over can be made, the smaller will be the amount that the company will have to carry in this form of capital.²

¹Walter Edwards Lagerquist, Op. cit., pp. 84 - 85.

²Ibid., p. 23.

Although such observations of accounts as has been done are necessary for every real investor, nevertheless the personnel of the managing staff continues as a strong factor in the consideration of a corporation's position in the industrial world. Without a strong management at the head the public confidence will not remain long with an established policy of a corporation. With the increasing size of the corporation the ability of the head-executive becomes increasingly important.¹ Therefore probably the most important factor is that of the honesty, integrity, ability, as well as the efficiency of the management.²

In this chapter some of the causes of losses; suggestions as to how to avoid losses; the main purpose of financial statements; the balance sheet and income statement, and ratios as tools of analysis have been suggested as a means towards the education of the investor. An understanding of the character and limitations of such tools, will safeguard the investor from many of the pitfalls in the way of the uneducated and blind investor of savings.

¹Walter Edwards Lagerquist, Op. cit., p. 55.

²Roger W. Babson, Op. cit., p. 158.

CHAPTER VI

MISCELLANEOUS FACTORS IN THE EDUCATION OF INVESTORS

In this chapter various formulas found in authoritative sources to assist the investor in the selection of investments, and arguments why the investor should be interested in them will be examined.

Since 1925 more than eight billion dollars of new securities were sold in the United States. From year to year the volume increases. America is becoming a nation of investors.¹

In the United States securities representing forty-five billion dollars invested in manufacturing; twenty billion dollars in public utilities; twenty-five billion dollars or more of railroads and other enterprises are held by millions of individual stock and bond holders. The billions of dollars of government, state, municipal and corporation obligations, bonds and notes, held today not alone by banks and a handful of wealthy persons but they are distributed among millions of individuals, life insurance companies and savings banks.²

The intermediary between the millions of investors and the new investments into which funds are put annually is the investment banker, around whom public ignorance and fancy have embroidered many misconceptions. Of the new securities sold in this country in 1925 approximately seven and a quarter

¹The Educational Department of the Investment Bankers Association of America, The Investor and The Investment Banking Business, p. 1.

²Ibid., pp. 1 - 2.

billion dollars of them were the publicly-offered securities sold by the investment banking houses, commonly referred to as bond or stock houses and bond departments of banks. In addition to the seven and a quarter billions, the remainder of the new securities sold in the United States in 1925 consisting mainly of farm and other small mortgages, stock and bonds of legitimate enterprises, sold privately. The fraudulent, questionable, impractical-visionary business ventures and other doubtful or unsafe securities that no recognized investment banker would touch at any price, must also be added.¹

However no one knows the exact amount of the total of the questionable, and the visionary and of the honest, dependable securities which are not included in the seven and a quarter billion dollars of publicly-offered issues of new stocks, bonds and notes. It is possible that the total for the year might exceed more than nine billion dollars. It is variously estimated that half to one billion dollars of fraudulent or other worthless so-called securities are sold annually in this country. Whatever the amount, this fact stands out impressively, i.e., that the great bulk of securities sold annually in the United States are honest and that the man or woman who buys a fraudulent or other worthless investment does so almost always because he insists on dealing with a dishonest person or firm.²

There is a constant procession of thousands of American and foreign business corporations seeking loans through the investment banking houses of the United States. More are rejected than are accepted. The reason

¹The Educational Department of the Investment Bankers Association of America, Op. cit., pp. 2 - 3.

²Ibid., pp. 3-4.

is obvious. The investment banker as a rule, demands two essential qualities, first honesty; second, ability to pay. If both are assured he buys the bonds, notes or stocks and sells them to his customers. While the operation itself seems simple, it is in practice, highly technical and difficult. First, the investment banker will not, except in very unusual circumstances, buy the securities of a new enterprise. Usually a business must first have proved its ability to get along, must have back of it several years of successful operation before an investment banker will undertake its financing.¹ This point can be further brought out in relation to the fact that nearly every contribution to our comfort and prosperity was "initiated" without the aid of the bankers. When the "great banking house" came into relation with these enterprises it was either after success had been attained, or else upon "reorganization" after the possibility of success had been demonstrated, but the funds of the hardy pioneers, who had risked their all, were exhausted. This is true of all of the following enterprises: our early railroads; our early street railways; of the automobile; of the telegraph, the telephone and the wireless; of gas and oil; of harvesting machinery; of our steel industry; of the textile, paper and shoe industries; and of nearly every other important branch of manufacture. It might be said that the initiation of each of these enterprises be properly characterized as "great transactions," and also that those men who contributed that financial aid and business management that was necessary for their introduction, should be entitled to share equally with inventors, in our gratitude for what has been accomplished. However, in

¹The Education Department of the Investment Bankers Association of America, Op. cit., p. 11.

relation to this, instances are extremely rare where the original financing of such enterprises was undertaken by investment bankers, great or small. This original financing was usually done by some common business man, accustomed to taking risks; or else by some well-to-do friend of the inventor or pioneer, who was influenced largely by considerations other than money-getting. You might find that banker-aid was given here and there, but usually in those cases it was a small local banking concern, not a "great banking house" that helped to "initiate" the undertaking.¹

Quite frequently the investment banker spends many months investigating a corporation. He first determines the quality of the management, whether it is honest and capable. Then he enlists the services of accountants, engineers, attorneys and other experts in order to learn as accurately as possible the situation of a given business. Such experts endeavor to ascertain every possible element that affects the business, its present and its future; competition, direct and indirect, freight rates, nearness to markets and to supplies, possible tariff and other regulatory laws both at home and abroad, as well as fads and fashions of the moment.²

It is practically impossible to say just how many security dealers there are in the United States. There are six hundred and fifty-eight member houses in the Investment Bankers Association of America and they maintain more than one thousand two hundred offices in the United States and Canada. The member houses consist of investment banking firms and bond departments

¹Louis D. Brandeis, Other People's Money And How The Bankers Use It, pp. 135 - 136.

²The Educational Department of the Investment Bankers Association of America, Op. cit., p. 16.

of banks, and handle close to ninety per cent of all the dependable issues of new securities that are publicly offered in the United States. A bureau of standards which works out the soundest and most ethical practices and principles in investment banking as new problems and situations confront the business, is maintained by the Association.¹

There is no absolutely safe investment. Theoretically, every long-term loan is in a sense a gambling transaction because of the unpredictability of the future. In practice, however, the bonds of the United States Government are considered riskless. Yet, in 1920 the holder of a Liberty bond for which he paid \$100, would have lost sixteen or seventeen dollars had he sold the bond then. Today Liberty bonds sell at a premium. As a rule, good bonds fluctuate little in price under normal conditions. They may gain a point or two or lose as much, but if held until maturity will pay face value.²

It is axiomatic that in the purchase of investments, the buyer should know the seller of the security. Given the honesty of the seller, the rule is of practical value where the buyer is obliged to choose from among thousands of securities. It is just as logical for the average man or woman to try to fill his own teeth, use his own feet for long distance transportation, act as his own lawyer, plumber, barber or architect as it is for him to try to perform the highly technical work of selecting dependable investments.³

The extreme care taken by investment banking houses in the selection

¹The Educational Department of the Investment Bankers Association of America, Op. cit., p. 23.

²Ibid., pp. 23 - 24.

³Ibid., p. 24.

of the bonds and stocks offered to clients has been mentioned. Assuming that all practical precautions have been taken by the seller, the buyer in turn would be acting wisely were he to follow the formulas which follow.

By asking a few questions, one can soon find out whether he is "dealing with a wolf." If a seller comes to us and offers to make us rich quickly one ought to ascertain by asking several fundamental questions such as:¹

1. Who are the people who manage the Company whose stocks or bonds I am asked to buy? Can I be sure that the people whose names are used are really in the Company, or is the use of their names a mere bait?

2. How long has the Company been in business? Is it making money? What property does the Company own?

3. Who is the person who offers to sell me the stock or bonds? Is he representing a well-known bank or investment house that has been doing this kind of business for some time, and whose advice would be good?

4. Are their stocks or bonds now traded in on some reputable stock exchange? Or are they regularly bought and sold by reputable banks or investment houses? Can they be sold if the money is wanted? Would the banker where I have my savings account be willing to buy them from me?

A second set of considerations toward protection against unwise investment of funds may be stated.

1. What is the profit earning capacity of the company, today and in the calculable future?

¹Associated Advertising Clubs, "Wolves In Sheep's Clothes", pp. 8 - 12.

2. What about the ability, integrity, and aggressiveness of the management?

3. What about the financial set up of the company? Is the raising of new capital necessary now and can it be used profitably in the future?

The financial stability of a company depends on these three considerations. Profits come first, although they are a function of management. Profit must be considered from two standpoints - the amount on each article or unit, and the number that can be sold annually.

In considering annual sales, and consequently, profits, the nature of the product, i.e. whether it is consumed quickly as food, and thus assuring quick turnover of capital or whether its production requires considerable time such as shipbuilding, must be given weight.

A concern may have a patented machine on which the profit is \$2000. If the market is limited to 500 machines, and no new machines can be sold until the old ones are worn out, the profit earning capacity is, apparently, very narrow. Here the profits for the ten years will be only \$1,000,000 or \$100,000 a year and if considerable investment is required to start such a company, it becomes apparent that an investment may be unusual.¹

A suggestion is offered, namely, to seek a company having an article that carries the possibility of extensive and frequent sales, even though the profit on each unit may be small, rather than for one having an article on which the profit is very large, but for which the selling possibility is small.²

¹H. L. Barber, Investing For Profits - A Guide in Making Money Through Investment, pp. 88 - 89.
²Ibid., p. 91.

Investment in mining enterprises should take into account the following conditions:

(a) The property should be situated in a mining district that has a profitable production record. It should be opened to such an extent as to show the presence of profitable ore to warrant a competent mining engineer to conclude that it will be profitable to expend the required money to begin producing profits. The management of the company should be in the hands of a competent mining man.

(b) A report on the property by a competent and disinterested mining engineer giving detailed facts should be demanded.

Assuming that all these conditions are satisfied, one might take a reasonable interest in the company.¹

Finally the financial set up of the company is vital and important. The company may have the best wealth potentiality in the world, but if it has not or cannot get the money necessary to make it productive, its potential worth earnings may be discounted at a rate approaching zero.²

In selecting investments in new companies one should inquire into the manner in which the company is organized; that is how its shares are arranged, whether common or common and preferred. The ideal way to organize a company is to make all the shares common. Then each share has exactly the same standing as every other share. Each share has a shareholder's vote in the management of the company, and draws the same dividend or profit as every other share; and should the shareholder's at any time decide to dis-

¹H. L. Barber, Op. cit., pp. 93 - 94.

²Ibid., p. 96.

continue business and wind up the affairs of the company, each share will participate equally in the assets. Preferred shares, as indicated by their name, have such preference over the common shares as may be provided for.

The most common of these preferences are that the rate of dividend provided for must be paid on the common shares, and in case the company is dissolved the money paid for the preferred shares is to be returned to the preferred shareholders out of the assets before anything can be returned to the holders of the common shares. Unless for some specific purpose of decided advantage to the common shareholders, the creation of preferred shares in new companies is not favored. The better rule is to confine one's investment to companies having only common shares, unless, as indicated, some preferred shares are to be issued for some distinct purpose aside from raising capital and of special advantage to the common shareholders.¹

In this chapter miscellaneous factors in relation to the education of investors have been considered. Various formulas found in authoritative sources, the purpose of which is to assist the investor in the selection of investments, and also arguments why the investor should be interested in them, have been indicated. In the next chapter an attempt will be made to look forward into the future in so far as the education of investors is concerned.

¹H. L. Barber, Op. cit., pp. 99 - 100.

CHAPTER VII

THE INVESTOR AND THE FUTURE

One thing that the investor may look forward to is the fact that there is always the probability that States and political sub-divisions with good credit will be in the market for funds. One might inquire concerning other types of borrowers. One may safely expect obviously corporate refunding issues and financing by companies with good records requiring new capital for expansion purposes. There seems to be some ground for the statement that apart from new industries there may be little need for additional financing in the immediate future and for the following reasons: (1) capital facilities are more adequate than normally is the case to take care of the requirements, (2) the principal industrial and public utility operating companies have adequate permanent and working capital.

It is quite logical to discuss the effect that will take place on corporate bonds if the tendency for the time being is to have the financing of the United States Government, its agencies and political sub-divisions, monopolize the major portion of the market for new securities. In the case of a dearth of new capital issues, there doubtless is going to arise over the next year situations in which the investment banking business can utilize its facilities for purchase and resale, as a means of secondary distribution, certain securities which for one reason or another develop greater attractiveness. This should apply in all fields of corporate financing, and also bonds of municipalities which improve their situation by a thorough reorgan-

ization of their finances.

There is one apparent bright spot in the investment market in the probable continuance of low interest rates, which should tend to make securities of all corporations, earning their charges by any considerable margin, sell at prices sufficiently advantageous to permit new financing. There also unquestionably will be competition of capital to seek a return among approved issues to the advantage of the investment market now existing, and therefore, an opportunity for purchase and resale of securities in this classification. Until such time as the recovery in business creates a demand for capital which increases money rates, it is fair to assume that the return on capital will be low wherever the security is adequate.

The further development by investment bankers of the personal relationship with their individual and bank clientele is an apparent tendency at the present time. The tendency of recent years of the investors had been to resort to methods of investment which eliminated personal contacts. There was a considerable period when analyses did not seem to be necessary. Investment houses are more than ever before impressing upon investors the facilities they possess for analysis and are encouraging their clients to examine their securities periodically as constant changes in conditions make this necessary. The passing of high pressure salesmanship is gradually becoming an accomplished fact.¹

President Roosevelt on May 27, 1933 signed the Rayburn-Fletcher Securities Bill which went into effect the first week of July. It is hoped

¹Investment Bankers Association of America, - Oct. 1932, Report of Trends of the Business Subcommittee, pp. 5 - 6.

that this measure will benefit business and investors alike through the protection which honest enterprise, seeking funds through honest means, will be afforded against dishonest competition. Some of the lost public confidence will be restored, and capital which has been hesitant because of fraudulent security deals may again enter the channels of finance and commerce. However it is not the intention that the government shall be placed in the position of passing judgment on the soundness of the security offerings. The President referred to this act in the following words:

"This measure at last translates some elementary standards of right and wrong into law. Events have made it abundantly clear that the merchandising of securities is really traffic in the economic and social welfare of our people. Such traffic demands the utmost good faith and fair dealing on the part of those engaged in it. If the country is to flourish, capital must be invested in enterprise. But those who seek to draw upon other people's money must be wholly candid regarding the facts on which the investor's judgment is asked. To that end this bill requires the publicity necessary for sound investment. It is, of course, no insurance against errors of judgment. That is the function of no government. It does give assurance, however, that, within the limit of its powers, the Federal Government will insist upon knowledge of the facts on which alone judgment can be based. The new law will also safeguard against the abuses of high pressure salesmanship in security flotations. It will require full disclosure of all the private interests on the part of those who seek to sell securities to the public. The Act is thus intended to correct some of the evils which have been so glaringly revealed in the private exploitation of the public's money. This law and its effective administration are steps in a program to restore some old-fashioned standards of rectitude. Without such an ethical foundation, economic well-being cannot be achieved."¹

All in all, under the pressure of federal regulation the outlook for the investor and for investment education through legal protection, should go far to supplement those shortcomings of investors which have their

¹The United States News, Vol. I - No. 2, June 2, 1933.

cause in the lack of financial education. In short, the investor is likely to get more for his money than heretofore.

DICTIONARY OF FINANCIAL TERMS¹

ABOVE PAR. - Higher than the par value.

ACCOUNTS PAYABLE. - Term used in financial statements to indicate money owed by a person, firm, or company for merchandise, supplies, services, etc., purchased.

ACCOUNTS RECEIVABLE. - Terms used in financial statements indicating the amount of money owed to a person, firm, or company on account for goods sold or for services rendered, etc.

ACCOUNT AND RISK. - Broker acts only as client's agent at the client's risk.

ACCOUNT OF SALES. - A broker's statement of purchases and sales for a client.

ACCRUED DIVIDEND. - A dividend that is due but has not been paid.

ACCRUED INTEREST. - Amount of interest earned but not as yet payable.

ACCUMULATED. - Certain types of securities are issued with the provision that interest or dividends not paid, whether earned or not, constitute an obligation against the security until paid, and such obligation continues to accumulate until paid.

ACCUMULATED DIVIDENDS. - Preferred shares may be made to draw accumulative dividends. If the dividends on such shares are not paid, they must be paid in full to date before dividends may be paid on the common shares.

ACTIVE SECURITY. - A stock or bond for which there is great demand - of which sales are made frequently.

ADJUSTMENT BOND. - Issued to raise money to adjust the finances of the company.

ALLOTMENT. - A block of stock set aside for a specific purpose, or to be sold at a specified price.

AMORTIZATION. - Providing a sinking fund for paying obligations due or to become due. The process of providing regularly over a period of years for absorbing the difference between the price at which a security was bought and that at which it will be paid off at maturity.

¹H. L. Barber, Investing for Profits, pp. 271 - 285; & Ames, Emerich & Company, Investment Safeguards, pp. 61 - 88.

AND INTEREST. - Term used in connection with quotation on bonds to mean that accrued interest is to be added to the purchase price. (See "Accrued Interest.")

ANNUAL INTEREST. - Customarily, interest on bonds is payable semi-annually; the interest on some bonds, however, is paid annually.

ANNUITY. - Annual income; more particularly referring to fixed amount of income received annually from life insurance or similar sources, in lieu of the payment of the principal sum.

ASSENTED. - Depositing securities with an agreement consenting to a proposed change in the company.

ASSESS. - Taxing stockholders a stated amount on each share to raise money needed by the company.

ASSESSED VALUATION. - The valuation placed by municipal or similar political bodies upon property in a community for the purpose of levying taxes.

ASSESSMENT. - Amount levied. A corporation's demand on its stockholders to pay into the treasury of the company a specified sum on each share of stock held.

ASSETS. - Property available for paying debts.

ASSIGN. - Transferring ownership by writing.

ASSIGN IN BLANK. - To transfer ownership of a stock certificate without naming the person to whom it is transferred.

ASKED PRICE. - The price at which a security is offered for sale, as distinguished from the "bid" price.

AT THE MARKET. - Buying or selling securities at the prevailing price. In connection with sale of securities this means at whatever price the market affords.

ATTORNEY'S OPINION. - See "Legality Approved."

AT PAR. - The face value of a share of stock or of a bond.

AUTHORIZED BY. - This phrase often appears in circulars describing securities to indicate that the issue described has been authorized by or under the approval of some public service commission. Such approval means that technical legal requirements have been met, but does not vouch for intrinsic worth in the security.

AVERAGING. - Buying securities at a lower price after having bought at a higher, that the average cost of all may be lower.

BABY BONDS. - See "Small Bonds."

BALANCE SHEET. - A financial statement showing resources and liabilities.

BANKER. - This term usually applies to one who manages a bank which accepts deposits. In investment circles, it is used to make the distinction between the dealer or investment merchant who offers only securities which he has bought outright with his own funds and a broker who simply executes orders on a commission and usually does not make any personal investment in the securities offered.

BEAR. - A stock exchange operator engaged in forcing down the price of securities.

BEARING THE MARKET. - Working to force down prices.

BELOW PAR. - A price below the face value of the stock See "Discount"

BID PRICE. - The price which is offered for a security, as distinguished from the "asked" price.

BID AND ASKED. - Quotations of prices based on the days transactions on the stock exchange.

BILLS PAYABLE. Term used in a financial statement to show the amount of money owed by a person, firm, or company on promissory notes, etc. This item should be distinguished from long-time obligations such as moneys owed on mortgages, bonded debt, etc.

BILLS RECEIVABLE. - Term used in a financial statement to show the amount of money owed to a person, firm, or company on promissory notes or similar negotiable paper.

BLANKET MORTGAGE. - A mortgage covering several properties, or all the property of the one issuing the mortgage.

BLIND POOL. - Persons contribute capital to a pool to operate on the exchange and only one of them knows which security is to be operated in. The purpose is secrecy.

BLOCK. -- A number of shares, as 100, 1,000, etc.

BOARD. - Term used to indicate a body of directors of a company; also a stock exchange.

BOND. - Certificate of obligation, secured by mortgage or otherwise, issued by a corporation, to pay money at a specified date. A formally issued certificate promising to pay at a given time a specified sum of money, with interest meanwhile at a fixed rate. Usually the certificate is lithographed or engraved. Interest is usually payable semi-annually and

is represented by similarly prepared sheets of ticket-like coupons attached to the bond. While some bonds issued by corporations are simply an evidence of the company's obligation and are not secured by mortgage, and while bonds of governments and municipalities are secured by the taxing power of the issuing community, most bonds, especially those of corporations, are secured by mortgage or collateral deposited with a trustee. In other words a bond usually is simply a part of a large mortgage.

BOOKS. - When used in connection with investments this means the records of the trustee, registrar and transfer agent of a corporation in which the names of registered bondholders and stockholders are kept.

BOOKS CLOSE. - At an advertised date a short time before a dividend is to paid, the transferring of certificates of stock is stopped until after the dividend has been paid. -- Dividends are usually declared payable on a certain date to stockholders whose names have been recorded on an earlier date. Books are "closed" on this earlier date, and the dividends are paid to stockholders already recorded.

BOOKS OPEN. - After a dividend has been paid the company's transfer books are opened and shareholders can again transfer their stock certificates.

BOOK VALUE. - The amount of net assets of a company applicable to a share of stock. -- Value of a stock based on the profits or deficit of a corporation as shown on its books.

BREAK. - When the price of a stock falls suddenly. Happens usually when the "bulls" have kept up the price by artificial tactics.

BROKER. - One who for a stipulated commission acts as agent in buying or selling securities; usually a member of some exchange.

BROKERAGE. - Commission paid a broker for transacting business.

BULL. - A stock exchange operator engaged in forcing up the prices of securities.

BULLING THE MARKET. - Working to force up price.

BUY OUTRIGHT. - Paying in full for stock purchased.

BY-LAWS. - Rules adopted by a corporation by which the transaction of its affairs is governed.

CALL. - The right by agreement to get a security in a stated time at a specified price.

CALLABLE. - When applied to a security this means that the issuer has the right to call or redeem the security upon given terms before its normal

expiration or maturity.

CALLED BOND. - A bond carrying a clause giving the company that issued it the right to pay it at a fixed time and amount.

CALL LOAN. - Loan of money payable on demand.

CALL MONEY. - Money borrowed subject to be paid back on demand.

CAPITAL ACCOUNT. - Certain expenses of a company, such as are incurred for buildings, real estate and other property, are considered in the light of a permanent investment requiring fixed or permanent capital, as distinguished from current expenses, operating charges, etc. In financing a company it is proper that permanent capital, such as derived from the sale of stock or bonds, be used to pay for such permanent properties, and such expenditures are said to be charged to capital account. It is not proper to capitalize current and operating expenses, depreciation for worn-out properties, etc.

CAPITALIZATION. - Total amount of shares of stock of a company. Term used to indicate all the capital funds of a corporation, such as stocks, bonds, debentures, etc.

CAPITAL STOCK. - The ownership of a corporation is divided into shares commonly termed stock. The entire amount of these shares constitutes the total capital stock. Sometimes the shares do not represent any given amount of money; these are said to have "no par value."

CARRY. - Sometimes securities are bought a considerable time before the buyer expects to pay for them. The dealer selling the securities "carries" them until time of payment. The expense for carrying the securities is usually the prevailing interest rate, and it, therefore, is approximately canceled by the income of the securities. If the security has no income, of course, the carrying charge is an actual expense.

CAR TRUST CERTIFICATE. - Engines and freight and passenger cars of a railroad frequently are purchased subject to a debt. A portion of the purchase price, say 25 per cent, is paid by the road in cash, and a special type of bond or note called "car trust certificates" or "equipment trust certificates" is issued to provide funds to pay for the balance. These are practically secured by chattel mortgages on the equipment.

CASH ASSETS. - Cash on hand or in bank and securities immediately convertible into cash.

CERTIFICATE. - Engraved, lithographed or printed paper representing obligation to the investor, such as stock certificate, bond, etc.

CERTIFICATE OF STOCK. - A certificate representing ownership of the stated number of shares in the company issuing the certificate.

CERTIFIED. - Anything vouched for in writing is said to be certified; thus, an amount of stock outstanding may be certified to by a trust company, or a check may be certified by the paying teller of a bank.

CERTIFIED PUBLIC ACCOUNTANT. - An accountant who has passed an examination and received a certificate stating that he has qualified under certain tests of efficiency. Sometimes his title is abbreviated to the initials, C. P. A.

CHARTER. - The certificate that the state issued to a corporation giving it the right to do business.

CLIQUE. - Combination of operators to break or expand the market.

CLOSE CORPORATION. - A company whose stock is owned by a very few people and is not bought and sold generally. Public reports are not made.

CLOSED MORTGAGE. - Mortgage under which no additional bonds may be issued because full amount of bonds authorized have been issued.

CODE. - Compilation of words, each signifying a phrase, sentence, etc., used in sending telegrams and cables economically.

COLLATERAL. - Securities pledged for the payment of a loan. Term used to mean saleable property securing a loan. In addition to stocks, bonds and similar securities, warehouse receipts calling for grain, sugar, wool, tobacco and similar commodities are frequently used as collateral.

COLLATERAL TRUST. - Type of bond secured by deposit with a trustee of other bonds or stocks as collateral.

COLLATERAL TRUST BOND. - Has securities of other companies pledged with a trustee for its payment.

COMMERCIAL PAPER. - Term generally used to mean promissory notes, bills of exchange, acceptances, etc.

COMMISSION (BROKERAGE.) - Price paid to brokers for executing buying or selling orders; usually one-eighth of one percent of face value of securities. Investment merchants dealing in their own purchased securities generally do not charge commissions; their profit is made in buying at wholesale and selling at retail.

COMMISSION (PUBLIC.) - In a number of states there have been appointed by law Public Utility or Railroad Commissions to supervise the operation of companies of a semi-public character. It often is the duty of such a commission, among other things, to pass upon and authorize issues of securities.

COMMON STOCK. - Shares of ownership in a corporation subordinate to other

shares, such as preferred stock. The term also applies where there is only one kind of stock, which is therefore not subordinate. Sometimes common stock is termed ordinary shares. Is not limited in the amount of dividends it may draw, and has no preference in the assets.

CONFIRM. - To put into writing the terms of an oral contract. When securities are purchased or sold on an oral order, the dealer usually "confirms" the substance of the order by letter.

CONSOLIDATED BOND. - Issued to take up two or more outstanding bond issues. A renewal bond.

CONSOLIDATED MORTGAGE BONDS. - These are secured by a mortgage which is the result of a consolidation of claims under several other mortgages, usually brought out by refunding operations. Some securities of this general character are termed "unifying mortgage bonds."

CONTINUED BOND. - A bond on which interest does not stop at maturity. May be held indefinitely.

CONVERTIBLE. - Frequently securities of one class are convertible into those of another, as when a bond may be converted into stock. Sometimes this applies to conversion of a bond which is to run only a few years into another which may run for a longer period, or which may draw a different rate of interest.

CONVERTIBLE BOND. - May be exchanged for stock in the company at a specified time and price.

CORNER. - Control of the floating supply of a stock or commodity.

CORPORATION. - In popular terms, a body of people organized under the laws of some state to act together as one; a company. Some corporations are organized for profit, such as railroads, industries, etc.; others are organized not for profit, such as churches, charitable institutions, clubs, etc.

COUPON. - Small ticket-like certificate accompanying a bond and calling for interest thereon. When interest is due, a coupon is cut from the main sheet and presented to the company or its bankers for payment.

COUPON BOND. - Usually payable to bearer, with coupons attached calling for the payment of interest when due.

COUPON COLLECTION. - Usually the interest coupons from a bond are payable upon presentation at a specified place, such as at the office of the company issuing the bond or its financial agent. The common practice with the individual investor is to deposit his coupons with his banker.

COVERING. - Buying stocks later to deliver on sales previously sold "short."

CUMULATIVE. - Term used to indicate that an obligation, such as for dividends continues to accumulate from period to period in case the dividends are not earned or paid. (See "Accumulated.")

CUMULATIVE DIVIDEND. - When the dividend is cumulative and dividends remain unpaid, the back dividends must be paid before the current dividend can be paid.

CURB. - In New York there is a large volume of business in securities outside of the stock exchanges, conducted in an open street. From this practice has grown the general use of the word "curb" as meaning the market for securities outside of banking houses and regular exchanges.

CURB MARKET. - An exchange originally held in the street for buying and selling securities not listed on the stock exchange.

CURRENT ASSETS. - An accounting term used to designate resources quickly convertible into funds, and generally exclusive of trade-mark, goodwill, real estate, plant, etc. Assets subject to change from day to day, such as cash on hand, etc.

CURRENT LIABILITIES. - Indebtedness due immediately or within a short-time, as distinguished from funded indebtedness such as mortgages, bonds, etc.

CUTTING A MELON. - Giving the stockholders extra profit in the form of stock or cash.

DABBING. - Speculating a little now and then.

DATED. - When used in descriptions of securities, this means the date on which the securities were first issued and on which the mortgage or other indenture securing them was drawn.

DATES (DIVIDEND.) - Dates on which dividends are payable.

DATES (INTEREST.) - Dates on which interest is due and payable.

DATE DUE, OR MATURITY. - Time of expiration of note or bond and on which date it becomes payable.

DEAL. - Secret agreement by a combination of men to depress or advance the price of a stock or group of stocks.

DEBENTURE. - Term frequently applied to bonds or notes to designate them from some other issue. The meaning of the term is simply debt. A debenture may be a direct obligation of a company, but such a term does not imply any special security and usually it means there is no mortgage securing the issue. Municipal bonds in some countries are termed debenture.

DEBENTURE BOND. - A promise to pay, without the mortgage features.

DEFAULT. - Failure to pay interest or principal.

DEFERRED BOND. - Interest deferred for a specified time.

DEFERRED DIVIDENDS. - Unpaid dividends on preferred shares that must be paid before dividends may be paid on common shares.

DEFERRED SHARES. - Stock of a corporation on which dividends are not to be paid until some contingent condition arises.

DEFICIT. - When income is not sufficient to pay expenses the differences between earnings and expenses is termed a deficit. This is generally used in connection with financial statements of earnings over a certain period, as distinguished from the difference between resources and liabilities.

DEFINITE. - When applied to a security this term means the permanent engraved or lithographed certificate, technically defining the full obligation of the security and the terms of issue.

DELIVERY. - Physical delivery of a properly transferred stock certificate.

DEMAND LOAN. - A loan payable upon notice or demand of the borrower.

DENOMINATION. - For convenience a very large obligation secured by mortgage, such as a bond issue, is split up into smaller parts to facilitate in readily marketing the loan. The face value of these parts or separate bonds may vary from \$25, \$50, or \$100 each, to \$1,000 or multiples thereof. These amounts are termed the "denominations" of the issue.

DEPOSITORY. - Financial institution in which money is deposited.

DIGESTED SECURITIES. - Indicating that more than one security has been issued, and that the public has bought all issues.

DIRECT LIABILITY. - A liability definitely fixed - amount not dependent on contingencies.

DIRECT OBLIGATION. - The promise to which a person, corporation or government is directly committed, usually at first hand, as distinguished from guaranty for another's promise. Sometimes bonds are secured by a mortgage on the property of a division of a railroad or the like, and in case of default the divisional property is expected to satisfy the claim of the bondholders. If however, the bond is an obligation of another or parent company, the latter would be expected to satisfy the claim even though the property mortgaged might not be sufficient for the purpose.

DISCOUNT. - When used in connection with the price of a security, this means less than the full face or par value. In the case of a security selling at $97\frac{1}{2}$, this would mean a discount of $2\frac{1}{2}$ per cent, or, if the denomination is \$100, the price would be \$97.50. If the denomination is \$1,000

the price would be \$975.

DISCRETIONARY POOL. - One in which the operations of the pool are left to the discretion of one or more of its members.

DISTRICT. - In bond terms this means a political subdivision created to exercise some special governmental function, i. e. School District, Sanitary District, Drainage District, Road District, etc., as contrasted with counties, cities and towns which have many widely varying functions. The bonds of such districts are classed as municipal.

DIVIDEND. - At intervals a corporation divides a certain amount of its net earnings among its shareholders. This payment is called a dividend.

DIVISIONAL BOND. - Secured by a mortgage on a specified division of a railroad.

DOMESTIC CORPORATION. - One doing business in the state in which it is incorporated.

DOUBLE LIABILITY. - When a stock is "fully paid and nonassessable," stockholders are not subject to a further liability. In the case of bank stock, however, the law requires that if the bank were to fail the stockholders besides sacrificing the property represented by their stock would be also liable for a payment equal to the par value of stock owned so as to protect depositors.

DRAWN BONDS. - Selected by lot to be paid when a certain number fall due.

DRIVE. - Attempt to force down prices.

DROP IN THE MARKET. - Sudden falling of prices.

DUMMY. - One who serves for the purpose of concealing the identity of another.

DUPLICATION VALUE. - The value placed by appraisal upon property as an estimate in case its duplication or replacement after fire loss or the like should be necessary.

ELIGIBLE FOR POSTAL SAVINGS. - Applied to certain types of bonds which are accepted by the United States Government as collateral security for deposits of postal savings funds made in individual banks by the Government.

ENDORSEMENT. - A signed inscription on the back of a document more particularly on checks, bonds, stock certificates, etc., for certain purposes. For instance a bond may be guaranteed by other than the issuing authority and in such cases is usually guaranteed "by endorsement" on the back of the bond.

EQUIPMENT. - Engines and other rolling stock of a railroad. Buildings and machinery of a mine, etc.

EQUITY. - Difference between the market value of a security and the amount loaned on it.

ESCROW. - Putting a document or security in a third person's hands to be held until a specified condition has been met, the writing containing the escrow agreement.

EX-COUPON. - Describes a bond from which the coupon for the interest for the current period has been detached.

EX-DIVIDEND. - Describes a stock sold while the transfer books are closed to pay dividends. Without the current dividend.

EX-DRAWING. - Sale of a bond without any advantage the purchaser may have of it is drawn for redemption.

EX-RIGHTS. - Sold without the option of the original holder to subscribe to new issues.

EXTENDED BOND. - Original time of maturity extended.

EXTENSION BOND. - Issued by a railroad to get money with which to extend its lines.

FACE VALUE. - The full amount of a security, shown on the face thereof; otherwise termed "par value." This is in distinction from the selling price, which may be more or less than the face value.

FINANCE. - Science of the profitable management of money. Monetary affairs.

FINANCIAL STATEMENT. - Tabular statement giving assets and liabilities, showing the financial condition of the company.

FIRST MORTGAGE. - Takes precedence over other mortgages. Has first lien on the property.

FIRST-MORTGAGE BOND. - Secured by first mortgage.

FISCAL AGENT. - Corporation's agent for the sale of its securities.

FISCAL YEAR. - The financial year of a government or company. The period between the annual balancing of its books. For the purpose of accounting, corporations, and governments adopt a yearly period which sometimes does not coincide with the calendar year. This is termed the fiscal year. For instance, many companies have a fiscal year ending June 30.

FIXED ASSETS. - Term frequently used in financial statements to indicate property of a somewhat fixed nature, such as real estate, machinery, plants, etc., as distinguished from current assets, which in due course of business are converted into cash.

FIXED CAPITAL. - Permanent property, as lands and plant.

FIXED CHARGES. - Term in financial statements used to designate fixed expenses, which continue whether property is operated or not. Such charges usually are those for interest, taxes, rentals, etc., as distinguished from payroll, fuel, repairs, materials, etc.

FLAT. - Without interest.

FLOATING DEBT. - Term used to indicate the amount of money currently owed, but which should properly be funded. Unfunded indebtedness of a state or corporation.

FLOATING BONDS. - Selling an issue of bonds.

FLOATING STOCK. - Selling an issue of stocks.

FLURRY. - Sudden and severe decline in the market, accompanied by excitement.

FLYER. - Speculative purchase of an occasional lot of shares for quick profit or loss.

FOR THE ACCOUNT OF. - Broker's transactions for another.

FRACTIONAL ORDERS OR LOTS. - Units of speculation are 100 shares of stock, and 5,000 bushels of grain. Lesser amounts are called fractional.

FRANCHISE. - Privilege conferred by grant from a government or municipality to a corporation or an individual.

FROZEN OUT. - When a trader on margin is sold out because he does not make good impaired margins, he is said to be "frozen out."

FULL-PAID STOCK. - Stock for which the company has received, in some form, the full amount of the par value.

FULL STOCK. - Par value \$100.

FUNDED DEBT. - Corporations have two main divisions of debt, their current liabilities for expenses from time to time, and their long-time debt, such as represented by bonds, mortgages, etc. The latter is termed "funded debt." Debts converted into a permanent loan, usually in the form of bonds with interest.

FUNDING. - Changing a floating indebtedness into a funded debt.

FUTURES. - Trades made for future delivery.

GENERAL MORTGAGE. - Covers all the property subject to any earlier mortgage.

GENERAL MORTGAGE BOND. - Secured by a general mortgage.

GILT-EDGE. - High class. Very best.

GOLD BOND. - Principal and interest payable in gold.

GOOD-WILL. - In connection with the financial statement of a company this means the value placed on the going business or trade of the concern, as distinguished from such resources as plants, machinery, merchandise, etc.

GOVERNING COMMITTEE. - The men who direct the affairs of a corporation.

GOVERNMENT BONDS. - The obligations of one of the major governments, such as the United States, as distinguished from a subordinate government such as a State or a Province. Interest bearing obligations of a government. Bonds issued by the government.

GROSS EARNINGS. - Total earnings before expenses are deducted.

GUARANTY. - The agreement by individual or corporation to make good the obligation of another, such as one company's guaranty of the bonds of another.

GUARANTEED BOND. - Payment of principal and interest guaranteed.

GUARANTEED STOCK. - Dividends and sometimes the principal guaranteed.

GUNNING A STOCK. - To make every effort to "break" the price when someone is a heavy holder of the stock and unable to withstand an attack. To force "longs" to sell, or "shorts" to buy.

HEDGING. - Buying other stocks to offset a possible loss on a stock sold "short"

HOLDING COMPANY. - Does not operate, but owns the securities of other companies.

HOLDING THE MARKET. - Distributing purchases skilfully in an attempt to hold prices.

HONEYCOMBED MARKET. - Prevalence of many "stop orders," meaning orders to sell when the price reaches a certain point, either up or down.

H. P. - The abbreviation meaning horse-power.

HORSE-POWER. - A term usually applied in measuring the output of plants generating power. The unit roughly approximates the power developed by one horse. Technically the energy is equal to 33,000 pounds lifted one foot in one minute.

HYPOTHECATION. - Pledging securities or other personal property for the pay-

ment of borrowed money.

IMPROVEMENT MORTGAGE BONDS. - These are generally issued for refunding or extension purposes and the lien is generally subordinate to some other mortgage. Frequently bonds of this type are termed "extension and improvement bonds."

INCOME BOND. - A form of bond whose interest, although specified usually at a definite rate, is not paid unless it is fully earned. If not paid one year there may be no obligation on the part of the corporation to make up the payments the following year. -- Lien on net income of the corporation issuing the bond.

INCOME TAX. - Tax levied on incomes of corporations or individuals.

INCORPORATION PRICE. - The price paid the state for a charter for a corporation.

INDORSED BOND. - Non-registered coupon bond payable to bearer, containing owner's indorsement on it which does not properly belong on it.

INDUSTRIAL STOCK. - Shares in a corporation engaged in manufacture.

INFLATED. - Condition of a company having outstanding stock in excess of the value of the assets.

INHERITANCE TAX. - A tax levied on property inherited, as distinguished from one against property from year to year.

INITIAL DIVIDEND. - First dividend declared by a company.

INSIDERS. - Men who own the controlling interest in a corporation and shape its policy.

INSTALLMENT. - Part of a debt due in payment of a security and payable at a specified time.

INTEREST. - Price paid for the current use of borrowed funds. This term should be distinguished from dividends. Interest is paid on notes, mortgages, bonds, etc.; dividends are paid on stock.

INTEREST CHARGE. - Term used in financial statements to indicate the amount expended over a certain period for interest.

INTERIM CERTIFICATE. - Frequently bonds or stocks are sold under contract before the permanently engraved certificates have been prepared. Pending delivery of the permanent or definite certificates, the bankers selling the securities frequently issue what is termed an "interim certificate" of their own, which calls for the delivery of the permanent bond or stock certificate when it has been prepared.

INTERIM DIVIDEND. - Partial dividend made before the full dividend is ascertained and declared.

INTERURBAN. - Between cities, usually designating a traction line connecting several communities.

INVESTMENT. - Money put into a company's shares to be held permanently for dividends. Opposite of buying for speculation. -- This term is used very carelessly. In a broad sense it means laying out funds in any manner for the sake of any money return thereon. In a narrow and more accurate sense, it means the placing of money in property or securities yielding an immediate, regular and definite income. The term is widely used in contrast with "speculation." The latter broadly means the placing of funds at considerable risk, and generally without immediate income, for the purpose of later reaping a profit by sale rather than from income.

IRISH DIVIDEND. - A "wags" definition of an assessment on stocks.

IRREDEEMABLE BOND. - Can not be paid off, but continues to draw interest forever.

IRREGULAR. - A market in which some stocks advance while others decline.

ISSUE. - Original delivery. Also the total amount of a security issued by a company.

JOINT BID. - Bid by two or more houses jointly. A partnership bid.

JOINT BOND. - Principal and interest guaranteed jointly by two or more persons or companies.

JUNIOR. - Term generally used in connection with securities to indicate that they are subordinate in claim, etc. or "junior" to other securities.

KITING. - Incurring a fresh obligation to discharge an old one. Usually done by having several bank accounts and depositing a worthless check ahead of overdrafts, and depositing another worthless check before the former worthless check is presented for payment and keeping up this practice until the depositor can deposit money to take care of the last worthless check.

LAMB. - An inexperienced trader whom the experienced ones may easily "fleece."

LAND-GRANT BOND. - Secured by a mortgage on a grant of land by the government to aid in development, such as building a railroad.

LEGAL FOR INVESTMENT. - A number of the states, especially New York and the New England States, have rigid laws regarding the class of securities in which savings banks, insurance companies, trustees of estates, etc., may

invest funds in their care. The term "legal for," etc., in this connection means that the securities can successfully pass the tests provided by these laws.

LEGALITY APPROVED. - Before an issue of security is offered for sale the conservative investment merchant employs attorneys to investigate all the legal phases in connection with the issue. Circulars describing securities for sale frequently give the names of the attorneys approving legality.

LIABILITIES. - Obligations to pay. What a company owes.

"LIBERTY LOAN" BONDS. - Popular title given to United States Government bonds brought out to finance the expenses of the country in connection with the Great War. The title of "Liberty" originated from the purpose of the country to aid in liberating the world from autocratic governments.

LIEN. - Any legal claim on a property.

LIMIT. - In connection with the sale of securities, the extreme price stipulated at which one is willing to buy or to sell.

LIMITED LIABILITY. - Liability limited to the assets of the company.

LIQUID ASSETS. - Cash and assets that may be quickly converted into cash.

LIQUIDATION. - Converting assets into cash. Also paying all obligations of a company preparatory to going out of business.

LISTED SECURITIES. - Certain securities may be bought and sold on the stock exchanges. Before securities are thus traded in certain statements must be given to the governing authorities of such bodies, and when permission is given to trade in the securities in question they are "listed." This term is generally applied to such securities to distinguish them from those that are not sold on the exchanges; the latter sometimes are termed "unlisted." Securities of many governments, states, counties, towns, cities, etc., and those of many corporations as well as farm mortgages, real estate mortgages, etc., are not listed. Listing does not signify intrinsic value in a security.

LLOYDS. - An association of English underwriters of insurance, principally maritime.

LONG. - Carrying a lot of purchased stocks in anticipation of a rising market.

MANIPULATION. - Forcing prices up or down for the purpose of selling or buying.

MARGIN. - Money deposited with a broker to make good the purchase or sale of a stock.

MARKETABILITY. - Used in referring to qualities of a security which render it quickly salable.

MARKET PRICE. - The price that prevails at the moment the quotation is made.

MATCHED ORDERS. - Buying and selling orders on the same stock, matched in price, to show trading that prices may be influenced.

MATURITY. - End or expiration of an obligation, such as note or bond. Date of maturity is the day on which the principal of the security will be paid off.

MERGER. - Joining together, such as the uniting or merging of several companies or properties.

MILKING THE STREET. - When an operator or a clique has a security so well in hand that he can alternately raise and lower the price and sell and buy to his advantage, taking all the money in sight, Wall Street is said to be "milked."

MIXED LOAN. - Secured by collateral of different character.

MUNICIPAL BOND. - Issued by a political division having power to levy taxes, or by a subdivision of such a division.

NEGOTIABLE. - May be transferred by delivery or assignment.

NET. - What remains after all expenses have been paid.

NET DEBT. - Term generally used in municipal finance to indicate the amount owed by a municipality exclusive of its water debt, which is usually self-supporting and less the amount of its sinking funds, which constitute offsetting assets.

NET INCOME. - Amount of earnings after all operating expenses, interest, taxes, etc., but before dividends are paid.

NO PAR VALUE. - Sometimes the capital stock of a company is divided into a certain number of parts without stating how many dollars of property is represented by a single share. In such cases the shares are said to have "no par value."

NOMINAL. - Existing in name only. No value.

NON-ASSENTED STOCKS OR BONDS. - Owners refuse to assent to a reorganization of the company, and withhold their securities from deposit.

NON-ASSESSABLE STOCK. - Stock which may not be assessed.

NON-CUMULATIVE STOCK. - Unpaid dividends do not accumulate to be paid later.

ODD LOT. - More or less than the regular unit of orders. In Wall Street 100 shares or \$10,000 in bonds is a unit.

OFFICIALLY REPORTED. - Term used to indicate that statements given have originated with officials of corporations, governments, municipalities, etc., and not with, the bankers or others using them.

OPEN ORDER. - Good until cancelled.

OPERATING COMPANY. - The company operating the business. The operating company's stock is owned by a holding company.

OPERATING EXPENSES. - The usual costs for doing business, such as for labor, rent, light, heat, transportation, etc.

OPTION. - A purchased privilege to buy or sell a security by a certain company at a specified price.

OPTIONAL BOND. - May be redeemed before maturity at the option of the company.

ORDINANCE. - An order or authorization voted by a municipality or other governmental body. A franchise ordinance is an order passed by a municipality giving power to a corporation to operate properly, under certain conditions, within a community.

OVERCAPITALIZED. - Having more capital than conditions warrant.

OVERISSUE. - A sale of more stock than has been authorized.

OVER-THE-COUNTER. - Selling stocks and bonds outside the exchange. Selling direct.

PAID-UP STOCK. - Stock fully paid for.

PAPER PROFITS. - As they appear to be in transactions not yet closed.

PAR. - Face value.

PARTIAL PAYMENT. - Frequently securities may be purchased from a dealer on the partial payment plan, which corresponds largely to the instalment plan for ordinary merchandise.

PARTICIPATING BOND. - It shares in profits, in addition to drawing interest.

PASSING A DIVIDEND. - Failing to pay a periodical dividend.

PASSIVE BOND. - Draws no interest, but gives a special advantage, as a fixed income.

PEGGED. - A stationary market, neither rising nor falling.

PLAIN BOND. - Unsecured. Same as a promissory note.

PLANT. - Operating equipment.

PLUNGE. - Buying heavily for speculation.

POINT. - One dollar of the price of a share of stock.

POINTER. - A tip. Supposed accurate information about the future price of a security.

POOL. - Several persons joining their money to do a specified thing in the hope of profits or other advantage.

POUNDING. - To sell freely, both long and short, with a view of changing prices.

POWER OF ATTORNEY. - A document empowering one person to act for another.

PREFERRED. - Having a preference or priority over some other claim. Example: preferred stock has a preference over common stock, and, in the case of dissolution or selling out of the company's properties, generally has preference or first claim on any proceeds after the payment of bond obligations, current debts, etc.

PREFERRED DIVIDENDS. - Dividends paid on the preferred stock of a company.

PREFERRED STOCK. - Draws specified dividends before dividends may be paid on the common stock.

PREMIUM. - Term used generally to indicate amount paid for security above its face value. Thus, a bond selling at 102 would be said to be selling at two per cent premium.

PRINCIPAL. - Usually meaning the principal sum of an investment as distinguished from its income. The principal of a \$1,000 five per cent bond is \$1,000; five per cent is the interest.

PROMOTER. - An organizer of a company.

PROMOTER'S STOCK. - Stock given a person for organizing a company.

PROPRIETARY COMPANY. - The company that owns or controls another.

PROXY. - Power of attorney to represent and vote another's stock. Must be in writing.

PUBLIC UTILITY. - This term, interchangeable with the term "public service," applies to public necessities, such as street railway and interurban transportation, water, heat, gas, electric light and power, telephones.

etc.

PURCHASE MONEY BOND. - Issued to get money to pay the purchase price of property.

PUT. - An agreement by which, for a consideration, one person acquires the right to deliver, or put, something to another at a fixed price in a specified time.

PYRAMIDING. - Buying stock by using as margin the paper profits on stock already bought.

QUICK ASSETS. - See "Current Assets."

QUOTATIONS. - In marketing securities the prices at which owners may offer them for sale are not always the same at which others are willing to buy. Thus, there is a "bid" price, at which persons will buy, and an "asked" price, at which others will sell. These two prices nominally given are termed quotations. The term is also used to indicate the actual and varying prices at which securities are selling. -- The quoted or current price. Prices on stocks are usually quoted in eighths of 1 per cent.

QUARTER STOCK. - Par value \$25.

QUICK. - Describes assets that may be quickly converted into cash.

RATE. - Usually applied to indicate the amount of income on a security figured on a percentage basis against its par value. Example: in the case of first mortgage five per cent bonds, the rate is five per cent.

REACTION. - Fall in price.

REALIZE. - To sell or to convert securities or other assets to get cash.

REALIZING SALE. - To sell securities to secure profits.

REAL VALUE. - Used in financial statements of municipalities to indicate the estimated full value of property as distinguished from "assessed valuation."

RECEIVER. - Temporary manager appointed by a court to take charge of a company's affairs and conserve them for the creditors.

RECOVERY. - Advance in price after it has declined.

REDEEM. - To pay bonds at maturity.

REDEEMABLE BOND. - May be called in and paid after a specified time.

REDEEMABLE DRAWING. - Deciding by lot which of the redeemable bonds are to be paid.

REFUND. - To take up outstanding securities by issuing others in their place.

REFUNDING MORTGAGE BONDS. - These are generally part of a new piece of financing of a company which already has outstanding other mortgage obligations. Sometimes the title of "first and refunding mortgage" is given and at other times the title is slightly different. Such bonds are usually secured by a first mortgage on part of the property and by a subordinate mortgage on remaining property. Provision is usually made for a large enough issue of bonds to supply the funds for paying off the other mortgage at its maturity.

REGISTERED. - When the name of the owner of stock or bonds is recorded with proper authorities for the purpose of establishing title to them, the securities are said to be "registered." Practically all stock is registered in the name of the owner, and the dividends or income therefrom mailed direct to the owner. There are a few exceptions where stock carries coupons which are cut off and collected the same as on bonds. Bonds may be registered "as to principal only," in which case only the individual whose name is recorded, or his heirs or assigns, will receive payment of the principal at maturity; interest on such registered bonds, however, is payable to holder of the coupons. Bonds may be registered "as to both principal and interest," in which case both interest and principal are paid only to the owner of record. Frequently the registered form of bond is exchangeable for the coupon form, which is payable to bearer.

REGISTRAR. - Proper official, generally a bank or trust company, authorized to record or register securities. -- Keeper of the record of the names of owners of the stock of a company.

RELEASED INDORSED BOND. - An indorsed bond bearing a certificate of release.

REORGANIZATION. - New organization to put a company on a better basis.

REPUDIATION. - Rejecting a contract in whole or in part.

RETIRE. - To pay off securities.

RESOURCES. - Available property of a company that may be turned into cash.

RIGGING THE MARKET. - Manipulating prices of stocks by insiders that the lambs may be "fleeced."

RIGHT OF WAY. - The strip of territory over which a property, such as a railroad, telephone, telegraph, power transmission line, etc., is operated. This generally applies to land which is owned outright by a company, as distinguished from public property, such as streets or highways, use of

which has been granted by governmental authority.

ROLLING STOCK. - Locomotives, cars, and other similar equipment of a railroad.

SCALED. - In reorganizing, giving new securities of less value in exchange for the old. Reducing the amount of the outstanding securities.

SCALP. - Buying and selling at a small profit.

SCRIP. - A certificate given for part payment on a stock, and redeemable when balance is paid.

SEASONED SECURITIES. - Those on which many dividends or several periods of interest have been paid to indicate that their value is stable.

SECOND MORTGAGE. - Secured by property on which a first mortgage has been given.

SECOND MORTGAGE BOND. - Secured by property on which a bond issue has already been made.

SECURITY. - General term applied to stocks, bonds, mortgages, and other forms of negotiable certificates; also used as almost synonymous with the word safety; also used to indicate the property value represented by stocks, bonds, etc.

SERIAL BONDS. - Frequently a bond issue is made payable in instalments, a certain portion each year over a period of years. These maturities are termed "serial."

SHARES. - Portions of capital stock of a corporation.

SHORT. - Having sold stock that the seller does not own.

SIGHT PAPER. - Draft payable on demand.

SINGLE MAKER PAPER. - Bears the name of the maker only.

SINKING FUND. - A fund accumulated from periodic payments, generally for the purpose of retiring a certain obligation, such as a bond issue or a preferred stock issue.

SINKING FUND MORTGAGE. - Payable from a sinking fund.

SLOW ASSETS. - Property that requires time to be converted into cash.

SMALL BONDS. - Most bonds are issued in denominations of \$4,000 or multiples, and occasionally \$500. Much less frequently bonds are issued in denominations of \$100 or less. These latter are termed "small bonds" or "baby

bonds."

SOFT SPOT. - Weak point in the market.

SPECIAL ASSESSMENT. - Special tax against certain property in a community made for some specific purpose, such as for street improvements, sidewalks, etc., as distinguished from a general tax levy against all property in a community for general purposes.

SPECIAL ASSESSMENT BONDS. - Bonds issued for special purposes in a community and payable from special assessments. They are frequently confused with the form of municipal bonds payable from a general tax levy on all the property in a community.

SPECULATE. - To buy securities with a view of selling at a higher price.

SPLIT SALE. - Selling part of an order at one price and part at another.

SPREAD. - Combining a call and put.

SQUEEZE. - Advancing the price so those who sold short at a low price must pay a high price to deliver.

STOCK DIVIDEND. - Sometimes a company desires to distribute its earnings to its shareholders and still to keep the money in the business. Under such circumstances it is common practice to increase the amount of capital stock and to give the stockholders a dividend in stock instead of in cash.

STOCK EXCHANGE. - An organized and generally legally incorporated market place for the purchase and sale of securities. There are such exchanges in most of the principal cities of the United States, although the most important one is the New York Stock Exchange.

STOP LOSS. - Order to sell at a loss if the price goes down to a given point.

STREET. - Term to designate the financial district of city.

SUBSCRIBE. - To apply for securities offered for sale. There are two principal methods of bringing out a new issue of securities; (1) for definite sale, and (2) for sale by subscription. In the former case the sale is consummated immediately. In the latter case the investor places a subscription, frequently with a partial cash payment, and the sale is consummated when the investor is subsequently advised as to how many securities he has been allotted. The corporation or its banker, in offering the securities for subscription, usually specifies that any and all subscriptions may be rejected, or allotments made as seen fit. Where an issue is extremely popular and subscriptions are greater than the amount of securities offered the issue is said to be oversubscribed. In such cases allotments are generally made in proportion to those subscribed

for. Persons subscribing for small amounts usually receive either a liberal portion or the entire amount of their subscription, because it is desirable for market purposes that securities be widely distributed, rather than concentrated in large holdings.

SUBSCRIPTION BLANK. - The blank used for making subscriptions for securities.

SUBSIDIARY COMPANY. - A corporation owned by, or subject to the management of, another corporation.

SURPLUS. - Profit that remains after expenses and dividends have been paid.

SURETY. - A guaranty against loss, or for the performance of some act. Term also applies to the guarantor.

SYNDICATE. - Organization of a number of individuals, firms or corporations, usually for the purpose of buying securities from the issuer thereof for the purpose of retailing them to investors.

TAKE UP. - To pay the balance due on a security purchased and receive the security.

TAX EXEMPT. - Many of the states have laws which, when complied with, permit the issuance of securities which are not subject to tax. These securities are termed **tax exempt**. Municipal bonds are exempt from present Federal Income Taxes. The several issues of United States "Liberty Loan" bonds enjoy varying degrees of tax exemption.

TEMPORARY BONDS. - Pending the engraving of bonds, temporary bonds are frequently issued and delivered to investors. Subsequently, these are exchanged for the permanent engraved certificates.

TERMINAL. - Usually applied to freight and passenger stations, switching yards and freight facilities of a railroad at the end of a line, or in a large city.

TERMINAL BONDS. - Form of railroad bonds secured essentially by the terminal facilities, stations, etc. in important centers.

TICKER. - An electrical self-printing instrument installed in offices to print instantaneously the exchange quotations.

TIME LOAN. - A loan made for a specific period of time, as distinguished from a loan which is payable on demand. Opposite of call loan.

TIME MONEY. - Money loaned for a specified time.

TO NET. - See "Yield."

TRACTION SECURITIES. - Those issued by street railway or interurban railway

systems.

TRANSFER. - To put a security in the name of its new owner.

TRANSFER AGENT. - The designated person or banker who issues stock for a corporation. The agent has possession of the unissued stock certificates and seal of the corporation, and takes care of the work of issuing new certificates for old ones, when presented. When an investor buys stock the transfer into his name is made through this agent. Sometimes the agent is simply an officer of the company.

TRANSFER OF STOCK. - (See Above.)

TRANSMISSION LINE. - A system of wires which carry electric current from a generation plant to distributing points.

TREASURY STOCK. - Stock authorized but not yet issued. - The part of the corporations stock held in the treasury, and which when sold, brings money into the treasury for use by the company in its operations.

TRUST. - Technically to place in trust; commonly used to designate a monopoly. -- A combination of corporations pooling their businesses to gain some special advantage. Regularly it means holding property in trust for others.

TRUST COMPANY. - A financial house authorized by its charter to accept and execute trusts.

TRUST DEED. - A deed conveying the title of property into the hands of a disinterested person, trust company or the like, until such time as some obligation between two other parties has been cancelled. Example: a person borrowing money on a piece of property transfers it by trust deed to a trustee, to be held in trust until the borrower pays the loan; in case the borrower should not pay the loan at the appointed time, the trustee would sell the property in order to satisfy the claim of the lender.

TRUSTEE. - Person or corporation empowered to act for another in certain capacities, generally in the handling of property or funds in trust. Example: trustee under a will, trustee under a mortgage, etc.

TRUSTEE STOCK. - Seasoned stock in which trustees are permitted by law to invest trust funds.

TRUST FUNDS. - Funds in hands of, or employed by, a trustee for others.

UNDERLYING MORTGAGE. - A preceding mortgage.

UNDERLYING MORTGAGE BONDS. - These are bonds which "underlie" or precede some other mortgage bonds on the same property.

UNDERTONE. - Describes the underlying strength or weakness of the market.

UNDERWRITE. - To agree to take securities from the issuer and supply money therefore at a given time.

UNDERWRITER. - One who insures. One who guarantees to furnish a corporation a stated amount of money for a given amount of securities in a specified time.

UNDIVIDED PROFITS. - Surplus profits which have not been divided between the owners of a property. Principally used in financial statements of banks to indicate the funds from which dividends could be paid, as distinguished from the surplus account from which dividends are not paid. In most other corporations undivided profits are the same as surplus.

UNFUNDED DEBT. - Running debts that are not secured.

UNLISTED. - Describes securities that have not been listed on the stock exchange; securities that cannot be bought or sold on the exchange.

UNLOADING. - Selling out a stock that has been held a long time.

VOTING TRUST. - A trusteeship under which the voting control of the stock of a corporation is placed in the hands of trustees for a certain time. -- Committee to whom is given the power to vote the controlling stock in a corporation to insure unity and control.

WASH SALES. - When one broker arranges with another to buy fictitiously at a price what the other offers, that the stock may have the record of having been bought and sold on the exchange, the sales are called wash sales. Stock exchange rules forbid such sales.

WATER DEBT. - Term used in financial statements of municipalities to indicate amount of money owed for waterworks, generally in the form of bonded debt. Because a water property is generally self-supporting such debt is not considered a real liability, and is generally deducted from the total debt to show a true financial condition.

WATER POWER. - The power developed from fall of a body of water. Ordinarily this power is used to develop electrical energy through hydro-electric plants.

WATER RIGHTS. - The claims or titles to the privilege of using water power which may be developed on a given body of water.

WATERED STOCK. - An increase in the capital stock without a corresponding increase in the company's assets.

WHEN, AS AND IF ISSUED. - When a new security is being offered for sale and it has not been actually issued, transactions in it are frequently made

subject to provisions protecting the dealer, in case the security should not be issued. Such transactions are made "when, as and if issued."

WIND. - Bears selling short what they haven't got, are said to sell wind.

WIPED OUT. - Loss of margins. Same as "frozen out."

WORKING CAPITAL. - Money used actively in conducting the company's business.

X-d. - Ex-dividend.

X-i. - Ed-interest.

YIELD. - The income return from an investment figured by percentage against the actual purchase price of the investment instead of against its par value. Example: The income from a \$1,000 five per cent bond is \$50 per year. If the bond is purchased at par, or \$1,000, the yield is the same as the rate of interest, or five per cent. If a bond is purchased at a discount, or less than par, it will yield more than five per cent, because when it is paid off at maturity at \$1,000, the investor will have received more than he paid for it. On the other hand, if it is purchased at more than par, the yield will not be as great, because the bond will be paid off at maturity at par, from his total amount of income received. In the case of a bond bought at 95, or \$950, the difference between the purchase price and par would be \$50, or an entire year's income. In order to reduce this to a percentage basis, one must know how long a bond is to run before it will be paid off. If the bond should mature in five years, this would be equal to an additional yearly income of \$10, or one per cent on the par value. This added to the five per cent interest being paid would make the income yield approximately six per cent per year. There are some slight adjustments in figuring necessitated by the fact that the additional income would not be received until the maturity of the bond, and these are taken into consideration in the preparation of tables used by investment dealers to determine bond values. It is common practice to figure income on stocks from the purchase price alone. That is, to measure the actual income received in terms of percentage on the price paid for the stock.

B I B L I O G R A P H Y

B O O K S

Activities of the National Better Business Bureau, Inc., - 1927 - 1928 - Report of the General Manager, The National Better Business Bureau, Inc., New York, 1928, p. 7.

Ames, Emerich & Company, Investment Safeguards - A Financial Guide For Persons Planning to Invest For the First Time, Chicago, New York, 1920, pp. 61 - 68.

Babson, Roger W., Investment Fundamentals, Harper & Brothers, New York, 1930, pp. 126, 158, 229, 280, 315 - 317.

Bagley, William Chandler, The Educative Process, The MacMillan Company, New York, 1927, p. 22.

Barber, H. L., Investing for Profits, A Guide In Making Money Through Investments, A. J. Munson & Co., Chicago, 1921, pp. 88 - 89, 91, 93 - 94, 96, 99 - 100, 271, 281, 285.

Brandeis, Louis D., Other People's Money And How The Bankers Use It, Frederick A. Stokes Company, New York, 1914, pp. 135 - 136.

Edie, Lionel D., Money, Bank Credit And Prices, Harper & Brothers, New York And London, 1928, p. 79.

Facts....Then Action - A Merchandise Report 1925 - 1930, The Better Business Bureau of New York City, Inc., New York, 1930, pp. 54 - 55.

Fowler, John Francis, Jr., American Investment Trusts, Harper & Brothers, New York, 1928, pp. 25 - 28.

Greendlinger, Leo, Financial and Business Statements, Alexander Hamilton Institute, New York, 1921, p. 6.

Investment Talks by the Old Counsellor, Halsey Stuart & Co., 1931, pp. 9 - 11, 19 - 21.

Lagerquist, Walter Edwards, Investment Analysis, The MacMillan Company, New York, 1922, pp. 3, 4 - 5, 12, 55, 58 - 59, 77, 81 - 82, 84 - 85, 88 - 89, 91, 93, 198.

MacGregor, John W., Life Insurance and Investments, Investment Bankers Association of America, 1925, pp. 3 - 5.

Parkinson, S. B., Investors' Guide, Chicago Tribune, Chicago, 1927,
pp. 44 - 46.

Report of Trends of the Business Subcommittee, Investment Bankers Association of America, White Sulphur Springs, October, 1932, pp. 5 - 6.

Rice, Samuel O., The Common Sense of Sound Investing, Investment Bankers Association of America, Chicago, 1926, pp. 2, 3, 5.

Scott, William A., Money and Banking, Henry Holt and Company, New York, 1926, pp. 180 - 182.

Stoddard, William Leavitt, Financial Racketeering And How To Stop It, Harper Brothers, New York, 1931, pp. 2 - 5, 14 - 17, 37 - 39, 88 - 90, 125 - 127, 130 - 131.

The Investor and The Investment Banking Business, Investment Bankers Association of America, Chicago, 1926, pp. 1 - 4, 11, 16, 22 - 24.

Willis, H. Parker and Beckhart, B. H., Foreign Banking Systems, Henry Holt and Company, New York, 1929, pp. 654 - 655, 1234.

Willis, H. Parker and Bogen, Jules I., Investment Banking, Harper & Brothers, New York, 1929, pp. 479 - 496, 508 - 512.

Wolves In Sheep's Clothes, Associated Advertising Clubs, New York, n. d., pp. 8, 12.

P E R I O D I C A L S

Blodgett, Harvey Alvaro, "The Education of 'John Per Capita'", New Outlook, October, 1932, pp. 45 - 47.

Henrikson, Carl H., "Our Bucketters," The University of Chicago Magazine, January, 1933, pp. 107 - 112.

"New Blue Sky Act Plugs Holes In Former Law," Chicago Sunday Tribune, July 2, 1933, Part 2 - p. 9.

"Newspapers Credited With Helping Reduce Frauds in Securities," The United States Daily, October 28, 1932.

"Utility Securities to be Supervised by Power Board," The United States Daily, November 16, 1932, p. 1.

"Security Issues Under Federal Control In July," The United States News,
June 2, 1933, pp. 1 - 2.

Tomlinson, Paul, "Where The Investor's Money Goes," Harper's Magazine,
February, 1928, pp. 1 - 12.

Weidenhammer, Robert, "Control of the Capital Market," The American
Economic Review, September, 1932, pp. 389 - 402.

M I S C E L L A N E O U S

Contract Raiding Menaces Real Estate Purchasers, The Report of the Chicago
Better Business Bureau, Chicago, July, 1928.

Give Opinions On "Packaged" Stocks, The Report of the Chicago Better
Business Bureau, Chicago, Ill., October 13, 1932.

Tipster Sheets, National Better Business Bureau, Inc., New York, September,
1928, pp. 1 - 4.

"What It Means to Speculate, Safety Zones For Dollars, Investment Bankers
Association of America, Chicago, n. d.

The thesis "Financial Education of the Public in Regard to Investments," written by John James Hackett, has been accepted by the Graduate School of Loyola University, with reference to form, and by the readers whose names appear below, with reference to content. It is, therefore, accepted as a partial fulfillment of the requirements of the degree conferred.

Peter T. Swanish, Ph.D.

Rev. ~~En~~neas B. Goodwin

July 22, 1933