INVESTMENTS ABROAD

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PREFACE

LIKE most habitual investors, the writer is an optimist by temperament and a pessimist by experience, and if the note of caution is sounded somewhat insistently in this book, it is at least a fault possessing merits. Whatever the defects of the present work, the author feels that he may claim that it is not a mere compilation of facts, but that it contains a considerable amount of material that could be obtained only from actual and practical experience. For nearly a century London has been the principal world market in foreign investments; it may be that supremacy in this respect is passing to New York, and if this be the case, American investors and those responsible for their guidance may perhaps learn something from these pages, which embody some of the lessons culled from London's experience as an international market. In any case, the rôle of universal investor and lender is so recent an occurrence with the United States, that a book written from the view-point of a financial center having a hundred years' experience of foreign investments may prove useful.

A. EMIL DAVIES

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INVESTMENTS ABROAD

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INVESTMENT in stock-exchange securities is of modern origin. Indeed, the very term "investment" in the sense that we use it nowadays is modern and does not appear in Dr. Johnson's dictionary. Until the nineteenth century, property and trade were so insecure in even the most civilized countries that the man who saved money had few opportunities of investing it safely, and usually hoarded it. True, monarchs and nobles accepted what were euphemistically termed "loans," but seldom repaid them except out of fresh borrowings—a practice that persists to this day, although it is usually more skilfully concealed. Commerce was riskier than it is now, owing to the activities of pirates on the high seas (the Barbary corsairs were eliminated only in 1830) and at home there were highwaymen to add to the general insecurity, not to speak of the wars which devasted Europe. If a government did meet its debt when due, it was generally in debased coinage or worthless paper, so that there was not much inducement to the few who possessed means to invest them at home, let alone in foreign countries. In 1672, King Charles II of England calmly repudiated a debt of £1,328,526 (say $6,000,000) which he had borrowed of the London goldsmiths, at 8%. This was a large amount for those days, and caused wide-spread distress. Ultimately the king entered into an arrangement, refusing to repay the principal but agreeing to pay 6% out of his taxes. After six years he again defaulted, and only in 1745, after the British Revolution, did the government compound with the creditors by agreeing to pay 3% interest, with the option of discharging the debt on payment of one-half of the original sum.

ORIGIN OF THE "BOURSE"

Still, this was not investment abroad, except in so far as the money went to fight the Dutch, nor was it represented by bonds, which were a later invention. Before foreign investment in the sense meant here—that is, negotiable securities—could take place, such an institution as the Stock Exchange had to exist. In all save English-speaking countries that institution is known as the "Bourse," or some derivative of that word, which actually comes from the name of the family Van der Beurse, who had a house in the old Flemish city of Bruges. The first big central institution which in any way performed the functions of a bourse or exchange was the Antwerp Bourse, which was opened in 1531—strangely enough, as a municipal enterprise. There were no transactions in bonds or shares, for the good reason that these were not then invented, but there was business in one form of negotiable security—namely, bills of exchange.

Until you had a government debt which was transferable, or the shares of joint-stock companies, you had nothing on which to base a stock exchange. In the early stages of joint-stock companies their promotion was a jealously guarded privilege. They could be formed only by royal charter, and monarchs did not grant these for nothing. But the Dutch, who had in the sixteenth century (and still have) a fine colonial empire, formed a certain number of joint-stock companies—the Dutch East India Company and the West India Company, for example—and thereby created shares which could be dealt in. Thus, in 1602, Amsterdam possessed a bourse in full operation, with nearly all the machinery of a modern stock exchange except for the "ticker" and telephones. The members of this exchange invented time bargains.

That stock-exchange business was in full operation in Holland is shown by the existence of a book which was published by Joseph de la Vega in the year 1668 in which he referred to share-dealing as "being done by a pack of swindlers." What is interesting is the way in which he divided purchasers of shares into three classes, which three classes hold good to the present day. The first was the better class of solid capitalists who did not worry much as to quotations but held for dividends; the second, merchants who bought shares in the hope that they might later on be able to sell them at a profit; and the third, speculators who frequently remained in debt as regarded the purchase money, and were compelled to continue their bargains. We do not appear to have got much ahead after all. The author went on to give a lot of advice which, if printed today, would seem quite up to date and necessary. For instance, he said a profit should always be taken without hesitation; and if the price rose further, one should feel no regret. Shares should not be held too long; one should not be wedded to them (especially if one was a vendor!) A list of quotations on the Amsterdam Bourse in 1747 contained 44 different securities; it now contains a thousand or two.

DEVELOPMENT OF THE LONDON STOCK EXCHANGE

It was largely the Dutch who started investment in negotiable securities in London; and there is, even at the present day, a prominent reminder of the part played by this nationality in the development of London as a financial center, by the existence of a large Dutch church in Austin Friars, a mere stone's throw from the London Stock Exchange. To this day the foreign element has always played an important part in the big stock exchanges, which are probably more international in their membership than any other institutions. Another factor which contributed to the formation or growth of dealers in shares is the circumstance that most of the companies in which investment started were international in character, they dealing with colonial enterprises in which the Dutch were supreme. Many merchants in the Netherlands became large stockholders in the English companies, as well as in their own, and in order to be able to buy and sell shares in London, they had to have agents. These ultimately developed into stockbrokers and formed themselves into the London Stock Exchange.

INFLUENCE OF THE INDUSTRIAL REVOLUTION ON ENGLISH FOREIGN INVESTMENTS

As the other principal European countries settled down, and as surplus wealth accumulated, the desire to invest in negotiable stocks naturally grew, and as the newer countries of the world came gradually to be opened up, the higher profit to be derived from growing and dealing in tropical and subtropical products tempted investors more and more into ventures outside the frontiers of their own countries. Then came the Industrial Revolution in England, which brought into existence a large class of moneyed people. Close upon this followed the era of railways, and European capital played a considerable part in providing the funds for the construction of railroads in North and South America, Mexico, Argentina, Brazil—and, indeed, almost all the world over.

Once a thinly populated country or large area starts being developed, its demands for capital are insatiable. The virgin soil of the "new" country can produce a large return on the capital sunk in it—sufficient usually to pay good interest on such capital and leave a surplus for the producer to expend on finished products imported from the manufacturing countries; but at the outset everything which in Europe has grown up in the course of centuries has to be created as quickly as means will allow. Roads, harbors, and railroads have to be constructed, rapidly growing centers of population have to be supplied with water-works, drainage, gas, electricity, tramways, and so on, and with their practically untapped resources, such countries, given fairly honest government, can afford such good returns as to attract foreign capital to a very large extent. England, having gained most by the Industrial Revolution, and having been the pioneer in railroad construction, was the most active in this field, the Dutch running a good second.

England (for the purpose of this book, England and English are used in their wider meaning of Britain and British) was extremely broad in her investments from the outset. Her rapidly growing empire absorbed vast sums, but her enterprising men of business found considerable outlets in Mexico, South America, Turkey, Egypt, and so forth, though comparatively little in Europe, this being perhaps due to the fact that the Englishman is not a good linguist, and is a colonizer by nature. English capital penetrated largely by means of public works, for when a country invests capital abroad, it is not money that it sends, but mostly the products of its own industries. A British firm of contractors would plan a railroad and supply most of the material as well as the directive force, this being financed possibly by a loan to the government concerned, or by the creation of a company in receipt of a concession and subvention from the said government.

EARLY FRENCH, BELGIAN, AND GERMAN FOREIGN INVESTMENTS

French capital was, at the outset, directed more to nearer enterprises, as, for example, the construction of railroads in Spain, and then, following a political rather than an economic impulse, some billions of francs were sunk in Russia. Although in volume British foreign investments far exceeded those of the French, the world has probably never seen the holding of foreign investments so wide spread over the population as in the case of France, where, early in the present century, probably out of ten people seated in a railway carriage eight held a foreign bond or two, this, in the case of seven of them, being a Russian Government bond. A certain amount of French capital was invested in South America, and other countries; but although, by virtue of the natural wealth of the country and the thriftiness of the population, Paris came to share with London and New York the distinction of forming the "Big Three" among the world's stock exchanges, French investments showed much less diversification than those of the British and the Dutch. They were also more in the nature of bonds than stocks or shares, France being more a nation of *rentiers* than speculators.

Belgium, for its size, was an enterprising international investor; and Germany, in the latter half of the nineteenth century having become prosperous, also achieved prominence in the realm of foreign investments. Both Berlin and Frankfort dealt largely in American railroad securities. The distinctive features of the foreign investments of the different nations are reflected in the specialties in which their principal stock exchanges deal, and more material on this point will be found in subsequent chapters. The foreign investments of a nation are not accidental, but follow upon the historical development and the temperament of its people. To trace this out would be an interesting subject for study which, marvelous to say in this book-ridden world, has not, so far as the author knows, ever been undertaken. Any reader who is looking for a subject of study in a practically untrodden field might do worse than follow out the slender threads afforded by this book.

It should be noted that foreign investment was confined to about half a dozen European nations prior to the war of 1914-1918, they alone having an available surplus.

THE UNITED STATES AS A FOREIGN INVESTOR

Before 1914 the United States of America was a negligible factor as an investor abroad. It takes the most prosperous "new" country a very long time before it has a surplus for investment abroad, for although it may be creating additional capital all the time, it continues to consume more new capital than it produces. It is only when a country is fully covered with a net of railroads and equipped with the *outillage* of modern life—harbors, means of transport, bridges—that it is in the way of becoming a large foreign investor. Until the war, the United States, therefore, was a debtor country. A debtor country may be rich; but it may still have more scope for the employment of capital in the shape of fresh construction of the things named than it is able to supply from its own savings.

Now, however, the United States is in volume (although not diversity or number) the greatest foreign investor in the world. Nothing comparable to this sudden economic change has yet been seen, and it is doubtful if people generally have realized some of the consequences that will result therefrom. Before the war, the number of foreign bonds and stocks quoted in New York could be counted on the fingers of both hands, and dealings in them were most infrequent. Even that less exotic form of investment, namely, a company or corporation possessing, say, a gas-works or water-works in some other country, was practically unknown. Now, in 1926, there are quoted in New York over 170 different foreign bonds aggregating over 4 billion dollars and about 30 foreign stocks of a par value of about 560 million dollars, without counting that ever-growing number of American companies owning and operating enterprises abroad. The total value of American investments abroad has been computed as high as 11 billion dollars.

AN OMINOUS COMPARISON

All this has occurred within the short space of five years, and it is an interesting coincidence that it is precisely a century ago that the first similar movement occurred in London. Between the years 1818 and 1830, and particularly in

1824 and 1825, the first big flight of foreign loans was issued in London, some £40,000,000 (say $200,000,000) being placed during that period, while foreign mining and other companies took about £24,000,000 (say $120,000,000). What makes the comparison ominous is that the London Stock Exchange records show that out of 26 foreign loans floated during the period 1818-1832, only 10 continued to pay their interest beyond 1836, and of the 10 survivors, some defaulted later. Among these were several South American republics whose governments had been recognized by the British Government.

INVESTMENTS IN FOREIGN MINES

While in this chapter attention has been directed principally to government loans, investment abroad is, of course, by no means confined to that class of security, although it usually starts in that manner. Foreign mines have always exercised a strong attraction over European investors. Europe is not rich in the precious metals, and a gold mine in Brazil, America, Australia, or Africa has always fascinated the imagination and cupidity of the stay-at-home investor. Thus, there have been several mining booms, not, as in the case of America, in connection with mines within the country, but ventures thousands of miles oversea. Most conspicuous of these was the so-called Kaffir Boom of 1894-1895, which is worth particularizing, for it was truly international, in the sense that dealings in the same shares of mining companies in the Transvaal took place simultaneously in London, Paris, Berlin, Brussels, and Johannesburg.

COMPETITION IN THE FOREIGN INVESTMENT FIELD

The increasing wealth of countries like England, France, Germany, Holland, Belgium, and Switzerland, toward the close of the nineteenth century, led to an ever-growing tendency to invest abroad. Competition between the great contractors of the various countries also conduced to greater investment in foreign countries. The older European countries were approaching the saturation point in the matter of railways, bridges, and other public works, and the slowing down in the increase of population lessened the need for the extension of existing public utility undertakings. So the contractors had to look more and more outside their own borders for work, and here they came into competition with the contractors of other nations engaged in the same search.

It was not necessarily the contractor who quoted the lowest price, who got the job. More frequently it was he who offered the easiest terms of payment. For instance, a man went to a South American government or city council and said: "You want a gas-works (or tramway system) here. I will put it up for you, and you need not pay me a single dollar. Just print so many bits of paper called bonds, undertaking to pay 6% interest on them, and that will satisfy me." That man would get the contract in preference to his competitor who quoted a much lower price, but required all, or part of it, in cash. Now, the contractor obviously had to pay for his materials and labor in cash, not in bonds, and his ability to secure big works of this description depended upon his ability to turn those bonds into cash. This he did by selling them to a banking firm or issuing house, the said issuing house marketing them to the public at a considerable profit to itself. Honesty, however, compels one to admit that cases have occurred where such transactions have even worked out to the profit of the investors who bought the bonds.

EARLY START OF ENGLAND IN THE FOREIGN INVESTMENT FIELD

It may or may not be true that "trade follows the flag," but it certainly is a fact that trade follows the bond. And the nation which could best back up its great contractors in this manner secured the greatest number of contracts, giving employment to thousands of its workers at home. Thus England got the start and for a long time maintained it. Her insular position spared her the worst effects of the Napoleonic wars; her rich resources of coal and iron enabled her to take full advantage of the Industrial Revolution, and she had, as a result, more surplus capital to invest than her rivals. Relatively to population, however, Holland and Switzerland made a very good showing, and it is interesting to note that the latter country, with a population about the size of that of Chicago, should have been—and still is—a factor in world investment, for, unlike Holland and England, it has no colonial empire to enrich its citizens.

II

EFFECTS OF FOREIGN INVESTMENT

Benefits to the investing country. Revenue in the form of foodstuffs and raw materials. Growth of leisured classes. Danger of foreign bond investments. Deferred foreign liabilities. Foreign creditor *versus* native worker. Feeling against the absentee capitalist.

The effects of foreign investment require to be examined from the standpoint of both the borrower and the lender. In the case of countries in the earlier stages of development, when their resources are but partially exploited and when the machinery of production is still lacking or inadequate, as, for example, roads, railroads, harbors, and public utilities generally, the advantages of the investment of foreign capital are obvious to both parties. The borrowing country secures this needful machinery or equipment and is thereby enabled to produce additional wealth from its soil, which, after paying interest on the invested capital, leaves a surplus available for the gradual building up of a reserve of capital at home. The influx of foreign capital stimulates the demand for labor; it also stimulates the general industrial activity and a feeling of growth, provided the amount of "tribute" that the country has to pay to its foreign creditors in the shape of interest and dividends is not excessive and does not absorb more than a portion of the increased productive power resulting from such influx of capital.

BENEFITS TO THE INVESTING COUNTRY

The benefit to the lending or investing country is obvious, for the tribute from capital invested abroad enables it to increase its standard of life beyond what it would be if its population depended solely upon its own earning capacity.

It is indeed probable that we owe most of our culture and the refinements of civilization to the fact that the labor and products of other people have created a leisured or semi-leisured class within the community, some of whom have thereby been able to cultivate the arts. This argument, however, is a dangerous one and should not be pushed too far; but there is no doubt that the unparalleled culture of Greece was based upon a slave state, and in an economic sense those peoples who today have to pay tribute to creditor nations are, in the more dignified form of paying taxes, performing the same function. Up to a certain point it is beneficial to a nation to be a receiver of tribute; but just as in private life it may be dangerous for a man to be in receipt of an income disproportionate to his own labor, so is it possible to discern dangers in the case of a creditor country, both of an economic and ethical nature.

From the economic standpoint it can become a danger if a nation is too much dependent upon its income from abroad. A great war or any political crisis that shakes a continent can disturb the whole economic structure that is based upon such a foundation. Take the case of England. That country had become so large a foreign investor that prior to the war it had reached the stage where about one-tenth of the entire national income was derived from the interest and dividends received from its overseas investments. The amount of such tribute may be placed roughly at one billion dollars, but in addition to this it is estimated that an almost equivalent sum was left abroad every year in the shape of income that was reinvested in the foreign countries or currency, and, the income not being brought home, was not included in the fiscal statistics.

REVENUE IN THE FORM OF FOODSTUFFS AND RAW MATERIALS

Thus far I have spoken of the national income as though this foreign tribute belonged to the nation. This, of course, was not the case. These investments belonged to a number of individuals inhabiting the British Isles, who, by virtue of the ownership of foreign bonds and stocks were entitled to draw so many million dollars of revenue per annum from overseas countries. Such revenue (or tribute, as I prefer to call it, using the word in the strictly scientific sense) does not come in the shape of money, all the paraphernalia of dividend warrants, coupons, foreign exchange, and the like, being merely the machinery whereby goods and services are ultimately transferred to the creditor or to the order of the creditor; these are sooner or later shipped in the shape of grain, metal, hides, foodstuffs, or such commodities as the debtor country produces. The individual owners of bonds and stocks cannot themselves consume these imports, but their ownership thereof enables them to feed and clothe others—in other words, to employ a number of their fellow citizens for the purpose of ministering to their needs and tastes, to paint pictures and write plays for them, to make jewelry, pleasure yachts, build country mansions, and so on. So complex—and yet so smooth running in normal times—is this machinery, that the fortunate possessors are not themselves aware of the fact that what they really have command of are the foodstuffs and raw materials referred to.

GROWTH OF LEISURED CLASSES

All that they are aware of is that their incomes give them command over the labor of their fellows. After some generations of this state of affairs, one gets a community in which an ever-decreasing number of people are producing food and the primary necessities of life (for these come as tribute), and an ever-increasing number of the population are engaged upon services and labor directed to objects less useful and necessary, mostly of a luxurious nature, some of them having artistic value, and others, it is to be feared, being of a far less desirable nature. By the process here described the older nations of Europe had, prior to 1914, reached a peculiar state, in which in varying degrees they were the recipients of foreign tribute and had large sections of their population divorced from industry, which promoted the growth of leisured classes, side by side with a large number of workers employed on *articles de luxe* and the arts generally. But as events proved, the foundations upon which this civilization was based were not stable, for when, as a result of the war, these nations had parted with the bulk of their foreign investments, they were without organizations and industries at home that would enable them to maintain their population. Britain, for instance, produces within her borders only sufficient food to maintain her population from Friday night to Monday morning; for the remaining days' requirements she has to depend wholly upon imports, and as a large proportion of her population has been engaged upon these uneconomic services referred to, her position has been very seriously affected, and the adjustment of the British standard of life to the new economic position of the country has not yet been made, and is accompanied by big industrial and labor convulsions.

There is another danger of overmuch foreign investment, and that is the tendency to become a nation of *rentiers*—mere "coupon cutters"—rather than a nation of *entrepreneurs*. This occurs more if a nation invests in bonds rather than stocks; if its investors play the rôle of sleeping partners rather than active participants.

France, more than England, was in this position, and the tendency was clear from the fact that the average Frenchman favored bonds rather than stocks and shares. As it happened, this predilection cost him dear, for the greater part of his bonds were Russian Government obligations.

DEFERRED FOREIGN LIABILITIES

I have said that the only means in which the debtor country could pay the creditor country ultimately was by shipping commodities or rendering services. This is the case, but it can be temporarily obscured if the lender or investor, instead of taking payment in that form, goes on investing his income. This means that instead of demanding payment in commodities, he (or some of his fellow citizens) lends further sums equivalent to what was due. If, for instance, Brazil has to remit British investors $20,000,000 in one year as interest or dividends on their capital, and the same or other British investors during that year absorb fresh Brazilian bonds to the extent of $20,000,000, Brazil is temporarily relieved of her obligation to pay tribute in real wealth; but it is a deferred liability, and is equivalent to a man paying interest on a debt by promissory notes, whereby he is merely increasing his ultimate liability to pay.

FOREIGN CREDITOR VERSUS NATIVE WORKER

When this process has gone on for some time, and when a country is borrowing more than it can afford, there enters into play a certain psychological factor which, so far as I am aware, has not received the attention it deserves, but is of great importance to nations extending their investments abroad. Apart from loans made direct to the government, foreign investments in most countries first take the form of public utilities—railroads, water-works, traction, gas, light and power undertakings, and the like. Here, as elsewhere, there is the inevitable and natural conflict of interests between owners and consumers on the one hand, and owners and workers on the other. But there is this important difference between the public utility undertaking owned by natives and one owned by oversea investors. In the latter case the profits go out of the country, and it is easy and human to inveigh against the greed of the foreign capitalist.

Take the case of a strike of street-railroad employees in Boston, let us say, and one in Buenos Aires. In the former case public sympathy may be on one side or the other, but it will be more or less guided by the merits of the case; it will be American *versus* American. If, however, as has happened, the workers on the Buenos Aires street railroads enter into a conflict with their employers, the sympathy of the public and the authorities is naturally on the side of their own compatriots whom they see every day, who spend their wages on the spot, and are fellow citizens. When it is a case of foreign capitalist against your fellow citizen, it is fellow citizen all the time. It is easy also to arouse public feeling against the charges imposed for the benefit of foreign owners living thousands of miles away, and the numerous English companies operating public utility undertakings in different parts of the world have had some unpleasant experiences of this nature, resulting, in some cases, in their properties being

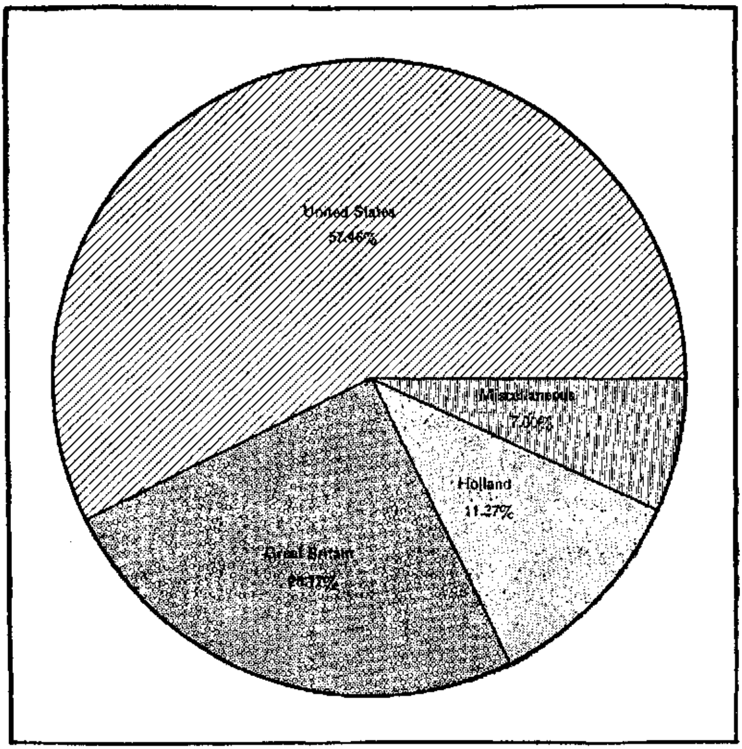

Figure 1: Chart showing the proportions of foreign ownerships of oilfields in Mexico, 1925.

burnt down. Then, too, a government is much readier to institute social reforms such as pension laws for railroad workers payable by the railroad companies when these are foreign-owned. As American capital is becoming more and more interested in this class of foreign investment, it may be well to direct attention to this tendency, the remedy for which is difficult to find. The best thing, where practicable, is to get native capital jointly interested either by shareholdings or by allocating a certain share of the profits to the municipality. At the same time, it has to be admitted that the home investor in many "new" countries is remarkably loath to put his surplus money in such undertakings. In January, 1925, the Chile Telephone Company, an English undertaking, paying regular dividends, had to raise $750,000 of fresh capital, and under the terms of its concession had to offer $300,000 in Chile. It did so, but not one application was received there, although the entire capital was subscribed without difficulty in England.

FEELING AGAINST THE ABSENTEE CAPITALIST

Sometimes, however, there is engendered a general feeling against the absentee capitalist. This is the case in Mexico, where, it is stated, 85% of the gross profit on the entire exports represents dividends and interest payable to foreign investors. Oil accounts for 88% of the exports, and 96% of the profits therefrom, say the Mexicans, go to non-Mexican citizens. The proportions of foreign ownership were given in 1925 as: United States of America, 57.46%; Britain, 26.17%; Holland, 11.37%; and are graphically shown in Figure 1, on the preceding page.

III

DO CREDITOR NATIONS PAY THEIR DEBTORS' INTEREST?

How payments of interest are made. Result over period of years. "Invisible" exports and imports. Brazilian trade figures.

THE cynic who surveys the history of foreign lendings may be pardoned if he comes to the conclusion that, broad and long, the borrowing nations of the world pay interest on their loans just about to the extent that their creditors advance them the wherewithal to do so.

The process is often obscured by the fact that a country in course of development can always find a most excellent pretext for borrowing more "for reproductive purposes," and it can ring the changes by different authorities or corporations borrowing from time to time. The Republic of Insolvia, for instance, may have raised loans from foreign investors involving annual payments to them of $4,000,000. Its trade balance does not permit of any such payment. But if its federal capital, Borrovia, raises a loan of $2,000,000 in New York, and the national bank of the country secures another loan of similar amount from Amsterdam, the situation is relieved for one year. In the following year, another city of the republic raises a water-works loan, and by short borrowings the country manages to rub along for another year or so, when the Federal Government raises yet another foreign loan. The net result over a period of years is that as much foreign money flows in as goes out nominally as interest, and so long as this process goes on, every one is happy—the investor who gets his interest (literally *his*, only he does not know it), the bankers who place the numerous loans at a quite adequate remuneration, and, above all, the politicians who eventually get the rest of the money, or are relieved of the necessity of parting with what they have collected in taxes, the new loans having provided the necessary foreign exchange.

Theoretically, this should work out all right, so long as the borrowing country increases its exportable surplus production to correspond to the fresh liabilities it is piling up. This has indeed happened, and, provided interest rates and intermediary profits are reasonable, and, above all, provided the government of the borrowing country is capable and wholly free from corruption, so that all the new capital is wisely invested and bears fruit in such manner that the country can gradually meet all its obligations and build up its own surplus capital, there is no reason why it should not happen every time. Unfortunately, governments have been known that did not possess all these attributes, and it sometimes becomes necessary to default openly, or it may be deemed more expedient to have a revolution, under cover of which an "arrangement" with the foreign creditors may plausibly be solicited. In both cases the ultimate results are worse, for, the credit of the country being endangered, much higher interest rates have to be paid for any financial

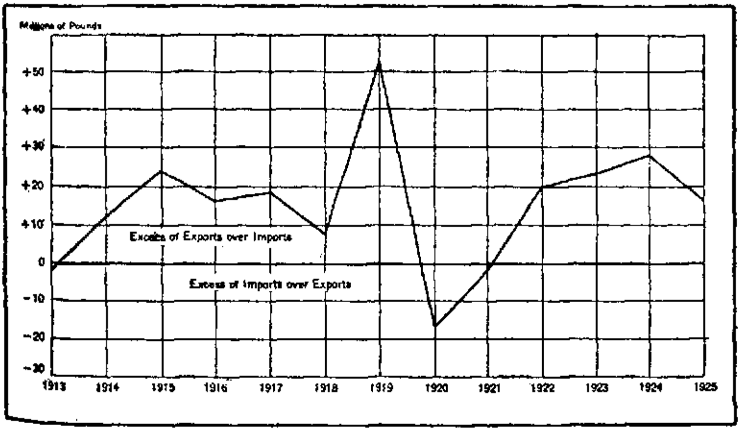

Figure 2: Fluctuations in the trade balance of Brazil, 1913-1925, inclusive.

accommodation that may be forthcoming, which renders the burden upon the taxpayers still more onerous, until the next default takes place.

Does any unprejudiced observer doubt, for instance, the assertion that in the case of many of the recent American loans to Europe, defaults will be avoided only so long as fresh loans are made from time to time?

The fact is that hardly any of the borrowing countries pay their way. This is shown clearly by their trade statistics, and so far from having "invisible" exports to alleviate the situation, they have "invisible" imports in the shape of shipping, insurance, and banking charges which they have to pay in respect of their actual exports. Every South American country, for instance, spends considerably more than its income, balancing only by means of foreign borrowings.

If one studies the Brazilian trade figures it will be found that during the five years of 1919-1923 the total exports exceeded imports by $350,000,000, *which was only half the sum required to make overseas remittances.* In pre-war years England, France, and Holland could have been relied upon to absorb sufficient Brazilian security offerings to make up the difference (thus providing their own interest!) but during this period only $70,000,000 was forthcoming in that shape and Brazil was drained of its gold. Repeated issues of paper currency were made until the milreis, which in 1919 was worth 14½ pence, had an exchange value of only 4⅜ pence in 1923. This, of course, reacted upon the numerous Brazilian enterprises owned by foreign investors, who in almost every case saw their dividends suffer reduction or disappear; so, in either case, the foreign investors, in the bulk, provided their own interest.

To many readers the foregoing remarks may appear exaggerated. Let them study the details given in the following pages of the principal loans actually in default to British investors in the year 1925:

TABLE 1

PRINCIPAL LOANS IN DEFAULT

RUSSIA

	Loans	Approximate Principal Outstanding	Approximate Interest in Arrear
I.	Direct Loans	£ 737,988,972	
II.	Railway Loans	45,144,484	
	Railway Guaranties	20,248,716	
III.	Other Obligations	121,387,688	£571,000,000*
		£ 924,769,860	
IV.	External War Debts, etc.	800,000,000	
		£1,724,769,860	
V.	Municipal Loans	21,504,322	7,874,276*
		£1,746,274,182	£578,874,276

*Reckoned at average rate of 4½% on I, II, and III, and 5% on IV, for seven years in each case. In the case of V, interest is reckoned from the date of the last paid coupon to December, 1924.

ECUADOR

Loan	Principal Outstanding	Coupons in Arrear (both inclusive)	Approximate Arrears of Interest
Guayaquil and Quito Railway 5% First Mortgage Bonds	$10,732,000	July 2, 1913 – Jan. 2, 1925	$6,439,200
4% Salt Bonds	636,480	Jan. 2, 1917 – Jan. 2, 1925	203,673
	$11,368,480		$6,642,873
	=(at 4/1½ per $)		=(at 4/1½ per $)
	£2,344,749		£1,370,092

HONDURAS

Loan	Principal Outstanding	Coupons in Arrear (both inclusive)	Approximate Arrears of Interest
5% of 1867	£ 78,800	Apr. 1, 1873 – Oct. 1, 1924	£ 204,880
10% of 1867	900,700	Jan. 1, 1873 – Jan. 1, 1925	4,728,675
6⅔% of 1869	2,176,570	Sept. 1, 1873 – Sept. 1, 1924	7,472,889
10% of 1870	2,242,500	Jan. 1, 1873 – Jan. 1, 1925	11,773,125
	£5,398,570		£24,179,569

TABLE I (*Continued*)

PRINCIPAL LOANS IN DEFAULT

MEXICO

Loan	Principal Outstanding	Coupons in Arrear (both inclusive)	Approximate Arrears of Interest
6% Gold 10-Year Treasury Bonds of 1913, Third Series, C (authorized)....	£3,025,000....	Jan. 1, 1915 – Jan. 1, 1925	......£1,905,750
Mexican National Packing Co.			
6% First Special Mortgage Gold Bonds ($3,000,000)	600,000....	July 1, 1914 – Jan. 1, 1925	 396,000
6% Second Mortgage Gold Bonds ($1,500,000).....	300,000....	July 1, 1914 – Jan. 1, 1925	 198,000
	£3,925,000		£2,499,750

PROVINCIAL AND MUNICIPAL LOANS

ARGENTINA

Loan	Principal Outstanding	Coupons in Arrear (both inclusive)	Approximate Arrears of Interest
Province of Corrientes 6% External Gold Loan of 1910	£297,520....	Aug. 1, 1919 – Feb. 1, 1925	.......£107,107

BRAZIL

Loan	Principal Outstanding	Coupons in Arrear (both inclusive)	Approximate Arrears of Interest
State of Alagoas 5% Bonds of 1909....	£ 258,420....	Jan. 1, 1921 – Jan. 1, 1922	.......£ 19,382
State of Para—			
5% Gold Bonds of 1901..........	1,272,460....	July 1, 1922 – Jan. 1, 1925	 159,057
5% Sterling Bonds (1907).........	573,040....	July 1, 1921 – Jan. 1, 1925	114,608
5% Funding Loan of 1915........	1,021,320....	July 1, 1921 – Jan. 1, 1925	204,264
City of Bahia—			
5% Loan of 1912 (London Issue).	497,500....	Feb. 1, 1919 – Feb. 1, 1925	161,686
5% Funding Loan	95,300....	Dec., 1917 – Dec., 1924	 35,737
City of Para (Belem)—			
5% Gold Bonds of 1905..........	921,040....	Jan. 1, 1921 – Jan. 1, 1925	207,234
5% Funding Bonds of 1915........	742,300....	Jan. 1, 1921 – Jan. 1, 1925	167,017
6% Treasury Bills of 1919........	272,660....	Jan. 1, 1921 – Jan. 1, 1925	 73,613
City of Manaos 5½% Sterling Bonds...	269,800....	May 1, 1917 – Nov. 1, 1924	118,712

TABLE I (*Continued*)

PRINCIPAL LOANS IN DEFAULT

MEXICO

State of San Luis Potosi 6% Sterling Loan (1889)......	£187,300....	Apr. 1, 1914 / Jan. 1, 1925	.......£123,618

UNITED STATES
($5 = £1)

		Approximate Principal Outstanding	
	ALABAMA............................	—	Interest in arrear from about 50 to 80 years.
	ARKANSAS............................	£ 1,740,000	
	FLORIDA............................	1,400,000	
	GEORGIA............................	2,540,000	
(A)	LOUISIANA............................	1,200,000	
(B)	MISSISSIPPI............................	1,400,000	
	NORTH CAROLINA............................	2,520,000	
	SOUTH CAROLINA............................	1,200,000	
		£12,000,000	
(C)	FORMER CONFEDERATE STATES 7% COTTON LOAN OF 1863........................	£ 2,418,800	

(A) Including £184,432 of the 7% Consolidated Debt of 1874, represented by Certificates of Claim issued in 1875 under notarial protests by the Council of Foreign Bondholders on account of the loss of 40% of principal involved in the Conversion of the corresponding amount of Louisiana Bonds (held in England) under the Funding Act of January, 1874.

(B) Namely: 6% Planters' Bank Bonds of 1831 and 1833, for £400,000 with approximate interest in arrear from January 1 and March 1, 1841 = £2,028,000, and 5% Union Bank Bonds of 1838, for £1,000,000, with interest in arrear from May 1, 1841 = £4,200,000.

(C) The coupons are in arrear from September 1, 1865, to September 1, 1924, inclusive.

TABLE 1 *(Continued)*

PRINCIPAL LOANS IN DEFAULT

SUMMARY

	Approximate Principal Outstanding	Approximate Interest Arrears
RUSSIA	£1,746,274,182	£578,874,276
ECUADOR	2,344,749	1,370,092
HONDURAS	5,398,570	24,179,569
MEXICO	3,925,000	2,499,750
PROVINCIAL AND MUNICIPAL LOANS		
ARGENTINA—		
Province of Corrientes	297,520	107,107
BRAZIL—		
State of Alagoas	258,420	19,382
State of Para	2,866,820	477,929
City of Bahia	592,800	197,423
City of Para (Belem)	1,936,000	447,869
City of Manaos	269,800	118,712
MEXICO—		
State of San Luis Potosi	187,300	123,618
UNITED STATES (SOUTHERN STATES)	12,000,000	*36,000,000
FORMER CONFEDERATE STATES	2,418,800	10,074,302
Total	£1,778,769,961	£654,490,029

*No data are available for an accurate computation of these arrears of interest, but the amount stated is arrived at by reckoning an average interest of 6% for 50 years.

IV

THE EDUCATIVE VALUE OF FOREIGN INVESTMENT

Investment a factor in education. How the investor adds to his general knowledge through an interest in real facts relating to economic life.

INVESTMENT is one of the most potent factors of self-education. If the reader will consider a moment and ask himself what he has learned most readily, he will be compelled to admit that it was those things *in which he was interested.* The youth who delivers the wrong goods because he cannot correctly remember his instructions, is not afflicted with a bad memory, for, if asked he could probably tell you which baseball team won the World Series in 1923, the names of the various players, and how many home runs they made; and your stenographer, who cannot remember the initials of the correspondent to whom you write once a month, could probably rattle off correctly the names of the various screen stars of the past five years. The explanation in each case is that the individual is interested in one thing and not in the other. I therefore put forward quite seriously the thesis that the nation in which the habit of investment in stock-exchange securities is the most general and the most diversified will contain the largest number of well-informed persons, for the reason that, being acutely interested in their investments, they will follow intelligently all factors influencing them. I do not claim that investors as such will be learned in the humanities or exact sciences; but they will have a knowledge of economic, political, geographical, and, may be, even botanical and entomological subjects, more precise and more up to date than is possessed by many a student whose training has been purely academic. The motive may not be that thirst for knowledge which in our youth we were taught to hold in such high esteem. Frankly, it is a case of self-interest bringing about self-education; but it is education all the same.

The investor, as such, is probably possessed of a wider general knowledge than he would be if he were not an investor. Now, the mere acquaintance with a large collection of isolated facts would not entitle its possessor to be regarded as an educated person, but the problem of education is, or should be, to develop one's reasoning powers; and knowledge of a number of facts *having relation to other facts*, enabling the possessor to make deductions therefrom, will carry him a good way along the educational path. It is not without reason that of late years the tendency in Europe has been to make general knowledge a subject in examinations for government and municipal bodies, it having at last been realized that it is desirable that people in these departments of the nation's activities should have a more practical knowledge than has hitherto been the case.

It is probably not going too far to say that 90% of the news items in the daily newspapers convey nothing special to the average reader. A man may read, in passing, a small paragraph to the effect that there has been a plague of locusts in the province of Bahia Blanca in Argentina. He pays no further attention to it, and five minutes afterwards has forgotten the occurrence altogether.

Let him, however, buy some common stock in the Buenos Aires Great Southern Railway Company, and he will read such a paragraph with very considerable interest—perhaps disgust would be a better word—and will quickly be aware or ascertain that this particular province is within the area served by the railway named. To him the paragraph would immediately pass from the domain of the general to that of the particular; he would ask himself to what extent the plague was likely to affect the crops, and by how much that was likely to diminish the traffics of the railway, and its dividend to him.

Any further news items that he saw regarding the locust invasion and means of exterminating these insects would arouse his utmost interest, and, as likely as not, he would discuss the subject of locusts at the dinner-table.

Here, of course, there is a direct pecuniary interest at stake; but the mere knowledge of a certain subject or circumstance lends interest to subsequent happenings or developments in connection therewith, and it is not sufficiently realized that many people find life much more interesting through the possession of certain investments, which causes them to display a deep concern in various countries and industries which they otherwise would not show.

The real facts relating to the economic side of life are not to be found in documents and proceedings of learned societies, but in those of the great corporations that carry on actual trade and industry. To start with, a prospectus or stock offering has to give certain facts, and if the statements are not accurate, those responsible for them are liable to damages. The reports which a company issues periodically to its proprietors give a pretty clear indication of the way things are going in that particular industry and usually go some way beyond; and in the speeches of chairmen and other officials at the stockholders' meetings, a much wider field is covered. The head of an important business cannot address his stockholders regarding their business without a thorough knowledge of it; he has behind him the entire organization to furnish him with facts and figures, with the result that his pronouncements are almost invariably authoritative, and as he has to count upon past results and express an opinion as to the future, he has to cover a wider field in his remarks. Where the business is situated abroad, it is of frequent occurrence that he reads to the meeting a cabled message received from the management on the spot, giving up-to-date details as to crops, state of the country and general conditions, and whatever bears upon the success or otherwise of the undertaking. The speech of the president of a great bank is of equal importance to that of a Cabinet Minister and—dare we add—much more informative.

There is a great deal of valuable educational matter, as opposed to the merely sensational, floating about in the press and elsewhere, but the average man does not read it. Let him be a stockholder in the United States Rubber Company, however, and it is a thousand to one that he not merely reads all this but he also probably keeps a sharp lookout for news items as to the restriction of rubber production, the agitation against the high price of that material, and so on, and is vividly aware that that corporation possesses in the Dutch Indies the biggest rubber plantations in the world under one management.

As an investor he will be on the lookout for "good things." He will, therefore, read some of the prospectuses he receives or sees in the papers, and whether he responds to them or not, he cannot fail to learn something from them. For instance, from a prospectus offering bonds of the Hungarian Land Mortgage Institute he gets an insight into the land mortgage business which is so marked a feature on the European Continent, and which in one shape or another is likely to be introduced elsewhere in connection with the assistance of agriculture that is inevitable. As he reads this he realizes that there may be some value in a government land valuation, for it is stated that all loans are restricted to a certain percentage of the official valuation, and he also notes with interest that in 63 years' experience, less than one-third of 1% of such loans have had to be collected by foreclosure or other legal methods, and that in no single instance has a loss been suffered.

As the British investor reads through a bond offering of the Companhia America Fabril he probably looks twice at the word America, realizing after a moment's reflection that Brazil, Argentina, Chile, and so forth, regard themselves as being as much America as the inhabitants of the great northern republic to which the adjective is usually applied. He learns that Brazil contains some very important cotton mills, and that here is a Brazilian company 40 years old which employs no fewer than 7,000 operatives, and as he reads that the technical direction is British and Lancashire trained, and comes across familiar names of British makers of textile machinery, he gets glimpses of some of the items making up the great export trade on which his country lives.

In regard to purely domestic concerns he, of course, learns from prospectuses and reports various technical details, such as the obsolescence of certain types of machinery and the existence of a wonderful American machine which turns out so many thousand bottles a day.

Another feature emerging from the perusal of the prospectus, reports, and proceedings at company meetings would perhaps be more apparent to a foreigner than to a Britisher—namely, the extent of British ramifications abroad. Mention the name of Maple or Waring and Gillow, and to the ordinary Englishman a great London furnishing store is suggested; but let a man become a shareholder, and he realizes that the business has branches in various parts of the world; that when he travels to America in a luxurious liner or sojourns in a hotel on the Riviera or in Spain, he is probably surrounded by the products of this house.

An American citizen, for instance, who follows the course of British investments, would learn to his surprise that 60% of the rayon consumed in his country was manufactured by the American subsidiary of an English company, namely, Courtaulds, and that gigantic industrial and commercial structures are by no means limited to the North American Continent, but that organizations with a more universal network, such as Lever Brothers, and the British-American Tobacco Company, are in existence, while there is developing a new form of holding company, furnishing also directive ability, in the shape of Nobel Industries, Ltd.

Perhaps the investor becomes interested in the pulp and paper industry of Canada, by becoming a bondholder of, let us say, such a company as the Spanish River Pulp and

Paper Mills. He discovers that the manufacture of a commodity the name of which he has never heard before, namely, newsprint, is the second greatest industry in the Dominion —and that the newspaper he reads at breakfast is printed thereon. He finds that his company owns forests which would accommodate an English county without noticing it, and that it takes more than a year from the cutting of the timber before it is floated down to the mills, and is there converted by means of intricate machinery into the flimsy sheet from which he obtains much of his mental sustenance. He learns also that a good deal of the prosperity of his investment is due to the voracious appetite of the American public for newspapers, and it is therefore with more than ordinary interest that he observes such items as, that over 22,000 newspapers are now published in the United States, that the average size of the daily newspaper in an American city increased in one year from 23 to 28 pages, while the Sunday editions rose from 79 to 103 pages! As he reads the reports that come, he learns that, profiting by the experience of the United States, whose forests of soft-wood have been devastated by the crying need for newsprint, the Canadian provincial governments wisely insist upon a policy of replanting, and it is brought home to him that the forest fires of which he has read so much and possibly has seen represented at the "movies" are a very real thing and might even affect him personally. He also comes to realize that, like so many other modern industries, the newsprint industry of Canada, which produces paper from the pulp of fast-growing trees of the spruce variety, is not merely a matter of machinery but a highly developed chemical process.

The subject could, of course, be pursued indefinitely, but I think I have given sufficient indication of how investment, largely subconsciously, conduces to knowledge. I might conclude with a reference to the speech of a bank chairman the other day, as a proof of the ground covered. At the annual meeting of the Bank of London and South America, the chairman surveyed the trade and economic position of a whole continent, ranging from the absence of labor unrest in Argentina (happy country!) to the increased consumption of Brazilian cotton in local factories, and from the weather in Uruguay, which had been particularly favorable for live stock, to the enhanced prestige of British insurance companies in Paraguay—in short, the political and economic features of the South American Continent covered in one speech! And how many people other than investors have read it, or are acquainted with any of the facts therein?

I repeat, that quite apart from the material advantages which investment brings, there is a less tangible but none the less valuable indirect advantage, in the shape of that increased knowledge which comes from the fact that the investor as such is interested in a multiplicity of things which as an ordinary person he would not take the trouble to follow. And obviously, the wider the area covered, the more extensive the knowledge gained by the investor.

V

THE TREND OF INVESTMENT

The double trend of foreign investment. British foreign investment field. Diversification of British foreign investments. Foreign mining undertakings. Basis of investment policy. Control of raw-material products.

THERE would appear to be a double trend of foreign investment. It may start with the object—as, for instance, the laying down of street railways, at which Belgian industrialists and capitalists specialized, with the result that one finds an exceptional number of foreign tramway undertakings still largely controlled by Belgian capital and quoted on the Brussels Bourse; or it may follow the line of developing one particular country or group of countries. Sometimes, too, the presence of a large number of immigrants of one nationality may determine the flow of investment. For instance, a little more than a generation ago Germany, although far from being a capitalist country like Britain or France, invested very large sums in American railroads. Returning emigrants to South Germany popularized American investments, and this resulted in Frankfort becoming an important European market in American railroad bonds, and the Frankfort houses of Speyer and Seligman making no less than 23 offerings of such bonds within a very short period. For some reason which I cannot pretend to explain, the German investing public at that time favored bonds, whereas Dutch investors took a keen interest in the stocks of American railroads. The predecessor of the Northern Pacific pushed across the Minnesota plains with the help of Dutch capital, while at one time the North Western admitted two Dutch financiers to its board of directors to represent Amsterdam investment.

BRITISH FOREIGN INVESTMENT FIELD

As is indicated in some detail in Chapter I, Britain's foreign investments soon came to cover a wider field than those of any other nation, but here also it is possible to discern certain tendencies, British investment having concentrated in great volume upon Argentina. This may have been due to sympathy with the new republic. In 1810 the inhabitants of Argentina made their declaration of independence against Spain, and by 1824 conditions were considered sufficiently stable for the first issue of an external loan by that country. This was $21,000,000 of 6% bonds which were bought by the London house of Baring Brothers at 70. The ostensible purpose of the loan was for the construction of water-works and a port at Buenos Aires, but the money was utilized to furnish capital to the national bank which had been established two years earlier. Three years later a default occurred, and interest payments were not resumed until 1884. Ultimately, however, the bondholders received their money, the last bond being redeemed at par on January 1, 1905. One loan was followed by another, and British capital and enterprise started to develop Argentina, with the result that at the present time British investments in that country are estimated to exceed $2,000,000,000, of which $1,200,000,000 is represented by railroads alone. In fact, with the exception of the government-owned systems, every Argentine railroad of any importance is British owned, the one railroad whose common stock is owned by the inhabitants of Argentina being the Buenos Aires Central, which has raised its bond issues in London. As will be shown later, other countries have developed some industrial enterprises in Argentina, but thus far British interests predominate. It is much the same story throughout the whole of South America, British capital having largely developed the railroads and public utility undertakings. Large sums have all along been lent to federal and state governments and municipalities, but the country having once been popularized among British investors, it has been possible to raise, in London, capital for native undertakings which would still be looked at askance in most other countries on the score of unfamiliarity. Where else, for instance, could one raise millions of dollars for an Argentine vineyard such as the Sociedad Anonima Bodegas y Vinedos Domingo Tomba, or a Brazilian-owned cotton mill such as the Companhia America Fabril? Whether one looks at Chile, Brazil, Uruguay, or Peru, one finds the clear financial indication of the British investors' readiness to embark his capital upon foreign ventures.

DIVERSIFICATION OF BRITISH FOREIGN INVESTMENTS

An analysis of the London Stock Exchange list shows that at the end of 1925, British capital in the 18 Latin republics of South America, as represented by quoted securities, totaled approximately $6,000,000,000, and was spread as shown in Figure 3, on the following page.

Argentina alone accounted for $2,000,000,000, Chile for $300,000,000, and Uruguay for $230,000,000. Even in Cuba, in the year 1924, British investments were estimated to be $220,000,000, of which $140,000,000 were in railroad securities. It is this great diversification of foreign investments that has saved Britain from utter ruin, for if we turn to France, we find that, although when war broke out that country had about $8,000,000,000 of foreign investments, no less than $2,500,000,000 of this was in Russian Government bonds, a great part of the remainder being in the Balkan states. France has, therefore, lost a much greater proportion of her foreign investments than Britain.

FOREIGN MINING UNDERTAKINGS

The way in which both trade and foreign investments may be determined by early ventures is exemplified by the case of mining undertakings throughout the world, in which

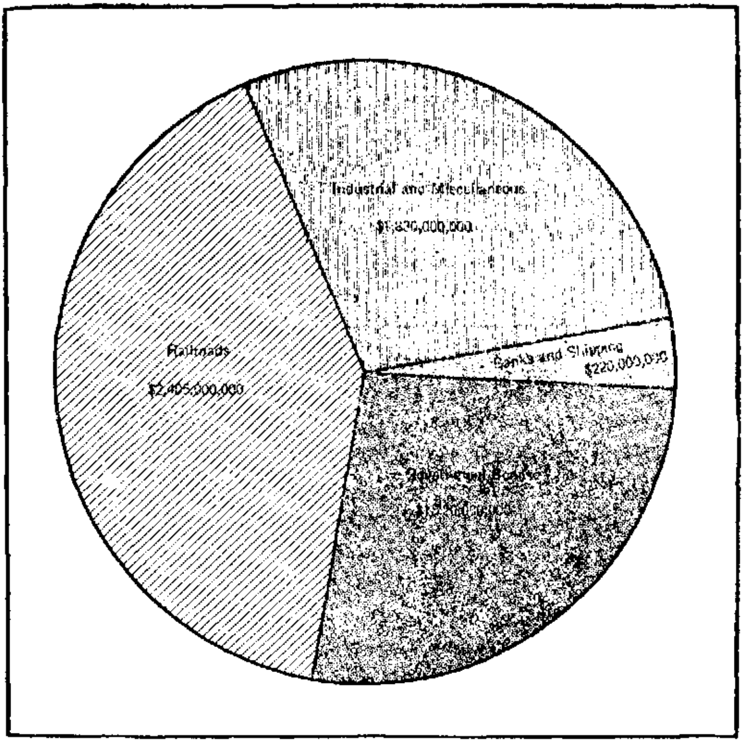

Figure 3: Chart illustrating the manner in which British capital is spread in South America.

British capital is still predominant. When you once have a group of capitalists in one country interested in a mining proposition, for any extension of activities they naturally employ their own nationals to report upon and manage the property. This results in a certain number of engineers and foremen from their own country going to the foreign mine. These naturally specify and order machinery, tools, and the like, to which they are accustomed, and thus trade follows the investment of capital. If the mine is successful, the people responsible for it will seek out others in the same country and will obtain additional capital from their own countrymen, and the more readily in that the first property with which they have been associated has turned out successfully. It follows that they employ their own engineers to report, and if they decide to work the property, they probably promote to the management one of their own promising men who has already had experience of local conditions and labor; so it goes on, and the country which has been the first in the field to any extent gains a great advantage over others. Of course, other nationals do get a look in occasionally. Germany and the United States undoubtedly produce some of the finest mining engineers in the world, and these find employment on foreign mines, whether they are British-owned or not; and through the letters they write home to their friends, gradually a wider public may come to invest in their particular mine. This has been particularly the case with the South African mines, and as mentioned elsewhere in this book, American capital did to a slight extent become interested in these mining ventures. It might perhaps be mentioned that the financial groups which controlled the great South African gold mines were nearly all of German extraction (which is true of some other countries also), but the headquarters were in London, and the bulk of the capital was supplied by British investors. However, there is no gainsaying the fact that the country which had a start in developing mines in most parts of the world—namely, England—enjoyed and still enjoys a great advantage. In the case of the United States, American capital has gradually repurchased some of the mines formerly owned by British investors—for example, the celebrated Anaconda Copper Mining Company. But a glance at the mining section of the London Stock Exchange (see page 71) will show that British investors are still interested in mines in the United States.

BASIS OF INVESTMENT POLICY

Investment abroad had become prevalent in the leading European countries, and to some extent followed a political direction. Quite naturally, in the case of those countries possessing a colonial empire, a good deal of home capital went into their development, but apart from this, it was to an appreciable degree affected by the political trend and alliances of the government. Thus, a very large proportion of French surplus capital was invested in Russia, while German capital went into Austria and Italy. The history of the past few years has again shown how dangerous it is to build up an investment policy upon the quicksands of a nation's foreign policy. Of course, contiguity plays its part in determining investment, as exemplified by French holdings of Spanish railroads and American investments in Mexico and Canada. But there is now discernible in Europe a tendency to pay less attention to these factors, and to base investment policy more upon world demands for certain products. This is, in my opinion, far and away the wisest policy to follow outside of government and city bonds. The only investing countries of importance left in Europe at the moment are Britain and Holland, and both British and Dutch investors have for some years past been directing their attention more and more to the stocks of companies producing rubber, tea, coffee, copra, cinchona (quinine), fertilizers, tin, copper, lead, zinc, and the like. World demand now has to be studied as a whole, and a commodity used in most parts of the world is in the long run safer than anything manufactured for a few individual markets only. If the demand from one part of the world falls off through special circumstances —for example, Russia and tea—it is probably compensated by an increased demand elsewhere.

CONTROL OF RAW-MATERIAL PRODUCTS

It is probable as time goes on that—and here I may be treading on somewhat delicate ground—the control of a great part of the world production of these and some other commodities being in the hands predominantly of British and Dutch investors, complaints from manufacturers and consumers in the United States may become more and more frequent in the case of those materials in which American production is either non-existent or insufficient for domestic requirements. Rubber naturally springs to the mind, but these observations are by no means limited to that commodity. The whole world tendency is toward coordination and adjustment of production to consumption, which after all is in line with the excellent simplification of industry in which the United States is a pioneer; and although prophecy is a dangerous thing, I must express the view that the situation in rubber may be repeated in the case of several other commodities, as, for example, the base metals (particularly tin). If the United States feels this in greater volume than any other country, it is because it possesses so large a population with such a high standard of living, and, to European eyes, it seems a somewhat futile proceeding to inveigh against the business men of other countries who were farsighted enough to provide against the world's future requirements in these commodities, for charging as much as they can get for them. After all, it is not as though any discrimination were made in favor of their own nationals. The British tire manufacturers do not get rubber any more cheaply than the American tire manufacturers. The fact that in the case of rubber the British Government was able to impose restriction upon two of the producing countries (Malaya and Ceylon) makes little difference; India, Brazil, Borneo, and the Dutch Indies were outside the operation of these restrictions. In the case of tin (of which little has been heard) the British and Dutch governments by agreement bought up surplus production in their respective spheres of influence (Malaya and Dutch Indies) and "nursed" it for some years, so as to save their producers from having to sell it at a heavy loss.

In the unlikely event of governments agreeing to give up that part of their sovereign rights, there is nothing to prevent associations of producers from taking similar measures, but it would be a difficult thing to draw the line as to where government assistance in maintaining profits should cease. It appears to have become a recognized thing that governments should assist agriculturalists and industrialists by providing them with cheap money and by high protective duties.

The remedy for America's grievance in these matters is for American enterprise to go outside its own borders and to do something toward meeting the requirements of its own country. Of course, it will take time. You cannot produce a pound of rubber in less than five years from planting, and meanwhile British and Dutch investors will reap the benefit of their foresight. My own opinion is that the position with regard to the base metals is much more nearly that of rubber than the world at large realizes, and that in some little-known commodities, of which gambier may be cited as an example, a few British and Dutch companies possess a virtual monopoly. This state of affairs will not be remedied by lending billions of dollars to foreign governments, municipalities, and a few big German industrial undertakings. The most fruitful field for investment of American money, in a national sense, lies in the direction indicated, and the experience of Europe is that it is ultimately still more profitable to the individual investor.

VI

AMERICA AS FOREIGN INVESTOR

Economic changes and the war. The leading rôle of the United States in foreign investment. Yield variations on United States' loans. Lack of discrimination in foreign flotations on the part of America. Errors of American financiers. Successful American investments in England. American investments in Cuba, Central America, Canada, and Mexico.

A COUNTRY that has vast areas of its own still awaiting development is not likely to do much in the way of foreign investment, and prior to 1914 the United States had little in the shape of foreign investments. Here and there, owing to technical reasons, one or two of the big American banking houses may have taken an interest in other countries, as, for instance, in Mexican oil fields, and, in conjunction with an English financial group, the house of Morgan took a large interest in South African gold mines, through the formation of the Anglo-American Corporation of South Africa. This was due to the influence of a celebrated American mining engineer, John Hays Hammond, who had worked professionally for the South African mining houses and who persuaded his compatriots of the advantages of investing in those fields. But such foreign interests were few and far between, which was natural enough, considering that the United States was a country needing to import rather than export capital.

ECONOMIC CHANGES AND THE WAR

We are apt to attribute every great economic change to the war. This is overdone. What the war did in this and many other things was to *accentuate and accelerate* certain changes that were in slow process and would gradually have come about anyway. Long before the war the United States was in process of becoming a manufacturing country, less and less dependent upon Europe for imports of necessities, and was accumulating capital until, it was evident, it would soon be able to supply its own requirements in this respect. With the impoverishment of Europe, and the, at least, relative enrichment of America during the earlier years of the war, the change became marked. It was precisely the old capitalist countries that were involved, and overnight, as it were, they changed their status from lenders to borrowers. The United States purchased from them the bulk of their dollar securities, the holdings of British and French investors in American railroad bonds and stocks, United States Steel securities, then the numerous Canadian, Cuban, and similar dollar securities that were held in such large volume in Britain. Of the $25,000,000 franc bond issue that had been floated by the St. Paul Railroad in every money market of Europe, over $20,000,000 have returned to their native shores.

Almost without warning, America became the possessor of most of the world's gold employed for monetary purposes, and the only possible lender to the capital-starved nations that emerged from the war. But the American public required educating to foreign bonds. The American investor was accustomed to many profitable outlets (and some of the other sort) for his savings in his own country, which he could understand, but he was not acquainted with the great differences in character, solidity, and credit that exist between the nations that make up the old Continent of Europe. To the experienced British investor there is as much difference between, say, Germany and Poland (or a Balkan state) as between the United States and Peru; but it is to be feared that many American citizens regard Europe as a conglomeration of states, much of a "muchness" and all tarred with the same brush.

Certainly, at the outset, New York bankers who introduced the first few foreign bonds to the American investing public had to nurse large quantities for a considerable period (although they may have concealed the full extent to which they had to do this). That this hesitation on the part of American investors was due to dislike of the unfamiliar is proved by the avidity with which it subscribed to Canadian issues of all descriptions. London has no such standardized system of rating as that of Moody's, but, born of generations of experience, the quotations of various foreign bonds and the yields thereby produced do establish a very fine measure of comparative quality, and London was stupefied to see New York rating Canadian bonds many points higher than those of countries which London regarded as of equal, if not superior, merit.

That American investors should expect a higher yield on foreign bonds than European investors were accustomed to was natural enough, both on the score of scarcity of capital, the possession of a virtual monopoly as lender, and unfamiliarity, but this made the favorable rates at which Canadian provincial governments and municipalities could raise funds in New York still more striking. By assiduous and clever propaganda, the American bankers, who found the placing of foreign bonds very profitable, gradually overcame the reluctance of their public to invest their money abroad. In this they were perhaps helped by the fact that a new generation of investors had sprung up in the country, partly from the usual great transference of wealth that occurs in every war, and partly from the enormous number of persons enriched by the new oil discoveries. There came into being a big stratum of investors who were not bound down by tradition, and who were prepared to subscribe to the numerous foreign bonds that were being advertised and pushed by those intensive methods peculiar to the North American continent.

Even so, during the first year or two of this movement, large amounts of such bonds found their way into the hands of British investors who were attracted by the higher yields obtainable on the American issues of a government's bonds as compared with the yield on the London issue of the same government, and when such British holders endeavored to sell their bonds in New York they frequently discovered that they had considerable difficulty in disposing of quite a small amount, and even then at a sacrifice in price. The conclusion one draws from this is that while a banking syndicate can place a large issue in America through its organization, *once placed,* there is no steady investment demand from the individual investor for that bond, his attention (and dollars, presumably) being diverted to the next new offering. In the old investing countries of Europe there is a maintained demand for a bond, thousands of individual investors being prepared to purchase if at any time it recedes slightly in price. Actual examples are worth a lot of theorizing, so I may be pardoned for giving my own experience. I subscribed to the German 7s issued under the Dawes plan, in both New York and London. Both were great successes and were quoted at a premium. A short time after the issue—in April, 1925, to be precise—I sold both lots. I experienced no difficulty in selling the London issue at the excellent premium marked, namely, at 101¼ flat, which, deducting the, say, 3 points interest in the price, equaled 98¼, but in New York I could dispose of only a small parcel at 94½. I hasten to add that my agents were a well-known firm of members of the New York Stock Exchange.

THE LEADING RÔLE OF THE UNITED STATES IN FOREIGN INVESTMENTS

Be this as it may, America is now the leading nation furnishing capital and credit to foreign countries. Prior to 1914 her foreign investments were practically nil. The half-dozen foreign bonds listed in New York were hardly ever dealt in, and such few European shares as were listed were in the same position, most of them having wandered back to their original home. In fact, it was the complaint in Europe that New York always "shot back" any shares she took, the moment there was the slightest profit obtainable.

The investment world has never witnessed such a change as occurred within the space of the two years, 1924 and 1925, which resulted in the greatest turnover of foreign investments on the part of one country that has ever occurred. In May, 1925, Mr. Hoover, United States Secretary of Commerce, declared that the United States had become the world's greatest investor, and he calculated that the country's foreign investments exceeded $9,000,000,000. The National Industrial Conference Board estimated that of this nine billions of dollars of American private capital (for the figure named did not include debts owing to the United States Government) 21% was invested in Europe and 44.4% in Latin America. More precise indications were given by Mr. Hoover, as follows:

Country	Government Guaranteed Investments	Industrial and Direct Investments
Canada	$1,060,000,000	$1,400,000,000
Latin America	840,000,000	3,200,000,000
Europe	1,500,000,000	400,000,000
Asia and Oceania	440,000,000	250,000,000

It is significant that in those countries forming part of the American Continent, remote as some of them are from the United States, capital has flowed freely into industrial enterprises, whereas elsewhere the more cautious method of lending against government security has been adopted.

The sudden advent of America as a creditor nation was bound to bring about changes in foreign investment. One of these is instanced in an article of mine in the *New Statesman* of February 10, 1923, which the National City Company did me the honor to reprint in one of its circulars. The following extract, therefore, will not be out of place in this book.

The rise in the value of the pound in New York completes a chain of circumstances which renders possible to the British investor some very attractive purchases, which in the ordinary way would never come to his notice. The outbreak of war wiped out Paris, Brussels, and Berlin as markets for foreign government and municipal loans, and transferred supremacy in this field from London to New York. Up to that time the United States, itself more a debtor than a creditor country, was not in the habit of providing capital for foreign borrowers, and the American investing public was wholly unfamiliar with the securities of either foreign governments or companies. So urgent was the financial need of South America, Europe, Canada, and other governments and municipalities that they had to resort to the only country in a position to satisfy their requirements, and as a result, the flotation of loans of this description became a feature of the New York market. Space does not permit of a detailed study of these issues, but, to make them acceptable to a public wholly unaccustomed to foreign loans, the borrowing countries had to concede extremely favorable terms, and a comparison of the foreign loans quoted on the New York Stock Exchange with those quoted in London shows some remarkable disparities—all of them in favor of the American issues....

Not only do these foreign government dollar bonds bear a higher rate of interest than bonds of the same borrower quoted in London, but they are almost invariably repayable at a premium, a fact which should be borne in mind where the bonds are quoted over par, whereas the same borrowers' issues held in Britain are repayable at par; not only this, but in almost every case the date on which the last bond of the American issue has to be repaid falls a few years earlier than the date of the corresponding British loan. This may be a coincidence, but if so, it is a strange one....

Obviously, the security offered by, say, Denmark is just as good whether its obligation be to pay pounds in London, or dollars in New York. How, then, explain the higher yields obtainable upon the American issues? It is simply this, that to the American investor these foreign bonds are exotic, and he will buy them only at prices which give him a yield much superior to that which he obtains on bonds with which he is familiar. There is no doubt that the British investor who favors foreign government or municipal bonds can at present do much better for himself by purchasing dollar bonds than sterling bonds; he can keep them in his bank in this country, and cash the coupons here with just the same facility as if they belonged to the British issue—a coupon payable in New York is equivalent to a sight draft on that city, and is, to put it mildly, not regarded with disfavor by bankers and others.

Table 2, which appears on the following page, shows the prices of comparable loans at the date mentioned (February, 1923) in New York and London, respectively.

TABLE 2

PRICES OF COMPARABLE LOANS IN NEW YORK AND LONDON, FEBRUARY, 1923

Dollar Loans				Sterling Issues			
	Maturity	Rate	Approx N. Y. Price		Maturity	Rate	Approx. Sterling Price
Chile, Republic of	1942	7	96½	Chile, Republic of	1952	7½	105
Czechoslovakia, Rep. of	1951	8	88½	Czechoslovakia, Rep. of	1951	8	92
Bergen, City of	1945	8	108½	Bergen, City of	1933/63	5½	96⅝
Denmark	1942	6	97⅞	Denmark (by S.F.)	1972	4	73
Danish Cons. Municipal	1946	8	109½	Denmark, Ass. Mun. of	1952	5	87
Dutch East Indies	1962	6	94	Dutch E. Indies	1933/63	6	102
Norway	1952	6	98⅞	Norway (by S.F.)	1931/61	6	102
P.L.M.	1958	6	71	P.L.M.	1958	6	83½
Seine, Department of the	1942	7	85	Seine, Depart. of the	1952	7	96
Uruguay, Republic of	1946	8	105½	Uruguay, Rep. of (1914)	1951	5	73

LACK OF DISCRIMINATION IN FOREIGN FLOTATIONS ON THE PART OF AMERICA

At the same time, it must be recorded that European financiers have been somewhat startled at the lack of discrimination shown by the American banking houses in their foreign flotations. It was not to be expected that they should be able to appraise nicely the respective merits of one European country as against another, but when they saw the New York flotations of loans to countries unstable in every respect, experienced European financiers found themselves the prey of conflicting emotions—wondering admiration at the boldness of the banking houses responsible, and commiseration for the ultimate holders of these bonds. It would have been much better for the American investor if New York had availed itself at the outset of London's experience in the matter of foreign loans. In making this statement I am laying myself open to the obvious retort that a business man does not usually go to a competitor for advice—least of all to one whom he is gradually superseding; but the circumstances are peculiar. Generally speaking, the American financier does not know much about foreign countries. Right up to the present his energies have found full scope in the development of his own vast country—half a continent—and he has had neither the need nor the time to study foreign countries profoundly from the point of view of a field of investment. For a century or more, Britain, no larger than one of the 48 states of the United States, has had to exploit overseas territories in order to maintain a population that is even now little less than half that of the United States, and in the process has acquired a good deal of practical knowledge in the art of investment abroad—knowledge that has not been obtained without payment of a certain price. European investors lost $150,000,000 in the Gould crash of 1873 alone!

ERRORS OF AMERICAN FINANCIERS

The London financier does not require to go outside his own city to see the errors of American financiers in their foreign ventures. He sees the Piccadilly Hotel, built by American money on the site of the old St. James' Hall which had been consecrated by the "personal appearance" (to use movie language) of Charles Dickens and the great composers like Brahms and Wagner. Practically all the money was lost, and the hotel sold to an English syndicate for a song. He sees the London subways, which the late Charles T. Yerkes of Chicago fame took in hand, with the same result, namely, millions of dollars going without any return; he walks along Kingsway and sees the flamboyant "London Opera House," on which the late Oscar Hammerstein lost millions, this again being sold to an English company for a trifle and is now a picture house; and lower down the same thoroughfare, he sees the fine Bush House, a superb specimen of American architecture, the name of which denotes its origin, but which is so far from being a financial success that its founders have had to abandon the completion of the structure as planned and have forfeited the large sum they deposited with the London County Council as security for its completion.

In 1920 the Willys-Overland Company put up $2,500,000, persuading the British investor to provide an additional $5,000,000, for the purpose of introducing American mass production methods into the British automobile industry. A year or two later the shares stood at 20% of their par value, and have not recovered.

It may be merely the utterances of jealous competitors, but one hears occasionally that American enterprises abroad are not conducted so economically as those of European management. For instance, I am told that the working costs on the American-owned rubber estates in the Dutch Indies are considerably higher than the neighboring ones under British and Dutch control. If true, it is possible that this is due to the higher standard of living to which Americans are accustomed—a fact of which readers are not likely to be ashamed. Still, it is a thing that deserves to be considered in the inevitable great development of American enterprise abroad, for although thus far the investment of American capital in foreign countries has taken the shape principally of government or municipal loans, it is bound to develop more and more into investment in commercial and industrial undertakings, there being indeed no other method whereby America can receive payment of the interest tribute due to her, failing the unlikely event of a general lowering of her tariff walls.

SUCCESSFUL AMERICAN INVESTMENTS IN ENGLAND

After these perhaps slightly unpalatable observations, let me relate two recent instances of American investment in England of a more satisfactory nature. One of the greatest chain-store undertakings in Britain is Boots' Pure Drug Company, which is comparable to the United States Drug Company, except that the familiar American feature of the lunch counter is wanting. In 1920 the entire common stock was acquired by Liggett's International and was subsequently transferred to the United States Drug Company. Three years later, one-quarter of these shares were sold back to British investors at a figure about 75% in excess of the cost to the American interests, and at the beginning of 1926 a stock bonus of 50% was declared in addition to the customary annual dividend of 36%.

The other case is one in which the usual lack of success appeared attending an American venture in England, except that, as in the Willys-Overland case, British capital was also involved. In 1924 the B. F. Goodrich Company purchased some English works and floated an English company under the name of the British Goodrich Company, obtaining from the English investing public some $2,000,000 against the issue of debentures and 7% preferred. When the first half-yearly payment fell due on the preferred, the company announced that it was postponed; but at the end of the financial year it informed the preferred stockholders that the mother company, the B. F. Goodrich Company, proposed to advance sufficient to pay the preferred dividend, now and in future, such advances being a charge upon the profits *after* payment of the preferred dividends as they fell due. This was not expected by the stockholders, and has done a good deal to enhance the reputation of American capitalists in England.

AMERICAN INVESTMENTS IN CUBA AND CENTRAL AMERICA

Political reasons made it natural enough that American capital should direct its attention to Cuba, and although British capital was first in the field—as usual, in the direction of railroads and harbors—American interests have of late years rapidly passed it, and indications point to the acquisition by them of many of the existing British interests. Contrary to the usual state of affairs, which is that in the earlier stages of foreign investment a country confines itself to government and municipal bonds, American investments in Cuba have been largely of a commercial or industrial nature, sugar occupying a prominent place. This may be due to America's need of that commodity, and the same would account for the increasing rôle occupied by the United States in developing the countries of Central America for fruit production and the like.

That no theory should be pushed too far, however, is proved by the case of rubber, of which the United States is far and away the greatest consumer, but into the cultivation of which it has put hardly any capital.

AMERICAN INVESTMENTS IN CANADA AND MEXICO

It was natural enough that United States capital should interest itself in Canada, both on the score of proximity, and the fact that Canada uses the dollar as her unit of currency, which obviously would make Canadian investments sound much more familiar than those of other countries. Up to 1914, however, Canada financed herself almost wholly in England, but the immediate result of the war was to divert her attention in this respect from the mother country to the United States. The sales of Canadian Government and municipal bonds, and so forth, in New York have risen from $75,000,000 in 1914 to approximately $300,000,000 in 1925. At the end of that year there were some 700 American plants in Canada, and it is estimated that American investments in its northern neighbor then totaled $2,500,000,000, as against a total British investment of $2,250,000,000.

The huge growth of American investment in Canada is bringing about a new phase in foreign investment, for although England has in the past assisted to develop other countries in a very considerable degree, as, for example, Argentina, this has been in a country situated thousands of miles away, speaking another language and using quite a different form of currency. In the case of Canada and the United States, there is a complete similarity of language and currency, combined with contiguity, and the result would certainly appear to be that the poorer country with the smaller population must inevitably become an economic annex to its richer neighbor, whatever the political future may be.

In Mexico also one has the factor of proximity, and a currency not dissimilar, so that American capital also flowed naturally into that country.

But these are special cases easily accounted for, and the United States has emerged as a real foreign investor only since the war. Although the volume of foreign borrowings in New York is considerable, it still lacks breadth, and is largely confined to a comparatively small number of foreign governments and cities, with an increasing number of business corporations; but the latter are mostly bond issues. As time goes on, and as the education of the American investor proceeds apace, these interests will broaden, and he will learn the lesson British investors have learned after a century's experience, namely, that a foreign government or municipal bond is not necessarily the acme of safety, and that many a bond secured by first mortgage upon an established business undertaking in a country, meets its obligations when the government or city fails to do so, and that the common stock of a well-conducted company like that of the Rio de Janeiro Flour Mills, may go on paying large cash and stock dividends uninterruptedly during a period when the government of the country in which it is situated makes a series of defaults. The total number of foreign securities—government, municipal, or industrial—quoted on the New York Stock Exchange and the New York Curb at the end of 1925 did not exceed 200, and outside government and municipal issues, showed a sad lack of variety, consisting very largely of German industrial bonds, and those either metallurgical or electrical.

The list of government and city bonds reveals to a European eye a certain lack of discrimination, suggesting that New York financial houses, as well as American investors, still require education in the matter of foreign investment, although, unfortunately, as with politicians, it is the public which has to pay for the education of the former. As I have already hinted, London and European financiers have marveled at countries like Poland, Italy, and the "Kingdom of Serbs, Croats, and Slovenes"—as it appears in the New York list—having been furnished with loans which their neighbors, even if wealthy, would not dream of granting without much greater safeguards than have been given, while such excellent loans as Potash Syndicate of Germany 7s and State of São Paulo Coffee Institute 7½s were refused, owing to pressure from Washington, and went to enrich London and Amsterdam. Not that London objects, for so long as the United States is kind enough to guarantee the maintenance of the gold standard, it is excellent business for English financiers to have these good loans passed on to them to yield between 7% and 8%, when the money required therefor can be borrowed from across the Atlantic at 5%.

Still, every investor, individual or national, has to gain his experience, and the United States enjoys such economic superiority that for some generations, at least, the world of investment is at its feet. Perhaps the most profitable means of broadening the American investment list will be for American financiers to acquire by purchase control of British and other European-owned undertakings in different parts of the world, as is already being done in some cases, as, for example, that of the Anglo-Chilean Nitrate Company referred to on page 56; for, strange as it may sound to the timorous investor who has a natural dread of anything foreign, in the long run foreign industrial investments are more profitable than government and municipal bonds, but I am compelled to add that it is generally best to let the other fellow do the pioneering and to come in when he is hard pressed for cash. As hinted above, present world circumstances favor the United States, particularly in this direction, and a recent development in this direction is the arrangement between the British Controlled Oilfields Company and Standard Oil of New Jersey, whereby the latter takes over the operation of the oil lands of the British company in Venezuela, on a profit-participating basis.

VII

LONDON AS MARKET FOR FOREIGN INVESTMENTS[1]

British Colonial bonds. Foreign government and municipal bonds. Railroads. Public utilities. Breweries. Land development countries. Iron, coal, and steel. Industrial. Mines. Oils. Shipping. Rubber, tea, and coffee.

For reasons that have already been made clear, the London market necessarily looms large in any study of foreign investments. In fact, outside London, New York, and Amsterdam, no stock exchange is now of any importance in this respect. Prior to the war Paris, Brussels, Antwerp, Frankfort, and Berlin were of some account in this connection, but their activities have now ceased to be cosmopolitan and are largely local in character.

In foreign government bonds New York has made extraordinary progress since 1914, commensurate with the growth of the country's economic power, but, apart from Canada, it has done little thus far in the direction of directing American capital to the ownership of foreign public utility, manufacturing, and commercial enterprises. Considerable developments in this direction are inevitable, and already signs are not wanting of this trend. In several cases it is probable that British-owned undertakings will be acquired, and for the reasons set forth in Chapter VI there is a lot to be said for this course being adopted, rather than breaking entirely fresh ground. The purchase in 1925 by the Guggenheims of the Anglo-Chilean Nitrate and Railways Company is the sort of thing that is meant.

[1]Note: Throughout this chapter, those securities which are specially suitable for investors not resident in Britain on account of its being possible to avoid deduction of English Income Tax (see Chapter X), are indicated by an asterisk.

The London Stock Exchange list will be dealt with now, section by section.

BRITISH AND BRITISH-COLONIAL BONDS

These occupy an important place in the London market, although British municipal bonds, generally speaking, are tightly held by institutions and others whose powers are restricted to trustee securities. British Government and municipal securities are subject to English income tax and are, therefore, unsuitable to non-British investors. There are, however, notable exceptions in the case of which special provisions have been made exempting foreign holders from liability to such tax. These are:

*British 5% War Loan
*British 4% Funding Loan
*British 4% Victory Bonds
*British 3% Exchequer Bonds due January 28, 1930
*Egyptian Government Bonds (British Guaranteed) 3%
*Greek Bonds (British Guaranteed) 2½%
*Sudan 5½% (British Guaranteed)
*Sudan 4½% (British Guaranteed)
*Sudan 4% (British Guaranteed)
*Transvaal 3% (British Guaranteed)
*Turkish 4% (British Guaranteed)

All these can be purchased in the form of "bearer bonds."

When one comes to securities of countries within the British Empire, the position is complicated but, generally speaking, it may be taken that where bearer bonds are issued, non-British residents can obtain payment without deduction of English income tax. The London Stock Exchange official list has a separate section for Colonial government bearer bonds as opposed to registered stocks, but in the case of municipal loans, it groups registered and bearer loans together. The following is an extract from this section of the list, the heading of which, it may be well to remind American readers, denotes "municipal" and not "company," for in English one talks of the Birmingham *Corporation*, when one means the governing body of the

* See note on page 56.

City of Birmingham, and says *company* where in the United States one says *corporation.*

CORPORATION STOCKS—INDIAN AND COLONIAL

*Auckland (C. of) 6% Cns. Bs. 1879 (£100, £200 & £500)	1930
Do. 5 % Debentures, 1883	1934–8
* Do. 4 % Consold. Loan Debs.	1931
* Do. 4½% Debentures	1934
* Do. 4½% W. W. Extn. & Impvt. Ln.	1934
* Do. 4½% Elect. Pwr. Addl. Ln. Debs.	1933
* Do. 6½% Elec. Power Extens. Debs. (Guaranteed by N. Z. Govt.)	1942
* Do. 6% 1943 Debs. (£100)	1943
Do. 5% Debs. (1923)	1945
* Do. 5% Cons. Ln. (1924) Dbs.	1957
* Do. (Tramway Loan) 5¼% Debs. (£100)	1940
* Do. do. 5% Debs., (£100)	1940
*Auckland & Surburban Drainage Bd., 4½% Debs.	1934
* Do. do. 4% Debs.	1930
*Auckland Electric-Power Board 5½% Electric-Power Extensions Debs., 1922 (£100)	1943
Do. do. 5% Debs., 1924	1945
*Auckland Harbor Board 5% Debs.	1936
* Do. do. 4½% 20-yr. Bds.	1929
* Do. do. 5 % 20-yr. Debs.	1933
* Do. do. 5 % Dbs., 1919	1944
Bloemfontein (City of) 4% Inscribed Stock	1954
*Bombay Improvement Trust 4% Gua. Dbs.	1959
Do. 4% Guar. Sterl. Debs., 1909 & 1910	1969–70
Bombay (Trustees of Port of) 4% Sterling Debs., 1909 & 1910	1939–40
Do. 6% Sterling Debs., 1922	1952
Brisbane Tramway Trust 5¼% Inscribed Stock	1944–54
Do. 5¼% Brisbane Tramways Stock	1944–54
*Burnaby (Mun. of the District of) 4½% Debs.	1950
Calcutta (Commiss. for Port of) 4% Sterl. Dbs.	1938
* Do. do. do. do.	1939
* Do. do. 7% Dbs.	1931–51
* Do. do. 6% Dbs.	1952
* Do. do. 5% Dbs., 1923	1953–83
* Do. do. 5% Debs.	1954–84
*Calcutta (Corp. of), 6% Debs., 1923	1953
*Calcutta Improvement Trust, 6% Dbs.	1952
* Do. 5½% Debs.	1953
*Calgary (City of) Sterling 4½% Debs.	1930–42
* Do. Sterling 4½% Debs.	1928–37
Do. 5% Debentures	1933–44
Cape Town (C. of) 4% Dbs. (Issues of 1893 & 1896)	1943
Do. 3½% Debentures	1948
Do. 4% Inscribed Stock	1953
Do. Cape Town Sub. Mn. Wwks. 4% Ins. Stk.	1951
Do. Claremont 5% Stock	1913–5
Do. Kalk Bay-Muizenburg 5% Stock	1939
Do. Mowbray 4½% Regd. Stock	1958

Do. Woodstock 4% Registered Stock	1955
*Christchurch (City of) 4½% Electricity Distribution Loan Debs.	1946
Christchurch (N. Z.) Dist. Drainage 6% Loan	1926
Christchurch Tram. Board 4¼% Loan, 1910	1934
Dublin Corporation 3¼% Redeemable Stock	1944
*Dunedin (C. of) 4% 1908 Redemption Bds	1933
* Do. 4% 1909 Collective Loan	1934
* Do. 4½% Waipori Falls Elc. Pwr. Ln. 1914	1934

FOREIGN GOVERNMENT AND MUNICIPAL BONDS

This section of the London Stock Exchange official list is extensive and covers nearly every country in the world. A feature is the large number of different loans that have been floated in London by some countries. In course of time, no doubt, the New York Stock Exchange list will present a similar appearance. The following extract from the London list illustrates the point.

*Buenos Aires (Province of) 3½% Sterl. Bonds, 1906-9
* Do. 5% Sterling Bonds of 1908
* Do. 4½% External Loan of 1909 (Rly. Ln.)(London Issue)
* Do. do. (Paris Issue)
* Do. 4½% External Loan of 1912 (Rly. Ln)(Paris Issue)
* Do. 5% Ext. Gold Loan, 1910
* Do. 5% Consoln. Gold Ln., 1915
*Bulgarian 6% (State) Mrt. Bds. (1892)
* Do. 4½% Gold Bonds, 1909
*Chilean 4½%, 1885
* Do. 4½%, 1886
* Do. 4½%, 1887
* Do. 4½% Gold, 1889
* Do. 5% Loan, 1892
* Do. 4½% Bonds, (1893)
* Do. 4½%, 1895
* Do. 5% Bonds, 1896
* Do. 4½% Coquimbo Rail, Bonds
* Do. 5% Loan, 1905
* Do. 4½% Gold Loan, 1906
* Do. 5% Bonds, 1909
* Do. 5% Loan, 1910
* Do. 4½% Bds. (Law 7th Sept., '10)
* Do. 5% Ln., 1911 (First Issue)
* Do. 5% Ln., 1911, Sec. Series
* Do. 5% Annuities, Series "A"
* Do. 5% Annuities, Series "B"
* Do. 5% Annuities, Series "C"
* Do. 7½% Loan, 1922
* Do. 8% Stg. Ln. of 1922 (issued in respect of Chilian Trans-andine Rly.), Bds., (£100, £50, £20)

*Chinese 5% Gold Loan of 1896
* Do. do. Regd.
* Do. 4½% Gold Bonds, 1898
* Do. Imp. Rly. 5% Gold Ln.
* Do. 4½% Gold Loan of 1908
* Do. 5% Gold Loan, 1912
* Do. 5% Reorganisation Gold Loan, 1913 (Lond. Issue), (£20) (£100)
* Do. do. (Issued in France), (£20)
* Do. Imp. Chinese Rlys. (Shanghai-Nanking Line) 5% Stl. Bds.
* Do. Imp. Chinese Rlys. (Canton-Kowloon Rly.) 5% Stl. Bds.
* Do. 5% Tientsin-Pukow Rly. Ln. (Lond. Iss.), (£100)
* Do. 5% Tientsin-Pukow Rly. Sup. Ln. (Lond. Issue)
* Do. 5% Shanghai-Hangchow-Ningpo Rly. Ln.
* Do. Honan Rly. 5% Gold Loan, 1905
* Do. 8% 10-year Treasury Bills
* Do. 8% Sg. Treas. Nts. 1925-9
*Colombian Con. Ext. 3% Bonds, 1896
* Do. 6% Bonds (1913)
* Do. 6% (1920) Bds. (£100 & £20)

Foreign municipals are without exception in the shape of bearer bonds, and as these may present a promising field of investment of almost universal interest, the following reprint of that section of the London list may be of value. All are suitable for non-British investors in the sense that coupons can be cashed without deduction of income tax.

Aarhus (City of) 4% Bonds, 1909
Alexandria (C. of) Sterl. 4% Bds., 1-3760 (£500 & £100) (Guar. by Egypt. Gov.)
Amsterdam (City of) 5½% Stg. Loan of 1924
Antofagasta (City of) 5% Sterling Loan, 1914, Nos. 1 to 2000 (Guar. by Chilean Gov.)
Bahia (City of) 5% Loan, 1912 (Lon. Issue)
Baku (City of) 5% Gold Loan
Bello-Horizonte (Mun. of) 6% Bds. of 1905 (£20), Nos. 1-11250 (Guar. by State of Minas Geraes)
Bergen (C. of) 4% Loan of 1901, 1 to 2213 (£500, £100)
Do. 4% Loan, 1909, 1 to 3058 (A£500, B£100)
Do. 4% Loan, 1913, Nos. 1-3700 (A£500, B£100)
Do. 5½% Loan, 1922
Budapest (City of) 4% Sterling Bonds
Do. 4½% Loan, 1914 (London Issue)
Buenos Ayres (City of) 4½% Bonds
Do. 5% Loan of 1913 & 1914
Christiania (City of) 4% Sterling Loan, 1900
Do. 4% Stl. Ln. 1912, 1-3900 (A£500, B£100, C£50)
Do. 4½% Loan, 1914
Concepcion (Mun. of) 5½% Bonds, Nos. 1-1500 (Guaranteed by Republic of Chile)

Constantinople (City of) Mun. 5% Loan, 1909 (Gtd. by Ottoman Govt.) Assenting Bonds
Copenhagen (City of) 3½% Bonds of 1898
Do. 3½% Bonds of 1887
Do. 4% Bonds of 1901, 1-600 (£500) & 1-8000 (£100)
Do. 4% 1908, 1-10800 (A£100 & B£500)
Do. 4% 1910, Nos. 1 to 31400 (£500, £100 & £20)
Danzig (Mun. of) 7% Mortgage Loan, 1925
Denmark (Associated Municipalities of) 5% Loan of 1922
Duluth (City of) Minnesota, U.S.A., 5% Water & Light Gold Bonds, Nos. 1-1106
Gothenburg (City of) 4% Bonds of 1899
Do. 4% Ln., 1909, 1-500 (£500), 601-6910 (£100)
Do. 4½% Loan, 1914
Helsingfors (City of) 4½% Loan, 1909, Nos. 1-6400
Do. 4½% Loan, 1911
Kieff (City of) 5% Gold Loan, 1914
Do. (Mun. Elec. Tram,) 5% Ln. 1914 Scp. fully pd.
Lima (City of) Prov. Council 5% 1st Mt. Bds.
Manaos (City of) 5½% Sterling
Mexico (City of) 5% Strl. Bds. (£100, £500 & £1000)
Do. Assntd. under Agmt. 1 Jly, '22, Ex. A & B Rcpts.
Do. Deposit Receipts under Agmt. 1 July, '22
Montevideo (City of) Redeemable 6% Bonds
Moscow (City of) 5% Bonds, 1908
Do. 4½% Ln., 1912, 1-64895 (£1000, £500, £100, £20)
Nagoya (City of) 5% Sterling Bonds
New York 4½% Corporate Stock
Nikolaef (City of) 5% Gold Bonds, 1912
Osaka (City of) 5% Sterling Bonds
Osaka City Harb. Constructions 6% Bonds (Countersigned by N. Samuel & Co., Lim.)
Para (Belem) (Mun. of) 5% Gold Bds. of 1905
Do. 5% Funding Bonds, 1915
Do. 6% Treasury Bills, 1919
Pelotas (Mun. of) 5% Stl. Ln. of 1911, 1-11000 (£100 & £20) (Gd. by State of Rio Grande do Sul)
Pernambuco (Recifé) (C. of) 5% Gtd. Ln. Bds.
Porto Alegre (C. of) (State of Rio Grande do Sul) (Stlg.) Gua. 5% G. Bds., Nos. 1-6000
Prague (City of Greater Prague) 7½% Strl. Bds.
Riga (City of) 4½% Loan, 1913
Rio de Janeiro (City of) 4% Bonds
Do. 4½% Cons. Stg. Loan, 1912
Rio de Janeiro (Fedl. Dist. of) 5% Gld. Bds. (£20) 1-200000 Countersigned by Seligman Bros.)
Do. 5% Gld. Bds. (Gtd. by U.S. of Brazil)
Rosario (City of) 4% Sterling Conversion Loan Bonds (Guar. by the Province of Santa Fe)
St. Petersburg (City of) 4½% Bonds, 1913, Nos. 1-27700 (£1000, £500, £100, £20)
Santa Fe (City of) 6% Sterl. Debs. (Enfaced)
Do. Sterl. Funded Cpn. Bds. (£25), 1-1684
Santos (C. of) 6% Int. Stg. Ln. 1910, 1-12000 (£100 & £20)
Do. 7% Funding Loan, 1915
São Paulo (City of) 6% Gold Loan, 1908

Saratoff (City of) 5% Loan, 1909
Seine (Dept. of the) 7% 30-Year Sterling Loan
Stockholm (City of) 4% Bonds of 1900
Do. 4½% Loan, 1913 (London Issue)
Tammerfors (City of) 4½% Loan, 1910
Tokyo (City of) 5% Sterling Bonds
Do. 5% Ln. of 1912, Nos. 1-51750 (£20, £100 & £200)
Valparaiso (Chile) (City of) 5½% Waterboard Loan, 1912, within Nos. 1-2500
Vilna (C. of) 5% Gld. Bds. 1-13478 (A£20, B£100 & C£500)
Vina del Mar (City of) (Chile) 5% Stlg. Ln. (Gtd. by Chilean Gov.), A1-2500 (£20), B1-1500 (£100)
Yokohama (City of) 5% Sterling Bonds
Do. 5% Stg. Bds., 1 to 13825 (£20 & £100)
Do. 5% Gld. Bds., Nos. 1-821 (£500 & £100)
Yokohama City Waterworks 6% Bonds
Bahia (Port of) 5½% Deb. Bonds (Lon. Iss.) Red.
Cuban Ports Co. (Cia de los Puertos de Cuba) Cm. Sk.
Port of Para 5½% 1st Mort. 50-Year Gold Bonds

RAILROADS

To reproduce the railroad section of the London Stock Exchange list would take several chapters. Domestic issues occupy very little space, but under the heading of British possessions appear many Canadian railroad bonds and stocks, a good proportion of which are in dollar denominations. Something like 100 American railroad bonds and stocks are quoted, and the following extract will give some idea of the variety of the foreign railroad securities for which London is a market.

Central Argentine Railway, Lim., Cons. Ord. Stk.
Do. Deferred Stock
Do. 4½% Pref. Stock (Non-Cum.)
Do. 3½% Central Deb. Stock, Red.
Do. 4 % Debenture Stock, Red.
Do. 5 % Ten-Year Notes Bearer
Central Rly. of Chubut Co., Lim., Nos. 1 to 200000
Do. 6% Debs., Red., Nos. 1 to 1250
Central Uruguay Eastn. Extn. Ry., Lim., Ord., 1-86000
Do. 5% Pref. 1A-86000A (Non-Cum.)
Do. Permanent 5% Debenture Stock
Central Uruguay North. Extn. Ry. Co., Lim., 1-100000
Do. Permanent 5% Debenture Stock
Central Uruguay Ry. Co. of Montevideo, Lm., Ord. Stk.
Do. 5½% Pref., 1 to 80000 (Non-Cum.)
Do. 4% West Ext. Debs., wn. 1-10000, Red.
Do. 5% Debenture Stock, Irred.
Do. 6% 2nd Debenture Stock, Red.

*Chilian Nthn. Ry. Co., Lim., 5% 1st Mt. Dbs., Red. (Gtd. by Chilian Gov.)
Chilian Transandine Ry. Co. Lm. 7½% 1 Mt. Db. Stk. Rd.
Colombia Rys. & Nav. Co. Lm. 1-427239 & 453277-530823
Do. 6% Mt. Dbs. 1-16837 & 17251-18000 (£100 & £20) Rd.
Colombian Northn. Rly. Co., Lim., Nos. 1 to 30000
Do. 5% Debs., Red., Nos. 1 to 3800 (£100 & £20)
Do. 5% 2nd Dbs. Rd., 1-2050 (£100, £20, £5) (Non-Cum.)
*Compagnie Française des Chemins de Fer de la Province de Santa Fe, 3% Mort. Obs., Red.
Cordoba Central Rly., Co., Lim., Ord. Inc. Stk., Red.
Do. 7% 1st Prfce. Income Stk. (Non-Cum.), Red.
Do. 5% 2nd Prfce. Income Stk. (Non-Cm.), Red.
Do. 4% 1st Debenture Stock, Red.
Do. 5% 2nd Debenture Stock, Red.
Costa Rica Railway Co., Lim., Stock
Do. 5% Prior Mort., Debs. (Red.)
Do. 5% Prior Mt. Dbs. (2nd Series) (Red.)
Do. 6½% 1st Mt. Dbs., Nos. 1-6550 (Red.) (Reg.)
Do. 6½% 2nd Dbs., 6551-12550 (Red.) (Reg.)
*Cuba Railroad Co., Preferred (6% Non-Cum.)
*Do. 1st Mt. 5% 50-yr. Gold Bds., Red.
*Do. Imp. & Equip. 5% 50-yr., Gd. Bds. 1-4000, Rd.
Dorada Extension Rly., Lim., Stock
Do. 6% 1st Mort. Deb. Stock, Red.
Do. 8% 2nd Mortgage Deb. Stk., Red.
Egyptian Delta Light Rails.
Lim., 5½% Cum. Prfce. Shs. } Nos. 1-104078
Do. Warrants to Bearer }
Do. 5% Debs., Nos. 1 to 5633
Entre Rios Railways Co., Lim., Ordinary Stk.
Do. 6% 1st Preference Stock (Cum.)
Do. 2nd Preference Stock (4% Non-Cum.)
Do. 4% Debenture Stock, Red.
Do. 5% Debs., 1 to 7000, Red.
Do. 5% Consold. Deb. Stock, Red.
Great Southern of Spain Rly. Co., Lim., Ord. Stk.
Do. 6% 1st Mort. Deb. Stock, Red.
Do. Income Deb. Stock, Red. (5%)
Great West. of Brazil Rly. Co., Lim., Ord., 1-125000
Do. 6% Prefd. Shs., 1-100000 (Non-Cum.)
Do. Permanent 6% Deb. Stock
Do. 4% Debs., Nos. 1 to 17357, Red.
Guayaquil & Quito Ry. Co., 5% 1 Mt. Gd. Bds. Rd. (Gua. by Govt. of Ecuador), wn. Nos. 1-12282
Do. 6% Prior Lien Mort. Gld. Bds., 1-2486 (Gtd. by Govt. of Ecuador), Red.
Havana Terminal R. R. 5% Mort. Debs., Red.
Do. 5% Deb. Stock, Red.
*International Rlys. of Central America, Common
*Do. do. Preferred (5% Cum.)
*Do. 5% 1st Mt. 60-year Gold Bonds, Red.
*Do. 6% Dividend Notes of 1927
*Do. 6% Dividend Notes of 1936
*Interoceanic Rly. of Mexico (Acapulco to Vera Cruz), Lim., 5% 1st Prfce. Stk. (Non-Cum.)

*Do. 4% 2nd Prfce. Stock (Non-Cum.)
*Do. 4% Debenture Stock, Red.
*Do. 4½% 2nd Debenture Stock, Red.
*Do. 7% "B" Debenture Stock, Red.
*Italian 3% Rly. Bds. A & B (Gua. by Italian Gov.), Rd.
Do. do. Stamped by Italian Consul

The total nominal value of the foreign railroad bonds and stocks quoted in London reaches wholly fantastic figures and covers no less than 450 systems extending "from China to Peru." [1]

BANKS

Leaving out of account the 20 purely domestic banks which, with their 8,900 branches, cover Great Britain and Ireland—5 of them, namely, Barclays, Lloyds, Midland, National Provincial, and Westminster, transacting about 80% of the banking business of the country—London deals in the shares of numerous colonial and foreign banking companies, some of which, being registered under the laws of their respective countries, are suitable for investment by non-British residents, as their dividends can be paid to such holders without deduction of English income tax. Such as answer this requirement are marked with an asterisk.

*Banco del Peru y Londres
*Banco Español del Rio Plata
*Banco National Ultramarino
Bank of Abyssinia
Bank of Athens
Bank of Australasia
Bank of British West Africa
Bank of Ireland
Bank of London & South America
*Bank of Montreal
Bank of New South Wales
Bank of New Zealand
Bank of Rumania
Bank of Victoria
*Canadian Bank of Commerce
Chartered Bank of India
Eastern Bank
English Scottish & Australian Bank
*Hongkong & Shanghai Banking Corporation
*Imperial Bank of Persia

[1] To prevent the earnest student who checks up an author, from writing to point out that the list does not contain a Chinese railroad, may I add that these are quoted in the foreign-government section of the London list.

*Industrial Bank of Japan
Ionian Bank
Land Bank of Egypt
Mercantile Bank of India
National Bank of Australasia
National Bank of Egypt
National Bank of India
*National Bank of Mexico
National Bank of New Zealand
National Bank of South Africa
*Imperial Ottoman Bank
*Royal Bank of Canada
Standard Bank of South Africa
Union Bank of Australia
*Wiener Bank-Verein

PUBLIC UTILITIES

It follows from the nature of foreign investments that, after railroads, it is water-works, gas generating plants, electric light and power undertakings, and street railways that will figure prominently in the lists of a nation investing largely abroad. The following are lists of the principal securities of this description, the market for which is London. Some of these are American and Canadian, and some are quoted in New York; but still more, although operating in overseas countries, are of no use to the individual American investor because, being *English* registered companies, all their profits are subject to English income tax, which in 1925-1926 means that 20% of their net income goes to the British Treasury, in addition to such taxation as is payable in the country in which they operate.

WATER-WORKS

Alexandria Water Company (Egypt)
Antwerp Water Works Company (Belgium)
Consolidated Water Works of Rosario
Montevideo Waterworks Company
*Montreal Water & Power Company
Province of Buenos Aires Waterworks Company
Seville Waterworks Company (Spain)
Tarapaca Water Works Company (Chile)

GAS

Cape Town and District
Cia. de Gas y Electricidad de Habana

Hong Kong and China
Montevideo Gas and Dock
Oriental Gas
Ottoman Gas
Primitiva Gas of Buenos Aires
São Paulo Gas
Tuscan Gas

Light, Heat, and Power

Andhra Valley Power Supply (India)
Argentine Light & Power
*Barcelona Traction Light & Power
Calcutta Electric Supply
*Calgary Power Company
*Canadian General Electric
Cawnpore Electric Supply
*Cities Service, Power & Light
*Companhia de Electricidad de la Provincia de Buenos Aires
*Compania Hidro-Electrica de Tucuman (Argentina)
*Consolidated Cities Light, Power & Traction Company (Delaware, U. S. A.)
*Consolidated of Baltimore
Delhi Electric Tramways & Lighting Company
Electric Light & Power of Cochabamba
*Electrical Development of Ontario Company
*Empire District Electric (U. S. A.)
*Georgia Light Power & Railways Company
Lima Light Power & Tramways
Melbourne Electric Supply
*Mexican Electric Light Company
*Mexican Light & Power
*Mississippi River Power
*Monterey R. R., Light & Power
*Montreal Light, Heat & Power
*Pachuca Light & Power (Mexico)
*Pennsylvania Water & Power
*Philadelphia Company
*São Paulo Electric Company
*Shawinigan Water & Power
Southern Brazil Electric
Tata Power Company (India)
*Tokyo Electric Light
*Toronto Power Company
*Vancouver Power Company
*Vera Cruz Electric Power Company
Victoria Falls Power Company (South Africa)

Street Railways

*Alabama Traction Company
Anglo-Argentine Tramways Company
*Brazilian Traction Light & Power Company
*British Columbia Electric Company
Buenos Aires Lacroze Tramways
Calcutta Electric Supply Company
Carthagena & Herrerias Tramway Company

City of Buenos Aires Tramways
Colombo Electric Tramways (Ceylon)
*Jardin Botanico Tramway (Rio, Brazil)
Costa Rica Electric Light & Traction
*Havana Electric Railway, Light & Power
Lisbon Electric Tramways
Manaos Trams & Light Company
*Manila Electric Corporation
*Mexico Electric Tramways
*Montreal Tramways Company
Para Electric Railways
Pernambuco Tramways Company
*Porto Rico Railways Company
*Puebla Tramway, Light & Power
*Rio de Janeiro Tramways & Power Company
*St. Louis, Springfield & Peoria Railroad Company
*São Paulo Tramway & Power
Shanghai Electric Constitution
Singapore Traction, Ltd.
*Toronto Suburban Railway
United of Montevideo
*Winnipeg Electric

Telegraph and Telephone

Amazon Telegraph Company
*American Telephone & Telegraph
Anglo-American Telegraph
Anglo-Portuguese Telephone
Bengal Telephone Company
*British Columbia Telephone Company
Chili Telephone Company
Constantinople Telephone
*Cuba Submarine
*Cuban Telephone Company
*Great Northern of Copenhagen
Montevideo Telephone Company
*New York Telephone Bonds
United River Plate Telephone

BREWERIES

British capital and enterprise have, from the beginning, regarded beer and spirits as a sort of public utility with which every country ought to be endowed, and in the London Stock Exchange list appear a number of these undertakings in foreign countries owned by British capital. Among them figure the names of some erstwhile American breweries and it does not require to be added that the stockholders in these companies are not ardent admirers of the

Volstead Act. The following list shows the principal foreign breweries quoted in London.

Bartholomay (Rochester, N. Y.)
*British Columbia Brewery
Calgary Brewing & Malting Company
Chicago Breweries
City of Chicago Brewing Company
Denver United Breweries
Indianapolis Breweries
New England Breweries
New York Breweries
Ohlsson's Cape Brewery (South Africa)
St. Louis Breweries
South African Breweries

LAND DEVELOPMENT COMPANIES

The following is a selection of the land development and mortgage companies quoted in London. The London classification is not entirely logical, and this list includes such a great industrial undertaking as the Forestal Land, Timber and Railway Company, a concern whose interests are principally in Argentina, which has something approaching a monopoly of quebracho bark and extract, used so much for tanning.

Aboukir Company, Ltd. (Egypt)
Alto Parana Development Company (Argentine). (Owning large areas in Brazil)
Anglo-Belgian of Egypt
Anglo-Newfoundland Development Company
Anglo-South American Real Property
Argentine Eastern Land Company
Argentine Estates of Bovril
Argentine Land and Investment Company
Argentine Northern Land Company
Argentine Southern Land
Australian Pastoral
Australian Sheep Farms
*Behera, Société Anonyme du (Egypt)
Boreno Company
*Caja de Prestamos Para (Irrigation Bonds)
*Canadian Northern Prairie Lands
Chosen Syndicate, Ltd. (Korea)
Cordova Land, Ltd. (Argentine)
Egyptian Government Irrigation Trust
Forestal Land, Timber & Railway Company (Argentina)
*Gharbieh Land Company (Egypt)
Goldsbrough Mortgage & Land Company (Australia)

Hudson's Bay Company
Land Company of Chiapas
Leach's Argentine Estates
Mortgage Company of Jamaica
Mozambique Company (Portuguese-Africa)
Pekin Syndicate
Peruvian Corporation
South American Cattle Farms
Sudan Plantations Syndicate
Texas Land & Mortgage

IRON, COAL, AND STEEL

Among the 120 or so of iron, coal, and steel companies whose securities are quoted in London are some overseas undertakings, the principal of which are listed below. It will be observed that United States Steel figures therein, this having always been a favorite stock with both British and Dutch investors. Tata Iron and Steel is the great Indian undertaking, the common stock being owned almost exclusively by natives of that country. It is a peculiarity of the London list that all the big shipbuilding concerns come under the heading of "Iron, Coal, and Steel," but this is not so illogical as it may appear, seeing that they all own coal and iron mines, as well as steel mills.

Alabama Coal Iron & Steel Company
Canadian Collieries
Canadian Steel
Dominion Iron Company
*Dominion Steel Company
*Nova Scotia Steel & Coal
*Skoda Works (Czechoslovakia)
Tata Iron & Steel (India)
*United States Steel Corporation
Wallarah Coal Company
West Dominion Collieries (Canada)

INDUSTRIAL

It is in the industrial section that one realizes best the extent of British interests abroad, and why London is still far and away the most varied market for foreign securities. To copy the pages of the London list with a reproduction of this section would be wearisome to the reader, as it would perforce include thousands of small British domestic undertakings which would not interest him.

The following list aims merely at giving specimen securities showing the far-spread nature of industrial investments obtainable in London. The majority of these are shares (stocks), the British investor having discovered long ago that, in the main, these are more profitable than bonds, but in many cases both bonds and various descriptions of stocks are listed.

It will also be noticed that some American securities figure therein.

*American Smelting & Refining
Assam Railways and Trading
Aux Classes Laborieuses (French Department toSre)
Barnagore Jute Factory (India)
Benson & Hedges (Canadian Tobacconists)
G. Beer (French Milliners)
British & South Pacific Trading
*Canada Cement
*Canadian Car & Foundry
*Canadian Cottons
Catalinas Warehouses (Argentina)
Chinese Engineering
City of Santos Improvements (Brazil)
*Cockshutt Plow (Canada)
*Dutch Company Margarine Factories
*Eastman Kodak
Egyptian Markets, Ltd.
Egyptian Salt & Soda
Elysée Palace Hotel (Paris)
H. & B. American Machine
Harrods (Buenos Aires) (Department Store)
*Illinois Car & Equipment
*Imperial Tobacco of Canada
International Linotype
Kellner-Partington Paper Pulp (Norway, Austria, etc.)
La Guiara Harbor (Venezuela)
Lake Copais, Ltd. (Greece)
*Lake Superior Paper
Louise & Co. (French Milliners)
Magadi Soda (Africa)
Magasins du Louvre (French Department Store)
Manaos Harbor (Brazil)
Manaos Improvements
Martinez Gassiot (Port Wine Shippers) (Portugal)
Mexican Cotton Estates
Millars' Timber & Trading (Australia)
*Montreal Cotton
J. Nathan & Company (New Zealand)
National Cotton Printing (Brazil)

Nestlé's Milk
Neuchatel Asphalt (Switzerland)
New Darvel Bay Tobacco (Borneo)
New London Borneo Tobacco (Borneo)
New Transvaal Chemical
*Newfoundland Power & Paper
North Borneo Trading
Paquin, Ltd. (French Dressmakers)
*Penmans (Canadian Woolen Manufacturing Company)

Some of these undertakings are of no mean size, issues of $5,000,000 and over being frequent. Thus, Harrods (Buenos Aires) has an issued capital of over $30,000,000; Magadi Soda, a debenture and share capital of over $12,000,000; Millars Timber, over $8,500,000; Nestlé's and Anglo-Swiss Milk, over $44,000,000; Newfoundland Power and Paper, over $10,000,000; and Rio de Janeiro Flour Mills, over $6,000,000.

MINES

A country early in the field of foreign investment was bound to be largely interested in mining ventures, these being one of the first portions of a new country's wealth to be developed. Gold, silver, diamonds, and other precious stones, and the base metals, all are to be purchased (or their shares) freely in London, from the St. John del Rey, the Brazilian mine which claims to have produced gold uninterruptedly more centuries than any other, to the Burma Ruby mines. The following will give some idea of the world-wide nature of the London market in mining shares.

*Anaconda Copper Mining Company
Arizona Copper Co., Lim., Ord. (U. S. A.)
Ashanti Goldfields Corporation, Lim. (W. Africa)
Bechuanaland Exploration Co., Lim. (S. Africa)
Burma Ruby Mines, Lim., Ord.
Camp Bird, Lim., 7% Cum. Ptptg. Pref. (free of inc.-tax) (U. S. A. and Mexico)
Cape Copper Company, Lim., Ord. (S. Africa)
Central Provinces Manganese Ore Co., Lim. (India)
Consolidated Gold Fields of South Africa, Lim., Ord. (Cum.)
Consolidated Mines Selection Co., Lim., Nos. 1-1200000
*De Beers Cnsld. Mines Lm., 40% Cm. Pfce. 1-800000 (Rgd.) (S. Africa)
Dolcoath Mine, Limited (England)
Ducktown Sulphr., Copper & Iron Co. Ord. (U. S. A.)

English Crown Spelter Co., Lim., Nos. 1 to 100000
Frontino & Bolivia (South American) Gold Mining Company
*Geduld, Prop. Mines (S. Africa)
Globe & Phœnix Gold Mining Co. (S. Africa)
Libiola Copper Mining Co. (Italy)
Mason & Barry, Lim. (Bearer) (Portugal)
Messina (Transvaal) Devt. Co., Lim., 6% 1st Deb. Stk.
Mount Elliott, Limited (Australia)
Mountain Copper Co., Lim. (U. S. A.)
Mysore Gold Mining Co. (India)
Namaqua Copper Co. (S. Africa)
National Mining Corp. (International)
*New Jagersfontein Mining & Exploration Co. (S. Africa)
Oregum Gold Mining Co. of India
*Oriental Consolidated Mining Co. (Korea)
Pahang Consolidated Co., Lim., Ord. (Malaya)
Rio Tinto Co. (Bearer) (Spain)
St. John del Rey Mining Co. (Brazil)
Scottish Australian Mining Co.
South Crofty, Limited (England)
Tanganyika Concessions, Lim., Ord.
Do. do. 10% Cum. Pref. (Africa)
Tharsis Sulphur & Copper Co. (Spain)
*Union Corporation (International)
*Van Ryn Gold Mines Estate (S. Africa)
Waihi Gold Mining Co. (New Zealand)
Weardale Lead Co. (England)

The foregoing are only those mining shares which have achieved the distinction of an official quotation. In addition there are so many other mining shares, that it is found necessary in lists to subdivide them under the following headings:

Kaffirs (South African)	Tin
Platinum	Copper
Diamonds	Broken Hill (Australia)
Rhodesia and Central Africa	Western Australia
West Africa	Russia
American	Miscellaneous
Canadian	

Here for the first time one notices the effects of London's being the metropolis of an empire, for many of these mines are in the British dominions. The great continuous gold reefs of the Witwatersrand (generally called "the Rand") in the former Transvaal Republic, are responsible for the importance of the "Kaffir" section, and the fact that the great De Beers diamond mines, as well as other important sources of supply, are in the Union of South Africa makes London the principal market in diamond shares. In fact, London, through the Diamond Syndicate, controls the production and selling price of about 80% of the entire world output. It may interest readers to learn that the predominant partner in the Diamond Syndicate, as from the beginning of 1926, is the Anglo-American Corporation of South Africa, reference to which has already been made.

Nearly all the South African companies are registered under local law, and although their chief market is London, they keep a register of shareholders in South Africa, which enables stockholders to avoid deduction of English income tax, as described in Chapter X.

Similarly, the mines of the Broken Hill district of Australia which are among the world's most important producers of silver, zinc, and other base metals, are registered locally, and this applies equally to the Burma Corporation, which is registered under Indian law.

OILS

To the American public the Oil section of the London market would appear small, there being only about a score of important companies quoted. These include the

Anglo-Persian
Kern River of California
*Mexican Eagle
*Royal Dutch
Shell Transport

SHIPPING

This, as might be expected, is an important section, albeit not so much in numbers as might be thought, for hundreds of small shipping companies are quoted on local stock exchanges, such as Newcastle and Cardiff. Those of interest to non-British investors are:

*Canada Steamship
*Indo-China Steam Navigation

* See note on page 56.

RUBBER, TEA, AND COFFEE

If the oil section of the London market appears unimportant to American eyes, not so the rubber section. When London talks of "rubbers" it understands rubber producing (or rubber plantations as they are termed) companies, and not rubber consuming concerns. As is indicated in Chapter V, the industry of rubber production has become almost a monopoly of the British and Dutch, and in London over 500 different shares of such companies are quoted, and the number is continually increasing. With but few exceptions these companies are registered under English law, so that their dividends are subject to English income tax. They are, however, such favorite stocks for speculation, quite apart from the high dividends they give in times of high rubber prices, that there is a good deal of foreign buying in them, the purchasers disregarding the question of income tax. Of the two channels of investment that the joint stock system has opened to the small investor it is safe to say that in recent years few have been more popular in England than the shares of rubber and tea growing companies. Rubber growing, in particular, has made a strong appeal; and tea, although a poor second in popularity, has numerous followers. The two industries have much in common. Each is preponderatingly British, with the Dutch as chief competitors, and each is conducted under a tropical sun, thousands of miles away from the boards of directors by whom the industries are controlled, and from the shareholders by whom the necessary capital is provided. Moreover, each has developed from very small beginnings, displacing in the course of that development an important industry formerly monopolized by another country.

Not so many years ago the whole of the tea consumed in the world came from China, and the bulk of the world's rubber was collected in primitive fashion from the wild forests of Brazil. Today China exports less than one-tenth of the world's supply of tea; Brazil is responsible for only about one-twentieth of the world's rubber; and in the course of the change both industries have grown into assets of enormous value to the British people.

For some reason, however, tea has remained a rich man's investment, while rubber has appealed to the large and small investor alike. This is sometimes attributed to the fact that tea shares are often of the nominal value of £10 and £5, while rubber shares are more frequently of the denomination of £1, and directors of rubber companies have not disdained to appeal directly to the small man by issuing *2s* shares, popularly known as "floriners."

The tea-planting industry developed slowly with the growth of the tea-drinking habit in the British Isles. Rubber came on with a rush that was due to the displacement of horse traction by the automobile and the enormous demand thus created for rubber tires in all civilized countries of the world. Rubber has manifold uses and enters into the composition of no fewer than 30,000 different articles; but 75% of the world's production of rubber is used in the automobile trade, and it is the expansion of the latter industry that has made rubber planting so profitable an investment. In 1910 the world's consumption of rubber amounted to only 70,000 tons, of which not more than 9,000 tons were supplied from plantation sources. By 1914 the output from the plantations alone had risen to 70,000 tons, and today the world is using well over half a million tons a year.

It will not be supposed that this period of extraordinary expansion could have passed without unpleasant, as well as pleasant, experiences of investors. The automobile trade and the rubber-planting industry were young together; and as it takes five or six years to bring rubber trees into bearing, it was hardly possible that the demand for rubber should each year be exactly balanced by the supply.

In 1910 the oldest of the rubber-planting companies surprised the investing public by paying phenomenal dividends ranging from 50% to as much as 375% for the year. As further areas planted with rubber trees gradually reached the bearing stage, the price of the commodity fell, and dividends were reduced to a less sensational level. When in 1914 the Great War dislocated the trade of the world, the rubber industry naturally suffered, but war consumption soon counterbalanced the loss of the normal trade demand, and when the war was over, consumption again expanded by leaps and bounds, resulting in another "boom" in the rubber share market. Most people, in England at any rate, have reason to remember the collapse in the world's trade which then followed. It hit the rubber industry with particular severity. Planting operations which had perforce been heavily curtailed during the war were again suspended; and it became necessary to restrict the output of rubber from Ceylon and Malaya (British possessions) first by voluntary action and afterwards by legal measures. Compulsory restriction of the crops reduced the world's floating stocks of the raw material to beggarly proportions. For example, at the end of January, 1923, the total supply held in London (where the world's reserve stocks are held), amounted to 73,400 tons; in 1925 London stocks were down to 4,500 tons. Figure 4 shows the geographical shipment of rubber during the year 1925.

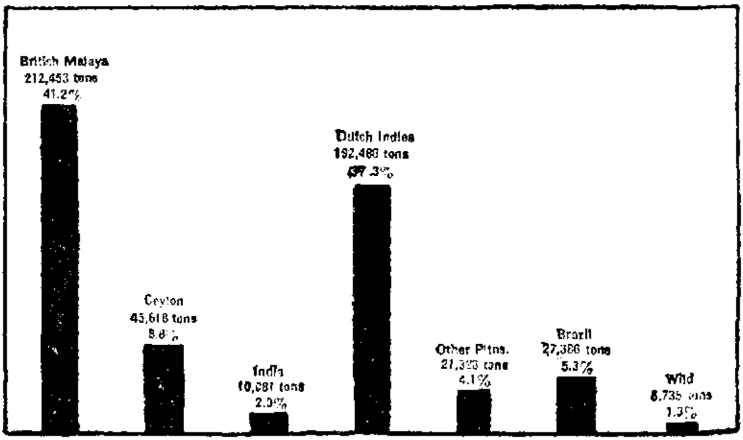

Figure 4: Geographical shipments of rubber during 1925.

Space limitations prevent more than a brief reference to the more distant outlook. This, too, has benefited by the lack of planting during the period of depression. The demand for the commodity is expanding to such an extent that when the total area now under cultivation is in bearing it will not be large enough to provide all the rubber that will be needed a few years hence. Whether the threatened shortage comes sooner or later will depend mainly on trade conditions in the United States—the chief consumer of the commodity. But perhaps sufficient has been said to support the claim that the rubber-planting industry, although subject to somewhat rapid changes of fortune, has a big future, and is one that provides the intelligent investor with good opportunities for profit-making. I see nothing more promising in this year of grace, 1926, in the shape of semispeculative investment in the London market except, perhaps, the shares of tin-mining companies—for much the same reasons. Tea shares, too, have their ups and downs; but tea is the elder of the two industries, and will attract those who look for a present high return on their money, while rubber appeals to those who believe in the future of the industry, and expect both good dividends and prospects of capital appreciation.

An interesting point about both rubber and tea is that these companies were formed and directed mostly by actual planters, and although the professional financier and promoter is now interested, many of the companies are still controlled by the men who made them, which, on the whole, gives the investor a better run for his money. Coffee-growing companies are fewer in number in London; for some reason many of the coffee- as well as the tobacco-growing areas owned by British companies have been sold to the Dutch, but a few Brazilian coffee plantations are dealt in in London, and some of the rubber companies still produce a small amount of coffee.

The following are the rubber-growing companies which have the freest market in London:

Allied Sumatra Plantations
Amalgamated Rubber Estates, Ltd.
Anglo-Dutch Plantations of Java, Ltd.
Anglo-Java Rubber & Produce Company, Ltd.
Bertam Consolidated Rubber Company, Ltd.
Cheviot Rubber, Ltd.
Laras (Sumatra) Rubber Estates
Linggi Plantations, Ltd.
London Asiatic Rubber & Produce Company, Ltd.
Malacca Rubber Plantations, Ltd.
Mendaris Rubber Estates
Merlimau Rubber Estates, Ltd.
Port Dickson-Lukut (F. M. S.) Rubber Estates, Ltd.
Rubber Plantations Investment Trust
Sialang Rubber Estates, Ltd.
Tanjong Malim Rubber Company, Ltd.
United Serdang (Sumatra) Rubber Plantations, Ltd.
United Sua Betong Rubber Estates, Ltd.
United Temiang (F. M. S.) Rubber Estates, Ltd.
Vallambrosa Rubber Company, Ltd.

VIII

INTERNATIONAL MARKETS

Private and government stock exchanges. Forms of security. Stock exchanges of international importance: Paris; Amsterdam; Brussels; Berlin; Frankfort-on-Maine; Vienna; Basle, Geneva, and Zurich.

LONDON as a market for foreign investments has received special treatment in the preceding section. In this chapter the other principal stock exchanges of the world will be dealt with from the ordinary standpoint of international investment. A few general remarks, however, are called for. There are one or two broad distinctions between, say, London, New York, Montreal, and Toronto on the one hand, and the bourses of the continent of Europe on the other. The former are private institutions, having their own rules and subject to no outside interference beyond the ordinary laws of the country. The others are more or less under government control, and in many cases are regulated by the local chamber of commerce, itself a semi-governmental institution. These chambers of commerce are elected bodies of the business community, and membership is a much coveted honor, carrying with it considerable social standing. They are given specified functions, such as officially testing the purity and quality of goods, nominating magistrates for the civil courts, experts on commissions, and so forth, and managing markets, bonded warehouses, and the bourse. They frequently have the right to levy special taxation on the business community within their jurisdiction for objects of general utility to trade in the locality. In many cases the stock exchange and produce exchanges are all one institution. The Hamburg Börse, for instance, consists of three great halls, one of which is devoted to stock exchange transactions, plus foreign exchange, and the other two to produce. Some of these stock exchanges have in operation a system of mutual guaranties whereby in the event of one member defaulting, the others are called upon to make good his deficiency to fellow members and clients. One other broad distinction it may be useful to note. With merely an occasional exception London, Paris and Brussels quote all bonds "flat," that is, the price quoted carries whatever interest may have accrued, whereas every other important stock exchange in the world quotes bonds in the same manner as New York, namely, plus accrued interest. Obviously it is extremely important to bear this in mind in purchasing bonds in London, Paris, or Brussels, as the quotations there may look higher than they really are, by reason of the fact that they may include, say, five months' accrued interest.

SECURITY FORMS

In its preference for bearer bonds the investing public of Continental Europe is similar to that of the United States and Canada, whereas the British investor, as a whole, favors registered loan stock or debentures, which means that his name appears in the register of the bank charged with the service of the loan or on the books of the company itself, where it is a case of a company's loan, he receiving a certificate establishing the fact that he is the owner. Interest payments, in such cases, are not made by coupons but are sent direct to the holder by check (or direct to his bank, if he so wishes), and ownership of such securities cannot be transferred except by means of a special form signed by both the seller and the buyer and witnessed, which form has to be embossed with a stamp at the rate of 1% of the purchase price. This method has the advantage that loss of the certificate is not a very serious matter, seeing that the loan or share cannot be transferred except on properly authenticated signatures; there is also the advantage that the holder has mailed to him any notices, annual reports, and so forth, which the borrower or company wishes to bring to the attention of its loan holders or shareholders. On the other hand, this method has not the advantage of ready negotiability and involves a good deal of registration work. The American system of transfer of shares by means of an endorsed certificate is not practiced in England. As a consequence, the majority of British and British Colonial loans, and practically all company loans, and with one or two trifling exceptions, all shares of English companies, are issued in this registered form. Some of the British Colonial governments and cities issue bearer bonds, in the same form as American bonds, and all government and foreign municipal loans quoted in London are in this familiar bearer form, with coupons attached; the numerous companies which are registered in countries outside Great Britain, but are quoted on the London Stock Exchange, also issue their bonds in bearer form. All such bonds, however, have to be impressed with English stamp duty at the rate of 2% of the nominal value, after which they may circulate as freely as bonds do in New York.

Shares of American and Canadian companies which are dealt in in London are in the familiar American form, that is, either in a market name or in the name of the actual holder, duly endorsed.

The various stock exchanges of international importance are now dealt with.

Paris

The first French bourse was apparently opened in Toulouse in the year 1549, but the only important stock exchange is that of Paris, which started early in the eighteenth century. The great wealth of France, and the predilection of its inhabitants for bonds, caused Paris to become a great international financial center, and in this respect it rivaled London right up to the Franco-German War of 1870-1871. As indicated elsewhere in this volume, a great error was committed in France, for which the investors in that country have had to pay dearly, by allowing international politics to direct investment policy, for the encouragement given to Russian loans resulted in destroying a sensible diversification of risks and has lost France billions of dollars. The position of Paris as an international market is peculiar. It is still of considerable importance, the number of foreign securities quoted making it rank second only to London, but it is largely a closed market. Even before the war its rigorous taxation policy limited the introduction of new foreign securities very severely, and since the outbreak of war all possible efforts have been taken to prevent the outflow of French capital. In the "flight from the franc" such securities as are in foreign currencies have been quoted considerably above parity in other markets, as they present the only means readily available of getting rid of the risks of a continuous fall in the value of the franc. For instance, Mexican Eagle shares quoted in London at 19 shillings, say $4.50, were at the same time quoted in Paris at the equivalent of $6. Both ranked alike, but only shares bearing certain numbers are admitted to dealings in Paris, and the quotation referred merely to those numbers. Until this state of affairs is changed, the Paris Bourse presents little attraction to the investor abroad, in spite of its great importance. The varied nature of the securities dealt in, however, may be gathered from the following extracts from the official list. Those marked with an asterisk have to pay a heavy stamp duty as they are not "*abonné au fisc*"—are not commuters, as it were, of the securities taxes. "*Coupure*" indicates the "cut" or denomination of the bond or share.

Russie 4 1/2 o/o 1909 (Séries 37 à 230)
Serbie 4 o/o amortissable 1895
Turquie. Dette Ottomane convertie unifiée 4 o/o
Turquie. Ottoman 5 o/o 1914
Banque de Londres et de Mexico 100 piastres
Banque Nationale du Mexique 100 piastres
Banque Impériale Ottomane 500 francs, 250 francs payé.
Crédit Foncier Egyptien 500 francs, 250 francs payé.
Congo Supérieur aux Grands Lacs Africains, Capital 250 francs.
Nitrate Railways Company, Ltd., Ordinaire £10.
Wagons-Lits, Ordinaire 100 francs
Central Mining and Investment Corporation, £8
Rio-Tinto Company, Limited, Ordinaire £5

Azote et de Forces Hydro-Electriques (Sté Norvégienne de l') Ordinaire 180 couron. ou 250 francs

Lautaro Nitrate Company, Ltd., £5

*Amazone 5% 1906, 500 francs, mai 1920

*Argentin 6% cédules.... (change fixe 2.25) — coupure $ 50; coupure $ 100; coupure $ 500; coupure $1000

*Argentin 5% 1905 intér. (change fixe 2.25) — coupure $ 100; coupure $ 500; coupure $1000; coupure $5000

*Argentin 4% or, mixte 1897-1900 (émis. anglaise) — coupure £ 10; coupure £ 20; coupure £ 50; coupure £ 100; coupure £ 200; coupure £ 500; coupure £1000

*Brésil 5% 1895....... (change fixe 25.20). — coupure £ 100; coupure £ 500; coupure £1000

*Brésil 5% 1903........ (change fixe 25.20) — coupure £ 100; coupure £ 500; coupure £1000

*Brésil 4% 1901-1902-1905 (Rescision) (change fixe 25.20). — coupure £ 20; coupure £ 100; coupure £ 500; coupure £1000

*Brésil 5% 1914 funding (change fixe 25.20). — coupure £ 20; coupure £ 100; coupure £ 500; coupure £1000

*Buenos-Aires 6% Intérieur Consolidé 1re et 2e séries .... (change fixe 2.25). — coupure $ 50; coupure $ 100; coupure $ 200; coupure $ 400; coupure $ 500; coupure $1000; coupure $5000

*Buenos Aires 6% Intér. Obras (change fixe 2.25) — coupure $ 100; coupure $ 500; coupure $1000

*Buenos-Aires 5% Intér. Afirmados (ch. fixe 2.25). — coupure $ 100; coupure $ 500; coupure $1000

*Buenos-Aires 3 à 3½% or 1906-1907-1909.... (change fixe 25 francs) — coupure £ 20; coupure £ 100; coupure £ 500; coupure £1000

*Buenos-Aire 5% or 1915 (change fixe 25.20).

*Chili 4½% or 1906.... (change fixe 25.15). — coupure £ 20; coupure £ 100; coupure £ 200; coupure £ 500

*Chinois 5% or 1914, 500f. (c. 15 att.), mars 1921

*Colombie 5% or 1906, £20, déc. 1925

*Colombie 6% or 1911, 504 fr., sept. 1925

*Corrientes 6% or 1910 (ch. fixe 25.20). — coupure £ 20; coupure £ 100

*Cuba 5% or 1904...... (ch. fixe 5.18). — coupure $ 500; coupure $1000

*Cuba 5% or 1905 (ch. fixe 5.18) 28 nov. 1925.

*Dominicain 5% or 1908 (change fixe 5.175). — coupure $ 50; coupure $ 100; coupure $ 500; coupure $1000

*Entre-Rios 6% Intér.. (change fixe 2.25). — coupure $ 50; coupure $ 100; coupure $ 500; coupure $1000

PETROLIÈRES

American Foreign Oil Corporation, $5 (coupon 1 attaché) — coupure de 10; coupure de 20; toutes coupures par 25

*Astra Romana, 500 lei: — coupure de 10; toutes coupures par 25

ex-rép. actions (coupon 19 attaché) — coupure de 10; toutes coupures par 25

Bakou, 100 roub. (ex-c. 21), 16 mai 1910

Boryslaw, capital 100 f. (ex-c. 8), juin 1913

— — (coupon 16 attaché).

Colombia (Fco-Rne), 500 lei (ex-c. 2), 2 nov. 1921

Concordia (Société Roumaine): 250 lei (1 à 1960000) — coupure de 10; coupure de 20

Docks du Pétrole, B500 f. (ex-c. 3)

Franco-Anglaise de Recherches Pétrolifères, 500 francs (ex-c. 9).

Franco-Polonaise des Pétroles: 500 fr., 62 fr. 50 remb. (ex-c. 1).

Part (coupon 1 attaché)

Franco-Wyoming, ordinaire $10. (ex-c. 15), — coupure de 5; coupure de 10

Gleboff Grosnyl, £1 (c. 1 attaché) — coupure de 5; coupure de 10; coupure de 25; toutes coupures par 25

Grabownica (Pétroles de) — 100 fr.; part

Grosnyi (Estampillée ou non):

*Priv. 500 f. (1 à 20000) (c. 31 at.)

*Ordinaire (c. 31 attaché).

MINES MÉTALLIQUES

Almagrera, 100 fr. (ex-c. 13).

*Alpines, 200 cour. (ex-c. 32).

Ariège (Mines de l') 100 fr. (c. 1 attaché).

*Asturienne de Mines (ex-c. 67).

Balia-Karaïdin, 100 fr. (ex-c. 22).

Beni-Aïcha, prio. 6% 100 f. (ex-c. 1).

Blaymard (Sté s jouis. (ex-c. 15).

Bormettes (Mines des):

Prio. A 100 f. (6385 à 24384 & 24385 à 40000), (c. 1 at.)

Part (coupon 1 attaché)

Borralha, 100 fr. (c. 8 at.)

*Butte and Superior Mining $10. (ex-c. 22) 11 janv 1926 — coupure de 5; coupure de 25; toutes coupures par 25

Campanario, 500 f. (en liq., ex-r. 35 f.) (c. 1 attaché)

Part coupon 1 attaché

*Cape Copper, ordinaire £2. (ex-c. 60), — coupure de 5; coupure de 10; coupure de 20; coupure de 25; toutes coupures par 25

Caronte (Ste Mre & Mét.) 100 f.

Caucase, 250 fr. (ex-c. 3.)

Chanaral, 500 fr. (ex-c. 1).

*Chino Copper c. 5 (ex-c. 31). — coupure de 5; coupure de 25; toutes coupures par 25

Corocoro United Copper, ordin. re £1 (c. 11 att.) 8 avril 1920	coupure de 5	Corocoro United Copper, prefér. £1 (Emis 1920,) (c. 1 att.)	coupure de 5
	coupure de 10		coupure de 10
	coupure de 25		coupure de 25
	toutes coupures par 25		toutes coupures par 25

AMSTERDAM

As has already been stated, Amsterdam was the first stock exchange to assume international importance, and an official list of the year 1747 covers 44 securities. Since the war of 1914-1918 Amsterdam has undoubtedly assumed the second place in Europe as a free international market, ranking only after London in this respect.

While the London list groups all foreign bonds together, arranged in alphabetical order, and Paris lists them in any way, the Amsterdam list sets them out more logically under their respective continents. Almost every European country appears, and it is interesting to note that in the North American section there figures under the heading of the United States the Louisiana loan of 1874. Argentina is represented by only four loans, but Brazil figures prominently. The most distinctive feature is the bank section. The Amsterdam Stock Exchange specializes in mortgage banks operating in all parts of the world, as witness the following section of its list, which covers bonds only:

	%		%
Amst.-Canada Hyp. bk.	Pandbr.5	Internationale Hyp. bk.	Pandbr.6
*Donau Hypotheek Bank	Pandbr.5	dito dito	dito 6
* dito dito	Pandbr.4½	Ned.Amerik. Hyp. Bank	Pandbr.5
Holland Bank	Aand.	dito dito	dito 4½
dito dito	Pandbr.6	dito dito	dito 4½
dito dito	dito 5	Ned.-Amer. Land-Mij.	Aand.
dito dito	dito 4½	Ned.-Transatl. Hyp. bk.	Aand.
Holl.-Canada Hyp. bank	Pandbr.6	dito dito	Pandbr.5
dito dito	dito 6	Ned. Zuid-Afrik. Hyp. bk.	Aand.
dito dito	dito 5	dito dito	Pandbr.4½
dito dito	dito 5	dito dito	dito 4
Holl.-La Plata Hyp. bank	Aand.	Noord-Amerik. Hyp. bk.	Pandbr.6
"Holl. Mex." Mij v. Hyp. Cr.	Pr. A.	dito dito	dito 5½
Holl.-Noord-Amer. Hypbk.	Pbr.6	dito dito	dito 5
dito dito	dito 5	North-Western and Pacific	
Holland-Texas Hyp. bank	Aand.	Hyp. bank Serie A.	Aand.
dito dito	Pandbr.6	dito dito Serie B-D	Aand.
dito dito	dito 5	dito dito	Pandbr.6
Holl.-Washington Hyp. bk.	Aand.	dito dito	dito 5
dito dito	Pandbr.6	dito dito	dito 4½
dito dito	dito 5	dito dito	dito 4
Hyp. bank Holl.-Amer.	Pandbr.6	dito B. v. D. in 35% d. overw.	
dito dito	dito 5	N. W. Pac. Hyp. bk. (De 2e) A.	
Hyp. bank voor Amerika	Pandbr.6	dito dito	Pandbr.5
dito dito	dito 5	dito dito	dito 4½

	%
Oostersche Hypbk. Pref.	Aand.
Pretoria Hyp. Mpij	Pandbr.5
dito dito	dito 4½
dito dito	dito 4
Ver. Transatl. Hyp. Banken	A.
dito dito	Pandbr.6
dito dito	dito 5½
dito dito	dito 5
Arg. Nat. Hyp. b. (Cedula L)	P.6
dito dito	(K) P.5
*Banco Int. Hyp. de Mex.	Pbr. 5
Centr. Hyp. bk. Ungar Sparc.	P.4½
dito dito	2e Serie P.4
dito dito	Comm. O.4
*Christ. Hyp. Realkr. Bk. O.	4½
Créd. Fonc. du Brésil et de l'Am. du Sud.	Oblig.5
*Cred. Fonc. Mex. (Mex. Lb. Hyp. Bk.) Ser. B-C,	Pbr. 6
Créd. Fonc. Sud-Americ. Serie B	Pandbr.5
Créd. Hyp. Agricole Urbain d'Egypte	Pandbr.4½
Eur.-Canadeesche Hyp. b.	C. v. P.5
Foren.-Banken in Finland	Pandbr.4½
Gal. Boden-Credit-Verein.	Pandbr.4
Hong. Bod.-Cred. Inst.	Pandbr.4½
dito dito	dito 4
dito dito	dito 4
dito dito	dito 3½
Hong. Hyp. Bank Comm.	Oblig.4½
dito dito	dito 4½
Innerst. Sparcasse Act. Ges.	Pb.5
dito dito	Pandbr.4½
Kon. Zweed. Rijks-Hyp. b.	Oblig.4
Land Bank (The) of Egypt.	Pb.4
*Mex. Voorsch. b. v. Irr. enz.	O. 4½
* dito dito	Afgest. 4½
(Incl. cashcp 1/5 24, scripcp N. 3)	
* dito dito	Oblig. 4½
* dito dito	Afgest. 4½
(Incl. cashcp 1/5 24, scripcp N. 3)	
Mitteld. Bod. Cr. Anst. 5e Ser.	P.4
Mortg. Bond Comp. (2e Ser.)	P.4
*Moskauer Agrar Bank	Pbr. 4½
* dito dito	Pandbr. 4½
Nord. Aktb. f. Hand. o. Ind.	Pbr.4½
*Oosterer. Bod.-Cr. Anst.	Pbr. 4
Pest. Erst. Vaterl. Sparc. Ver.	P.4
Pester Ung. Comm. Bank	O.4½
dito dito 1e Ser. Comm.	O.4
dito dito dito bel. vr.	Pbr.4
Preus. Bod. Cr. Act. Bk. Ser. 17	Pb.4
*Russ. Wederz. Gronde.	Pbr. 5
Stockh. Hyp. Verz. Mpij	Pbr.4
Ung. Alg. Sp. Act. Gesells.	Pbr.4½
Ung. Esc. und Wechs. b.	Pbr.4½
Ung. Land Centr. Sparc.	Pbr.4½
dito dito	dito 4½
Zwits.-Argent. Hyp. bank	Oblig.5

A predilection for American investments which goes back nearly a quarter of a century is evidenced by the industrial section of which the following is an extract, bonds and stocks appearing under the same heading, "A" representing shares, and "O" bonds.

Advance Rumely Cy.	Cert. v. A.
dito dito	Sink Fund. Obl.
Amer. Beet Sugar	Ct. v. Gew. A.
dito dito	Cert. v. Pr. A.
American Can Cy.	Ct. v. Gew. A.
dito dito	Cert. v. Pr. A.
Am. Car Foundry Co.	Crt. v. A.
dito dito	Cert. v. Pr. A.
Am. Gas & E. G. D. B.	(Rubr. II)
Am. Hide & Leather Co.	C. v. P. A.
Am. Smelt. & Refin. Co.	C. v. A.
dito dito	Goud. Obl.
Am. Tel. en Tel. Cy. (Tr. K.)	C. v. A.
dito dito (Hope & Co.)	C. v. A.
dito dito	Conv. O.
dito dito	Coll. Tr. O.
dito dito	Obl. per 1936
Am. Wat. Works & El. Cy.	Cv. G. A.
dito dito	Cert. v. 1e Pr. A.
Anac. Copper Min. Cy.	C. v. A.
Anglo Am. Telegr. Cy.	C. v. A.
Bergbauliche Arbeiten	C. v. A.
v. d. Bergh's Ltd.	C. v. Pr. A.
Beth. Steel Corporation	C. v. A.
Beth. Steel Company	Goud O.
British Empire Steel Corp. Ltd.	Cert. v. Gew. Aand.
dito B Cert. v. 1e Pref.	Aand.
dito Cert. v. 2e Pref.	Aand.
Can. Gen. Elec. Cy. Ltd.	C. v. A.
dito dito	Cert. v. Pr. A.
Cementfabriek te Visé	Aand.
Central Leather Cy.	Gew. A.
Cities Service	C. v. Gw. A.
dito dito	Cert. v. Pr. A.
Con. Railw. & L. Co.	1e Hyp. O.
Cons. C. Light P. a. Tr.	Goud O.
Cuban Teleph. C. v. Pr.	Conv. A.
dito dito	Conv. O.
Deutsch-Nied. Telegr.	Ges. A.
dito dito	Cert. v. Aand.
* dito dito	Oblig. 4
dito dito	Cert. v. 4% Obl.
Dom. Steel Corp.	Cert. v. Pr. A.
Emers Brantingh Cy.	C. v. Pr. A.
General Cigar Cy.	Cert. v. Aand.
Glasf. v/h A.	Ziegler's Sohn A.
Gronau, Baumwollsp.	1910 O.
Gulf States Steel Cy.	C. v. G. A.
dito dito	C. v. 1e Pr. A.
*Helena Light & Rw. Co.	G. O. 5
Intern. Match Corp.	C. v. Pr. W. A.
Keystone Tel. Cy.	1e Hyp. G. O.
Mad. R. Power	1e Hyp. Skf. G. O.
Marc. Telegr. Cy.	C. v. Gew. A.
dito dito	Cert. v. Pr. A.
Mexican Light & Pow. Cy.	G. A.
Middle West Util. Cy.	Cert. v. 1-10 Gew. Aand.
dito C. v. 7% C. Wd. Pref.	A.
dito C. v. 7% C. en Wd. P. Lien.	A.
Mississ. Riv. Plw. Cy.	C. v. G. A.
dito dito	Hyp. O.
N.-Y. Tel. Cy.	1e & Alg. Hyp. O.

Parab. (Com. Ass.)	Af. C. v. G. A.
Phoenix Lumber Comp.	Pr. A.
Rad. Crp. of Am.	C. v. 10 Gw. A.
dito dito	Cert. v. Pr. A.
Rep. Iron & St. Cy.	C. v. Gw. A.
Santiago E. L. & Tract. Cy.	G. O.
Standard Milling Cy.	C. v. Gw. A.
dito dito	Cert. v. Pr. A.
Studeb. Corp. (The)	C. v. Gw. A.
dito dito	Cert. v. Pr. A.
Underw. Typewr. Cy.	C. v. Pr. A.
Un. St. Steel Corp.	C. v. Gw. A.
dito dito	Cert. v. Pr. A.
dito 10-60 jar. Sink. Fund	G. O.
Ven. Tel. El. Appl. Cy.	C. v. A.
dito dito	First Mg. Deb.
West. Penn. Cy.	C. v. Pr. A.
Worthingt. Pump and M.	C. v. G. A.
dito dito	C. v. Pr. A. and B.

Every important stock exchange has its specialties, and in addition to those already mentioned, Amsterdam has important sections devoted to securities under the following headings:

Oil	Tobacco
Rubber	Tea
Sugar	Shipping

In the railroad sections, the American reader might easily think he was looking at the New York list, so many are the familiar names. Among the 75 American railroads included in the list, are probably a few unknown to the ordinary citizen, being long forgotten and long since merged obscure railroads whose bonds have been lying in the strong boxes of Dutch rentiers for a generation or more.

For reasons given, the Amsterdam Börse, after London, deserves the greatest amount of attention from those interested in foreign investments, either practically or academically.

The official list of the Amsterdam Stock Exchange is the only one known to me which accepts advertisements of new offerings and the like.

Brussels

Every stock exchange deals in a certain amount of rubbish, but according to the experience of the writer, Brussels has always enjoyed the unenviable distinction of dealing in a larger percentage of bad securities than any other stock exchange, although Paris runs it a close second. One of its most interesting sections is that of tramways (street railways), in the spread of which Belgian financiers and engineers have been more active than those of any other nation. The wide field covered by Belgian tramway companies is shown by the following extract from the official list of the Brussels Bourse:

TRAMWAYS, CHEMINS DE FER ECONOMIQUES ET VICINAUX

Alexandrie (Egypte)	
Ans. à Oreye (Ch. de Fer Vicinal)	
Anvers (Cie Générale)	
Astrakhan	priv
"	ord
Athènes et du Pirée	priv
" "	div
Auto Transports	p. soc
Barcelone	cap.
"	10e p. de fond.
Barcelone à San-Andrès	
Bari-Barletta	
Bialystok	cap.
"	jouiss.
Bologne	
Bruxellois	priv.
Buenos-Ayres (Cie Générale)	cap.
" "	div.
"	20e p. de fond.
Caire	priv.
"	p. de jouiss.
Carthagène	priv.
"	ord.
Catane (Tram. et Eclair. Electr.)	
Dunkerque et Calais	cap.
" " "	div.
Est-Ouest de Liége	
Florentins	cap.
Galatz	cap.
"	div.
Gand	cap.
"	div.
"	jouiss.
Iékaterinoslaw	cap.
"	div.
"	jouiss.
Kazan	
Kharkoff	
Kiew	cap.
"	div.
"	jouiss.
Kischinew	priv.
"	p. de fond
Liégeois	ord.
Liége-Seraing	priv.
	ord.
Lille	
"	jouiss.
Livourne	ord.
Madrid et Espagne	priv.
" "	ord.
Milan-Bergame-Crémone	priv.
" " "	
Moscou (2e réseau)	priv.
" "	ord.
Napolitains s.B-C nos 6001 à 37500	
Odessa	cap.
Oran à Hamm.-Bou-Adjar.	
Pays de Charleroi	
Piémontais, Série A, 3 ½ %	
" " C, 5 %,	
"	
"	
Provinciaux de Naples	
" " "	
Reims	
Rome, Milan, Bologne	
Rosario	
"	
"	
"	100e p.
Rostoff	
"	
Rotterdam	
"	
Société Belge de Tramways	
" " " "	
" " " "	
Sofia	
"	
"	
Szegedin	
"	
Ténériffe	
"	
Transp. et Force Motr. en Esp.	
" " " " "	p. de
Turin	
Varsovie (Suburb et Vic. de)	p.
" "	p. de.
Vérone (Ville)	
" "	
" "	
Verviétois	
"	
Vicin. Belges	
Vicinaux Hollandais	

Other prominent sections, but more domestic than international, are those devoted to coal mines, glass-works, and lead and zinc mines.

A fair amount of foreign shares are still dealt in on the Brussels Bourse, and the list is sensibly arranged in order of countries as on the following page.

Allem. Barmen-Elberfeld (Electr. Strassb.) cert. . . . . jouiss.
" Dahlbusch (anc. Ch. la Ruhr) .
" " " . .
" " " priv. (4,001 à 30,000)
" Deutsch-Lux. Berg. cap. pr. est. .
" Gelsenkirch. Bergw. (t. de 2) . .
" Sud Kameroun (S. A. B. C.) ord.
" " " (tit. unit. et de 5). jouiss.
Anglet. Chinese Eng. (Kaiping) . . .
" " " " . .
" " " " . .
" Nitrate Railways (tit. 10) . .
" " " (tit. 5) . . .
" " " (unités) . .
Argent. Crédit Foncier Santa-Fé . . .
" Sucr. de Tucuman (Cie) .ord.
Autriche. Tramw. de Cracovie . . . .
" Orientaux (Chem. de fer) . .
" Phœnix-Autr. (Ass. Inc.) . .
Canada. Canadian Pacific. (Cert.) . . .
" Westm. Bank. (tit. 10) . . .
" " " (tit. 5) . . . .
" " " (unités) . . .
" Barcelona Tr. L. Pow. Cy.ord.
" Brazilian Traction Light and Power Company . . . . . .
" Dominion Steel Corporat . . act. de préf. Cumulat 6 % . .
" Mexico Tramways Comp. . .
Egypte. Agric. Ind. d'Egypte . . priv.
" " " " . . . . cap.
" " " " . . div.
" Anglo-Belgian Cy. of Egypt. .
" Anglo-Egypt. Land. Allot. Cy .
" " " " " . fond.
" Banq. Agric. d'Egypte . priv. (nos 250001 à 375000).
" " " " . . . . ord. 12250 cert. de 5 t., 6720 cert. . de 10 tit., 6032 cert. de 25 tit. non négociables.
" Banq. Agr. d'Egypte p. d. fond. (nos 248001 à 250000).
" Basse-Egypt. (C. f.) r. f. 600 pr.
" " " div.
" Cairo Electric. Railways and Héliopolis Oases Cy. . . cap.
" " " . . . . div.
" Egyptian Ent. and. Dev. . cap.
" " " " " . div.
" Gharbieh Land Company . . .
" " " " . . div.
" Imm. d'Egypte . . . . . cap.
" " " p. de fond.
Espagne. Andalous (Chem. de fer) . .
" Aragon (Ferroc. Cent.) .priv.
" " " " . . ord.
" Lujar (Minas y Pl. Sierra de) . (10e d'action).
" Madrid-Sarag.-Alic. (Ch. fer) .
" Madrid à Villa del Prado . .
" " " " " prior. (anc. obl. est.)
" Madrilena de Tranvias (Soc.)
" Nord de l'Espagne (Ch. de fer).
" Sévillane d'Electricité Cie .
" Sud de l'Espagne . . . . . .
Etats-Unis. North-Western . . . adj.
" Port of Para . . . . .priv.
" " . . . . . ord.

A few foreign bonds are also quoted in the Brussels Bourse, but it is of no great international importance in this respect.

Berlin

It was only during the first part of the nineteenth century that the Berlin Börse attained importance through the issue of various state loans. The first German stock exchanges were founded in the sixteenth century in Augsburg, Nuremberg, Hamburg, and Cologne. With the increasing wealth of Germany, the Berlin Stock Exchange gradually became a factor of increasing importance, and before the war it was a considerable market for foreign government bonds and American railroads. The war has, of course, changed the complexion of affairs, and so far as foreign investments are concerned, Berlin no longer enjoys its former importance. A few foreign bonds, such as, for instance, Argentine, Chinese, Egyptian, Greek, Japanese, Mexican, are dealt in there, and such shares as Baltimore & Ohio, Pennsylvania, and Canadian Pacific are quoted.

The stock exchange list is a large one but consists mostly of German industrial bonds and stocks. The bonds of the various German land and property mortgage banks are a feature and present attractions to investors abroad, as owing to the scarcity of domestic capital, some of them were placed at high rates of interest which, allowing for the 10% coupon tax, gave a yield of over 9%, and are as safe investments as are to be found in the country. There is little doubt that as the years go on Germany will regain her former economic position and the Berlin Bourse its pre-war importance. In fact, while this volume has been in the press, considerable progress has been made in this direction.

Frankfort-on-Main

The Frankfort Börse is of earlier origin than that of Berlin, having been founded in the seventeenth century. Although gradually overshadowed by Berlin, Frankfort has always retained its character of being specially interested in foreign securities, and particularly American railroads.

In its list foreign securities are divided into two classes, namely, European and non-European stocks. Owing to the war, the latter are now a diminished section. The leading foreign securities now quoted are Argentine, Chinese, Egyptian, Mexican government bonds, a few European municipals, for example, Copenhagen and Stockholm. The inevitable Baltimore & Ohio and Pennsylvania stocks, sundry railroad stocks of the late Austro-Hungarian Empire and Switzerland, Anatolian Railway and Tehuantepec Railroad (Mexico) figure in the list.

As Germany regains some of her pre-war prosperity, Frankfort will doubtless reassume some of its former importance as an international market, its bankers being exceptionally well versed in the detail and intricacies of foreign exchange and arbitrage.

Vienna

The Vienna Börse was started in the year 1771. Prior to the war its chief interest in foreign securities was in Turkish loans and railway bonds, the bonds of some of the small Balkan states and their cities, together with one or two Italian and Russian loans. It was, however, the exclusive market for the bonds and shares of all the commercial and industrial undertakings in those territories which comprised the Austro-Hungarian Empire and are now divided among what are termed the "succession states." In spite of the great political change that has occurred, Vienna remains, and is likely to remain, the principal market for these securities. The subdivision of a stock exchange list affords a good indication of the chief industrial interests of a country, and it is interesting, therefore, to observe that in the Vienna list there are special sections devoted to the chemical interests, timber and furniture, paper and sugar. It is doubtful if Vienna would ever have been a great international stock exchange in the wide sense, as all the capital resources that could be attracted to that center could find profitable employment in the area covered by it, the great natural resources of which are still far from being fully developed. It is, however, the key to Eastern Europe, which is not yet civilized enough to have important stock exchanges of its own.

Basle, Geneva, Zurich (Switzerland)

The two interesting things which stand out in connection with the Swiss bourses are (1) the large number of foreign securities dealt in, bearing in mind that the entire population of the country is about the same as that of Chicago; (2) that business on the Basle and Zurich bourses is conducted in German and the lists printed in that language, while for Geneva the language is French, although the distance between Geneva and Zurich is only about 150 miles. For this tiny country to have three stock exchanges, each of some international importance, is a striking circumstance. The following extracts from the railroad bond section of the Basle list gives some indication of the variety of interests covered:

Brazil Railway Company
Comp. du Chemin de fer de Paris à Orléans
  Schweizer Franken 50 Millionen
Gesel-Dala Eisenbahn 1910. I. Hyp.
Italienische Staatsgar.-Eisenbahnen
Meridional-Eisenbahnen
National Railways of Mexico
Sorocabana Railway Comp.
South Pac. Comp. San Francisco Term., 1 Mortg.
Südmandschur. E.-G. 1910
  " " 1907/08
Tehuantepec-National-Eisenb.-Ges.

For some inscrutable reason Switzerland appears to have taken an unusually large interest in Mexico. The Geneva Bourse is the only stock exchange in the world known to me which quotes, for instance, the shares of a Mexican domestic cigaret manufacturing company—El Buen Tono. Switzerland specializes rather in holding companies, particularly in connection with electrical undertakings; also in the bonds and shares of foreign mortgage banks. The following excerpt from the Zurich list gives some idea of the diversity of interests:

Allgemeine Elektrizitäts-Gesellschaft, Berlin
Bergbau-Aktiengesellschaft Präsident, Bochum
Comp. Sevillana de Electricidad (Nr. 1—80,000)
"Electrica" Societate Anonima Română
Electricité de Strasbourg S. A.
Ges. f. elektr. Beleuchtg., Petersburg, v. 1886, Stamm, mit Affidavit
  " " " " v. 1886, "
  " " " " v. 1886, Prior., mit Affidavit
  " " " " v. 1886, "
  (mit Coupon pro 1914 u. ff.)
Kraftübertragungswerke Rheinfelden Nr. 1—12,000
Lima Light, Power & Tramways Co., Lima (Cert. à £ 20.-.-)
  (8% kumul., gewinnanteilb. und konvertierb. Prioritäts-Aktien)
Società Adriatica di Elettricità in Venedig
  " Anon. Elettricità Alta Italia, Turin (No. 1—384,000)
  " Elettrica Negri in Genua
Société Anon. de Filatures de Schappe en Russie
  " " " " " " Lyon, Kapitalaktien
  " " " " " " " Genussaktien

Stahlwerk Becker A.-G.
Steaua Română, A.-G. Petr.-Ind. (Nr. 1-600,000u. 620,001—1,170,-000), ex Anrechte

The Geneva list contains 22 foreign industrials of an unusually varied nature, as witness the following extract:

C. s. 4	Allumettes (Cie Suédoise des) titres nom. Série A.
£. 1.2.4	Azote (Soc. Norvégienne de) ord.
£. 1.2.4	id. id. id. priv. 8%
4.12.½	Böhler et C. S. A. (Sté réunies des Aciéries)
ff.15.69	Bozel-Lamote Société Ind. de Produits Electrochimiques
fb.10.70	Caoutchoucs Soc. Financière Actions Nos. 1 à 740.000
fb..8.75	id. Soc. Int. de Plant. et Fin. Série B (Sipef)
Fl.8.¾	id. Tjikadoe Rubber Plantage
ff.26.86	Cotonnière Russo-Française
ff..4.26	id. id. id. Parts de fondateur
mil. 10—	Docks de Santos, Nos 1 à 30,000 (Liquid. spéciale)
P..3.—	El Buen Tono (Cigarettes)
P..6.75	id. id. id. privilégiées
ff.30.55	Electro-Chimie et Electro-Métallurgie
Lei 74.50	Etoile Roumaine Nos 1 à 600,000 et 620,001 à 1.170.000
if. .7.20	Frigorifiques de Bordeaux (Docks)
. . .3.50	"Ofa" S. A. pour l'Industrie du bois à Zurich
.$.2.—	Orizaba (Filature et Tissage)
ff.30.70	Ouest-Africain (Société Cle de l') Nos 1 à 60.000
ff.27.555	Parvillée Frères, Co (Anciens Etabl.)
K. 16.—	Poldi (Aciéries)
Rb.10.—	Prowodnik, Nos 1 à 180.000
.$.1.—	San Ildefonso (Draps), Nos 1 à 15.000
P. .5.—	San Rafael (Fabrique de papier)
. . . .	Jules Sichel et Co (Mayence)
. . . 5.—	Union Nasic (Usines et Expl. Forestières de Nasic)
ff.14.20	Usines du Rhône (Société Chim. des) ordinaires

The different currencies of the various stocks should be noted. Starting with the Swedish Match company, one ranges over an English company manufacturing artificial fertilizer in Norway, a Dutch rubber producing company, Brazilian docks, Rumanian oil, French cold storage, an African exploration company, a Russian textile undertaking, a Mexican cotton and paper mill, and so on.

Probably in proportion to its total wealth invested in stock exchange securities the Swiss public has exercised greater diversity than any other, not excluding England and Holland. It might be added that Zurich quotes the Textile Drying Company of America.

IX

SOME INTERNATIONAL SECURITIES

Land mortgage bank bonds. Protective restrictions and regulations.

THERE are a few securities which enjoy an international market, being quoted on a number of stock exchanges. Prominent in this respect is Canadian Pacific Railroad Common, which has a free market in practically every stock exchange of importance, although Union Pacific, Pennsylvania, Baltimore & Ohio, and United States Steel common run it close.

In Europe, Brazilian, Argentine, and Japanese government bonds (in the order named) are wide-spread, and some of the South African gold mining stocks, as, for example, Rand Mines, Crown Mines, Central Mining Corporation, enjoy wide-spread favor. Rio Tinto Copper (Spain) is an international favorite, this share, together with Suez Canal shares, being still largely held in Paris. *Wagons Lits* (the International Sleeping Car Company, so well known to travelers on the European Continent) is a Belgian company, whose securities are quoted in Brussels, London, and Paris. Other international stocks are the shares of the

Imperial Ottoman Bank
De Beers Consolidated (diamond mines)
Mexican Eagle Oil
Shell Transport (oil)
Royal Dutch Petroleum
Malacca (rubber)
Swedish Match
Peruvian Corporation
Snia Viscosa (rayon)
National Railroads of Mexico
Wiener Bankverein
Lima Light & Power Company
Lautaro Nitrate
Banco Espanol del Rio de la Plata

LAND MORTGAGE BANK BONDS

A popular form of investment on the Continent of Europe is that of land mortgage bank bonds. In countries like Germany, where the railroads are publicly owned, there is practically no such investment as railroad corporation bonds, and the bonds of mortgage banks take their place as premier securities (after government bonds) for trustees and investors who require absolute safety. Strangely enough, these are practically unknown in Britain, although various English companies exist for carrying on that class of business in South America, Canada, and so forth.

As is indicated in the previous chapter, the bonds and shares of banks of this description are popular in other European countries, and since the war some considerable amounts of such bonds have been placed in London and Amsterdam and are sure to find their way to New York, for they undoubtedly represent the safest form of foreign investment. Two official circulars issued in London in 1925-1926 give details of some of these German bonds and also on Hungarian land mortgage bonds, and the following extracts will serve to show the working of these banks and the nature of the security offered:

PARTICULARS RE

GERMAN MORTGAGE BANK

(DEUTSCHE HYPOTHEKENBANK)

Founded 1862

8 PER CENT. MUNICIPALLY SECURED GOLD BONDS,

SERIES VI. A.

Principal and interest unconditionally and irrevocably guaranteed by the Associated German Mortgage Banks (Gemeinschaftsgruppe Deutscher Hypothekenbanken), consisting of the following Mortgage Banks:—

Deutsche Hypothekenbank of Berlin and Meiningen. Founded 1862.
Frankfurter Pfandbrief A.G. of Frankfort a/M. Founded 1874.
Leipziger Hypothekenbank of Leipzig. Founded 1863.
Mecklenburgische Hypotheken und Wechselbank of Schwerin. Founded 1871.

Norddeutsche Grund-Credit-Bank of Weimar. Founded 1885.
Preussische Boden-Credit-Actien Bank of Berlin. Founded 1868.
Schlesische Boden-Credit-Actien Bank of Breslau. Founded 1872.
Westdeutsche Boden-Kreditanstalt of Cologne. Founded 1893.

This Guarantee Is Duly Endorsed on Every Bond.

BONDS OF THE SERIES VI. *A*.

AMOUNT AUTHORIZED AND ISSUED: 5,000,000 GOLD MARKS.

Issued in Gold Marks. Gold Basis of 1 Mark = 1/2790 Kilogram Gold.

IN DENOMINATIONS OF GOLD MARKS 2,000 EACH

Principal and Interest payable in London and New York free of any German Tax present or future.

The Bonds, printed in English and German, are to Bearer, in denominations of Gold Marks, 2,000 (equivalent to £98 0*s*. 9*d*.), with coupons attached, payable on the 1st April and the 1st October, in the value of Gold Marks, or in the equivalent thereof in London in Sterling, or in New York in Gold Dollars. Therefore, risk of fluctuation in the value of German currency is eliminated.

The first full half-yearly coupon for 4 per cent., namely for 80 Gold Marks (equivalent at the above gold parity of exchange to £3 18*s*. 5*d*. or $19.04), will be paid on the 1st April next.

The Bonds are dated the 1st of October, 1925, and will fall due for payment on the 31st December, 1958, repayment being effected either by drawings or by purchase. The Bonds may be redeemed before the due date, but, in any event, cannot be called for redemption prior to 1931.

The Bonds are issued with the sanction and subject to the control of the German Government. They are specifically secured upon Loans granted by the Bank to Municipal or Local Government bodies, and each Bond bears an endorsement of the Trustee appointed by the German Government certifying that the Bond is properly covered by Gold Loans and duly registered in the official Register of loans, as provided for in the mortgage bank law of the German Reich.

The following information has been furnished by the German Mortgage Bank:—

The Gold Marks 5,000,000 of 8 per cent. Municipally Secured Gold Bonds of the German Mortgage Bank (Deutsche Hypothekenbank) of Berlin and Meiningen, Series VI. A, are issued in conformity with the German mortgage bank law. By virtue of the provisions of this law all Mortgage Banks are subject to State control. No Bonds can be issued by a Mortgage Bank without the prior sanction of the Trustee appointed by the German Government who retains in his possession the mortgages or Municipal loan deeds or obligations against which the Bonds of the Mortgage Bank are issued and upon which they are secured. It is the duty of the Trustee at all times to ensure that the legal cover for each Bond remains intact and that the mortgages and securities, which are the collateral for the issued Bonds, are duly inscribed on the Mortgage or loan deeds register. He endorses every Bond with a certificate to the effect that the same is legally covered and enters the same on the register. A mortgage or security entered on the register can only be cancelled upon the consent of the Trustee in writing.

No Mortgage Bank is authorized by law to do any business other than:—

1. To grant loans secured by first mortgages, or to purchase or sell or grant loans on the same.
2. To issue mortgage bonds, secured on these mortgages.
3. To grant loans to German Public Authorities, bodies, or Municipalities (Körperschaften des öffentlichen Rechtes) not secured by mortgages but to be fully guaranteed by such Authorities or Municipalities and to issue bonds secured upon such loans.
4. To grant loans to German Railway Companies upon the security of the railway and to issue bonds secured upon such loans.

Any business of a speculative character is strictly forbidden by law.

The above Bonds of the German Mortgage Bank, Series VI. A. form part of an issue of Bonds, created by virtue of the powers of paragraph 3 aforesaid, for the purpose of meeting the cost of reproductive public utility works for a number of Municipalities in various parts of Germany, consisting mainly of drainage, gas and water-works.

In addition to the specific security of these Municipal obligations, the seven Mortgage Banks which, together with the German Mortgage Bank (Deutsche Hypothekenbank), constitute the Associated German Mortgage Banks (Gemeinschaftsgruppe Deutscher Hyphothekenbanken), have given to the above Bonds unconditionally and irrevocably their joint and several guarantee in accordance with paragraph 12 of the By-laws of the 24th of May, 1924, of the Associated Banks.

This guarantee is endorsed upon each Bond.

The Bonds of the Series VI. A. are issued in Gold Marks. In accordance with the gold currency law of Germany, dated the 30th August, 1925, the value of one Gold Mark is fixed as being the equivalent of a 2,790th part of one Kilogram of fine Gold and, at the parity of exchange, corresponds to the rate of Gold Marks 20·40 to the £ Sterling or Gold Marks 4·20 to the Gold Dollar.

For the purpose of the repayment of the Principal and the payment of the Interest of the Bonds, the London price of Gold, as published in the German Official Gazette (Deutscher Reichsanzeiger) is taken to be the officially fixed price of fine Gold. The conversion into German currency takes place on the basis of the middle rate of exchange for £ Sterling as officially quoted on the Berlin Stock Exchange on the day preceding the date fixed for determining the amount payable for principal and interest. The Bank or Banks in London or New York appointed for that purpose are to convert the Reichsmark remittances into £ Sterling or Dollars at the rates obtaining on the day of the receipt of such remittances and are thereupon to pay the same to the Holders of the Bonds or Coupons, on maturity, free of any German tax.

The German Mortgage Bank was formed in 1862. Its present paid-up capital is 12,000,000 Gold Marks, and its reserves and surplus, as at 31st December, 1924, amounted to 1,562,195 Gold Marks. The total combined paid-up Share Capital of the borrower as well as the seven guaranteeing Banks, as at 31st December, 1924, amounted to 42,000,000 Gold Marks (at 20·40 = £2,058,824), the amounts placed to Reserve totalling 4,200,000 Gold Marks (at 20·40 = £205,882), and the undivided Surplus being 1,267,683 Gold Marks (£62,141). The above Share Capital is not held or controlled by any one or several individuals, the Shares being widely distributed amongst a large number of shareholders throughout the country. All the leading German Banks are represented on the Board of the Association.

The table at the top of page 98 is a record of the dividends paid on the share capital of the associated mortgage banks from 1912 to 1922.

Prior to the great war, the Associated German Mortgage Banks issued their Bonds on a 3½ per cent. to 5 per cent. interest basis and these Bonds frequently commanded a market price above par. The total amount of Mortgage Bonds of the Association at present outstanding is Gold Marks 160,000,000 secured by properties valued at over Gold Marks 600,000,000. Advances are made on properties only which yield an adequate and permanent revenue.

DIVIDENDS PAID ON THE SHARE CAPITAL OF THE ASSOCIATED MORTGAGE BANKS, 1912–1922

Mortgage Bank	1912 %	1913 %	1914 %	1915 %	1916 %	1917 %	1918 %	1919 %	1920 %	1921 %	1922 %
Deutsche	7	7	7	7	7	7½	7½	7½	8	8	12
Frankfurter	8	8½	8	8	8	8	8	8	8	8	12
Leipziger	8	8	7	7	7	8	8	8	8	8	8
Mecklenburgische	15	15	15	15	15	15	15	15	16	12½	12½
Norddeutsche	6	6	6	6	6	6	6	6	7	7	10½
Preussische	8	8	7	7	7	7	7	7½	7½	7½	12½
Schlesische	8	8	7	7	7	7	7½	7½	7½	7½	8
Westdeutsche	7½	7½	6	6	6	6	6½	6	6	7	10½

NOTE.—The profits for the years 1923 and 1924 were either placed to Reserve or carried forward.

The terms upon which the loans have been granted to the Municipalities provide that these loans are repayable in equal instalments of principal and interest over a period of 28 years, beginning with the sixth year. As the repayments are received, a corresponding number of Bonds must be retired by the Mortgage Bank—necessitating the Bank appearing as a buyer on the market, with a consequent appreciation in the market price of the Bonds.

The Bonds rank in Germany as a Trustee security.

GERMAN MORTGAGE BANK

(DEUTSCHE HYPOTHEKENBANK.)

Dated 15th September, 1925.

HUNGARIAN LAND MORTGAGE INSTITUTE

(Magyar Földhitel Intézet) Incorporated by Royal Charter in Hungary.)

7½% LAND MORTGAGE BONDS (ZALOGLEVEL) SERIES A.

Issued with the consent and approval of the Royal Hungarian Cabinet Council of 13th November, 1925, and Rescript No. 153866/1925—II. A, dated 25th November, 1925, of the Royal Hungarian Minister of Finance and communicated to the Hungarian Parliament by the Royal Hungarian Minister of Finance on the 24th November, 1925.

OFFER OF £1,000,000

Seven-and-a-half Per Cent. Sterling Land Mortgage Bonds, payable to Bearer.

Particulars of the Hungarian Land Mortgage Institute and of the security for the Bonds will be found in the following copy of a letter addressed to Messrs. Hambros Bank Limited and the

Anglo-Austrian Bank Limited, by the Chairman and the General Manager of the Hungarian Land Mortgage Institute:—

BUDAPEST,
28th December, 1925.

TO HAMBROS BANK LIMITED AND
ANGLO-AUSTRIAN BANK LIMITED, LONDON, E.C.

GENTLEMEN,

With reference to the £1,000,000 7½ per cent. bonds of our institution which we are creating with the consent and approval of the Royal Hungarian Cabinet Council of 13th November, 1925, and Rescript No. 153866/1925 II. A, dated 25th November, 1925, of the Royal Hungarian Minister of Finance and communicated to the Hungarian Parliament by the Royal Hungarian Minister of Finance on the 24th November, 1925, we beg to give you the following information:

GENERAL.—The Hungarian Land Mortgage Institute of Budapest, founded in 1863, is the oldest farm mortgage bank in Hungary. Since its inception it has always been the leading lender of money on agricultural land mortgages, its business before the War representing over 50 per cent. of the agricultural land mortgage bond business of Hungary. Its bonds were quoted pre-war at a higher average price than the land bonds of any other Hungarian Bank.

The Bank was established under Royal Charter by a group of the most prominent land owners in Hungary, who as original founders subscribed 3,354,000 gold Kronen as a guarantee fund. The growth of the Bank's reserves from profits later allowed the return of 90 per cent. of the fund so originally subscribed by the founders, the balance of 10 per cent. remaining as liquid capital and bearing a nominal interest rate of 5 per cent. Beyond this 5 per cent. the Bank does not pay any further dividends, but all its net earnings beyond such 5 per cent. are used to increase its general reserve fund. The Institute is not a Limited Liability Company, but established on old law articles it is based on the unlimited and irrevocable, joint and several liability of all its Members, consisting of holders of founders' shares and borrowers. The founders hold 207 founders' shares and belong to prominent land-owning families in Hungary, and own in landed property alone more than one million Hungarian acres, representing a value exceeding £20,000,000.

OPERATION.—In making mortgage loans the value of the land is arrived at on the basis of the cadastral value, checked when necessary by actual valuation, and on the average the amount of the loans will not exceed 50 per cent. of the cadastral value. The cadastral value is that determined for taxation purposes about 40 years ago through a Governmental cadastral survey, which established valuations that are approximately 30-40 per cent. of the actual market value of today. The loans are therefore restricted to from 15-20 per cent. of the actual market value today, moreover, the Institute undertakes to limit the amount of its loans to the estimated value of one average year's crop.

The landowner makes to the Institute semi-annual cumulative amortization payments on his debt, calculated in accordance with a regular amortization schedule to redeem such debt by the date of the maturity of the Bonds in respect of which the Mortgages are created. All payments of principal received in accordance with the regular amortization schedule will be applied in the redemption of Bonds at par by half-yearly drawings, the first of which will take place on the 1st January, 1929, and the Bonds drawn at each half-yearly drawing will be repaid on the next following 1st July or 1st January as the case may be. The landowner has the right, if he so desires, to repay his debt in advance of the regular amortization schedule. Payments of principal made in advance of the regular schedule will be applied to redemption by the purchase of bonds of this issue in the open market at prices not exceeding 100 per cent. and accrued interest and if bonds are not so available, such payments will be applied by additional drawings at 100 per cent., which will be made along with the drawings in respect of the Sinking Fund and in all respects on the same terms.

The distinctive numbers of all drawn Bonds will be advertised in two London newspapers four months prior to the date on which they become repayable.

The outstanding bonds may likewise be redeemed at the option of the Institute as a whole. Notice of the intention to redeem the whole outstanding part of this issue must be given by the Institute six months before the interest date on which redemption will take place, by public advertisement in two London newspapers.

MANAGEMENT AND SUPERVISION.—The Bank's operations have been successfully conducted since its inception sixty-three years ago. According to its charter the Institute is under the direct supervision of the Hungarian Government, which appoints a permanent Commissioner to supervise all of the Institute's activities, including the granting of loans.

In the 63 years of the Bank's operation, less than one-third of 1 per cent. of its mortgage loans have had to be collected by foreclosure or other legal methods and in no such instance has the Bank ever suffered any loss.

PRIVILEGES.—Under Hungarian Law the Bank enjoys all the privileges granted formerly to the Mortgage Department of the late Austro-Hungarian Bank, viz., the late Imperial Bank, including the right to require that on notification by the Institute of default by a mortgagor the law courts are bound within three days to issue authoritative decrees for the seizure of the assets and estate of defaulting debtors and the sale thereof by auction, as under a special law the book entries and accounts signed on behalf of the Institute are to be considered as full legal proof.

SECURITY.

The Bonds will constitute a direct obligation of the Hungarian Land Mortgage Institute, behind which will be—

(1) A like amount of First Land Mortgages, made in and repayable in Sterling.

(2) A special reserve fund amounting to 5 per cent. of the Bonds outstanding to be invested in Sterling securities approved by the Trustee.

(3) The joint and several unlimited liability of the members of the Institute consisting of the holders of founders' shares and also of all mortgagors under First Land Mortgages for the time being.

All the Bonds of the Institute at any time outstanding will always be specifically secured by first farm mortgages for a corresponding amount, and, under the law of Hungary, no Bond can be issued until Mortgages to a corresponding amount have been created and registered, and no other Creditor of the Institute can touch the Mortgages securing the Bonds until the Bonds have been paid in full, as, under the law of Hungary, when the Mortgage is created there must be made a special entry in the Land Register to the effect that such Mortgage has been issued in respect of the Land Mortgage Bonds.

A Hungarian law passed in 1925 provides that bonds issued subsequently to January 1, 1925, must be secured by mortgages issued after that date, and that no old bonds of the Bank outstanding prior to January 1, 1925, will have any claim upon such mortgages. As long as any part of the present issue is outstanding, the Bank undertakes that any additional bonds which it issues will be similarly secured by first farm mortgages payable in the same currencies as the said additional bonds. The Institute further covenants that as long as bonds of this issue are outstanding it will not have outstanding a total amount of bonds in excess of the equivalent of £25,000,000.

TRUSTEE.—We have agreed that The Central Corporation of Banking Companies in Budapest shall be appointed Trustee to see on behalf of the Bondholders that all the provisions of the law and of the Bonds are duly observed and to approve the investments of the Special Reserve Fund.

The principal sum and interest of the Bonds as and when due will be paid in sterling without deduction of any kind except such deductions as are or may be imposed by the laws of Great Britain. Such principal and interest will be so paid in time of war as well as in time of peace, whether the holder or owner of the bond, or of any interest coupons pertaining thereto, is a citizen or subject of a friendly, neutral or hostile state, without requiring any declaration as to citizenship, nationality or residence of such holder or owner, or as to the length of time he has been in possession of the bond, or of such interest coupon, as the case may be.

Capital and interest service of these bonds is free of any taxation or public charges whatsoever, past, present and future, in Hungary.

The mortgage deeds constituting the underlying security for the present issue of bonds will be made in sterling currency on first mortgage on agricultural land and the loans advanced thereon will not exceed the value of one average yearly crop, nor shall such loans on an average exceed 50 per cent. of the cadastral value of such real estate, *i.e.*, from 60 to 150 English Shillings per Hungarian Joch (approximately 1.01 acre).

As long as any part of this issue is outstanding the Institute will make additional issues of its bonds only on condition

(*a*) that the mortgage deeds against which the bond issue is to be made shall always be in the currency of the respective bond issue.

(*b*) that the amount of the loans granted per Hungarian Joch shall not exceed the value of one average yearly crop, nor on an average 50 per cent. of the cadastral value of the mortgaged land.

(*c*) that including this issue it will not have outstanding at any given time land mortgage bonds to a principal amount greater than the equivalent of £25,000,000.

The terms of forfeiture for coupons and bonds due are those stipulated by Hungarian Law: for coupons, 6 years; for bonds, 20 years from due date.

The value of forfeited coupons and bonds is to be added to the reserve fund.

The bonds are legal investments for the Royal Hungarian Postal Savings Bank, for municipalities, corporations and institutes controlled by the Government, for widows' and orphans' funds, and are acceptable in Hungary as security for contracts with the Government and as a legal guarantee fund to be deposited by Home and Foreign Insurance Companies.

Yours faithfully,

HUNGARIAN LAND MORTGAGE INSTITUTE,

DESSEWFFY, *Chairman.* KOOS ZOLTAN, *General Manager.*

X

FOREIGN TAXATION—SOME PRACTICAL NOTES

Position of American investor in relation to taxation. English income-tax-exempt foreign securities. English income tax and foreign security registration. French and German income tax on securities.

THE theoretical aspects of double taxation are dealt with in Chapter XI. As, however, this aims at being a practical work, and as it is intended primarily for American readers, let us consider, from the standpoint of foreign taxation, the position of the American investor who feels tempted to take an interest in foreign securities beyond the, thus far, comparatively limited number available in his own market.

Naturally, he turns to London, which has no competitor other than New York and Amsterdam as an international securities market, and, by virtue of its long existence as world money market, still offers a variety of choice that no other stock exchange can show. Obviously, the last thing in the world the American investor desires is to purchase securities in respect of which he has to pay heavy foreign taxation; and with an English income tax of 20% or more, (and, unfortunately, indications point rather to the word "more" than to the word "less") deductible at source, that is, when the coupons are cashed or when dividend checks are mailed, successful investment on the London market might appear almost impossible to persons not resident in that country. This is, however, not the case, provided certain broad facts are borne in mind.

Interest or dividends derived from loans or securities of any kind issued by authority, corporation, company, or person in the British Isles and Northern Ireland (the Irish Free State now ranking as a British dominion like Canada or Australia) are subject to deduction of income tax at the rate prevailing, and no non-resident holder can reclaim any part of it.[1]

ENGLISH INCOME-TAX-EXEMPT FOREIGN SECURITIES

In the case, however, of all foreign or colonial loans, and any securities, be they bonds or stocks, of companies *registered under laws other than those of England or Scotland,* persons not resident in Great Britain are not subject to British income tax, and can arrange for it not to be deducted; while, if it is deducted, they can claim a refund.

As will be indicated later, the number of such securities is considerable. But first let us make clear the methods by which non-residents may secure exemption. By non-resident is understood a person who does not retain a residence in Great Britain or Northern Ireland, and whose visits to either of those areas do not amount, in the whole, to more than six months in any fiscal year ending April 5.

In all cases where—in the case of bonds or bearer shares—coupons are payable outside England in addition to London, or where there is a register of stockholders kept outside England, the holder here envisaged need take no steps whatever to secure exemption from British tax, for his banker in the United States (or wherever it is) will naturally present the coupons where they are cashed without such deduction; and in the case of registered stockholders the dividend warrant will be made payable in full in the currency of the country under the laws of which the company is registered; for instance, the Brazilian Traction, Light and Power Company being an Ontario corporation, its dividend warrants are issued in Canadian dollars and are drawn upon a Toronto bank, although the principal market for its stocks is London. But if a person in England hands such a check (or in the case of a bond, the coupon) to a bank in England for collection, English law renders it incumbent upon such bank or

[1] For strict accuracy's sake, let it be stated that this regulation is relaxed in the case of persons employed by missionary societies, the British Crown, or a "native state" under the protection of Britain.

any one else cashing, discounting, or collecting the same, to deduct British income tax at the prevailing rate, and hand it over to the Treasury.

In the great majority of cases, the foreign companies whose securities are quoted in London pay their dividends or interest from abroad, as well as in London, so that, once purchased, the holding of such securities presents no difficulty from the tax point of view, and where payment is made only in London, as with many of the British colonial bonds and, for instance, some Brazilian government bonds, the holder who is not liable to English tax has the choice of two methods of avoiding its deduction. He may either keep the securities in his possession or lodge them with a London bank. In the former case, when presenting the coupons for payment in London, they must be accompanied by an official declaration (Form A of No. 2) as to ownership, made before a notary or British consular official.

The second method, however, is simpler. In this case, the securities are deposited with the holder's bank in London (or any other place in Britain or Northern Ireland) and such bank makes all needful declarations when cashing the coupons, and is thus able to avoid deduction of income tax.

ENGLISH INCOME TAX AND FOREIGN SECURITY REGISTRATION

So far as corporations (or *companies,* as they are invariably termed in England—"corporation" there being generally used to denote a municipal authority) are concerned, the all-important thing for the non-British investor to grasp is the cleavage between those registered under the British laws and those registered in other countries; and for this purpose other portions of the British Empire—for example, Canada, Australia, New Zealand, India, Ceylon, West Indies—come within the latter category. If it is an English company—that is, registered under the British Companies' Acts—English income tax will be deducted from its dividend and interest payments, and cannot be recovered. It does not matter where the field of the company's operations is. The bonds of the companies owning the street railways of Pernambuco and São Paulo, respectively, are quoted in London, that being their market. Both are street railways in Brazil. But the Pernambuco Tramways & Power Company is an English company, while the São Paulo Tramways Company is registered under Ontario law. To the English investor this makes no difference, as he has to pay English income tax on either; but to the investor outside Great Britain, only the São Paulo bonds can present attractions, for their coupons are payable in Toronto without deduction of tax, whereas English tax is deducted from all payments made on any of the Pernambuco undertaking's securities. Similarly, in the list of Argentine railroad securities quoted in London appear the 5% bonds (or debentures) of the Buenos Aires and Pacific Railway Company and of the Buenos Aires Central Railroad. The former is registered under English law, and its bond interest is payable only in London. An American holder would receive only 4% net with the English income tax of 20% in operation, but if he bought in London the bonds of the Buenos Aires Central he would receive the full 5%, that company being registered under the Argentine laws, and its coupons being payable in Buenos Aires and, as it happens, in New York, as well as in London.

A number of *shares* dealt in in the London market are those of companies registered under the laws of British dominions or colonies. The non-British investor in such case, after having bought his shares in London, has merely to request the company to place him upon the colonial register, to secure dividends being remitted to him direct from the head office outside England, without deduction of British income tax. Most of the South African mining companies are registered under South African law, and although their chief market is London, their head offices are in Johannesburg, South Africa; and some of the most profitable base metal mining shares obtainable in London are of companies registered under Australian law. Some of these investments will be found in Chapter VII.

These notes are written from the point of view of the investor. The speculator, who is buying on prospects of a considerable rise, can ignore the question of income tax, and buy in London a number of mining, rubber plantation, or rayon shares, because he anticipates being able to sell them at a profit; and, unlike American practice, profit on the sale of stocks in England is not liable to income tax. As a corollary, losses on stock and share operations may not be deducted from the private investor's income to arrive at the taxable assessment.

It might easily be thought from the foregoing that foreign investors would be deterred by the difficulties named from dealing much in London. That is not, however, the case. London is the largest and most free market in the world for foreign securities, and operators of all the nations buy and sell there. The investor soon ascertains what securities are suitable from his point of view; the speculator confines his attention to a small number of counters which are quoted on a number of stock exchanges.

FRENCH AND GERMAN INCOME TAX ON SECURITIES

French taxation is in too fluid a state to be described accurately. Generally speaking, before a security is dealt in on the Paris Bourse, those responsible for it have to undertake to pay certain taxes, but these do not affect the foreign buyer. Only those securities which have been accounted for to the French Fisc may be dealt in, so that it is not permissible to import additional bonds or stocks from outside markets. In the "flight from the franc" that has been in operation, the demand for foreign securities quoted in Paris has been enormous, and has pushed up their price far beyond parity value. For instance, those shares of the Mexican Eagle Oil Company, the Camp Bird mine, or the Lautaro Nitrate Company which bear "Paris numbers" will fetch much higher prices in London (to which center many were sold in years gone by) than the same shares which are not "legal tender" on the Paris Bourse.

In Germany there is a *Kuponsteuer*—a direct dividend tax—of 10% deducted on payment of interest or dividend. In Holland, Belgium, and Switzerland, there is no such tax.

NOTE: Some English companies pay their dividends "free of income tax," which is extremely misleading to foreign investors. This does not mean "tax exempt," but that the company does not avail itself of its right to deduct from the dividend it pays its stockholders their proportion of tax. It is really only equivalent to paying a higher rate than appears on the surface, that is, with a 20% income tax a 6% dividend "free of tax" is exactly the same as if it were an 8% dividend subject to tax, *and the share is priced accordingly*, so that the foreign investor does not benefit in the least by the fact that he receives dividends "free of tax."

XI

DOUBLE TAXATION

Meaning of double taxation. Four ways in which double taxation is avoided. Efforts made to alleviate evils. Situation in various countries.

The question of double taxation is of very great importance, and although it bristles with difficulties, it will be seen from the following pages that it is being seriously handled under the direction of the League of Nations. From the investor's point of view it is sufficient, in the case of foreign bonds, if assurance is given by the borrower that interest and capital will be paid without deduction of any domestic taxes, present or future; but to holders of foreign corporation stocks it is a matter of considerable importance what system of taxation is levied, for, quite apart from individual taxation, a tax imposed upon a company in the country in which it is operating may rob the investment of all its attractions. Quite recently, for instance, the English companies owning the principal Argentine railroads were seriously threatened by the incidence of a tax to meet the costs of a new Pensions Law introduced to benefit the railroad workers, most of whom were, of course, of Argentine nationality.

The question of taxation as applicable to the investor who desires to buy in London and other foreign markets is dealt with in Chapter X, but the following résumé of the present position of this most thorny problem may be of assistance.

The large proportion of the revenue raised by means of direct taxes is obtained either by a tax on impersonal things, such as immovable property, agricultural property, and industrial and commercial establishments, or by means of personal taxes such as income tax. For the first of these there is no general English term, but they are generally known by the French term—*impôts réels*. In tackling this large problem of double taxation both these methods of taxation have to be taken into account.

At present there are four principal ways in which double taxation is avoided.

The first is where the country of which the taxed person is a resident counts all taxes paid abroad on a par with taxes due at home. By this method all taxes paid abroad can be deducted from the amount due to the country in which the taxpayer lives. It is this principle which is in force in the United States.

The second method is where the country where the money is earned exempts all non-residents from taxes imposed on income drawn from sources within its borders. This is the exact converse of the first method.

By the third method the tax is divided between the countries of origin and domicile, that is, between the country where the money is earned and the country of residence of the recipient of the money. This method is in use in the British Empire, where the tax is divided between Great Britain and the Dominions.

The remaining method is that by which certain classes of wealth are assigned to certain countries so that each country taxes that portion of wealth which is assigned to it. Countries can then tax independently of each other.

The special committee of economists appointed by the Financial Committee of the League of Nations concluded that the second method was the best, while the International Chamber of Commerce also inclined towards that method, but at the same time declared that it should be modified, stating that the country of origin is entitled to share in the tax. The technical experts appointed by the League of Nations leaned to no particular one of these methods but drew up resolutions embodying two principles. First, that, generally speaking, taxes on property and the like, (*impôts réels*) can be imposed only by that state in which the property is situated, and secondly, that residence should be the chief requirement for liability of income tax. That is, income tax should be imposed only by the state in which the person lives.

These various proposals, which will be dealt with in more detail later in this chapter, do not totally accept any of the four methods at present in force. They rather piece together the most satisfactory of those clauses of various international agreements arrived at on the question of double taxation, and the most suitable domestic laws dealing with the subject, and come to a number of general conclusions as to principles which should be applied to the solution of the problem.

During the last 20 years there have been a number of efforts made, especially by the Central European States, to alleviate the evils arising from double taxation, and the following are the most interesting:

In the United States if a person pays taxes abroad on money received from abroad he can deduct that tax from the amount due on his total income. There is, however, a maximum amount that can be thus deducted, and this is fixed by calculating the tax on the portion of the income which originates abroad at the American rate applicable to the taxpayer's total income. If, therefore, on an income derived from a European country the amount paid to that country is one-fifth of the total, and in America he is required to pay only one-tenth of the income in taxes, he obtains deduction only for half of the amount paid abroad.

For instance, let us suppose an American citizen has a taxable income of $25,000, of which the Federal Government levies a general income tax of 1%. He will have to pay the Federal Government $250. Let us suppose, again, that $10,000 of that $25,000 is derived from foreign industries in which he is interested, and that the foreign government has deducted from that income 2½% for taxes, or a total of $250. If no allowance for taxation abroad were made, he would have to pay in all $250 in taxes to the Federal Government. He is, however, entitled to deduct from the $250 due to the government of the country of which he is a resident a portion of the amount paid abroad. If he deducted the total, the United States Government would receive nothing, even though the greater portion of his income was earned in that country, and even though he lived in that country, is protected by its army and navy, has his children educated in its public schools free of charge, and enjoys the hundred and one amenities provided by his state and federal governments. *The government, therefore, allows him to deduct only a sum equal to the amount he would pay on that money earned abroad if it were taxed at the same rate as is imposed in the United States.* In this case it would be 1% of the $10,000, which equals $100, and the United States Government would receive from him $150.

Although this principle is by no means all-embracing, it does ensure the payment of taxes to the country in which the money is earned. This fixing of a maximum deduction means that on any income earned at home the usual income tax must be paid, and, other things being equal, only in the event of the total income being earned abroad would the United States Government receive nothing in the way of income tax from its citizens.

The financial, economic, and political ties of the component parts of the British Empire have tended to increase rather than decrease the extent of double taxation, and a rather elaborate system has had to be devised for alleviating this. The chief thing of interest is that where income is taxed both in Great Britain and in one of the Dominions, a deduction at the Dominion rate is made from the rate charged in the United Kingdom. The maximum fixed for this deduction is one-half the rate charged in the United Kingdom. It is interesting to note that it is the Dominion and not the Mother Country which has to grant the necessary deduction if the total relief is to be equal to the lower of the two rates of taxation.

In Holland, tax on income received from abroad is reckoned at the same rate as that payable at home and is then deducted from the amount which would be paid on the total income of the person, earned both at home and abroad. The actual sum which is paid abroad is ignored. For instance, if the total income of Fl. 50,000 were taxed at 1%, the total tax due would be Fl. 500. If of this Fl. 50,000, Fl. 20,000 were received from abroad, 1% of Fl. 20,000, or Fl. 200, would be deducted from the total Fl. 500 due.

The disadvantage of this system is that a Dutch resident by investing his capital in a country which taxed at a lower rate than his own would pay less in taxes than his fellow countrymen whose whole income was obtained at home. The American method does not permit of this anomaly, for if the amount payable abroad was less than that which would be paid on the same income in his own country, the United States citizen would still have to pay taxes to the Federal Government on the difference.

In Belgium a reduction of the rate of taxation on the profits earned abroad amounting to a maximum of three-quarters is allowed. This is similar to the rule applied in the Canton of Zurich in Switzerland, which provides that income earned in business situated abroad shall be taxable only to the extent of one-third.

In addition to these domestic laws there are a number of international agreements, or treaties, in force which are of interest. Among the important ones are those concluded by Germany with Austria and Czechoslovakia in 1921, by Austria and Czechoslovakia in the same year, by Hungary with Roumania in 1923 and with Czechoslovakia in 1922. In 1923 Germany signed a convention with seven Swiss cantons.

This convention recognizes the principle that it was necessary to take into consideration the sources of income and to assign to each country the right to tax the income derived within its borders. This means that the taxation is apportioned to the country of origin. Broadly speaking, it is this principle which has been embodied in the Rome Convention and also in all the treaties which have been concluded between the Central European States. In addition, different rules have had to be established according to the different categories of taxes.

One of the most recent treaties known is that entered into between Czechoslovakia—which state did not sign the Rome Convention—and Italy. This treaty had the advantage of learning from the difficulties met by the parties to the Rome Convention and had the use of proposals made by the special committee of economists appointed by the Financial Committee of the League of Nations. It is, therefore, of interest to outline this treaty.

The treaty is based on the principle of establishing different rules according to the different kinds of taxation. Taxes are divided primarily into the two classes mentioned early in this chapter—impersonal taxes, or *impôts réels,* and personal taxes.

With regard to the first, the following classifications are made:

(*a*) Taxation on income derived from immovable property.

(*b*) Taxation on income derived from moneys invested; this includes income from capital secured by mortgage, income from securities issued by the state, income derived from savings-bank deposits, income from the investment of other movable capital, earned income, and income arising from carrying on an industry or business.

(*c*) Taxation on life annuities and taxation on any other form of income not provided for under the above.

On all the impersonal taxes, or *impôts réels,* the taxes must be levied in the country where the income is derived; that is, where the immovable property is situated or the factory operates.

In the case of personal taxes the opposite principle of domicile is applied in all cases except where the income is derived from immovable property, or is earned.

To sum up this treaty, all taxes other than income tax or unearned income—that is, income which is obtained from investments—must be imposed by the state from which that income is derived, but income tax on investments or mortgages can be applied only by the state of which the recipient of the income is a resident.

It can be seen from the above that the most generally adopted method of avoiding the evils of double taxation is the one of assigning the right to tax between countries where the income originates and the country where the recipient of wealth dwells. In apportioning the right to tax, it is therefore necessary to decide, first, where the wealth is physically or economically produced and, secondly, where the wealth is spent or consumed, or otherwise disposed of.

The four economists—M. Bruins, Professor at the Commercial University of Rotterdam, M. Einaudi, Professor at Turin University, E. R. Seligman, Professor at Columbia University, New York, and Sir Josiah Stamp, Professor at London University—who inquired into this problem, considered origin as most important in the case of land, commercial, industrial, and agricultural establishment, and so forth. Residence they found more important in the case of movable property, transferable securities of every kind, general credits, and personal earnings. They consider the best solution to the problem to be "an ultimate development of national ideas on uniform lines toward method two," which is the method whereby the country of origin exempts all non-residents from taxes imposed on income drawn from sources within its borders.

The four economists realized the difficulty of this development of "national ideas," for they point out that governments are dominated by a desire to tax the foreigner and that they appear naturally to treat origin and not domicile as of first importance. Such securities assume that if the income comes from their country they have not only the right to tax that income but the first right, even if the income goes to a person resident in another country. In examining the problem, the fact must be faced that governments would be prepared to give up residence rather than origin as establishing the prime right of taxation.

The reason for this is that new countries need foreign capital for their general development and naturally desire to have a share in the taxes levied on the income derived within their borders by means of that capital. They are unwilling to leave all these taxes to those countries which are probably already wealthier than they, in that they have been able to grant them loans.

On the other hand, there has been developed of late years, especially in America and England, the principle of taxing according to residence. This has been the natural result of the institution of a general income tax which is clearly connected with this idea of domicile and not of origin. The great drawback to this is that if non-residents are exempted from taxation the poorer country is placed at a disadvantage and would lose more in not taxing the foreigner than the wealthier country which has less foreign capital invested in its enterprises.

All proposals towards the solution of this problem have to meet these difficulties and recognize the different principles to be applied to *impôts réels and personal taxes.*

In 1922 the League of Nations decided that the most urgent financial need of Europe was the solution of the great problem of double taxation. The Secretary-General of the League in October of that year, in accordance with a proposal that had been made by the Financial Committee and which has been approved by the Council, invited a number of European countries to nominate a technical official to sit on a committee formed to study the questions of double taxation and tax evasion.

The seven governments which nominated technical experts were Belgium, Czechoslovakia, France, Great Britain, Holland, Italy, and Switzerland. The experts met on five occasions at Geneva, between 1923 and 1925, and each submitted separate memoranda to the committee. The result of these meetings was the drawing up of resolutions for the solution of the problem, a report containing a statement of the grounds on which the resolutions are based, and a commentary thereon, which have been submitted to the Financial Committee of the League.

These resolutions form by far the most far-reaching and important contribution to the solution of the problem of double taxation, and prepare the way for an international conference on the question.

In the conclusion to the report the experts suggest that a further conference of technical experts be called for the purpose of preparing preliminary draft conventions. These conventions, it is suggested, might provide the program for this international conference. Such a conference, they point out, could not, of course, be summoned until the conventions had been sufficiently considered and until public opinion in the various countries had been adequately informed and educated on these problems. If these conventions were accepted by the various states, international treaties could be signed on the question of double taxation, and any disputes arising therefrom, it is suggested, could be referred to the Permanent Court of International Justice. It is further suggested that an international body might be set up to act not only as a clearing-house for ideas on the question, but also in an advisory capacity. Such a body could undertake the duties of conciliation or voluntary and advisory arbitration between states in regard to the interpretation of the conventions concluded between them.

In the experts' report the resolutions, which are printed in full at the end of this chapter, are preceded by comments, which explain and enlarge upon the resolutions.

The resolutions first deal with impersonal taxes, or *impôts réels*, and the principle is laid down that "only the state in which the source of income is situated is entitled to impose impersonal taxes." This principle is applied to the following: immovable property, agricultural undertakings, industrial and commercial undertakings, mortgages, directors' fees, and earned income.

Special provision is made where an undertaking is carried on in a number of states, and the right to tax the enterprise is apportioned between the states in which the enterprise carries on its business. Each state is allowed to tax that portion of the income of the concern which is obtained in that state. In their comments on the resolutions the experts point out that this, though delicate, has been found feasible.

Poland, for instance, has signed an agreement on double taxation with the free city of Danzig, and by this the kilometric length of transport enterprises is taken as the basis of division, and gross receipts and profits in the case of other business enterprises.

A special resolution was found necessary to deal with shipping concerns. There are in existence a number of domestic laws which exempt foreign shipping companies on a reciprocal basis from all taxation. Such laws are in force in the United States, Japan, England, and the Netherlands, while international agreements have been entered into between Great Britain and the United States, Norway, Sweden, and Denmark. The experts recognized these agreements and suggest that, subject to reciprocity, the tax should be imposed only by the country in which the real center of management exists. No company which makes a country only a port of call should be taxed by that country. In view of the probable unwillingness of certain governments to exempt these companies from taxation, the experts suggest in their comments that a number of bilateral agreements should be arrived at on this point.

Another resolution deals with that much discussed question of the taxation of state bonds, and shares and bonds issued by companies. The Rome Convention, already referred to, favors the imposition of the tax by the state in which the incorporated company is situated. The four economists accepted the principle that the state in which the holder of the security lived had the right to tax the income from the security. The experts recognized the difficulties and state that no hard and fast rule is possible, as such questions as the need for the free flow of capital and the necessity of one state to seek, and another state to reject, pecuniary assistance from foreign investors have to be taken into consideration. The resolutions, while laying down the principle that the state in which the incorporated company is situated shall be entitled to levy the tax, suggests that where persons holding securities in one state dwell in another they shall be either partially or totally exempt from such taxes. It must be remembered that this applies only to *impôts réels* and not to the general income tax.

The resolutions dealing with personal taxes apply not only to the general income tax but also to succession (death) duties and taxes imposed on a person's total wealth or total capital. Here the principle of domicile and not of origin is applied. The general income tax, it is stated, should in principle be imposed only by the state in which the taxpayer is resident. For the avoidance of double taxation the experts suggest that one of two solutions should be put into practice. The first is that the country of which the taxpayer is a resident shall permit certain sums to be deducted from the general income tax payable in respect of taxes paid abroad. They suggest that either the amount paid abroad be exempt, with a maximum deductable, or the amount that would be paid abroad if the same rate were in force in the country in which the taxpayer resides be deducted from the taxable amount. The first is the method that is in force in the United States, and the second is a variation of it. The second would be satisfactory if the country where the income originates taxes at a higher rate than the country of residence of the taxpayer; but if the reverse were the case, a larger sum than was actually paid abroad could be deducted from the amount due at home.

The second suggestion put forward by the experts is that a portion of the income derived in a foreign state should be taxed by that state and that a portion should be taxed by the country of domicile. This could be arranged by a series of bilateral conventions.

The resolutions conclude with certain definitions which are given with the object of preventing disputes arising over interpretation of the resolutions. The state of domicile or residence is said to be the state in which the taxpayer normally has his residence for a portion of the year. Residence is defined as "a permanent home."

In the comments special emphasis is laid on the paragraph which states, "States shall always be free to tax their own nationals on the whole of their income, wealth, or capital not taxed under the terms of the above paragraph"; the paragraph referred to deals with general income tax.

This is to prevent wealthy persons, who have invested their property in easily transferable securities, from escaping taxation by moving to one country from another and making only a short stay in each. This paragraph gives the state of which they are nationals the right to the taxes these persons are endeavoring to evade.

Succession duties can be claimed only by that state in which the deceased at the time of his death was a resident.

In the case of legal entities (joint-stock companies) it is proposed that domicile should be the place where the concern has its effective center, that is, the place where the "brain" management and control of business is situated.

TEXT OF THE RESOLUTIONS

Double Taxation

I. Impersonal or Schedular Taxes (*Impôts réels*)

Generally speaking, the experts recognize that only the State in which the source of income is situated is entitled to impose impersonal or schedular taxes. They applied these principles in succession to various kinds of income:

A. *Immovable property* (land and buildings): Taxes on the actual or presumed rental value should be levied by the State where the property is situated.

B. *Agricultural undertakings:* As above.

C. *Industrial and commercial establishments.*

1. When the whole of an undertaking is carried on in one and the same country, the income should be regarded as originating in that country, irrespective of the nationality of the owner of the undertaking.

2. If the enterprise has its head office in one of the States and in another has a branch, an agency, an establishment, a stable commercial or industrial organization, or a permanent representative, each one of the contracting States shall tax that portion of the net income produced in its own territory. Therefore, the financial authorities of the interested States shall be able to request the taxpayer to hand in general balance-sheets, special balance-sheets and all other relevant documents.

(*a*) In the case of *shipping enterprises, railway companies, trans-Atlantic cables, aerial navigation companies and electrical power undertakings,* the principle of division is applicable, in proportion to the profits originating in a particular country, provided that there exists in that country a genuine organization (office, agency, or branch) in which business is actually carried on and that it is not—as in the case of shipping companies, for example—merely a question of vessels calling at ports.

Nevertheless, in the case of maritime navigation undertakings, in view of the very particular nature of their activities and of the difficulty of apportioning their profits, particularly in the case of companies operating in a number of countries, the experts admit an exception to this principle—to the effect that the tax should, subject to reciprocity, be imposed only by the country in which the real center of management and control of the undertaking is situated.

(*b*) *Insurance companies.*—The principle of division also applies to profits realized through an insurance agent representing in the same locality more than one company.

(*c*) *Banks.*—The same principle of division; excluding, however, operations effected by a bank belonging to a specified country in another country, when its operations are confined to discounting or to paying over money.

D. *Mortgages.*—The State in which the immovable property is situated should alone have the right to levy a schedular tax on mortgages.

E. *Directors' fees.*—The State which has the right to levy this tax is the State in which the company has its fiscal domicile.

F. *Earned income.*—The tax should be levied in the State in which the trade or profession is normally and habitually carried on, subject to the right of States to conclude among themselves special conventions to meet the case of persons employed in the neighborhood of a frontier, or engaged in a profession, employment or trade which necessitates crossing the frontier.

G. *Transferable securities, deposits and current accounts.*—As regards interest on:

(1) Public funds and bonds issued by companies or other legal persons;

(2) Deposits and current accounts:

the State in which the debtor is domiciled shall, as a rule, be entitled to levy the schedular tax but the experts recommend the conclusion of agreements whereby (particularly by means of affidavits and subject to proper precautions against fraud) reimbursement of, or exemption from, this tax would be allowed in the case of securities, deposits or current accounts of persons domiciled abroad, or whereby the tax would be levied either wholly or in part by the State in which the creditors are domiciled.

Public funds include bonds issued by the State, provinces, departments, communes and by regularly constituted public bodies.

As regards interest on deposits or current accounts, the head or branch office which pays the interest should be regarded as the debtor.

The above regulations shall also apply to the various kinds of schedular taxes on dividends charged upon shareholders, it being clearly understood that there is no reference here to the tax on industrial and commercial profits mentioned in paragraph C above.

H. *Various credits and annuities.*—As regards interest on credits other than those already considered, and on annuities, the State in which the creditor is domiciled shall have the right to impose the schedular tax.

The definition of "domicile" shall in this instance be the same as that adopted for the purposes of the general income tax.

II. Personal or General Income Tax

1. The general income tax, that is, a tax (which may be at a progressive rate) charged upon the whole income of a taxpayer, from whatever source derived, should, in principle, be imposed only by the State of domicile.

2. When for its own reasons a State, other than the State of domicile, finds it necessary to impose a general income tax on income arising from a particular source or sources in its own country, bilateral conventions should, if possible, be entered into between the States concerned with a view to avoiding any double imposition caused by taxation of this character. The kinds of income upon which the State of origin may impose such a tax include: (*a*) income from immovable property; (*b*) income from agricultural undertakings and industrial or commercial establishments, exclusive of dividends upon shares therein.

3. The precise method of avoiding double taxation must be a matter to be worked out in detail between the States concerned, having regard to the circumstances and nature of the respective fiscal systems; but the experts indicate two methods which may be of assistance to any States which may contemplate entering into such conventions:

(1) Deduction by the State of domicile from the general income tax of a sum which will be:

(*a*) Either the tax calculated according to the State's own scale and charged exclusively on income produced in the other countries, each of the latter being taken separately.

(*b*) Or the tax actually paid abroad on the income arising abroad; this sum may be limited to the amount to be deducted in accordance with paragraph (*a*).

In order to prevent a taxpayer whose entire income arises abroad from escaping all taxation in his State of domicile, the amount to be deducted on the above basis should in all cases be restricted to some fraction of the total tax chargeable in the State of domicile.

(2) In the State of the origin of the income, only a portion of the income arising there should be taxed, the other portion being taxed in the State of domicile of the taxpayer, but at the rate applicable to his total income from every source.

4. Similar steps might be taken, or exemption might be granted, in the country of the origin of the income by means of bilateral conventions in cases where double taxation arises by reason of the existence of a general tax in the country of domicile, side by side with schedular taxes in the country of the origin.

III. Permanent Taxes on the Taxpayer's Total Wealth or Capital: Succession Duties

The rules adopted for the general income tax are applicable *mutatis mutandis* to permanent taxes on the taxpayer's total wealth or capital and to succession duties.

IV. Fiscal Domicile

1. *Fiscal Domicile of Individuals*

A. *General Income Tax* (taxes on the total wealth or capital)

The State of domicile, for purposes of the general income tax, shall be the State in which the taxpayer normally has his residence for a portion of the year, the term "residence" being understood to mean a permanent home.

If a taxpayer has a residence or sojourns otherwise than occasionally in different States, each of the said States may levy a general tax; it is desirable, however, in order to avoid double taxation, that those States should adopt a special standard of liability to taxation, or else that they should agree on a proportional division of taxation.

States shall always be free to tax their own nationals on the whole of their income, wealth, or capital not taxed under the terms of the above paragraph.

B. *Succession Duties*

The State in which the deceased had, at the time of his death, chosen to take up his residence with the manifest intention of remaining there, shall for purposes of succession duties be considered as the State of domicile.

States which are unable to accept this definition in its entirety shall retain their own internal legislation. Should double taxation ensue, they might, for the purpose of avoiding it, agree to base taxation upon the nationality or the principal establishment of the deceased or to adopt some method of relief.

2. *Fiscal Domicile of Companies or Corporate Bodies*

The State which has the right to levy the tax is the State in which the head office is situated, or, if that office is not the real center of management and control of the undertaking, the State in which this center is situated.

XII

TAX EVASION

Relation of double taxation to tax evasion. Increase in taxation in the war. Various solutions. Text of resolutions submitted to Financial Committee of League of Nations.

BOUND up with the question of double taxation is that of tax evasion. Any conventions which come into force with a view to alleviating double taxation must, of their very nature, tend to make the avoidance of taxation easier. Where exemptions from taxation are given in one country for taxes paid in another, to prove that such taxes have been paid it is necessary to have statements from that country verifying the claims for exemption. Unless such verification is obtained, the scope for the evasion of taxes based on fraudulent claims is increased.

This fact was recognized as early as 1920, when the four economists referred to in the previous chapter were appointed to inquire into methods of alleviating double taxation; for a clause was inserted in the terms of reference, reading, "To what extent should the conventions on the subject of double taxation establish an international control to prevent fraudulent claims to relief?" The economists' answer to this was that conventions suggested for avoiding double taxation should contain special measures against evasion. Further, it has been stated that if states provide each other with information relative to the financial interests of each other's nationals in their country, there might easily arise duplication in the levying of taxes. This only shows how interdependent the two question are, and that any conventions that attempt to prevent tax evasion must take into consideration what methods are being employed to prevent double taxation.

In most countries, especially in Europe, taxation has become greater since the Great War and has become more irksome to the taxpayer. The duties of the state tend to increase, and the ability of the taxpayer to meet these increased obligations becomes more and more difficult. The result is that European nations are finding it a hard task to make their budgets balance, and this task becomes even harder when, to meet the growing demand for the avoidance of double taxation, the countries involved sacrifice a certain amount of their yield from taxation to those other countries which, by those international agreements already referred to, have been given the prior right to tax their own nationals as regards income, and so forth.

There is no doubt that the amount of taxable wealth that fraudulently or otherwise escapes taxation is extraordinarily large, and it is estimated that if the taxes could be collected and brought into the respective treasuries, sufficient moneys might be raised to counteract the amount sacrificed, through agreements reached to prevent double taxation.

The tackling of the question of tax evasion differs, however, from the question of double taxation, in that until the recent inquiry of the League of Nations committee of technical experts no international body had conducted an inquiry on the subject of tax evasion.

Nor have the definite attempts made by governments to meet the increasing evil of tax evasion been numerous. As far back as 1843 Belgium concluded a treaty with France on the question, and two years later made a similar treaty with Holland. These treaties arranged for the exchange of information concerning immovable property possessed by the nationals of each country, on a reciprocal basis.

In 1907 Great Britain and France signed an agreement which provided for the exchange of information, with a view to preventing evasion of death duties.

More recently arrangements have been made between Germany and Austria and Czechoslovakia for the providing of required information relative to taxation.

In the double taxation treaty between Italy and Czecho-slovakia already referred to, there is an article which states that the parties will "assist each other in levying and collecting direct taxes," and it is indicated that a separate convention will be concluded on the subject.

The most common manner in which taxation is avoided is by the export of capital. The investing of capital abroad is now an essential factor in international finance, but it often paves the way for escaping taxation. In a number of cases taxes are deliberately avoided by the investing of money abroad. There are also a number of cases in which persons, owing to no particular fault of their own, do not carry out their obligations in the matter of taxation.

The treaties already referred to show that the problem can be met, both by detecting evasion in the assessment of tax, and by preventing the recovery of tax. The most common abuse with regard to the first is when the taxpayer invests his money abroad, cashes his coupons there, and leaves the revenue authorities in his own country in ignorance thereof. Taxes can be avoided, in the second case, when the taxpayer evades taxation legally imposed on him in his own country, by taking refuge in another country.

In attempting to solve the problem, there are certain difficulties which have to be borne in mind.

First, any solution of the problem must provide for a complete interchange of information regarding taxable capital and income, which is necessary for the assessment of taxes. The legislation of a great many countries does not allow the revenue authorities to obtain certain information of a person's capital or income, and in such countries public opinion is often opposed to the extension of any powers which the revenue authorities may already have. It stands to reason that the only information that can be exchanged is that which is already in the hands of the revenue authorities in the respective countries.

Secondly, persons may be quite willing to give information to the revenue authorities when they know that such information makes for the fairest possible collection of taxes. They might not be so willing to give information, however, if they knew it was to be used for the benefit of the treasury of another country.

Thirdly, if a number of countries entered into agreements for the prevention of the evasion of taxes, the problem would not be solved, as there would still be left other countries to which capital could be exported in order to avoid taxation. For instance, during the war, when the export of securities was prohibited from belligerent countries, certain Swiss and Dutch banks openly advertised that bearer securities could be lodged with them and that any communications in connection therewith would be dispatched in plain envelopes.

The committee of technical experts, whose report on double taxation has already been dealt with, also inquired into tax evasion and included in their report resolutions thereon which are printed in full at the end of this chapter.

For the solution of the problem the experts recommend that states enter into agreements for the exchange of information on taxation matters. They suggest that those responsible for the collection of taxes in each country provide the other countries with information, where required, for income derived and property owned by those persons of whom the information is required by another country.

The experts endeavor to meet in these resolutions the three difficulties outlined above. In the first place, they say that the question can only be solved by agreements between the *majority of states*, otherwise there would still be room for the exporting of capital to those countries not parties to the agreements.

The criticism that persons might object to parting with information which they know is going to be used for the purpose of benefiting another country is met by stating that the collection of national taxes comes first, so that if any proposals made by the experts clash with domestic arrangements, the proposals must not be carried out. They say, "The carrying out of our recommendations will be possible in any country, if the government of that country considers that the measures recommended are compatible with the system employed by the said government for the collection of its own taxes."

In drafting the resolutions the experts endeavored to avoid all interference with national sovereignty. It is suggested, however, that states might allow their revenue or judicial authorities to try to recover fiscal taxes, but these must not be regarded as privileged debts.

The text of the Resolutions submitted by the technical experts to the Financial Committee of the League of Nations with regard to tax evasion follows:

A. Assessment of Tax

In view of the very special nature of the problem of tax evasion, the experts consider that they must, at the outset, submit the following observations, which should be read together with the text of their recommendations:

1. Unlike double taxation, in connection with which any problems arising between two States can be settled appropriately by means of bilateral conventions, the question of tax evasion can only be solved in a satisfactory manner if the international agreements on this matter are adhered to by most of the States and if they are concluded simultaneously. Otherwise, the interests of the minority of States, which would alone have signed the conventions, might be seriously prejudiced.

2. As regards the carrying out of the recommendations, which the members of the Committee, in their capacity of technical experts, submit as being in their opinion the most suitable for counteracting tax evasion, the experts desire to emphasize the fact that it will only be possible to carry out these recommendations in any given country if, in the first place, public opinion in that country is sufficiently prepared, and secondly, if the Government of the country considers that the measures advocated are not only compatible with public opinion, but also are required for the collection of its own taxes.

The experts consider that the effective method of avoiding tax evasion is for the revenue authorities to undertake to supply on a basis of reciprocity to other countries, in respect of persons or companies domiciled in those countries, such information as may be required for tax assessment, for which purpose it is necessary to ascertain both the income and capital value of:

(1) Immovable property;
(2) Mortgages;
(3) Industrial, commercial or agricultural undertakings;
(4) Movable securities, deposits and current accounts, as determined by means of affidavits or any other documents, proving the existence of capital or the payment of the income;
(5) Earned income, including directors' fees.

Nevertheless, having regard to circumstances of different kinds, the experts recognize that this exchange should be limited actually to the information which is in the possession of States or which the States can obtain in the course of their fiscal administrations.

In the opinion of the Committee, it is essential that agreement on the subject of tax evasion should be reached, if not universally, at least by a majority of States, in order to obviate the serious disadvantages which might result for certain countries if the procedure in question were adopted by a minority of states only.

B. Collection of Tax

(Administrative and Judicial Assistance)

States might consider the possibility of allowing their administrative or judicial authorities to act for other States for the recovery of fiscal debts the liability for which can be shown to be *res judicata*. If this principle were adopted, States would conclude with one another, for its application, conventions which might contain the following provisions:

1. Each State shall recover within its territory, in accordance with its own law, taxes due in another State, including taxes due from persons not nationals of the latter State. The State to which such an application is made may not, however, be requested to apply any method of execution not provided for under the law of the State making the application.

2. Taxes to be recovered shall not, in the State to which application is made, be regarded as privileged debts.

3. Prosecutions and other measures of execution shall be carried out, without exequatur, on the production of documents proving that the liability in question is *res judicata*. If the fiscal debt may still be the subject of an appeal, conservatory measures may be taken on the production of a decision executable against the debtor.

XIII

PROTECTIVE ASSOCIATIONS

A. The Corporation of Foreign Bondholders: its origin, function, and procedure. B. The English Association of American Bond and Share Holders, Limited.

A. The Corporation of Foreign Bondholders

In the center of the city of London, close to the Bank of England, are the offices of the Corporation of Foreign Bondholders. The offices are spacious and are furnished in true Victorian style. Just as one gets an entirely different notion of the world according to whether one sees a map on Mercator's projection or in spheres, so the stranger entering these offices gains an entirely new impression of the world he inhabits. He feels that he is in the center of a world of defaulting debtors. Certain countries seem to be in demand on this particular day, for a pointing finger indicates one door for claimants against Mexico, Honduras, Ecuador, and Paraguay, while another invites creditors of Austria-Hungary to step to a different counter. On the walls are numerous notices from which may be learned that some money due and promised by Honduras in respect of an arrangement made with the bondholders is being held back, owing to delay in the election of a president which, it is feared, may be attended by fighting, while others are of a more cheerful nature, such as that Costa Rica and Paraguay have forwarded their monthly instalments.

Penetrating to the private office one may see the presiding genius in conference with his chief officials, and hear such fragments of conversation as "The Turks have halved the offer but made it permanent instead of temporary"; and, "I don't see how Mexico can do it. The offer is very vague, and it doesn't include the National Packing Bonds."

When a country starts lending money abroad, investors find sooner or later the need to organize some protective association to look after their interests. This, however, does not occur until adversity renders such an institution imperative. The Corporation of Foreign Bondholders, described in this chapter, is easily the first association of its kind in the world's history to look after the investment interests of its own nationals all over the world, and has already served —and will do so still more in the future—as a model for similar organizations in other countries. Its origin goes back to the middle of the nineteenth century, when England was bulging with money, and foreign loan after loan was raised in the London market. In a few years a series of defaults occurred. Informal gatherings of bondholders were held in London, mostly in a hostelry called the Freemasons' Tavern (that being before the days of the Cannon Street Hotel, where meetings of that description would now be held). Human nature is much the same all over the world, and after a series of indignant speeches, appeals to Heaven for justice and demands for concerted action, persons present would be requested to subscribe a small sum in cash to meet the expenses of such an organization. Each man would then murmur to his neighbor that he (the neighbor) was doubtless more largely interested in the matter, and sometimes the protest would fizzle out, but sometimes committees were formed.

There is a class of person who fishes in troubled waters, and it often occurred that the people in control of these committees were of an undesirable character, seeking their own benefit rather than that of the bondholders. As time went on it became evident to some of the more reputable elements in the city of London, among them a few bankers, that it would be a good thing if some disinterested organization could be formed under the protection, if possible, of the British Government, which could take steps towards retrieving some of the appallingly heavy losses that were being experienced by British investors on the bonds of foreign countries. A few of these firms, therefore, subscribed some capital, and formed an association on the lines indicated. Strange as it may sound, the association derived some of its income from defaulting governments which, when they compounded by the issue of new bonds, handed some to the association in reimbursement of its expenses. Some debtors, however, objected to an association which was acting in the interests of the creditors, making profits, and it was decided to stop profit-making altogether, to refund to the members the capital they had provided, with interest at 5%, and to go on as a semipublic body. An interesting touch is provided by the fact that in this liquidation members were given certificates of membership, attached thereto being the right to avail themselves of the library formed by the association and the right to attend annual meetings. Some astute people started buying up these certificates at a very small figure, although they ostensibly possessed no value; it became apparent, however, that their idea was to get control and to liquidate the association, dividing up the accumulated assets. Some prominent people in London, getting wind of this, decided to step in, and in 1898 an Act of Parliament was passed, establishing the corporation in its present form. The secretary of the corporation has been good enough to lend me, out of its records, a speech of Sir John Lubbock (later Lord Avebury) the eminent banker and naturalist, made at the meeting held on February 24, 1890, when he assumed the presidency of the corporation. This speech is so interesting and informative that it is here reprinted, with the omission only of some passages which possess no permanent interest. Events have shown that the closing portion was truly prophetic.

SPEECH OF THE RIGHT HONORABLE SIR JOHN LUBBOCK, MADE AT THE EIGHTEENTH ORDINARY GENERAL MEETING OF THE COUNCIL OF FOREIGN BONDHOLDERS HELD AT THE COUNCIL-HOUSE ON FEBRUARY 24, 1890

THE CHAIRMAN. I now beg to move the adoption of the report and balance-sheet. My colleagues on the council have done me the high honor of asking me to accept the chairmanship, but, after what I have said, you will not wonder that I hesitate to accept their very gratifying suggestion. Apart from the question of qualification, the chairmanship would probably require more time than I could give. However, having been one of your vice-chairmen ever since the foundation of the association, I naturally feel the keenest interest in its prosperity. The last year has not been one of an eventful character. Various negotiations are in progress, but there is no completed operation to which I need especially direct your attention, nor consequently is there any material change in our finances. Under these circumstances this is, I think, a favorable opportunity to take a general view of the history of the council from its formation, especially as, of course, I can say many things which one who had been longer your chairman could, perhaps, hardly enter on without an appearance of egotism. It is now some 18 years since a body of holders of foreign bonds, realizing the helpless condition in which individual creditors stood *vis-à-vis* foreign governments, under the leadership of Mr. Gerstenberg, conceived the idea of forming an association which should represent bondholders and protect their interests, in all cases of default, either on the part of foreign governments or of private companies. These gentlemen felt that the ordinary recourse to the law courts, which stood open to them, in the case of private debtors, was not available in all such cases, and that other forces would have to be brought to bear upon these governments in order to secure a remedy for any want of good faith. In order to furnish the necessary funds, and as a sort of guaranty, they subscribed a sum of between £50,000 and £100,000, repayable at par at the option of the council, with a rate of interest which was not to exceed 5%. The incorporation under the license of the Board of Trade, as an association without profits, took place on August 1, 1873. Some 600 gentlemen joined the association, and the results of the work accomplished by it were indeed marvelous. The original subscriptions have been returned to the subscribers in cash, with 5% interest from the day of allotment, and the nucleus of a fund has been created which will assist the corporation to carry out its beneficial work in the future to the manifest advantage of the investing public. No profits are divided; whatever surplus may be realized is carried forward, and is strictly applied to the public duties which the association has undertaken. The corporation was formed to act in the interest of, and to protect, English investors in foreign-government, and other, securities. At the time of its formation, many foreign governments had become bankrupt, and English investors had lost vast sums of money. In such cases it is difficult for individual bondholders to take any initiative; the expenses of such a course are often considerable. It is sometimes necessary to send out an envoy to confer with the government in default, and such an envoy must be some one of character, of ability, and of a position which will carry weight. He must, moreover, have good legal advice, and the negotiations are often protracted. All this necessarily involves considerable expenditure. The advances made have exceeded at one time £20,000, and, even in the case of a single state, more than £5,000 before the negotiations were concluded. The council has been most careful in selecting, and most fortunate in securing, the services of representatives of the highest character; I need only mention Mr. Goschen, Lord Connemara, and Sir E. Thornton. Moreover, the creation of national debts has introduced a new factor into human history. It has become possible for a *de facto* government, not necessarily, and in many cases not actually, of a representative character, to pledge the whole property and the credit of a nation. This being so, a country may find itself committed to responsibilities which are practically impossible of fulfilment. Under such circumstances, it is most important that the creditors should secure representatives who, while insisting on all just rights, may be able to advise them whether it may be alike generous and wise to forego some part of their legal rights. English bondholders have always shown themselves ready to take a just and liberal view under such circumstances, and the taunts sometimes cast at them are absolutely without justification. On the other hand, it is just to admit that, with some few unfortunate exceptions, foreign governments have shown themselves anxious to effect an honorable settlement, and they have had their just reward in the improvement of their finances, their credit, and their commerce.

The general policy of the council has been to suggest the election, by those interested in each loan, of a special committee. The council places its rooms, staff, library, and so on, at the disposal of such committees, and acts in accordance with them. They naturally feel an especial interest in their own investment, and on the other hand, I hope they have found an advantage in the general experience which the council has acquired. The chairman of the council is *ex officio* a member of such committees, and we have worked most harmoniously with them. Our net income from investments, as may be seen from the accounts, is about £4,000, and our expenses are about £8,000. I am glad to say that, in most cases, the remuneration of the corporation has come from the foreign government and has not been borne by the English investor. But the council are very anxious to increase the corporation funds, so that, if possible, our income from invested capital might equal our expenditure, and we might be able to act free of any charge. It will, however, I hope, be distinctly understood that the whole profit made in any case comes to the corporation; that it is held in trust, that the certificate holders derive no pecuniary advantage, and that the chairman, vice-chairman, and 18 other members of the council receive only the fixed and moderate remuneration of £3,200. To give a clearer idea of the action of the council, let me take one or two cases. The Austro-Hungarian Government on one occasion took a course which was considered unfair to the English creditors. Thereupon, they were invited to deposit their bonds, and each holder was given a certificate of the amount of his holding, at a nominal charge of 1*s.* per £100 bond. After considerable negotiation, the Austro-Hungarian Government, feeling no doubt the justice of the contention, redeemed our certificates at the rate of £5 per 100 bond. Take again the case of Egypt. The financial condition of that country was, for some time, a matter of much anxiety to the council. We were pressed by many bondholders to do something, but there was no consensus of opinion what steps should be taken. After a while a favorable opportunity presented itself, and it occurred to us that the best course would be to try to induce Mr. Goschen to go to Egypt, inquire into all the circumstances, and advise what should be done. A meeting was summoned, Mr. Goschen was asked and consented to undertake the mission, declining to receive any remuneration. He made a most valuable report, and recommended various measures, to which the Khedive assented. The bondholders consented that the bonds which then bore 7% interest should be divided into preference bonds, carrying 5%, and unified bonds, reduced with the consent of the bondholders, 4%. This was a large reduction, and the bondholders may fairly claim to have acted with much liberality and to have made great sacrifices in order to restore the credit and prosperity of Egypt at a period of extreme difficulty. At that time the Egyptian stocks stood at about 40%. They have steadily improved to more than double their former price. This is, of course, mainly due to the economy and the security obtained by the British occupation, loyally supported by the Khedive; but, financially speaking, these satisfactory results could not have been achieved had it not been for the wise sacrifices voluntarily made by the bondholders. Again, I may take the case of Turkey. After the late war, the finances of that country were in a very disastrous condition. The payment of interest had ceased, the price of Turkish stock stood at about

10%, there were heavy temporary loans, and the exchequer was empty Moreover, the debt was made up of various loans, with different securities and in some respects conflicting interests. Any action, therefore, taken by the holders of one stock might naturally be viewed with suspicion by those interested in the others. Under such circumstances, the existence of an independent body, such as ours, which can act, as it were, in a semijudicial character, and, at any rate, in a judicial spirit, for the general advantage of the English investors, and not in the interests of one loan rather than another, is peculiarly valuable. The council were fortunate in inducing the Right Hon. R. Bourke, now Lord Connemara, who had been Under Secretary for Foreign Affairs, and is now governor of Madras, to undertake a mission to Constantinople in the general interests of the bondholders. He was accompanied by our legal adviser, Mr. S. N. Braithwaite, as legal secretary. The French, German, Austrian, and Italian holders sent delegates, while the Dutch and Belgian bondholders requested Mr. Bourke to act for them also.

The situation was one of extreme difficulty and delicacy.

The finances were in an almost desperate position, and, in addition to the foreign debt, there were temporary loans raised at very high rates, and the holders of which were extremely pressing. Mr. Bourke and his colleagues succeeded, however, in making an arrangement which was accepted by the bondholders of all classes. Certain revenues were assigned to a council of administration, and the nomination of the English representative (who was to preside alternately with the representative of France) was entrusted to your council. We nominated Mr., now Sir, Edgar Vincent, and on his being made financial adviser to the Khedive, Mr. V. Caillard. Under their able administration, the revenues ceded have substantially increased. In 7 years, £10,000,000 has been distributed in interest, £4,500,000 of debt has been canceled, and while the price of the Ottoman debt at that time (1878) stood at less than 10%, the four classes into which it was divided now stand as follows: A over 40; B, 25; C, 18; and D, 17. I gladly take this opportunity of acknowledging the honorable and loyal spirit in which the arrangement made with your representative has been, in the main, carried out by the Porte. Looking at the debt arrangements effected by the council, as a whole, during the last 18 years, some 32 debt settlements have been made, dealing with defaults of from 1 to over 50 years' standing, and embracing an indebtedness of no less than £749,500,000 of principal, and of £106,500,000 of arrears of interest and drawings, making the gigantic total of £856,000,000, one-half of which at least may be considered as having been held by British investors. The exertions of the council, which involved an infinite amount of painstaking labor and great expense, resulted in obtaining the payment of a commencing minimum of £16,500,000 per annum for the first year's interest, besides a large cash payment, and a still larger value in lands and securities. That an association which is, after all, only a combination of private individuals should have acquired so great an influence, and should have dealt with debts amounting to the enormous total of £856,000,000, seems almost fabulous—almost like a fairy tale of finance.

If the exertions of the council, through its intervention, have produced nothing more than the mere acceleration in the payment of their interest by two years sooner than it could otherwise have been accomplished, it has saved at least £34,400,000 to the investing community. The council necessarily acts mainly through its chairman. My colleagues on the council will not, I feel sure, suppose that I underrate the assistance which we have been able to render. But the threads of the negotiations are in the hands of the chairman. Mr. Gerstenberg acted from 1873 till 1876; Mr. Bouverie from 1876 to 1889. To them and to our staff, especially to Mr. Hyde Clarke, our first, to Mr. O'Leary, our present, secretary, and to Mr. Kozhevar, the thanks of the investing public are greatly due. The number of foreign states in default is now happily much reduced. But no one can view the enormous armaments of Europe without grave apprehensions. The last time I saw Mr. Gambetta he said to Sir Grant Duff and me that if this went on, the people of Europe would be reduced to "beggars in front of a barrack." The expression struck me very much at the time. Again, we must expect in the future great fluctuations in trade and commerce, and the development of railway and other companies is enormous.

There is certainly, therefore, a great field of useful work before us. The corporation is, as I have said, not a trading body; the members seek no pecuniary advantage for themselves. Their object is by united action, by the experience that has been acquired, to protect other investments, and thus benefit, not themselves only, but all those who have anything to lose.

I think I might even go further, and claim that we have benefited foreign countries also, because it is only by the maintenance of credit and good faith that any people can deserve, and enjoy, the advantages of progress and prosperity.

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THE CORPORATION OF FOREIGN BONDHOLDERS: ITS ORIGIN, FUNCTIONS, AND PROCEDURE

Constitution. The Corporation of Foreign Bondholders was founded in 1868, incorporated in 1873 under licence from the Board of Trade, and reconstituted in 1898 by Special Act of Parliament. Under that act the Council of the Corporation consists of 21 members, of whom 6 are nominated by the British Bankers' Association (formerly the General Association of Bankers), 6 are nominated by the London Chamber of Commerce, and 9 are co-opted by the council as a whole—that is, by the votes of both the representative and the co-opted members. A majority of the members are thus appointed by outside bodies.

Objects. The principal object of the corporation is the protection of the interests of the holders of foreign securities. In addition to this, however, it keeps elaborate records regarding the economic and financial condition of the various states with whose debts it is called upon to deal, and these records are readily placed at the disposal of investors or other interested parties. The annual reports of the council contain a large amount of valuable information and are circulated all over the world.

Procedure. The council may, and in some cases do, act on their own initiative. For instance, they appoint the British representatives on the Councils of Administration of the Ottoman Public Debt and of the Caisse Commune of the Austrian and Hungarian pre-war public debts, and they have frequently intervened on behalf of individuals whose rights have been prejudiced by the action of foreign governments.

Committees. As a general rule, however, the council act through various bondholders' committees associated with them under the Rules and Regulations of the Corporation. In the case of the default of a foreign state, or in other circumstances where the rights of bondholders are interfered with, the practice of the council is, on their intervention being solicited by a requisition from those interested, to convene a public meeting of bondholders, and to suggest that a committee, to take charge of the particular interests affected, should be appointed either by the meeting or by the council on its nomination, the former course being usually adopted.

The president and vice-president of the council are *ex officio* members of all committees, and, if deemed desirable, the council appoint one or two of their other members to serve thereon in order that the council and the committees may be kept in touch. These committees carry on the negotiations for a settlement, and advise the council as to whether proposals made by a foreign state shall or shall not be recommended for acceptance by the general body of creditors. The council, of course, reserve entire freedom of action to themselves, but happily no case involving any material difference of opinion has yet arisen, and the history of the past 50 years shows that the relations between the council and the various bondholders' committees have been of a thoroughly harmonious and cordial character.

Advances. The council provide the committees with houseroom and supply them with skilled assistance: they place at their disposal the benefit of their long experience in dealing with defaulting states, and, in addition to this, advance such sums of money as they may consider desirable in order to defray the necessary expenses connected with the negotiations.

In many cases these negotiations are spread over many years, and the expenses involved are often very heavy, especially in instances like that of Virginia, where costly and complicated legal proceedings were undertaken on behalf of the bondholders against the state, and case after case was carried up to the Supreme Court of the United States. Apart from the outlays involved in such negotiations and litigation, the ordinary expenditure of the corporation averages about £12,000 a year. In accordance with the provisions of the Act of Parliament, the president receives £1,000, the vice-president £500, and the other members of the council

£100 each annually, based on their attendances at meetings of the council.

The Corporation of Foreign Bondholders itself gives the following account of its functions, at the beginning of its annual report:

Fees

The members of the bondholders' committees affiliated to the council act gratuitously, but on the other hand they incur no pecuniary responsibility, and if a settlement is arrived at, the council are authorized to pay the members of the committee concerned in such settlements a moderate fee for each attendance. No such fees are, however, paid to the president or vice-president of the council, and as regards other members of the council who serve on the bondholders' committees, the amount received by them on this account is quite insignificant.

Funds

The invested funds of the corporation amount to about £180,000, and yield a revenue of about £7,000 a year. Any surplus remaining, after defraying the expenses, becomes part of the General Fund of the corporation, which is held by the council as trustees for the benefit of British investors, and neither the president nor the members of the council have any personal interest in it beyond the sums fixed for their remuneration by Act of Parliament, as mentioned above.

It has always been the hope of the council that the income derived from the invested funds of the corporation would some day be sufficient to cover all expenses, so that they would not have to make any charge whatever for their services. In most cases, however, the expenses have been borne by the governments concerned, and no charge has fallen on the bondholders.

Results

When it is borne in mind that the corporation has been concerned in the settlement of debts aggregating about £1,000,000,000, it is evident that even had the whole of the charges fallen on the bondholders, the percentage of cost on this account would have been exceedingly light in view of the labor expended and the results achieved.

Resolutions expressing cordial appreciation of the services of the council, and thanking them for their support and assistance, have been passed at meetings of holders of the debts of many of the countries with which arrangements have been effected.

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A fascinating history of the last century, viewed from an unusual angle, could be compiled by a writer who had time to spend months in going through the reports of this body from its beginning, and I commend the idea to one of the American universities. I have merely dipped into these records, and find them a treasury of incidents, but saddening in that they serve to show how humanity moves in a circle. Starting with the year 1873, when the Corporation of Foreign Bondholders was properly formed, I observe with interest a note of thanks to the Government of the United States for having kindly made a considerable and valuable contribution, towards the library the corporation was setting up, of books dealing with finance, railroads, and so forth, in connection with the countries of the world. As will be seen, not every subsequent reference to the United States was so complimentary.

Relations were entered into with groups of bond- and stockholders in other countries, and Holland and Germany appeared to be specially helpful. Spain was already in default, and the council of the corporation reported sorrowfully that it had had to make an unsatisfactory arrangement on behalf of the creditors of that country "under the threat of resignation by the government and the serious consequences that might have ensued in Spain." In the same report complaint is made of the vexations practiced on the bondholders by the Italian Government, which forced the council to protest, but so far from any remedy being applied to the grievance, "the Italian Government inflicted further annoyances."

From early days the names of Turkey and Portugal appear in the reports with unpleasant regularity. I also cull the following interesting note from an old report:

> *Morocco.* It is a matter of great gratification that the succession of the new Sultan, so commonly a danger in Morocco, has been accompanied with little disturbance, so that the stability of the Moorish loan negotiated by Messrs. Robinson and Fleming has not been impaired.

I am afraid that the bondholders did not benefit much, for I have been unable to trace the repayment of the loan referred to.

It is also of interest to read, under date of more than half a century ago, that the President of Liberia had again visited England and given assurances that his government would endeavor to comply with its obligations.

In the year 1880 one comes across references to a special committee representing persons holding Peruvian bonds, which asked the good services of the corporation, with the result that the following note was printed:

> The Chilean Government, having now obtained possession of a portion of the territory of Peru, has shown every disposition to act with generosity and justice towards the Peruvian bondholders; and the bondholders have thus an opportunity of dealing with a government on whose honorable intentions they can rely.

The ingenuous character of this note is pleasing, but the circumstance referred to may account for the popularity which Chilean bonds have always enjoyed on the London market. Over and again, however, one comes across paragraphs like the following:

> Revolutionary disturbances have continued during the greater part of the year, with the usual result that the country has been flooded with depreciated paper money issued by the government to provide funds to carry on military operations.

and again

> One of these revolutions which are the curse of so many of the South American republics.

The untiring efforts of the Corporation of Foreign Bondholders resulted in arrangements being made with one debtor after another, until in respect of the year 1913—the year before the war—it was able to inform the financial world through its annual report that:

> The elimination of Guatemala from the black list leaves the unenviable distinction of defaulters confined to the republic of Honduras and nine states of the United States of America; name-

ly, Alabama, Arkansas, Florida, Georgia, Louisiana, Mississippi, North and South Carolina, and West Virginia.

One or two foreign associations have been formed on the model of the Corporation of Foreign Bondholders, although they usually differ from it in that they make a small fee, whereas the corporation works without charging the individual bondholder anything. These foreign associations are not of the same importance, however, if only from the fact that no other European country has foreign investments approaching those of England in volume and variety. There is, however, in Paris, the Association Nationale des Porteurs Français de Valeurs Mobilières, and in Antwerp the Association Belge pour la Défence des Détenteurs de Fonds Publics. A few years ago, I understand that attempts were made in the United States to form a similar association, but nothing resulted. This is not surprising, for need always precedes cooperation, and not vice versa. With the advent of the United States as world lender and financier, the necessity for such an association will in due course become imperative, and a close study of the progenitor of these bodies, which is always pleased to place its experience at the disposal of others without charge or anticipation of favors to come, should be fruitful.

The need for concerted international action by bodies of this description was well illustrated in the case of Roumania. In 1923 the various countries which had received portions of the old Austro-Hungarian Empire agreed to bear their proportion of the loans made by the defunct Empire. The only state which refused to sign the Protocol was Roumania, as a result of which the bondholders were kept out of their rights for a considerable time. The Roumanian Government made attempts to obtain a loan in New York, whereupon the Council of Foreign Bondholders of London and the Association Nationale des Porteurs Français de Valeurs Mobilières of Paris sent a joint protest to the American press against Roumania being granted fresh foreign capital so long as she abstained from assuming her share of the burden that went with transfer of territories. In the case of Latvia, however, more encouragement was given by New York bankers, although that country had been refused loans in London on account of its failure to make an arrangement with holders of the bonds of Riga, its principal city. It is obvious that if American financiers encourage—or at least condone—wilful defaults in the case of existing bonds, they are only laying up further trouble for their clients, and some association of the nature described, which can represent American investors and banking houses as a whole, is absolutely necessary if heavy losses are to be avoided in the future.

B. The English Association of American Bond and Share Holders, Limited

This association was founded in the year 1884. It appears to have been the outcome of a circular letter printed and circulated among the members of the London Stock Exchange, over the initials "A.B.," and sent from an address in Cornhill, London. Attached to the said letter were some memoranda, outlining proposals for the formation of a Protective Association of holders of American stocks and bonds. These are reproduced at the end of this chapter and contain many points of interest—historical and otherwise.

It is to be remembered that, in those days, there was no Interstate Commerce Commission in existence in the United States, and that, owing to the expense involved, holders of American stocks were unwilling to register them in their own names if they could obtain them in the names of arbitrage firms of the London Stock Exchange, and it was in this form that a large proportion of American shares were then held by British investors. This plan had certain disadvantages, which need not be gone into here, beyond referring to the fact that it certainly did not consolidate the British vote.

The establishment of the Interstate Commerce Commission, and the passing of wise legislation, has placed American railroads in a position entirely different from that in which they were in 1884. In probably no other country in the world are such complete and accurate, not to mention scientific, statistics maintained and published as those of United States railroads; but things were different then.

In its early days, the association took part in the reorganization of many American railroads, among them: the Wabash; the St. Louis and Pacific; the Denver and Rio Grande; the Quebec Central; the Texas and Pacific; the Cincinnati, Washington and Baltimore; the Perkiomen; the Ohio and Mississippi; and the Missouri, Kansas and Texas Railroad, and it had a representative on the London Committee in the reorganization of the Atchison, Topeka and Santa Fe Railway Company.

The letter which caused the formation of the English Association of American Bond and Share Holders, Limited, read as follows:

No. 2, St. Michael's House,
Cornhill, London, E. C.,
November 15, 1884

To the Chairman and Members of the Committee of Organization for a Protective Association of British Holders of American Bonds and Stocks.

GENTLEMEN:

A number of my friends, largely interested in American stocks and bonds, have requested me to lay before you certain views and suggestions regarding the proposed association which I have discussed with them, and which they think may prove of some assistance and guide to your committee.

As an unfortunate investor in American securities often consulted by friends, I have had occasion not only to study the causes of the insecurity and violent fluctuations of American stocks, but likewise have maturely reflected on the most practical means of correcting their instability.

Well acquainted with the country by travel and connection, I have during the last three years been residing in America, and have consequently been able to study the difficulties under exceptional advantages. The idea of an English Protective Association early germinated in my mind, and for several months past my friends have been consulted on the subject. Business matters, however, until recently prevented my visiting London for a full discussion.

That such an association is necessary must be readily granted by all interested in American securities; the circumstances cry aloud for it, but there are grave questions and points which arise and require consideration, such as, what form the association should take, how it should be organized, upon what basis it should be worked, and how it could be made self-supporting without creating any competition to existing interests.

These primary questions being satisfactorily solved, it is next necessary to have it understood what are the practical objective aims of the association, and how it is hoped they are to be obtained in a foreign country. In the desire of, perhaps, assisting you in the consideration of these serious points, I beg to draw your attention to the enclosed Memoranda under tabulated headings, in which I have stated my views, the benefit (if any) of which I am pleased to place at your service for the object of mutual protection which the proposed association has in view,

And remain, Gentlemen,

Yours, very truly,

A. B.

MEMORANDA

ON THE PROPOSED

PROTECTIVE ASSOCIATION OF HOLDERS OF AMERICAN STOCKS AND BONDS

FORMATION

1. *The association should be purely protective—not commercial or financial.*

This must be so, for no commercial nor financial association is required. British investors can certainly have no interest in creating another financial institution to facilitate the obtaining of further funds for the Americans. What is required is a combination to protect the funds already entrusted to America, or rather, what are now left of them—certainly not to increase them.

2. *The association should be so organized as to be independent of any controlling interests.*

It is clear that if the association could possibly, at any time, come under the control of any individuals or corporation, by purchase of its stock or otherwise, that its benefits would cease and its existence be even a great injury.

3. *The association should require little, if any, capital.*

As the association is neither a commercial nor a financial company, it can only require sufficient capital to reasonably guarantee the bonds and stocks confided to its care, say, £100,000 nominal, £20,000 paid up.

4. *The association should offer no competition to any existing business interests.*

The association, while transacting all its proper functions, should be restricted so as not to interfere or compete with the financial or agency connections of any existing business. The association, to have a value, must be practically a unit of British investors, and must not clash with any existing interests, so that every stockbroker, jobber, bank, or financial association should be in a position to recommend it to all their clients, without fear of advantage being taken to their detriment of the information and introductions thus given into its hands.

5. *The association should be self-supporting.*

The association should be self-supporting in order to have a right of existence, and this could easily be effected if the capital to compensate be small, and the expenses light. The fees for obtaining registration and the collection of dividends should alone do this apart from subscriptions and possible assessments.

6. *The association should not be entirely controlled by its stockholders.*

The necessity for this safeguard is self-evident. The association being formed for the protection of the general interests, it is clear that the control of its actions should not be left entirely in the hands of those commercially interested in its financial success, but that all those investors having stocks or bonds registered through the association, or who have given it their proxies, should have a proportional voting power in its control. Furthermore, it should be reserved that any special action regarding any stock should only be undertaken by the association after consulting a meeting called of all those interested in the special stock, whether registered with the association or not.

If these precautions be not taken it might arise that the stockholders of the association were legislating action upon a stock in which few, if any, of them were interested. This should not be a possible position.

7. *The association should represent all British investors in American securities.*

To do this the different sections of the country should be represented on the board, which should not be limited to London names only. The North of England and Scotland should most certainly have representatives, seeing the large interests they hold in America. The majority of Englishmen investing in American securities must be made to believe in the association, and it must obtain and possess their fullest confidence, for upon this depends all its moral weight and power for good in America.

8. *The association should not be allowed to endorse or undertake any financial operations.*

It will be the unanimous decision of all British investors that this association must not be used, either through interest or incapacity, as another channel for obtaining further moneys to be squandered in reckless extravagance by irresponsible directors on bankrupt American roads—unless this is assured, the association will receive no support, and the proposition had best be dropped at once. It must be well established that no reasonable fears can be entertained that the position of the association would be abused for financial purposes, otherwise its formation will be of no avail. The association must stand beyond the possibility of being used to assist the present large speculators out of their difficulties.

9. *The association should combine with outside and continental investors.*

When special action in any case is desirable, a general meeting of all interested in the stock should be called, and a special committee appointed to work in conjunction with the association, which would, thus endorsed, certainly receive the support of the continental exchanges, and together represent great influence.

Objects

10. *First object of the association—The combination of investors.*

This would be done by the formation of the association, and the registration of their holdings in proper manner, the association obtaining, as far as practicable, all the proxies for voting.

11. *Second object—Full information regarding the investments.*

This is obtainable only by proper and regular returns of traffics, full statements, clear balance-sheets, and ordinary honesty. These it must be the exertion of the association to obtain, and to a limited degree, at any rate, it is possible that it may.

12. *Third object—proportional representation of investors in the control of the various roads.*

If full information regarding the roads were obtained, as mentioned above, this third object would be of less importance; but in fact, it is chiefly from the lack of the third object that the second is necessary. The voting power of an American road coming under the control of one of the large manipulators, permits of his placing all the directors, often only his nominees and dummies, and thus the investing minority is practically at his mercy; and it is largely due to the abuse of this power that the existence of the association is so necessary. Whether this third object is easily obtainable or not, experience and time alone will show; in some cases it can be enforced, in others it will be conceded. Wherever obtained, it will be a certainty that the second object is secured and preserved.

N. B. The three objects above mentioned are so very reasonable, that at first sight it would be imagined that they would be obtained by simple request. It may be that, with the weight and influence of the association, they will be readily agreed to in some cases. This is our hope; but if well considered, they contain the chief causes of the instability and insecurity of American investments and of the dissatisfaction of investors.

13. *Last Objects—Obtaining general restrictions as to issue of new capital, bonds, or other liabilities, as likewise formation of parallel and competing roads.*

These objects are general, and the first three being obtained, the last objects could be provided for or foreseen. They are eventualities which might be necessary and justifiable, but would be foreseen if full information regarding the investments were regularly published.

How Obtainable

14. *The association must not be too aggressive or antagonistic.*

The association being purely a British association, care must be taken that the steps of the association be not too aggressive, for as a foreign combination it is entirely powerless in the United States, and any ill-considered aggressive action would not only be injurious, but would raise against it a national sentiment which would annul and cancel all its power for good, whether morally or practically.

15. *The association should cooperate with the better element of American investors.*

It is clear that all Americans are not to be judged by the character and dealings of some of their well-known railroad speculators, nor are the standing and morality of their investors to be gaged by the reckless and unfaithful management of some of their railroad lines; no, it must be taken for granted that the American investors are as alive to their own interests as British investors can possibly be.

The circumstances which give rise to the necessity of a Protective Association in England are equally appreciated in America, and all the *bona-fide* investors there are known to be as anxious, as excited, and as despairing as the investors here are.

This must be so, and as the interests are mutual, it is by cooperation with American investors that the ends of the association are chiefly obtainable.

16. *The association cannot expect legislation in its favor.*

Owing to the number of separate states forming the American Union, and the consequent different legislation in each, it would not be possible to obtain any benefit by legislation except under fearful delays and expense, and therefore at present the objects of the association can only be obtained through cooperation by moral and financial pressure.

17. *The association should obtain the cooperation and support of the New York and other stock boards.*

The legitimate traders of the American stock boards recognize the fact that even their own investors are being driven out of their markets by the very faults and fictions which we complain rightly of, and it may be taken for granted that their committees would willingly combine with a proper organization here, to compel the managements of the various roads to give proper and regular returns, correct balance-sheets, full statements, and other information necessary to investors, under the penalty that otherwise their stock would be removed from the official lists, and no quotations allowed.

The influence of such a combination could not be overestimated and would be heartily welcomed by the better element in America, who are like sufferers with ourselves.

The writer is in a position to state that this cooperation is assured if the Protective Association here be thoroughly organized, and its actions managed with proper tact.

Summary

The association is certainly a great necessity, and its formation meets a practical want. The objects it should have in view are clear and precise, and the means for obtaining them are facile and ready. Its success under competent management should be assured, for the benefits to be derived by all *bona-fide* investors in American securities, whether here, or in the United States itself, are such that it must deserve and receive the hearty support and appreciation of all these at present powerless unfortunates.

The great safeguard wanted is "capable, honest management," and this assured, the benefits to result are certain.

A few weeks after this letter was circulated, the following prospectus appeared, and the association became a fact, and continues its useful career, despite changed circumstances.

THE ENGLISH ASSOCIATION OF AMERICAN BOND AND SHARE HOLDERS, LIMITED

Capital £250,000 in 25,000 Shares of £10 Each,
of which the First Issue Shall Be 12,500 Shares

DEPOSIT £1 PER SHARE ON APPLICATION

TRUSTEES

THE RIGHT HON. THE EARL CAIRNS
THE RIGHT HON. THE EARL OF ONSLOW
RICHARD B. MARTIN, ESQ., M. P.

DIRECTORS

SIR T. FORSYTH, C. B., K. C. S. I., director, East Indian Railway Company.

CAPTAIN DOUGLAS GALTON, R. E., C. B., F. R. S., formerly of the Railway Department of the Board of Trade.

J. H. HUTCHINSON, ESQ., member of the London Stock Exchange Committee.

JOSEPH PRICE, ESQ., formerly Secretary, Chicago & Alton Railroad, and General Manager, Great Western of Canada.

THOMAS REYNOLDS, ESQ., Messrs. Reynolds, Carter and Reynolds, American Merchants.

S. R. SCOTT, ESQ., member, and late chairman, of the London Stock Exchange Committee.

With power to add to their number.

SOLICITORS

Messrs. Bompas, Bischoff, Dodgson and Coxe

BANKERS

Messrs. Martin & Co., 68, Lombard Street, London, E. C.

SECRETARY (pro tem)
R. H. Granville

Temporary Offices: 10, Tokenhouse Yard, London, E. C.

This association is formed for the purpose of representing and protecting the interests of holders of American securities in Great Britain and Ireland, by uniting such holders under one organization.

The holdings by British investors of bonds and shares in the joint-stock enterprises of the United States have enormously increased of late years, until it is estimated that not less than £150,000,000 of nominal sterling value are now held in this country. The total amount of the issues of American securities included in the Official List of the London Stock Exchange is £370,000,000.

Ownership of shares under the existing system consists in the possession of certificates bearing a proprietor's name on the face, with blank form of transfers endorsed thereon to any future proprietors.

The general practice is for purchasers to hold the certificates for a time at least, and often for long periods, in the name of a former proprietor, chiefly for the reason that the office of the company is in a distant country, and the risk and trouble of transmission are considerable.

One important result is that in some states neither the holders nor the persons in whose names the certificates were first made out have any legal power of voting, as the voter has to make affidavit that he owns the shares for which he stands registered, the practical influence of the real owners is therefore entirely lost.

There is also great danger of fraud to the public and to banking institutions in the fact that share certificates remain without verification for long periods.

This association, by affording a ready and cheap means of transfer and registration in connection with the various companies, will enable proprietors to exercise all their rights and influence in the management of the various undertakings, and will ensure frequent verification.

An illustration of the working of the proposed system is afforded by the fact that, during the present year, the London Committee of Shareholders of the New York, Ontario and Western Railway have, by arrangements with the company, brought about the registration of 249,181 shares in 733 names, of European shareholders, of which only 7 names of real owners were previously on the books of the company. It is needless to point out that while in this case about a quarter of a million of shares were floating about the world without being represented at general meetings of the company, it was in the power of the executives to enter on any course they pleased, without regard to the wishes of the proprietors, who were virtually unknown.

The association will endeavor to make arrangements with all leading companies in the United States similar to that existing with the above-named company, which has now a settled transfer agency in London.

If, however, any of the companies should decline to establish a transfer agency under this association, it will be one part of its duty to procure registration in the owners' names, or that of the trustees of this association, at a small charge; also to collect dividends payable in the United States.

It will be also the duty of the Association to obtain from the committee of the stock exchange a quotation for its own shares when allotted, and that committee will, it is believed, be ready at all times to facilitate the work of the association, by recognizing and giving quotation to the certificates of undertakings with the ticket of the association attached.

The association will endeavor to obtain such improved regulations or legislation as may place the management of American railways more within the knowledge and legitimate control of the proprietors, and with this object will be prepared to cooperate with proprietors in the United States or elsewhere.

The association may also, when investigation and united action are desirable, on a requisition from parties interested in any undertaking, call meetings of proprietors with a view to combination, and would be prepared to associate with a subcommittee of its directors, parties largely interested. No special action will be taken regarding any railway without first consulting the shareholders directly interested.

It will be a special object of the association to procure for the benefit of its shareholders from American companies and otherwise, by cable or mail, early information, such as traffic returns, net revenue statements, supplies of annual reports, maps, and all particulars that may be useful and necessary to bond and shareholders in American railways resident in the United Kingdom, and to establish an agency in New York to aid in this object.

Offices will be opened in a central position in the city of London, at which shareholders of the association will be supplied with all obtainable statistics, which may aid them in forming a judgment as to the position and prospects of the various undertakings, and the association will maintain from time to time such correspondence with reliable authorities in the United States as shall enable them to afford this aid. Subscribers, other than shareholders, will be entitled to the advantage of reading room, information, and so forth, on payment of a moderate annual subscription.

The capital of the company will be £250,000, in 25,000 shares of £10 each, the first issue shall be 12,500 shares, of which £1, per share, shall be payable on application. Any further calls will depend upon the requirements of the association, and two months' notice of any call will be given.

Messrs. Martin & Company, 68, Lombard Street, London, E.C., are authorized to receive applications for shares; but, with a view to create a numerous proprietary, no one will be entitled to hold more than 100 shares, except on original allotment, thus preventing any undue influence in the future management of the association.

Any sum received in excess of the number allotted will be returned in full to applicants, and should no allotment be made, the deposit will be returned without any deduction.

The directors believe that the business of the association might be managed so as to yield a large return on the capital from registration fees and otherwise; but as it is their object to render the advantages of the association available to the shareholders and the public at the smallest possible cost, they propose to limit the rate of dividend to 7½%, per annum, and to reduce charges from time to time should a larger return on the capital employed, in their opinion, justify such a step, giving such preferential advantage to the shareholders of this association as may be hereafter be determined.

December 1, 1884.

In the first instance, the dividend on the association's share was limited to 7½%, which, in those days, was considered a very high rate of return. After the war, when the investor had learned to expect higher returns on his money, it was deemed advisable to endeavor to remove this restriction, which was successfully accomplished a few years ago by a friendly test action in the courts, and the shareholders now usually receive a distribution of 9%.

The association is now mainly concerned with the compilation and dissemination of statistics, mainly of United States railroads, the registration of shares, and the usual work of Fiscal agents, and in recent years, the growth of Public Utility companies has still further extended the scope of the English association's activities.

The English Association of American Bond and Share Holders, Limited, 3 and 4 Great Winchester Street, London, E. C. 2, is the center of information resorted to by bankers, stockbrokers, lawyers, and investors generally, and, since the imposition of the federal estate taxes and the state inheritance taxes, the association has added to its activities the handling of American property of deceased British owners, which often involves the clearing up of complicated matters, in which the association may fairly claim to have become expert.

As United States capital becomes more and more invested in other countries with different systems of registration of ownership, some such central organization in New York will be necessary. Already some bankers, to encourage the purchase of English shares like Courtaulds (the proprietors of the American Viscose Company) have issued their own certificates, but a central organization, not representing the interests of any one house, but acting generally for all or any English shares, is evidently called for.

XIV

INVESTMENT TRUSTS

Importance of investment trusts to American public. What investment trusts really are. Organization and functions. How they should be run.

There is no department of investment which deserves greater attention from the American public than that relating to investment trusts. With the sudden metamorphosis of the United States from a borrowing to a lending country, and the fact that for years to come there is no hope of receiving payment from abroad in full in other fashion than by taking more and more foreign securities, the American investing public will necessarily become an increasingly large holder of foreign investments.

Now, there is no safer method of holding foreign securities than that afforded by the investment trust, provided, of course, that it is run by honest and capable people, and British experience in this connection is so comprehensive and so open to verification that it deserves close attention. I will go so far as to say that, however distrustful the American public may be at the outset, the near future must inevitably witness the creation and development of a number of American investment trusts on the British model.

There is, however, a good deal of misconception as to what these investment trusts really are. Quite recently, I observe, a distinguished American economist characterized them as being "the department stores of finance." That is precisely what they are not. They are not storekeepers but customers; they are consumers, in their capacity of investors, formed for the purpose of holding a large number of securities in common, and employing an expert manager or managers to supervise them and make changes of investments from time to time as appear desirable. Being possessed of large capital resources, they employ some of these in underwritings, in syndicate participations, and other ways of acquiring stock cheaply. They do not accept deposits, they do not sell to individuals, but are just organizations existing for the purpose of holding investments in common on behalf of their stockholders and distributing among the latter the income received. Emphasis requires to be placed upon the word "income," for the genuine investment trust never distributes profits made by the sale of its holdings; such profits, according to its statutes, must always be carried to reserve, and are, of course, invested to earn additional income available for distribution.

This is the "acid test" of the investment trust in the British sense. The title of a company is not a sure guide, for, unfortunately, there are many companies, British and others, incorporated under the name of investment trusts, which are but ordinary finance or holding companies. In England the fiscal authorities themselves make this distinction, exempting genuine investment trusts from payment of income tax on "profits" from sales of securities, regarding them as associations of investors pooling their capital for safety and distributing income, that is, investment revenue, only.

A company that distributes any portion of such profits as dividends is regarded as an ordinary trading concern and pays tax on the total of its net profits, whether it calls itself an investment trust or not. There are more than 150 of the genuine investment trusts in Britain, particularly in Scotland, where the native "flair" for banking and finance has been utilized to make the investment trust flourish to a remarkable degree.

Now, it is obvious that difficult as it is to invest money safely at home to produce more than the rate of interest obtained on tax-exempt or gilt-edged securities or from the best savings banks, it is still more difficult to invest successfully abroad, although the rates offered are more tempting. You cannot always be sure of the honesty of the financier you know; still less of that of the foreign financier thousands of miles away. This was soon discovered in the country which most encourages its people to invest overseas, and, as a result, the investment trust quickly developed in Great Britain and made quite extraordinary progress—the more extraordinary in that it has never made the slightest effort to make its benefits known to the outer world.

This point will be dealt with later on.

As has been indicated in a previous chapter, the years 1818-1832 witnessed just such a flood of foreign bond offerings in London as, 100 years later, occurred in New York. Numerous defaults occurred, and 10 years later the market crashed. Then came the great railroad boom covering not only Britain but the world, followed by the inevitable slump. Thousands of people who had never previously indulged in stock exchange securities were "bitten" during these periods, and their losses were tremendous.

In 1863 (just after an act had been passed limiting the liability on shares in companies) two investment trust companies were formed in London, but they did not start on the principle of diversification of investments, which is now the great justification of the whole idea. They lent most of their capital to railroads against deposit of the latter's bonds.

Default on many of these occurred, but despite this setback, both undertakings survived and are still in existence, and give a fair return to their stockholders. In 1865, however, was formed the Foreign and Colonial Investment Trust, which, profiting by the experience of its two forerunners, adopted the principle of diversification, as indicated by its title.

It had several imitators, and by the year 1886, there were sufficient of these companies to cause them to be grouped under the heading of Financial Trusts in the London Stock Exchange List.

These companies have been in existence long enough to justify the drawing of conclusions—the more so as they have had to pass through periods of boom and slump, disturbances in all parts of the world, culminating in the great war of 1914-1918.

The latter occasioned a general heavy fall in British and European securities, and here the principle of wide diversification justified itself in this supreme test. The trusts held large amounts of American, Canadian, Cuban and other dollar securities, which they were able to sell in New York, Toronto, and Montreal, at a time when the dollar stood at a big premium over the pound sterling, and with the funds thus provided were able to accumulate other securities on the British and other markets at very low prices. The shock of war naturally engendered caution, and the year 1920 saw the end of the post-war boom.

Further, the ensuing industrial slump, which lasted right up to the end of 1925, resulted in many millions of pounds being lost on British industrial enterprises. Diversification means participating in home as well as foreign investments; it necessarily means, therefore, partici-

TABLE 3

BRITISH INVESTMENT TRUSTS—DIVIDENDS, PERCENTAGE ON PAR OF COMMON STOCK

Trust Companies	1909	1911	1913	1921	1925
British Investment*	11	13	14	15	19
Indian and General	5½	7	7	10	15
Industrial and General†	10	10	10	12	14
Investment Trust Corporation	10	12	12½	14	19
Mercantile and General‡	5	5½	7	8½	12
Merchants Trust§	7	8	8	9	11
Government Stock and Other Securities	6	7	7	7	10

*1926 dividends, 20%.
†Stock dividend of 20%, also distributed in 1919.
‡1926 dividend, 13%.
§1926 dividend, 12%.

pating in slumps as well as booms, and it speaks volumes for the principle that in spite of all these vicissitudes the British investment trusts not merely withstood the successive storms the London market encountered, but, with a temporary setback immediately after the outbreak of war, have steadily increased their dividends, as is apparent from Table 3.

Experience shows also that the price of the common (that is, the "ordinary" or "deferred") stocks of these trusts tends to rise steadily, as witness the following comparison (Table 4).

TABLE 4

BRITISH INVESTMENT TRUSTS—PRICE OF COMMON STOCK PER £100, FOR THE YEARS 1909, 1913, 1926

Trust Companies	1909	1913	1926
British Investment	212	267½	400
Indian and General	73	109½	225
Industrial and General	134½	177½	310
Investment Trust Corporation	182¼	226½	400
Mercantile and General	96	123½	245
Merchants Trust	110	137	203
Government and Other Securities	87	118	170

Before examining the investments held by investment trusts, perhaps it will be useful to deal more precisely with some of the general considerations affecting them.

The right time for an investment trust to be started is when investments are cheap—that is to say, in a time of market depression. Much depends upon laying the foundation of investments when security prices are low. That, of course, is not the most favorable time to obtain capital; but it is better to start in a small way and build up on a foundation of cheap investments than to obtain a big sum of capital and invest it at the top of the market, which is what is most probable at a time when it is easy to obtain capital for new ventures. A usual practice with British trusts has been to issue capital half in preferred and half in common, making it obligatory upon the subscriber to take an equal amount of each. Sometimes the proportion is 40% of common and 60% of preferred, the latter paying dividends of 4½% or 5%, according to market conditions. This is achieved by the simple device of offering shares which, after they are fully paid up, are converted and split into preferred and common stock in the proportions stipulated. From time to time additional capital is raised, when money is cheap, by further issues of preferred, and, ultimately, of bonds, and when money is scarce, by the issue of common. An investment trust, once properly established, finds little difficulty in expanding. The odds are all in its favor. An industrial corporation is only justified in extending its factories when the demand for its product increases, and if later on that diminishes, or, as is even more probable, competition becomes keener, it is burdened with the increased overhead charges of a plant in excess of its requirements. The investment trust is not dependent upon demand or fashion, it has no money locked up in plant which may become obsolete or unwanted, it has paid nothing for good-will, and, to all intents and purposes, it has nothing to fear from competition. There will always be plenty of borrowers! Of course, if it buys unwisely, it will suffer; but that risk the manufacturing concern has to run also in regard to its raw materials.

It is recognized in England that an investment trust may legitimately distribute income even where the capital is not intact, owing to depreciation of investments. This view was confirmed by judgments in the English courts in 1894.

As the investment trust is precluded from distributing profits on the sale of securities, these go to build up a reserve, which is invested and immediately becomes revenue-producing; and the fact that these profits and the proceeds of sales become available from time to time for investment as well as the new capital which is obtainable in both good and bad times, as described above, of itself brings about an automatic averaging, for a corporation which has to invest money at different seasons every year cannot buy at the wrong moment all the time. Moreover, an investment trust is the sort of investor beloved by issuing houses and investment bankers, for, like an insurance corporation, it almost always has funds available; these houses, therefore, seek it out and offer it their best (and worst) often on special terms; and if an offering is not well received by the public, the underwriters or bankers offer very special terms to the one sort of investor who they know is willing to hold a high yielding security indefinitely.

Needless to say, all this is written of investment trusts which are run by honest and capable people. If the trust is formed to serve as a dump or relief fund for certain promoters or investment bankers, it may have a poor record and will not be able to augment its capital in the manner indicated.

Later on in this chapter I venture to give some hints as to how an American investment trust ought to be run, but will now reproduce the lists of investments of two British investment trusts—one an old established trust, and the other a post-war promotion—as these will give an idea of the investment policy followed by this class of corporation. It might, perhaps, be added that while the British industrialist is more secretive by nature and tradition than his American cousin, and is startled at the statistical information given so cheerfully by corporations in the United States

INVESTMENTS HELD BY THE GOVERNMENT STOCK AND OTHER SECURITIES INVESTMENT COMPANY, LIMITED, AS AT DECEMBER 31, 1925

Nominal Amount	Investments
£	
6,000	Aberdeen Trust, 4½% Preference Stock
4,000	Do Ordinary Stock
2,000 Shares	Alabama Coal, Iron, Land and Colonization, 4s. each
3,707	Alcoy and Gandia Railway and Harbour, 5% Prior Lien Deb. Stock
56,100	Do 4% Debentures
11,898	Do 5% 2nd Debenture Stock
6,000	Do Loan

regarding their business, most of the British investment trusts have for 30 years past published in their annual reports a full and complete list of their investments, showing the amount held, and in a few cases the purchase price, or the book cost. The list of investments held by the Government Stock and Other Securities Investment Company, Limited, is given on the opposite page and continued below.

Nominal Amount	Investments
£	
7,500	Algoma Central and Hudson Bay Railway, 5% 1st Mortgage Bonds
2,000	Aluminum Corporation, 7% Preference Stock
5,000	Do Ordinary Stock
300 Shares	Amazon Telegraph Ordinary, £10 each
500 Shares	Anglo-American Corporation of South Africa, £1 each
5,000	Anglo-Argentine Tramways, 5% Debenture Stock
1,000 Shares	Do 5½% Cumulative 1st Preference, £5 each
500 Shares	Anglo-Ceylon and General Estates, £1 each
500 Shares	Anglo-Persian Oil, £1 each
40,000 Shares	Anglo-Portuguese Telephone, £1 each
20,000	Do 7½% Loan
1,200 Shares	Anglo-South American Bank, £10 each, £5 paid
35,000	Antofagasta (Chili) and Bolivia Railway Consolidated Ordinary Stock
5,000 Shares	Anton Jurgens Vereenigde Fabrieken, 6% Cum. Part. "B" Pref. £1 each
60 Shares	Do 6% Cum. Part. "C" Pref., 1,000 Guilders each
100 Shares	Do Ordinary, 1,000 Guilders each
800 Shares	Apollinaris and Johannis, Ordinary, £1 each
1,000	Argentine Great Western Railway, 5% Cumulative Preferred Stock
15,000	Do Ordinary Stock
500	Argentine Hardwoods and Lands, 8% 1st Mortgage Debenture Stock
300 Shares	Argentine Land and Investment, £1 each
700 Shares	Do £1 each, 15/-Paid
4,000	Argentine Light and Power, 6% Debenture Stock
4,000 Shares	Do 7% Cumulative Preference, £1 each
4,000 Shares	Do Ordinary, £1 each
11,000	Argentine North-Eastern Railway, 5% "B" Debentures
5,000	Argentine Transandine Railway, 4% "A" Debenture Stock
19,000	Do 4% "B" Debenture Stock
520 Shares	Arica and Tacna Railway, £20 each
4,500	Arizu Estates (Argentina), 6% 1st Mortgage Debentures

Nonimal Amount	Investments
£	
250 Shares	Aron Electricity Meter, 6% Cumulative Preference, £1 each
7,500	Australian Estates and Mortgage Consolidated Ordinary Stock
$100,000	Bahia Tramway, Light and Power, 5% Bonds
200 Shares	Bank of Victoria, £10 each, £5 paid
75,000 Shares	Bantam (Java) Rubber Estates, 2*s*. each
3,500	Bartholomay Brewing (of Rochester), 6% Debentures
2,000 Shares	Bath Electric Tramways, 5% Cumulative Preference, £1 each
3,260 Shares	Do Preferred Ordinary, £1 each
5,000	Beira Railway, 6% Non. Cum. Income Debenture Stock
700 Shares	Bilbao River and Cantabrian Railway, Ordinary, £1 each
9,918	Bolivar Railway, 6% Debenture Stock
10,000 Shares	Do 5% Preference, £1 each
10,000 Shares	Do 6% Preference, £1 each
21,500 Shares	Do Ordinary, £1 each
4,000 Shares	Bombay Gas, £1 each
9,400	Bristol Hotel and Palmerston, 5% Debentures
14,500 Shares	British American Tobacco Ordinary, £1 each
650	British Automobile Traction, 5% Debenture Stock
4,000 Shares	Do Cum. 8% Partic. Preference, £1 each
5,000	British Central Africa, 8% 1st Mortgage Debentures
900	British Columbia Fruit Lands, 5% Prior Lien Debenture Stock
2,000	Do 8% Income Debenture Stock
21,000 Shares	British Dyestuffs Corporation, 7% Preference, £1 each
10,000 Shares	Do 8% Preferred Ordinary, £1 each
30,000	British Electric Traction, Ordinary Stock
2,500	British Gas Light, Ordinary Stock
1,000 Shares	British Metal Corporation, Ordinary, £10 each, £6 paid
3,500 Shares	British North Borneo Rubber Trust, £1 each
2,000 Shares	Brunner, Mond & Co., Ordinary, £1 each
6,000 Shares	Buckley's Brewery, Ordinary, £1 each
5,000	Buenos Ayres and Pacific Railway, 5% 2nd Preference Stock
55,000	Do Ordinary Stock
10,000	Buenos Ayres Central Railway, 5% 2nd Mortgage Debentures
95 Shares	Buenos Ayres Great Southern Railway, 6% Preference, £10 each, £7 10*s* Paid
4,000	Do Ordinary Stock
35,000	Buenos Ayres Lacroze Tramways, 5% Consolidated Mortgage Debs.
4,000	Buenos Ayres (Province of) Waterworks, 6% Mortgage Deb. Stock

Nominal Amount	Investments
£	
2,500 Shares	Burt, Boulton & Haywood, Ordinary, £1 each
3,000	Bwana M'Kubwa Copper Mining, 7% Secured Notes
2,000 Shares	Calcutta Tramways, Ordinary, £1 each
3,000 Shares	Cambuhy Coffee Estates, 8% Cum. Partic. Pref., £1 each
200 Shares	Cape Town and District Gas Light and Coke Ordinary, £10 each
11,100	Carthagena and Herrerias Steam Tramways, 5% Debentures
1,165 Shares	Do Ordinary, £10 each
6,000	Do Loan
15,000	Car Trust Realisation, 5% Income Bonds
600 Shares	Catalinas Warehouses and Mole, 4% Preference, £5 each
17,500 Shares	Central American Investment, £1 each
5,877 10s.	Central Bahia Railway Trust, 4% "A" Certificates
10,000	Do "B" Certificates
500 Shares	Central Uruguay Eastern Extension Railway, Ordinary, £10 each
500 Shares	Central Uruguay Northern Extension Railway, £10 each
400 Shares	Central Uruguay Railway of Montevideo, 5½% Preference, £10 each
15,000	Do Ordinary Stock
451 Shares	Chandpore Tea, £10 each
3,500	Charter Trust and Agency, Ordinary Stock
2,000 Shares	Chili Telephone, £5 each
10,000	Chilian Government, 5% Annuities, Series "C"
9,800	Do 8% Sterling Loan, 1922
7,500	Chinese Government, 4½% Gold Loan, 1908
10,000	Do 5% Reorganization Loan, 1913
1,000 Shares	City Deep, £1 each
2,000	City of Oxford Motor Services, 5% Debentures
1,125 Shares	Do Ordinary, £1 each
4,000	Colombian Government, 6% Loan, 1913
5,000	Colombian Northern Railway, 5% Debentures
5,080	Do 5% Second Debentures
7,000	Colonial Securities Trust, Deferred Stock
1,000 Shares	Consolidated Mines, Selection, 10s. each
18,500	Consolidated Trust, Deferred Stock
8,000	Constantinople Telephone, 6% "Obligation" Bonds
1,100	Do 6% Certificates
800 Shares	Do Ordinary, £5 each
1,500	Continental Union Gas, 7% Non Cum. Preference Stock
21,000	Codoba Central Railway, 5% 2nd Debenture Stock
4,000	Do Ordinary Income Stock
6,000 Shares	Cordova Land, £1 each
2,400	Costa Rica Electric Light and Traction, 5% Debentures
2,500	Costa Rica Markets, 4% 1st Mortgage Debentures

Nominal Amount	Investments
£	
1,000	Costa Rica Railway, 6½% 1st Mortgage Debentures
10,000	Do 6½% 2nd Mortgage Debentures
65,000	Do Ordinary Stock
3,000 Shares	Crosfield (Joseph) and Sons, 7½% "A" Preference, £1 each
1,000 Shares	Crown Mines, 10*s.* each
12,500	Czechoslovak State, 8% Loan, 1922
800 Shares	De Beers Consolidated Mines, Deferred, £2 10*s* each
2,000	Debenture Corporation, Ordinary Stock
1,000 Shares	Dickinson (John) & Co., Ordinary, £1 each
22,000 Shares	Diapoera (Sumatra) Rubber, 2*s.* each
5,000	Dorada Extension Railway, 6% First Mortgage Debenture Stock
800	Do Stock
200 Shares	Eastern Bank, £10 each, £5 paid
6,000	Eastern Mortgage and Agency, 4½% 2nd Debenture Stock
950 Shares	East Rand Proprietary Mines, £1 each
6,000	East of Scotland Trust, 5% Preference Stock
4,000	Do Ordinary Stock
1,050	E. C. L. Syndicate, Loan
4,200	Do Notes
1,500 Shares	Egyptian Delta Light Railways, 5½% Preference, £10 each
1,850 Shares	Egyptian Markets, £1 each
2,000	Electrical Finance and Securities, 10% First Debentures
1,000 Shares	Do £1 each
16,000	Do 7% Loan
5,634	Emu Bay Railway, 5% Irredeemable Debenture Stock
1,000	Eyre and Spottiswoode, 4½% Mortgage Debenture Stock
2,500	Fenton (John) & David Bradley Mills, 7% Income Debenture Stock
10,000	Finland Government, 4½% Railway Loan, 1909
Frcs. 1,112,500	French Government National Defence Loan, 4% Rentes
Frcs. 1,200,000	Do 5% Rentes
$25,000	Do 7% Loan, 1949
1,050 Shares	Geduld Proprietary Mines, £1 each
1,000 Shares	Geldenhuis Deep, £1 each
15,000	General Hydraulic Power, Stock
1,500	Globe Worsted, 6½% First Mortgage Debenture Stock
4,000 Shares	Gordon Hotels, 5½% Cumulative Preference, £1 each
5,000	Government and General Investment, Deferred Stock
14,000	Great Southern of Spain Railway, Ordinary Stock

Nominal Amount	Investments
£	
400 Shares	Great Western of Brazil Railway, 6% Preferred, £10 each
700 Shares	Do. Ordinary, £10 each
19,850	Greek Government, 4% Loan, 1910
12,406 5s.	Do. 5% Loan, 1914
35,000	Do. 7% Refugee Loan, 1924
10,000	Guardian Investment Trust, Deferred Stock
17,000	Guatemala 4% External Debt
2,164 Shares	Guatraché Land, £2 each
18,000	Hanyang Rubber Estate
27,400	Do. 7% Loan
1,000	Hastings and District Electric Tramways, 4½% Debenture Stock
400 Shares	Do. 6% Cum. Pref., £1 each
1,200 Shares	Do. Ordinary, 10s. each
5,000	Havana Cigar and Tobacco Factories 5½% Debentures
500 Shares	Do. 7% Cum. Pref., £10 each
5,000	Helsingfors (City of) 4½% Loan, 1911
10,000	Honduras Govt. Railway, 10% Loan Certificates of Deposit
20,000	Hungarian Government, 7½% Sterling Loan, 1924
4,000 Shares	Imperial Tobacco Company (of Great Britain and Ireland), £1 each
2,250 Shares	India Rubber, Gutta Percha and Telegraph Works, Ordinary, £1 each
1,500	Indianapolis Brewery, 7% Debentures
37,000 Shares	International Financial Society, £1 each
5,000	Japanese Government, 6% Bonds, 1924
2,500 Shares	Johannesburg Consolidated Investment, £1 each
5,000 Shares	Jute Industries, 9% Cumulative Participating Preference, £1 each
5,000	Kalgoorlie Electric Tramways, 6% "B" Debenture Stock
13,500 Shares	Do. £1 each
10,000	Kukub Rubber Estates, Loan
12,500	La Guaira and Caracas Railway, Stock
15,000	La Guaira Harbour Corporation, 5% 1st Mortgage Debenture Stock
1,250 Shares	Lanadron Rubber Estates, £1 each
5,000	Langkapoera (Sumatra) Rubber Estate, 10% 2nd Conv. Deb. Stock, 80% Paid
2,500 Shares	Do. Ordinary, £1 each
2,500 Shares	Law Debenture Corporation, £5 each, £2 paid
5,000	Leopoldina Railway, 6½% Terminable Debentures, 1933
400 Shares	Do. 5½% Preference, £10 each
60,000	Do. Ordinary Stock
6,000	Lima (City of), 5% Loan (1911)
3,500	Lima Railways, 6½% Debenture Stock
240 Shares	Liverpool Nitrate, £1 each
10,000 Shares	London and Australian Investment, 10s. each

Nominal Amount	Investments
£	
2,500	London and North-Eastern Railway, Deferred Ordinary Stock
3,000 Shares	London and South American Investment Trust, £1 each
26,000	London and Suburban Traction, 5% "A" Debenture Stock
3,000 Shares	London Caledonian Trust, £1 each
1,280	London Trust Deferred Stock
7,000	London United Tramways, 4% 1st Mortgage Debenture Stock
2,000 Shares	Do. 5% Non. Cum. Preference, £1 each
$125,000	Louisiana Southern Railway, 6% 1st Mortgage Bonds
3,000 Shares	Lovell & Christmas, Ordinary £1 each
625 Shares	Luipaards Vlei Estate and Gold Mining, 4s. each
1,250 Shares	Do. 2/- each, 1/- Paid
2,700	Madeira-Mamoré Railway, 5½% 1st Mortgage Cum. Income Bonds
5,000	Manaos Harbour, 5% 1st Debentures
10,000	Manaos Tramways and Light, 7% Income Debentures
5,000	Manchester Brewery, 4% Irredeemable "A" Mort-Deb. Stock
10,000	Manila Railway (1906), 3½% "B" Debentures
15,000 Shares	Do. 5% Non. Cumulative Preference, £1 each
20,000 Shares	Do. Ordinary, 1s. each
11,000 Shares	Maple and Co., Ordinary or "C", £1 each
2,000 Shares	Marconi International Marine Communication, £1 each
7,116 Shares	Marconi's Wireless Telegraph, Ordinary, £1 each
$10,000	Marion County, U.S.A., 6% Bonds
5,700 Shares	McArthur (W. & A.), Ordinary, £1 each
10,000	Mersey Railway, 3% Perpetual Preference Stock
5,000	Metropolitan Electric Tramways, 5% Debenture Stock
4,800	Metropolitan Trust Ordinary Stock
6,000 Shares	Mexican Eagle Oil, 7% Cum. 1st Pref., 10 Mexican Gold Pesos each
5,000	Mexican Railway, 6% Perpetual Debenture Stock
$75,000	Mexico Tramways, General Consolidated 5% 1st Mortgage Bonds
10,000	Midi Railway, 6% Sterling Bonds
30,000	Midland Railway of W. Australia, 4% 2nd Mort-Cum. Inc. Deb. Stock
25,000	Do. Unified Ordinary Stock
32,000	Do. Reversionary Certificates
13,000	Midland Uruguay Extension Railway, 5% Debenture Stock
25,000	Midland Uruguay Railway, 5% Debenture Stock
5,000	Mogyana Railways, 1st Mortgage 5% Sterling Bonds
2,150	Montevideo Gas and Dry Dock, Ordinary Stock

Nominal Amount	Investments
£	
5,000 Shares	Montevideo Telephone, Ordinary, £1 each
2,850	Municipal Trust, 4½% "B" Debentures
5,000	Myatt (Frank), 6% Mortgage Debentures
1,000 Shares	Natal Land and Colonization, Ordinary, £5 each
44,000	National Railways of Mexico, 2-year 6% Secured Notes
$50,000	Do. Prior Lien 4½% Gold Bonds
5,000 Shares	Nestles and Anglo Swiss Condensed Milk, 8% Cum. Pref., £1 each
400 Shares	Do. Ordinary 200 Frcs. each
2,000 Shares	Neuchatel Asphalte, Ordinary, £1 each
750 Shares	New Egyptian, 15s. each
1,500 Shares	New Jagersfontein Mining and Exploration, £1 each
200 Shares	New Primrose Gold Mining, £1 each
10,000	New Rompin Rubber Estate
1,018/3/2	New York City Freehold Estates (1905), 6% Debenture Stock
600 Shares	New Zealand Coal and Oil, Ordinary, £1 each
2,000	Nicaragua, 5% Bonds
3,000	Niger Company, 5½% Guaranteed Debenture Stock
3,500	Nilgiri Plantations, 5% Debentures
600 Shares	Nitrate Railways, Ordinary, £10 each
5,000	Nord Railway, 6% Sterling Bonds
4,000 Shares	North Metropolitan Electric Power Supply, Ordinary, £1 each
5,000	Omnium Investment, Deferred Stock
2,000	Oriental Gas Capital Stock
2,000 Shares	Oriental Telephone and Electric, Ordinary, £1 each
150 Shares	Ottoman Bank, £20 each, £10 Paid
10,000	Ottoman Railway from Smyrna to Aidin, 5% 1st Debenture Stock
10,000	Do. 6% 2nd Debenture Stock
80 Shares	Do. 9% Preference, £20 each
1,161 Shares	Do. Ordinary, £20 each
5,000	Pahang Rubber Estate
5,000	Do. 7% Loan
2,000 Shares	Pandan Tea, £1 each
2,500	Paraguay, 3% External Gold Loan, 1915
2,500 Shares	Pekin Syndicate, Ordinary, 2s. each
10,000	Pernambuco Tramways and Power, 5% Debentures
3,000	Do. 8% 10-year Notes
2,000 Shares	Do. 7% Non. Cum. Prt. Pr., £1 each
1,100 Shares	Do. Ordinary, £1 each
20,000	Persia, 5% Sterling Loan, 1911
5,000	Peruvian Corporation, 6% First Mortgage Debentures
2,000	Do. 4% Preference Stock
15,000	Do. Ordinary Stock
2,000	Peruvian Government, 5½% (Salt) Loan (1909)
1,500 Shares	Platt Bros., Ordinary, £1 each
$50,000	P.L.M. Railroad External Sinking Fund, 7% Gold Bonds, 1958

Nominal Amount	Investment
£	
5,000	Portuguese Government, 3% Bonds, First Series
5,000	Potash Syndicate of Germany, 7% Bonds, Series "A," 30% Paid
870	Proprietors of Fletchers (Meat Import), 4½% 1st Mortgage Deb. Stock
$80,000	Puebla Tram, Light and Power, Prior Lien, 5% Gold Bonds
12,000	Puerto Cabello and Valencia Railway, 5% 1st Charge Coupon Bonds
2,700	Quarahim International Bridge, 5% 1st Debenture Stock
1,000 Shares	Rhodesia and General Asbestos Corporation, £1 each
6,000	Rhodesia-Katanga Junction Raily. and Mineral, 5½% 1st Mort. Debs.
5,000 Shares	Rhodesia Railways Trust, £1 each
20,000	Rhondda Tramways, 5% 1st Debentures
4,000 Shares	Do. 8% Non-Cumulative Preference, £1 each
2,000 Shares	Do. Ordinary, £1 each
6,000	Rio Claro Railway and Investment, Ordinary Stock
10,000	Rio de Janeiro (City of), 4½% Consolidated Loan (1912)
1,500 Shares	Rio Negro (Argentina) Land, £1 each
650 Shares	River Plate Trust Loan and Agency, Ordinary or "A" £2 10s. each.
15,000	Rosario (City of), 4% Conversion Loan
10,000	Roumanian Government, 4% Consolidation Loan, 1922
9,240 Shares	Sage (Frederick) and Co., Ordinary, 10s. each
600	Salvador Government, 6% Sterling Bonds, Series B
9,000	Salvador Railway, 5% Debentures
675 Shares	Santa Catalina Nitrate, £1 each
2,000 Shares	Santa Cruz Coffee, £1 each
10,000	Santa Fé (City of), 6% Sterling Bonds
$4,000	Santa Fé New Mexico Water and Light, 4% 1st Mortgage Bonds
900 Shares	Santiago Nitrate, Ordinary, £4 each
10,000	São Paulo Electric, 5% 1st Mortgage Bonds
100 Shares	Securities Agency, £10 each, £1 paid
540	Securities Co., of New York, 4% Consol.
6,000	Sena Sugar Estates, 7% 1st Mortgage Debentures
4,000	Do. 7½% 2nd Mortgage Debenture Stock
3,000	Seville Water Works, 5% Debentures
2,000 Shares	Sidi Salem of Egypt, £4 each.
17,000 Shares	Singapore Para Rubber Estates, 2s. each
1,000 Shares	Southend Waterworks (5% maximum), £10 each.
3,000	South Metropolitan Electric Tramways and Lighting, 4% Deb. Stock
3,733 Shares	South Winnepeg (1923), $5 each
15,000	Southern São Paulo Railway, 5% Debentures
$12,500	St. Louis and San Francisco Rlrd., 6% Income Mort. Bonds, Series "A."

Nominal Amount	Investments
£	
300 Shares	Standard Bank of South Africa, £20 each, £5 paid.
4,200 Shares	Sudan Building and Agricultural, 7% Partic. Pref., £1 each, 12/6 Paid
3,000	Sydney Harbour Colliery, 6% Prior Lien Mortgage Debenture Stock
1,200	Taltal Railway, Ordinary, £5 each
8,000	Tarapaca and Tocopilla Nitrate, 6½% Debentures
5,000	Tokyo (City of) 5% Loan, 1912
5,000	Tokyo Electric Light, 6% Sterling Bonds
8,000	Torquay Tramways, 5% Prior Lien Debentures
2,881 Shares	Do. Ordinary, £1 each
7,500	Trans-Zambesia Railway, 6% Guaranteed 1st Mortgage Debentures
6,000	Turkish Government, 4% Unified Debt
3,000 Shares	Union Cold Storage, 6% Cumulative Preference, £1 each
3,000	Union Commercial Investment, Ordinary Stock
400 Shares	Union Corporation, 12s. 6d. each
30,000	United Electric Tramways of Caracas, 5% 1st Mortgage Deb. Stock
26,000 Shares	Do. £1 each
6,500 Shares	United Dairies, Ordinary, £1 each
4,700	United Planters of Ceylon, 5% Debentures
5,000 Shares	United Premier Oil and Coke, 7% Cum. Preference, £1 each
41,000	United Railways of the Havana and Regla Warehouses, Ordinary Stock
2,700 Shares	United River Plate Telephone, Ordinary, £5 each
1,700	United States Debenture Corporation, Ordinary Stock
7,000	United States and General Trust Corporation, Deferred Stock
7,000	Uruguay Government, 5% Gold Bonds 1914
5,000	Do. 5% External Gold Bonds, 1919
5,000	Venezuela Central Railway, 6% 1st Debentures
5,300	Do. 6% 2nd Debentures
28,400	Venezuela Telephone, 6% 1st Mortgage Debentures
4,100	Do. 7% 2nd Debentures
9,000 Shares	Do. 8% Cum. Partic, Preference, £1 each
5,000	Vera Cruz Terminal, 4½% Debentures Certificates of Deposit
1,000	Villa Maria and Rufino Railway, 4½% Guaranteed Stock
2,500	Wallis, Vegas and Co., 6% Loan
4,597 Shares	Wankie Colliery, 10s. each
1,500 Shares	Weardale Steel, Coal and Coke, 6% Cum. Preferred Ordinary, £1 each
300 Shares	White (J. G.) and Co. (Incorporated), 6% Preference, $100 each
2,000 Shares	Whitehall Electric Investments, 7½% Preference, £1 each

Normal Amount	Investments
2,500 Shares	Winterbotham, Strachan & Playne, Ordinary, £1 each
2,100 Bonds	Zafra and Huelva Railway, 3% Bonds, £20 each
762 Bonds	Do. 2nd Mortgage Bonds, £20 each

The second list is that of the Redeemable Securities Investment Trust, Limited, a corporation formed by myself in 1922. The first list shows the effects of a policy of investment in operation for half a century, and bears evident traces of the fact. The following list shows an assemblage of investments made in the light of post-war conditions, which has been very successful thus far, although, of course, it remains to be seen what weak points, if any, emerge as the years go by. It is the first few years that count most. If these are overcome successfully and reserves built up, subsequent years will look after themselves, given ordinarily competent management.

INVESTMENTS OF THE REDEEMABLE SECURITIES INVESTMENT TRUST, LIMITED, JANUARY 1, 1926

	GOVERNMENT, MUNICIPAL, AND CORPORATION
$2,000	Carlsbad, City of, 8% Bonds, 1954
$10,000	Czecho-Slovak 7½% Loan, 1945
$25,000	Hungarian Consolidated Municipalities 7½% Loan
$2,500	Medellin, City of, Municipal Bonds, 1924
£1,000	Nicaragua 5% Loan, 1909
$5,000	Prague, City of Greater, 7½% Bonds, 1922
£1,000	Riga, City of, 4½% Loan, 1913
£993 15s	São Paulo, 5% Hypothecated Rly. Loan, 1905
	BONDS, DEBENTURES, AND DEBENTURE STOCKS
£300	Amblamana Tea Estates, Ltd., 7% Convertible Debentures
£1,000	Andhra Valley Power Supply Co., Ltd., 7½% 10-year Secured Notes, 1933
$5,000	Anglo-Chilean Consolidated Nitrate Corporation, 7% 20-year Debenture Bonds
$960	Antioquia Railway 10% Bonds, 1925
£1,000	Apollinaris & Johannis, Ltd., Deferred Interest Notes
£1,000	Associated Theatre Properties (London) Ltd., 6½% 1st Mortgage Debenture Stock
£1,000	Austin Motor Co., Ltd., 6% 4th Debenture Stock

$2,500	Banco Hipotecario de Colombia 10% Bonds
41	Banco Popular Argentino 5% Bonds 1931/32, £19 16*s*. 6*d*. each
£1,200	Bartholomay Brewing Co. (of Rochester, U.S.A.), Ltd., 6% Debentures
£2,000	Cartagena (Colombia) Waterworks, Ltd., 7% 1st Mort. Debentures
£1,400	Colombian Mining & Exploration Co., Ltd., 10% 3-year Notes, £30% paid
£850	Delagoa Bay Development Corporation, Ltd., 7% 2nd Debentures
£1,000	Dorada Extension Railway, Ltd., 8% 2nd Mort. Debenture Stock
£200	Duff Development Co., Ltd., 8% Prior Lien Debenture Stock
£1,370	Eastern Sumatra Rubber Estates, Ltd., 10% 1st Mort. Convertible Debenture Stock, £30% paid
£1,000	Godfrey Phillips, Ltd., 7% Sinking Fund, 15-year Notes
£1,000	Great Western of Brazil Railway Co., Ltd., 4% Debentures
£2,000	Herts, Gravel & Brick Works, Ltd., 8% Debenture Bonds
£2,000	Kansai Railway Co., Ltd., 4½% 1st Mortgage Debentures
£1,500	Klinger Manufacturing Co., Ltd., 10-year 7½% Secured Notes
£562	Mendaris (Sumatra) Rubber & Produce Estates, Ltd., 7½% 1st Mortgage Debenture Stock
£1,000	Metallhütte Baer & Co., 10% Promissory Note
£2,700	Operators' Trust, Ltd., 7½% 10-year Convertible Notes
£1,000	Paraguay Central Railway Co., Ltd., "B" Income Debenture Stock
£300	Pernambuco Tramways & Power Co., Ltd., 8% Prior Lien Debentures
£1,000	Potash Syndicate of Germany 25-year Sinking Fund Gold Loan 7% Bonds, Series "A". £30% paid
Mk.80,000	Rheinisch-Westfälische Bodencredit Pfandbriefe 10% Gold Bonds
$2,500	Siemens & Halske (A.G.) 7% Sinking Fund 1928 Gold Bonds
$2,500	Siemens & Halske (A.G.) 7% Sinking Fund 1935 Gold Bonds
£1,200	S.T.D. Motors Ltd., 8% 10-year Guaranteed Notes
£100	Strathmore Rubber Co., Ltd., 7% Debentures
£2,500	Tata Iron & Steel Co., Ltd., 7% Deb. Stock
£500	Telephone Manufacturing Co. (1920), Ltd., Guaranteed 8% Income Bonds
£200	United Glass Bottle Manufacturers, Ltd., 7% 1st Mortgage Debenture Stock
$10,000	United Industrial Corporation (VIAG), 6% Gold Bonds 1945
£1,000	Vandervell, C. A., & Co., Ltd., 6½% 1st Mort. Debentures

£1,000	Waring & Gillow, Ltd., 6% 1st Mortgage Debenture Stock
£500	Welwyn Stores, Ltd., 7½% Loan Stock
£1,000	Welwyn Stores, Ltd., 8% Loan Stock
£4,000	Welwyn Transport, Ltd., 8% Guaranteed Mortgage Debenture Stock
	PREFERENCE SHARES AND STOCKS
350 Shares	Agua Santa Coffee Co., Ltd., 7% Cumulative Preference Shares of £1
20,000 Shares	Beau Sejour Rubber Co., Ltd., 7% Cumulative Preference Shares of 2*s*
1,000 Shares	Belseri-Chardwar Tea Estates, Ltd., 8% Cumulative Preference Shares of £1
1,000 Shares	Bolivar Railway Co., Ltd., 6% Non-Cumulative Preference Shares of £1
500 Shares	British Goodrich Rubber Co., Ltd., 7½% Cumulative Preference Shares of £1
35 Shares	Canadian Car & Foundry Co., Ltd., 7% Cumulative Preference Shares of $100
25 Shares	Canada Northern Power Corporation 7% Preferred Shares of $100
500 Shares	Cartagena (Colombia) Waterworks, Ltd., 10% Cumulative Participating Pref. Shares of £1
200 Shares	Chulsa (Selangor) Rubber Co., Ltd., 8% Cum. Convert. Pref. Shares of £1
64 Shares	Consolidated Railroads of Cuba, 6% Cumulative Preferred Shares of $100
200 Shares	Delhi Electric Tramways & Lighting Co., Ltd., 6% Preferred Participating Shares of £1
100 Shares	Electric Power & Light Corporation 7% 2nd Cumulative Preferred Stock of no par value
75 Shares	First National Pictures Incorporated 8% Cumulative Participating Preferred Stock of $100
50 Shares	Goodyear Tire & Rubber Co., 7% Cumulative Preferred Shares of $100
1,000 Shares	Harrods (Buenos Aires), Ltd., 8% Cumulative Preference Shares, £1
2,580 Shares	Lavant Rubber Co., Ltd., 7% Preference Shares of 2*s*
500 Shares	Leach's Argentine Estates, Ltd., 6% Cumulative Preference Shares of £1
820 Shares	Lewis, Henry G. & Co., Ltd., 7% Cumulative Preference Shares of £1
45 Shares	Massawippi Valley Railway Co., 6% Guaranteed Preference Shares of $100
510 Shares	McNeill, F. & Co. (1925), Ltd., 7½% Cumulative Preference Shares of £1
1,000 Shares	Mexican Eagle Oil Co., Ltd., 7% 1st Cumulative Preference Shares of $10 Mex
50 Shares	Monarch Knitting Co., Ltd., 7% Cumulative Preference Shares of $100
800 Shares	Nathan, Joseph, & Co., Ltd., 7% Cumulative "A" Preference Shares of £1

100 Shares	New York, Chicago, and St. Louis Railroad, 6% Cumulative Pref. Shares of $100
100 Shares	New York State Railways, 5% Preferred Capital Stock
300 Shares	Old Silkstone Collieries, Ltd., 8% Cumulative Preference Shares of £1
50 Shares	Piccardo & Cia, Ltd., 6½% Preference Shares of $100 Arg.
1,250 Shares	Provincial Cinematograph Theatres, Ltd., 7½% Cumulative "B" Preference Shares of £1
500 Shares	Rego Clothiers, Ltd., 7½% Cumulative Preference Shares of £1
£390	River Plate British & Continental Meat Co., Ltd., 8% Redeemable Preferred Charge Stock
500 Shares	Sudan Building & Agricultural Co., Ltd., 7% Participating Preference Shares of £1, 5*s.* paid
£1,468	Willans & Robinson, Ltd., "A" 6% Cumulative Preference Stock

ORDINARY SHARES AND STOCKS

500 Shares	Allied Sumatra Rubber Estates, Ltd., Shares of £1
35 Shares	American Brown Boveri Electrical Engineering Corporation Participating Stock of no par value
25 Shares	American Cellulose & Chemical Manufacturing Co., Ltd., Common Shares of no par value
100 Shares	Anglo-Siam Corporation, Ltd., Ordinary Shares of £1
250 Shares	Assam Consolidated Tea Estates, Ltd., Shares of £1
3,285 Shares	British, Foreign & Colonial Corporation, Ltd., Shares of 5*s.*
25 Shares	Borholla Assam Tea Co., Ltd., Shares of £10
2,500 Shares	Brieh Rubber Estates Ltd., Shares of 2*s.*
£1,300	Buenos Ayres & Pacific Railway Co., Ltd., Ordinary Stock
8 Shares	Canada Northern Power Corporation Common Stock of no par value
1,220 Shares	Candover Estates, Ltd., Ordinary Shares of £1
100 Shares	Cape Town & Dist. Gas Light & Coke Co., Ltd., of £10
£1,000	Central Uruguay Railway Co. of Montevideo, Ltd., Ordinary Stock
3,200 Shares	City Association, Ltd., Shares of £1
2,500 Shares	City Savings Bank of Budapest Shares of Kr. 1,000
5,700 Shares	Chabau Rubber Co., Ltd., Shares of 1 Straits dollar
50 Shares	Davies, Wm., Co., Inc. (Canada), "A" Stock, Shares of no par value
500 Shares	Denaby & Cadeby Main Collieries, Ltd., Ordinary Shares of £1
2,000 Shares	First Cooperative Investment Trust, Ltd. Shares of 2*s.*
11,600 Shares	Galphele Tea & Rubber Estates, Ltd., Shares of 2*s.*
107 Shares	Harrisons & Crosfield, Ltd., Deferred Ord. Shares of £1
500 Shares	Hide & Co., Ltd., Ordinary Shares of 1*s.*
500 Shares	Horseley Bridge & Engineering Co., Ltd., Shares of £1

250 Shares	Hungarian National Bank Shares of 100 Gold Crowns
500 Shares	Hydeabad (Deccan) Co., Ltd., Shares of £3
1,000 Shares	Imperial Airways, Ltd., Shares of £1, 10*s.* paid
100 Shares	Imperial Oil Company of Canada, Ltd., Shares of no par value
100 Shares	Imperial Tobacco Company (of Great Britain & Ireland), Ltd., Ordinary Shares of £1
£100	Indian & General Investment Trust, Ltd., Deferred Stock
100 Shares	International Petroleum Co., Ltd., Com. Stock of no par value
350 Shares	Kasintoe Rubber Estates, Ltd., Shares of £1
1,000 Shares	K.M.S. (Malay States) Rubber Plantations, Ltd., Ordy. Shares of £1
550 Shares	Kramat Pulai, Ltd., Shares of £1
1,925 Shares	Lennards Real Property Co., Ltd., Shares of £1
520 Shares	Lewis, Henry G., & Co., Ltd., Ordinary Shares of £1
5,000 Shares	London & Foreign Banking Corporation, Ltd., Shares of £1, 2*s.* 6*d.* paid
1,000 Shares	London Asiatic Rubber & Produce Co., Ltd., Shares of 2*s.*
500 Shares	Malay United Rubber Estates, Ltd., Shares of £1
781 Shares	Mendaris (Sumatra) Rubber & Produce Estates, Ltd. Ordinary Shares of £1
£1,000	Metropolitan Railway Consolidated Stock
337 Shares	National Mining Corporation, Ltd., Shares of 8*s.*
£300	New Town Trust, Ltd. 6% Cumulative Income Stock
5,720 Shares	Operators' Trust, Ltd., Shares of 2*s.*
18,750 Shares	Palaw (Burma) Rubber Co., Ltd., Shares of 2*s.*
500 Shares	Pandan Tea Co., Ltd., Shares of £1
12½ Shares	Phillips Petroleum Co., Ltd., Shares of Common Stock of no par value
1,500 Shares	Phœnix Oil & Transport Co., Ltd., Shares of £1
500 Shares	Phœnix Oil & Transport Co., Ltd., Shares of 1*s.*
150 Shares	Piccardo & Cia., Ltd., Ordinary Shares of $100 Arg.
2,420 Shares	Provincial Cinematograph Theatres Ltd., 7½% Preferred Ordinary Shares, of £1
980 Shares	Rini (Java) Rubber Estates, Ltd., Shares of £1
10 Shares	Rio Tinto Company, Ltd., Ordinary Shares of £5
345 Shares	River Plate British & Continental Meat Co., Ltd., Ordinary Shares of £1, 10*s.* paid
400 Shares	Rubber & Tropical Trust, Ltd., Options
2,000 Shares	Second Cooperative Investment Trust, Ltd., 2*s.* Shares
1,000 Shares	Semenyih Rubber Estate, Ltd., Shares of 2*s.*
300 Shares	Shell Union Oil Corporation, Common Stock of no par value
250 Shares	Singlo Tea Co., Ltd., Ordinary Shares of £1
1,000 Shares	Spencer (Melksham) Ltd. 10% Cumulative Pref. Ordinary Shares, £1
330 Shares	Stephens, Henry C., Ltd., Ordinary Shares of £1
2,000 Shares	Strathisla (Perak) Rubber Estate, Ltd., Shares of 2*s.*
5,000 Shares	Sungei Tiram Rubber Estates, Ltd. (Malaya), Shares of 2*s.*
2,000 Shares	Sungkai-Chumor Estates, Ltd., Shares of 2*s*

200 Shares	Tambira Rubber Estates, Ltd., Shares of £1
100 Shares	Texas Co., Shares of $25
750 Shares	Triumph Cycle Co., Ltd., Ordinary Shares of £1
20,000 Shares	Triumph Trust, Ltd., 10% Preferred Ordinary Shares of 2*s.*
200 Shares	Union Oil Company of California Common Stock, Shares of $25
50 Shares	Union Pacific Railroad Co. Common Shares of $100
150 Shares	United Carlo Gatti, Stevenson & Slaters, Ltd., Ordinary Shares of £1
50 Shares	United States Rubber Co. Common Shares of $100
500 Shares	Waterlow & Sons, Ltd., Deferred Ordinary Shares of £1

One fact remains to be stated in connection with British investment trusts that will appear almost incredible to American readers. This is, that, although these trusts have for years been successful and their deferred (or common) stocks have been so much in demand, they are hardly ever available—in fact, there is a list of eager buyers waiting for the death of a holder so as to be able to secure a small parcel—no new investment trusts were formed for years. I speak, of course, of the genuine investment trust as here described, and not of the ordinary finance company. I believe I am correct in stating that when in 1922 I formed the Redeemable Securities Investment Trust, it was the first genuine investment trust to be constituted in England for more than a decade. Perhaps this circumstance is not so inexplicable as at first sight appears. Important as the investment trusts were, they were not known to the generality of investors. They had their own special following, which hardly ever sold a share. The directors were mostly old men, having grown up with their companies (the chairman of two of the best known trusts is 96, and octogenarians are fairly common), practically no new blood was admitted —and an investment trust does not require pushing young men: it matures of itself, even though it is less fruitful than would be the case if it followed a more active policy. That is how the boards of the existing trusts felt. During the last year or two, however, they have not only increased their capital very considerably, but in some cases have formed new trusts to carry on alongside the old ones. It became apparent that the present time was uncommonly favorable for the investment of fresh funds, and the British investing public has become more and more aware of the advantages of this form of investment. At the end of 1925 the aggregate capital of the genuine British investment trusts was in the neighborhood of £167,000,000—say, $800,000,000.

The investment trust has not been nearly so popular on the European continent as in Britain. There it has rather taken the shape of the corporation specializing in one class of investment, as, for instance, electric light and power undertakings. These tend to become holding or controlling companies rather than investment trusts; the latter do not manage, control, or organize undertakings. Their rôle is to be that of the passive investor, becoming active only in the event of default or misfortune. The investment trust devoted to one class of undertaking fails to conform to the most vital requirement of the investment trust—namely, diversification—and is not to be recommended. For this reason I do not regard trusts formed in the United States issuing so-called "Bankers Shares," whereby a few stocks *in one industry* are grouped together, as being the right sort of investment trust. Some trusts devoted to a single industry do exist in England, but are notoriously speculative, which is just what an investment trust ought not to be. Those investment trusts named Mercantile and General, Industrial and General, Commercial and General, Gas Water and General, and so forth, have gradually become "General." Gas and water and home industries failed to maintain the progress of the trusts formed to specialize in these particular classes of investments. Others of these trusts issuing "Bankers' Shares" give participating ownership, in common stocks of *various* enterprises, strictly stipulated at the inception of the trust. Here there is a certain amount of diversification, but no flexibility, that is, possibility of changes of investment, which may become desirable due to market conditions or other occurrences. In addition, dividends are distributed as they are received, therefore no reserve for contingencies can be built up. Flexibility and accumulation of reserves are essentials for the success of an investment trust.

There have been formed besides in the United States, particularly during the past two years, a considerable number of corporations under the cognomen Investment Trusts. I find that this title is very loosely applied. In fact, with very few exceptions, I consider these concerns misnamed. They comprise commercial financing and credit companies, real estate and mortgage undertakings, holding and finance companies. I was astounded to see the prospectus of a concern launched recently and described as a "Federal Investment Trust formed under the Federal Reserve Act," and therefore having, I suppose, official sanction to describe itself as an investment trust. This prospectus stated that the "investment trust's" chief activities will consist of *"supplementing the facilities not afforded to foreign borrowers by investment and commercial bankers."* While its object is highly desirable, this undertaking is far removed from the true aims of an investment trust, as they are accepted in Great Britain.

It will be gathered from these observations that I do not think highly of most of the attempts that have been made in the United States during the past year or two in the direction of adapting the trust principle. Obviously, if my money is all in one industry, even though it be spread over different stocks, it will fluctuate according to the prosperity or depression in that industry. If I propose to invest in oils, I can make my own selection of half a dozen or so, and do not require to entrust my money to other people to do so; but if I want a high yield, the likelihood of capital appreciation, and yet safety, I require to have my money spread over numerous industries in different parts of the world to such an extent that it is hopeless for me to attempt it alone.

This is where the real investment trust steps in, and while everything is capable of improvement and while Britain has much to learn from America in matters pertaining to business, I venture to submit that, in the matter of the investment trust, America, now becoming a world investor, whether it likes it or not, has a great deal to learn from the one class of investment of which Britain has half a century's unique experience. British investors have suffered less from the war than those of any other European country engaged therein; and this comes primarily from the diversification practiced by the British investment trusts.

The extent of this diversification may be gathered from the following analysis of a typical London investment trust, the Metropolitan Movement Trust, Limited, holding investments, at the end of 1925, of a value of £3,000,000—say, $15,000,000.

The investments were 359 in number and are summarized as on the opposite page.

In conclusion, I shall give a few hints as to how an American investment trust of the nature indicated should be run. It should *not* start off with bonds, as has been done in the one or two attempts that have been made in this direction, but with common stock and preferred. It should not hamper itself with such rigid restrictions as a bond issue involves at the outset. Later on in its career it can issue bonds secured by the hypothecation of a number of investments. It should have no restrictions as to the *class* of security held—no fixed percentage of bonds or groups of investments—but it is wise to stipulate that not more than one-twentieth part of the issued capital shall be in any one security. The directors should be required to give an undertaking to disclose any interest they have in any investment bought by the trust. Their remuneration should be wholly or principally a percentage of the profits. A good scheme is that a sum equivalent to 10% of the dividend paid on the *common stock* shall be divided among them. A complete list of the trust's investments, showing amount held and perhaps price paid, should be published with the annual accounts. Complete diversification of investments should

	Percentage of Valuation
British Government Securities	3.0
Railways, including Street Railways	34.9
Telephone, Gas, Electric Lighting, and other Public Works	14.8
Commercial and Industrial	29.6
Trust Companies	11.6
Foreign Government and Municipal Loans	6.1
	100.0

	Percentage of Valuation
Of these there are in Bonds, Debentures, or Debenture Stocks	54.1
Preferred and Guaranteed Shares or Stocks	20.7
Common Shares or Stocks	25.2
	100.0

	Percentage of Valuation
Great Britain	35.5
British Colonies and Dependencies	8.5
United States of America	13.5
Cuba	1.6
Philippine Islands	0.4
Argentine	12.9
Brazil	5.3
Other South American Countries	8.0
Mexico	0.4
Central America	2.4
Continent of Europe	8.7
China and Japan	1.7
Other Countries	1.1
	100.0

be aimed at, one-fourth to one-third of the capital being invested in the United States and the remainder outside. The foreign investments should not be limited to securities quoted in New York; the best and most profitable are usually to be found in the countries of origin. There should be two managers, one for American investments and one for the foreign. The latter should have had European, preferably London, experience. If one of the directors can give full time and is qualified, he can, of course, function as manager, and should then receive the corresponding salary. The trust should have a community of interests—partly by reciprocal stockholding—with a British trust, so as to pool opportunities and knowledge and experience. The number of investments held should not exceed five or six hundred—say, one hundred for each active director.

The author's excuse for these didactic observations is that he is convinced that the next few years will witness a great development of the investment trust idea in the United States, and if his work contributes but slightly to such development being on the right principles, he will deserve more thanks than he is likely to receive!

XV

THE WORLD'S INVESTMENT FIELDS

THE following pages are intended to serve as a guide-post to the principal countries whose securities are quoted in other markets than their own. The opinions expressed are those of the author, but may be taken as representing, in the main, the views of London financiers.

The population and area of each country are given, and, for purposes of comparison, it may be useful to remind readers that the area of continental United States is 3,026,789 square miles.

ARGENTINA

Population 9,550,000 Area 1,153,119 square miles

London is the chief market for federal, provincial, and municipal loans, but a few are quoted in Paris and Amsterdam. Some recent issues are quoted in New York. Railroads, mostly English companies, quoted exclusively in London. Many corporations quoted in London, a few in Paris, Amsterdam, and Antwerp, the last two specializing in land mortgage banks and bonds.

Argentina, like every other South American republic, spends more than she earns, but is probably the most stable of all, and is in course of becoming one of the rich nations. An excellent field for the investment of capital.

AUSTRALIA

Population 6,000,000 Area 2,974,581 square miles

(States not given separately, although they borrow separately and collectively.) The most persistent borrower in the world. Indebtedness increasing much faster than population, but it must be admitted that most of the borrowed capital goes into productive undertakings. Has enjoyed the benefit of cheap money from London, which is unlikely to continue. Future depends upon increase of population.

Austria

Population 6,540,000 Area 32,369 square miles

Practically the only securities of importance known abroad are post-war bond issues for which New York is the principal market. The Austrian 6% bonds issued under the auspices of the League of Nations are quoted in New York, London, Paris, Brussels, and Amsterdam.

It is doubtful if Austria, in its present truncated form, can ever be an economic unit. Her people are charming and industrious, but until it can be seen that the country is self-supporting, Austrian securities are uncertain.

Belgium

Population 7,700,000 Area 11,373 square miles

Prior to the war few Belgian securities were quoted abroad, Brussels and Antwerp being rather markets in other countries' securities. New York and London each quote a Belgian bond, and the 3s of 1914 quoted in London are worthy of attention, seeing that they are due in 1939. The best known Belgian stock is International Sleeping Car.

Belgium is the most densely populated country of Europe and is highly industrialized. There is strong feeling between the Flemish- and French-speaking portions of the population, but the country should be good for all its obligations, and is a satisfactory field for investment.

Bolivia

Population 2,900,000 Area 514,155 square miles

The important tin deposits are a considerable source of wealth and the country is a profitable field for speculative investment.

Brazil

Population 31,000,000 Area 3,275,510 square miles

London is far and away the principal market for Brazilian bonds of all descriptions, but Amsterdam comes a good second, and one or two are quoted in New York, Paris, and other bourses. The bonds and shares of numerous Brazilian commercial and industrial enterprises, including coffee plantations, are quoted in London. Also half a dozen Brazilian railroads.

The enormous potential wealth of Brazil is undeniable, but the country has an unpleasant habit of defaulting rather frequently.

The general belief is that its governments now seriously intend improving the finances and that conditions are sufficiently stabilized to justify investment under satisfactory safeguards. Commercial and industrial ventures in Brazil have generally proved profitable.

Bulgaria

Population 5,000,000 Area 40,000 square miles

An agricultural country with a virile population, described by H. W. Nevinson as "the most dogged, capable, highly educated and silent—the only silent—nation in the Balkans."

Would be a good field for investment if it were not situated in Europe's witches' cauldron.

Canada

Population 9,000,000 Area 3,729,665 square miles

Fast becoming an economic annex to the United States. Burdened by excessive war debt. Apart from government and municipal loans, has not been a very profitable field for the British investor, who has lost millions through inflated land values.

Chile

Population 3,870,000 Area 289,790 square miles

Best known to foreign investors on account of its vast nitrate (fertilizer) deposits. That industry is largely British-controlled, but there are indications of American investment here increasing considerably. Chile appears to be a profitable field of investment, and of late years her "Revolutions" have been bloodless. Enjoys the enviable reputation of being the only South American republic that has never really defaulted.

China

Population 443,428,000 Area 4,278,352 square miles

Until a strong central authority emerges and the country becomes divided into self-governing portions with something approaching stable administration, is a dangerous field for investment. The British tradition that whatever happens China pays, has received some hard knocks of late. The same used to be said of Russia.

Colombia

Population 7,000,000 Area 440,000 square miles

This country has a stormy past, having changed its name at least five times since it obtained its independence. The country has not a very good record as regards its foreign debt, but the last few years have witnessed a decided improvement in this direction, and the country appears to be better administered than formerly. A rich and promising field for speculative investment.

Costa Rica

Population 485,000 Area 23,000 square miles

A better field for investment than some of the Central American republics. Was successful in 1925 in raising an internal loan for the balance of the entire French debt. Trade steadily improving.

Cuba

Population 3,124,000 Area 44,164 square miles

One of the most fruitful portions of the globe, but a fluctuating field for investment on account of its great dependence upon sugar. On the whole, a profitable investment field.

Free City of Danzig

Population 384,000 Area 756 square miles

Shares with the Balkans the distinction of being the danger spot of Europe.

Czechoslovakia

Population 13,614,000 Area 54,877 square miles

Is the only one of the new countries formed by the disastrous peace treaty of 1919 which has really made good. There is a powerful German minority of about three millons, but, unless a general conflagration occurs, this country, which contains three-quarters of the manufacturing industries of the former Austro-Hungarian Empire, should become one of the most prosperous in Europe, and its credit should improve rapidly.

Denmark

Population 3,381,000 Area 16,604 square miles

One of the most stable countries of Europe. Investors' experience of this small, hard-working nation is excellent.

Dutch East Indies

Population 50,000,000 Area 750,000 square miles

Absolutely first class. Large, steady profits derived from various cultures, such as rubber, cinchona, coffee, tea, teak, spices, tobacco, and so forth.

Ecuador

Population 2,000,000 Area 171,287 square miles

European experience not happy.

Egypt

Population 13,885,000 Area 383,000 square miles

Formerly a favorite field for French, Belgian, and British investment. Now extremely uncertain.

Esthonia

Population 1,111,000 Area 16,955 square miles

Economically an appanage of Russia. Somewhat risky.

Finland

Population 3,500,000 Area 150,222 square miles

Population highly intelligent and industrious. Position much safer than might be assumed from its proximity to Russia. Rich in natural resources, particularly timber. A reasonable field for investment.

France

Population 39,209,000 Area 212,659 square miles

A better country to spend than invest money in.

Germany

Population 62,468,762 Area 182,213 square miles

The anxiety shown by other European countries to lend money to German governments, cities, and industrial enterprises, denotes the opinion held by investors of experience as to the future of this country. Some political disturbances possible in view of the lower standard of living enforced upon the masses, but a nation that has held together and emerged from the events of the past few years has sufficiently proved its stability to constitute it a satisfactory field of investment.

Great Britain

(England, Scotland, and Wales)

Population 43,000,000 Area 88,745 square miles

British supremacy in the financial markets of the world has probably passed its zenith, but the accumulated resources and experience of a century or more of great development count for a good deal, and the national character is such as should enable the difficulties of the situation to be overcome. A safe and reliable field for investment.

Greece

Population 6,521,700 Area 49,022 square miles

A little less stable than Mexico.

Guatemala

Population 2,000,000 Area 48,290 square miles

A bad record, but some signs of improvement. Still very risky.

Haiti

Population 2,000,000 Area 10,204 square miles

The safety of investments here depends upon the efficacy of United States control.

Holland

Population 7,212,800 Area 12,587 square miles

The safest country in Europe from the investment standpoint.

Honduras

Population 673,000 Area 44,275 square miles

Public debt worthy of notice, as it exceeds $130,000,000, equaling nearly $200 per head of population, which is almost wholly Indian. Extremely risky.

Hungary

Population 8,216,000 Area 35,911 square miles

Making a remarkable recovery. Not to be trusted politically, but the investors' safety lies in the fact that none of Hungary's neighbors will stand any nonsense, and any attempt on her part to start a conflagration would unite the Little Entente and the big powers against her. Is, therefore, promising as a field for investment.

India

Population 318,000,000 Area 1,805,332 square miles

Yields on government and municipal loans somewhat low when political risk is borne in mind. Industrial investments, however, usually very profitable.

IRISH FREE STATE

Population 3,300,000 Area 31,851 square miles

Country settling down better than might have been expected after its long political struggle. Government receptive to new ideas, particularly in connection with public works, and favors inflow of capital other than British. A promising field for investment.

ITALY

Population 42,115,000 Area 115,660 square miles

Has made appreciable economic progress, but with a poorer Europe has lost some of the wealthy tourist traffic on which it largely lived, and has yet to make the sacrifices necessary to stabilize its currency. Political future renders investment here somewhat risky.

JAPAN

Population 80,704,800 Area 260,738 square miles

Experience of this country by European investors is of a most satisfactory nature.

JUGOSLAVIA

(Kingdom of Serbs, Croats, and Slovenes)

Population 12,000,000 Area 96,134 square miles

A real Balkan state, but shows signs of efficient government. A fair risk for a high yield.

LATVIA

Population 1,503,000 Area 25,000 square miles

Includes the town of Riga, which is virtually, though not politically, a Russian port. Somewhat risky.

LITHUANIA

Population 2,293,000 Area 22,520 square miles

Dependent upon Russia. Somewhat risky.

MEXICO

Population 16,130,000 Area 767,323 square miles

Has made the fortunes of one or two big contractors, but European investors have lost heavily in the country. Its mines and oil lands have proved to be as uncertain as its population, but some of these investments have been profitable.

New Zealand

Population 1,250,000 Area 103,568 square miles

A prosperous little country, and a safe field for investment.

Nicaragua

Population 638,000 Area 51,660 square miles

Like all Central American republics, has had a troublous past but of late years has met its obligations with a regularity which has earned the encomiums of the Corporation of Foreign Bondholders. A promising field for speculative investment.

Norway

Population 2,731,600 Area 124,964 square miles

A safe country.

Panama

Population 443,000 Area 32,380 square miles

Practically a dependency of the United States. Commerce shows a continuous heavy adverse balance.

Paraguay

Population 1,000,000 Area 172,000 square miles

Better than its reputation. Of recent years much more satisfactory to European investors.

Persia

Population 12,000,000 Area 628,000 square miles

Risky.

Peru

Population 6,000,000 Area 532,000 square miles

European investors' experience less happy than with Chile. Governments here seem feverishly hasty to pawn country's resources.

Poland

Population 27,000,000 Area 149,360 square miles

Rectification of swollen frontiers inevitable, and may lead to war. Until this rectification takes place, extremely risky field for investment. The political factor here is of overwhelming importance, and investors who are swayed by reports based upon economic conditions or prospects only will probably have cause to regret it.

Porto Rico

Population 1,300,000 Area 3,435 square miles

Has been quite profitable to British and Canadian investors.

Portugal

Population 6,033,000 Area 35,500 square miles

Hopeless. Millions lost in this country.

Portuguese East Africa

(Mosambique and Lorenzo Marquez)

Population 3,000,000 Area 295,300 square miles

A fairly prosperous field for investment; much more so than the mother country.

Roumania

Population 17,393,150 Area 122,282 square miles

A good wheat and oil country, but politically unstable. High yields should be expected by investors, and will probably be forthcoming.

Russia

Population 110 to 130 millions Area 7,808,600 square miles

Bolshevist Government firmly in the saddle, and no one in Europe seriously anticipates its overturn. Should this occur, the position would be worse. Government will probably reform itself gradually. It has to be admitted in Europe that the present government has not defaulted on any one of its own obligations; and it dares not. With the inevitable changes of policy towards foreign capital, this country will probably be the biggest and most profitable investment field for the next 50 years.

Salvador

Population 1,526,000 Area 13,176 square miles

Conditions improving, and revenue shows a surplus over expenditure. A fairly promising field for speculative investment.

Santo Domingo

(Dominican Republic)

Population 897,000 Area 19,332 square miles

The eastern half of the island of Haiti.

The safety of investments here depends upon the efficacy of United States control.

Siam

Population 9,600,000 Area 200,148 square miles

Prosperous, but semispeculative.

South Africa (Union of)

Population 7,000,000 (1,500,000 white) Area 473,089 square miles

The gold mines of the Witwatersrand and the diamond fields are the principal economic factor. Conditions not so settled as in the other British dominions; more possibilities of racial and serious industrial conflicts, but profitable investment field.

Spain

Population 21,500,000 Area 190,950 square miles

A country of great possibilities which its governments, having learned nothing from history, squander in Morocco. Internal position renders investment rather speculative.

Sweden

Population 6,036,118 Area 173,105 square miles

A sound country rather remote from other European countries. Good investment field.

Switzerland

Population 3,881,000 Area 15,975 square miles

One of the safest countries in the world for investment. Yields usually correspondingly low.

Turkey

Population 13,357,000 Area 494,538 square miles

Hopeless, except for concessions.

Uruguay

Population 1,600,000 Area 72,153 square miles

Although country has a large debt, it has been a profitable field for European investment and is well thought of.

Venezuela

Population 2,500,000 Area 398,594

Financial past not altogether satisfactory, but much improved the last few years. Development of oil fields a feature. Should be a profitable field for investment.

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