THE SHAREHOLDER'S MANUAL

THE SHAREHOLDER'S MANUAL

AN ELEMENTARY AND NON-TECHNICAL TREATISE ON THE INVESTMENT OF CAPITAL IN STOCKS AND SHARES

BY

HERBERT H. BASSETT

EDITOR, "RAILWAY MANUAL"; FORMERLY CITY EDITOR, "THE GLOBE"; AUTHOR OF "BRITISH COMMERCE," ETC.

LONDON
SIR ISAAC PITMAN & SONS, LTD.
PARKER STREET, KINGSWAY, W.C.2
BATH, MELBOURNE, TORONTO, NEW YORK
1922

PRINTED BY
SIR ISAAC PITMAN & SONS, LTD.
BATH, ENGLAND

PREFACE

The following chapters have been written to provide the large number of new investors, which has noticeably come into existence in recent years, with a book containing practical information on the subject of investment in stocks and shares, couched in simple language and free from technical terms. Every effort has been made always to approach the subjects covered from a strictly elementary standpoint.

Whilst the financial expert may, it is hoped, obtain some knowledge as well as profit from its perusal, the book is primarily intended to guide the first steps of the inexperienced shareholder who is unversed in the technicalities of the subject.

H. H. B.

24 Coleman Street, E.C.

CONTENTS

SHAREHOLDER'S MANUAL

CHAPTER I

LOANS AND ISSUES OF CAPITAL

A YOUNG man starting business receives a loan of £500 from two richer friends. For the use of this money he agrees to pay £25 each year, that is 5 per cent per annum. This £500 is capital; the £25 is interest. The £25 must be paid under any circumstances, unless he is willing to run the risk of his friends calling upon him to return the £500, and thus stopping his business. If he is unable to pay the interest out of his profits, he must reduce his expenses or sell some part of his possessions to produce the necessary money. In the above example, the young man is the borrower, and his two friends are the holders of his note or receipt for £250 each.

A GOVERNMENT LOAN.

There is no essential difference between the position of the young man as described above and the governing power of a young country which, for convenience, we will describe as the Lithalian Republic. Lithalia is an undeveloped country just growing in agriculture and industry, and it borrows from the richer people of an older country a sum of £5,000,000 as a loan, and agrees to pay £250,000 each year in interest or 5 per cent per annum. The capital is £5,000,000; the interest is

£250,000. The interest must be paid by this country, and, if the people are unable to do so, they must reduce their expenses until they have a sufficient margin of money to enable them to pay the interest. If they cannot reduce their expenses, they must sell some part of their possessions or run the risk of the richer people, from whom they have borrowed the money, seizing a part of their possessions in payment of the debt. In this case, the Lithalian Republic is the borrower, and some thousands of individual investors are the holders of £5 to £300 or more of the notes or receipts of the Lithalian Republic.

If the record of the young man has been honest, he is able to borrow the money at a low rate of interest. If his record has not been good, he will have to pay a high rate of interest, and if he dissipates the money which is lent to him, he will not be able to borrow another loan. Similarly, if the record of the governing power of Lithalia has been good, it will be able to borrow at low interest; if it has been dishonest it will have to borrow at high interest, and if the people are very extravagant it will not be able to borrow any money.

An example of a country with a dishonest record which is unable to borrow under any conditions is that of Honduras, which borrowed £3,500,000 many years ago from British investors, and has not paid any interest on the money for fifty years.

A PRIVATE LIMITED COMPANY.

If any number of persons less than fifty join together to provide £500 or any other sum of money for forming, say, a lawn tennis club, they can limit their liability to the amount of money they subscribe by registering the club as a private limited liability company The

£500 would be divided into shares of £1 each, and the holder of one or ten or any other number of shares would *not* be liable for any further amount in the event of the club failing and being unable to pay its debts. The capital (that is the £500 or such other sum as may have been subscribed) would be used for buying ground materials. The money received from payments for the use of the ground would form the revenue, out of which expenses, such as the groundsman's wages, rent, etc., would be paid. Any balance left over would be profit. This profit would be divided among the holders of the shares in exact proportion to the number of shares held. Payments so made would be *dividends*, that is, divided profits.

There is no essential difference between this lawn tennis club formed as a limited liability company and one of the great British firms of engineers and contractors with a capital of £2,500,000 which is privately subscribed and not held by more than fifty persons. *A private company may not issue any public invitation for subscription to its capital.*

A PUBLIC LIMITED COMPANY.

If it is desired to issue invitations to the public to subscribe the money (that is, capital) necessary to purchase or carry on an undertaking, then it must be formed under the rules of a public company. This will entail complying with certain legal formalities with which it is not necessary to trouble the reader. The essential difference between a private and public company lies in the power which the latter possesses to offer its capital for subscription to the public.

There are other formations of companies and partnerships with which the investor is unlikely to be concerned.

COMPANY FORMED UNDER SPECIAL ACT.

A certain type of company requires to obtain Parliamentary powers to enable it to acquire lands and rights. To do this, a special Act of Parliament has to be obtained, and in return for this, the promoters generally agree to be bound by certain regulations for the protection of the public. Such companies are railways, gas, electric light and water works, and similar undertakings of public utility. These companies are authorized by their Act to issue capital in the form of stocks and debentures, and so far as the investor is concerned, they may be regarded here as similar to an ordinary public company.

There are thus four main classes of undertakings in which the individual investor may invest capital in the form of stock or shares: (*a*) Governments of countries, cities, municipal boroughs and towns; (*b*) Private companies limited to fifty shareholders; (*c*) Public companies; (*d*) Companies formed under special Acts of Parliament.

DIFFERENCE BETWEEN DEBENTURES AND SHARES.

The form in which the capital is issued varies considerably, and is an important point for the investor. For simplifying our examples it may be divided into two divisions—(1) Capital which is secured upon property and on which interest may be paid; and (2) capital on which the return or dividend depends on the amount of profit made by the company issuing the capital.

CLASS A	Money subscribed as a loan at a fixed rate of interest and secured by mortgage deed or otherwise on definite assets or property	*usually bonds and debentures.*

CLASS B	Money subscribed to share capital and depending for its dividend on the profits made, with no further liability beyond the amount of the shares.	usually in the form of *preference or ordinary shares*

Class "A" puts the subscriber or investor in the position of a *creditor,* that is a person to whom money is owing, whilst class "B" puts the subscriber or investor of the capital in the position of a *partner,* that is one who shares the risk in return for part of the profits. This is the fundamental difference between the holder of debentures and the holder of shares. A holder of debentures is in the position of a creditor, and receives *interest* on his money, and a holder of shares is in the position of a partner, and receives *dividends* (or divided profits) on his capital.

There is no essential difference between bonds, debentures, or notes, which are usually comprised in class "A." The difference is only one of degree. An I.O.U. which you may receive from a person to whom you have lent £5 is an admission of a debt without any pledged security other than the good faith and the ability of the borrower ultimately to pay it. You can attach to it certain conditions, such as the repayment of the money at a fixed time, etc. It will, however, still remain a loan without any definite security, and it does not prevent the borrower selling any goods he may possess in order to obtain further money elsewhere. On the other hand, if there is a written agreement that you only lend the £5 on the condition that the borrower will not sell or otherwise part with, say, his gold watch, the latter thus becomes the security for the due repayment of the £5, and, if not paid, the lender can seize and sell the watch in order to recoup himself for the amount of his loan. Stripped of its legal phraseology, a mortgage bond or debenture is really no different in degree from an I.O.U. attached to which is some security mortgaged to the lender. The amount of a bond or debenture can be for any sum desired, although it is usually for £50 or £100. A bond is always of a fixed amount but debentures may be issued in the form of debenture stock, that is divisible into amounts of £100 or any multiple of £10. It is thus possible to have £110 or £130 of stock.

PRICE OF ISSUE.

The borrower may agree to give an I.O.U. for £5 in return for only £4 10s. in cash, or an I.O.U. for £100 in return for only £90 in cash. This figure, £4 10s. or £90, is the price at which he *issues* his I.O.U.

PRICE OF REDEMPTION.

Now suppose the borrower agrees to pay back at a fixed date £5 10s. for every £5 borrowed (he actually received only £4 10s.), that is £110 for each £100 borrowed at 90 per cent. This means he will redeem his I.O.U. of £5 at the date agreed upon by paying £5 10s., and £5 10s. is consequently described as the *price of redemption.*

THE SINKING FUND.

It is possible that the borrower may not be certain of being able to pay the money in one sum at the date agreed upon, or the lender may not think he will be able to do so. It might, therefore, be made a condition of the loan that a certain portion should be set aside each year out of his income so as to accumulate and allow of the full amount being paid on the day of redemption. This money set aside or sunk for this special purpose is called a *sinking fund.* If the man who owes £100 repayable at £110 in ten years' time sets aside £10 each year by putting the money in the Post Office Savings Bank, he will, at the end of the ten years, not only have accumulated £100, but also all the interest paid by the Post Office on the amount during the period it is accumulating. This form is, therefore, a sinking fund of £10 per annum on £100, or 10 per cent. If the loan is for £100,000 to be repaid at the end of fifty years, and the borrower sets aside £2,000 each year (or 2 per cent), it will be a sinking fund of 2 per cent. The sinking fund, therefore, may be large or small, or there may be no sinking fund at all, according to the conditions agreed upon when the loan is made.

We now arrive at the following position: £4 10s. is given in cash for an I.O.U. of £5 on the security of a gold watch to be redeemed at £5 10s. in ten years' time, and 5s. to be set aside by the borrower each year to accumulate towards repayment. There is no essential difference between this position and the Lithalian Republic which raises a loan of £100,000 at £90 per £100, or 90 per cent, on the security of its railways, and agrees to repay the loan in ten years' time at £110 per £100, with a sinking fund of 2 per cent. Or a manufacturing and industrial company which sells its debentures of £100 at 90, and pledges its factories and workshops as security for the repayment of the debentures at £110 in ten years' time with a sinking fund of 2 per cent.

Note.—We are still only dealing with the capital, and are not yet concerning ourselves with the interest to be paid on the loan.

Now instead of putting the sinking fund into the

Post Office Savings Bank, the borrower may prefer to pay off part of the loan at once. He can do this by deciding to draw by lot which bonds shall be paid off or redeemed. It may be possible for him to buy a sufficient number of bonds or debentures in the open market or Stock Exchange, and thereby pay off part of the loan. Whichever method is selected it must be stated at the time the loan is incurred. Thus we get the position of the Lithalian Republic raising a loan of £100,000 at £90 per £100 or 90 per cent, on the security of its railways, and agreeing to redeem the loan in ten years' time (1922-1932) with a sinking fund of 2 per cent to be applied either by drawings of £100 each or by purchase of the bonds in the open market, whichever may be cheaper.

CHAPTER II

CLASSES OF SHARES

THE dividing line between secured and unsecured capital, which has already been explained in the previous chapter, must always be clearly borne in mind. Debenture-holders are in the position of creditors, and shareholders in the position of holders of a limited partnership. The various kinds of debentures which come within the category of secured investments can be left for consideration until later. All the numerous divisions of share capital are in the nature of unsecured investments and fall, therefore, into quite a distinct class to that occupied by debentures.

There are two main classes of unsecured capital represented by shares: (1) shares which have a preference over others when profits are distributed, and (2) shares which possess only ordinary or common rights. There are numerous sub-divisions of these two main classes.

PREFERENCE SHARES.

In a business formed with a capital of £200,000 it may be shown by the accounts that the profits in the past years were always more than sufficient to pay 8 per cent on a quarter of the total capital, that is £4,000 on £50,000 of capital, and in addition to leave a large margin for the payment of another 8 per cent or more on the remaining £150,000. There is a very large number of persons who are willing to subscribe capital to a company on condition that they have a first claim on the profits which are made up to a certain

2—(1903)

proportion, that is, in return for consenting to limit their right to 6, 7, 8, 9 or 10 per cent (or such figure as may be agreed), they consent to forego any further participation in the profits. These shareholders are, therefore, given the preference up to a certain agreed figure over other holders of shares when profits are distributed at the end of the year, that is, they are holders of *preference shares.*

CUMULATIVE PREFERENCE SHARES.

As the profits of many companies fluctuate, it is generally agreed that if the profits of one year are not sufficient to pay a dividend on these preference shares the fixed amount of the dividend agreed upon (say, 8 per cent) accumulates to the credit of the preference shareholders. Thus we obtain *cumulative preference shares.* This distinction should be thoroughly grasped. Preference shares have a preference over other shares in the distribution of profits, but if there are no profits or if they are insufficient to pay a dividend in full in any one year the balance unpaid does not accumulate; in cumulative preference shares the balance unpaid does accumulate, and must all be paid off before any other shareholders receive any part of the profits. Investors should always make certain that preference shares are cumulative. In railway companies, preference stocks are very often non-cumulative, although investors think they are cumulative because the dividends on such preference stocks are usually paid with regularity.

These cumulative preference shares may be subdivided into classes by which one class has preference over another, and thus there are sometimes—

first cumulative preference shares,
second cumulative preference shares,
third cumulative preference shares,

and so on; or similarly—

"A" cumulative preference shares,
"B" cumulative preference shares,

and so on.

The essential point is always whether the preference share is cumulative; otherwise in actual practice the share is little better than an ordinary share in respect to income.

In recent years there has come into existence a new class of preference share which not only has a preferential right to a fixed dividend out of profits, but also to participate in the distribution of any surplus profits which are divided among the ordinary shareholders. These shares are known as *participating preference shares*. They may be cumulative in respect to a fixed dividend, or non-cumulative, or they may participate only up to a certain proportion of profits beyond the fixed dividend. *Example* 1. 8 per cent cumulative participating preference shares entitled to a further 1 per cent after the ordinary shares have received 10 per cent. The highest dividend receivable by these shares would be 9 per cent. *Example* 2. 8 per cent cumulative participating preference shares entitled to rank equally in all dividends after the ordinary have received 10 per cent. In this case the dividend would be the same as on the ordinary shares when these shares receive over 10 per cent. It might be 11 per cent, 12 per cent, or any higher amount.

ORDINARY SHARES.

This is the common form of shares, and by far the largest class. In America these shares are termed common shares, and in the United Kingdom ordinary shares. Ordinary shares are entitled to all profits after the preference shareholders have received their proportion. In a company with £200,000 capital divided into £50,000 8 per cent preference shares and £150,000 ordinary shares, the company has made a profit, we will say, of £25,000. The preference shareholders would take £4,000, being 8 per cent on £50,000 of preference shares. The balance of profit of £21,000 would be available for division among the ordinary shareholders, and could take the form of a 14 per cent dividend, or lower dividend with a proportion set aside to reserve or such allocation as the directors might decide within their discretion, subject to the approval of the ordinary shareholders.

As with the class of preference shares, so with ordinary shares there are sub-divisions. These sub-divisions are generally two in number: (1) Preferred ordinary shares and (2) deferred ordinary shares. In the case of the preferred ordinary shares there is a fixed dividend to which they have preference, and the balance is distributable to the deferred ordinary shares. If, for example, in the case of the company with £200,000 capital, the £150,000 of ordinary shares were divided into £75,000 preferred ordinary shares and £75,000 deferred ordinary shares, the preferred ordinary shares would rank first for their share of the profits up to an amount agreed upon. If such preferred ordinary shares were entitled to 10 per cent, they would receive £7,500 out of the £21,000 of profit available for distribution, leaving £13,500 for the payment of dividends to the deferred shareholders. It will, therefore, be seen that whilst both classes of shares are secondary to the preference shareholders, part of them have preferred rights in the balance of profits. The gradation of security will be: (1) Preference shares, (2) Preferred ordinary shares, (3) Deferred ordinary shares.

There is no essential difference between a preferred ordinary share and a preference share; nor between a cumulative preferred ordinary share and a cumulative preference share. Their security as to capital and income depends in both cases upon the amount of capital or debentures ranking in front of them. For example—

A.	B.
£100,000 *debentures.*	£100,000 *debentures.*
£100,000 6% preference shares.	£100,000 6% preferred ordinary shares.
£100,000 ordinary shares.	£100,000 deferred ordinary shares.

Here the preference shares are precisely the same in Example "A" as the preferred ordinary shares in Example "B." If, however, the one is cumulative and the other non-cumulative, the share which is cumulative comes first in respect to dividend. For example—

C.	D.
£100,000 debentures.	£100,000 debentures.
£100,000 6% *cumulative* preference shares.	£100,000 6% preferred ordinary shares.
£100,000 ordinary shares.	£100,000 deferred ordinary shares.

It is possible, but not common, to have a cumulative preferred ordinary share (Doeuillet, Ltd., 10 per cent cumulative preferred ordinary is an example). The following is the table of precedence in respect to the division of profits where there are all classes of shares—

6 per cent first cumulative preference shares.
6 per cent second cumulative preference shares.
8 per cent participating preference shares.
10 per cent preferred ordinary shares.
deferred ordinary shares.

Unless otherwise specifically arranged in the constitution of the company, the shares rank in the same order as to capital security as they rank for dividend. This question of capital security only arises in the event of the winding-up of a company. For example, if a company is wound up, the debenture-holders whose money is secured on definite assets are paid first; secondly, the trade and other creditors; thirdly the preference shareholders according to whether they are first, second or third preference shareholders, and lastly the ordinary shareholders.

It will, therefore, be seen that whilst ordinary shares incur the greatest risks in return for the greatest profits, it is quite possible for ordinary shares, where there are no preference shares or debentures in front of them, to be possessed of greater security than a preference share where there are debentures. Example—

Total assets for distribution on a winding-up equal £120,000.

1.	2.
£100,000 *debentures.*	No *debentures.*
£100,000 preference shares.	No preference shares.
£100,000 ordinary shares.	£300,000 ordinary shares.

The amount which the preference shareholders would receive in Example 1 would be £20,000, or 4s. per £1 share, whereas in Example 2 the amount received by the ordinary shares would be £120,000, or 8s. per £1 share, although the money in both companies is the same.

For this reason less importance should be attached to the mere name which a company may give to its shares than to the actual amount of capital or debentures ranking in front of them.

The means by which the relative security can be estimated in individual companies will be explained in a subsequent chapter.

In some companies there is a class of share called founders' shares, and, where a company is exceptionally profitable, they may receive very big dividends.

They are not, however, as a rule, anything more than deferred ordinary shares, and should be so regarded.

SHARES WITH A LIABILITY.

All shares in companies founded under the Companies Acts are of a fixed nominal or face value, technically termed their "par" value, and may be from a shilling or less to £100, or more. In practice shares are usually of 1s., 2s., 5s., 10s., £1, £5 or £10 each. Stock is of £100, and divisible into £1 and multiples thereof. When shares are first issued by a company they are usually payable in instalments. For example, £1 shares may be payable as to 5s. on application for an allotment of the shares, 5s. on the allotment being made to the applicant, 5s. in one month's time, and 5s. in three months' time. Some classes of companies do not require to use all the capital in their business, and, therefore, do not call for any more than a part. Thus a share may be of £1, and have only 5s. or 10s. paid, the holder being liable to pay the balance if and when called for by the company. Banking and insurance companies' shares are usually partly paid. This is because such companies require to have very big financial reserves in the event of grave emergency, although such emergency may never arise.

The holder of shares which are only partly paid is liable for the balance of the payments, and cannot get rid of the liability by forfeiting the shares. A holder of such shares cannot say "I do not want to pay or cannot pay the balance, and will, therefore, surrender the shares and forfeit my interest in the company, and thus escape payment of any more money." He is liable legally to pay the full amount which is unpaid, but he cannot be made to pay more than the nominal amount of the share. A holder of 100 £1 shares, 15s.

paid per share, can be made to pay 5s. per share, and no more.

A holder of partly-paid shares can only escape the liability by selling the shares to another person who, in buying the shares, thus accepts a transfer of the liability to himself. Apart from first-class banking and insurance companies (whose shares may easily be sold) it is unwise to hold partly-paid shares, for the reason that the holder's financial resources may change unexpectedly, and he may not be able to find a buyer at a satisfactory price for shares on which there is a liability. There have been instances where holders of such shares have had to pay an amount per share to a prospective buyer in order to sell partly-paid shares. Generally speaking, it is imprudent to hold partly-paid shares in any company, although exceptions may be made in the case of first-class banking and insurance companies where the holder of such shares is in a financial position to meet the liability if called upon.

CHAPTER III

STOCK EXCHANGE TRANSACTIONS

THE Stock Exchange is a private institution owned by a company in which the shares are held by the members of the Exchange. There are two classes of members, one known as jobbers or dealers, the other as brokers. A member cannot be both a dealer and a broker. The jobbers do not transact business with the public but through the intermediary of the brokers who act on behalf of members of the public who are their clients. The jobbers deal in certain classes of stocks and shares. One jobber will confine his attention to Consols, Government bonds, and the type of security usually known as "gilt-edged"; another jobber will only deal in home railway stocks, or bank shares, or gas and water stocks, or commercial and industrial stocks, or mining shares or oil shares, and so on. These jobbers, of whom there are some hundreds, take their stand each day (except Saturday) in the Stock Exchange for the purpose of buying or selling to the brokers who act as agents for the public. The *locale* of the jobbers in the Stock Exchange dealing in different classes of securities brings about the differentiation between the markets in various stocks and shares, such as the Consol market where British and foreign Government bonds are dealt in, the home railway market, mining market, oil market, and so on. The brokers who want to buy and sell for their clients go to the jobbers in the "market" in which they wish to deal, and by inquiry, negotiation, and skill effect on behalf of their clients a sale or purchase with the jobbers.

BROKER AS AGENT.

The broker acts as an agent for his client, and is paid by him in commission for so acting, and the client is responsible for his actions just as a client is responsible for the actions of his agent in any other business transaction. If a broker or agent exceeds the instructions of his client or principal, it is a matter for dispute or settlement between the broker and client. It does not affect the third party, the jobber, who does not recognize the public in the matter, and is prohibited from transacting any business with the public. The jobber is the man who keeps a stock of the goods which he is prepared to buy or sell just as a dealer in precious stones will keep a stock of diamonds which he is prepared (according to the conditions of the market) to buy or sell. The jobber depends upon his profit in selling at a higher price than that at which he buys.

Consequently there are two prices, that at which the jobber will buy, and that at which he will sell, the former naturally being the lower and the latter the higher. The difference between these two prices represents the profit or "turn" which the jobber makes on the transaction.

PRICE: HOW FIXED.

As these two prices are the cause of most of the misunderstandings of investors, it is desirable that their purpose should be clearly grasped.

A B, a broker, is instructed by John Roberts, his client, to buy for him 100 Ironworks ordinary shares of the nominal, face or "par" value of £1 each, at the lowest or "best" price at which he can get them. A B approaches C D, a jobber in Ironworks shares, who is prepared to deal at 20s.-21s., or in other words, will sell at 21s. or buy at 20s. If A B thinks this is a fair price according to his reading of the market quotation and the prices of other jobbers, if there are any in Ironworks shares, he will buy 100 at 21s. The subsequent settlement of the transaction between the broker and the jobber does not concern the investor.

Conversely, if A B, a broker, is instructed by John Roberts, his client, to sell for him 100 Ironworks ordinary shares at the highest or "best" price which he can get for them, A B approaches C D, a jobber in Ironworks shares, who is prepared to deal at 20s.-21s., and sells the shares to the jobber at the lower of the two prices. This explains the diversity of prices quoted in the list of "Business done," published in the daily newspapers. Although business in Ironworks shares may there be recorded as having been done at 20s., 20s. 9d., 20s. 3d., 21s., 20s. 1½d., and so on, it does not indicate anything more than that certain transactions either for sale or purchase took place at within the quotation of 20s.-21s. If one broker is able to obtain 21s. for shares and another broker can only obtain 20s. 9d. for a similar number of shares, it indicates no more than the normal business fluctuation of the market, and that the jobber with whom the second broker dealt was not prepared to give quite so much as another jobber. The amount paid over and above the face or par value of the share is termed the premium. In this example, John Roberts pays a premium of 1s. per share. When shares are below par or face value they are said to be at a discount. A £1 share at 19s. would be at 1s. discount.

THE CONTRACT NOTE.

When A B, the broker, has concluded the transaction with the jobber for the purchase of the Ironworks shares on John Roberts' account, he will forward to his client a "contract note" advising him that "in accordance with your instructions, we have this day bought subject to the rules and regulations of the London Stock Exchange for cash, 100 Ironworks ordinary shares at 21s., £105." To this sum is added, in a separate entry on the contract note, commission at the rate of 3d. per share, £1 5s. 0d., 6d. for the contract stamp which is required by law to be put on all contracts, and 17s. 6d. stamp and fee. The amount charged for stamp and fee is in consequence of the stamp duty required by the Inland Revenue authorities to be paid on the stamping of the share transfer, which is subsequently signed by the parties to the transaction, and the transfer fee (usually half-a-crown) charged by the company for the clerical and secretarial labour incurred in transferring the shares in the share register of the company from one person to another. Where no commissions are charged on the contract note the firm who issue the note are not members of the Stock Exchange, but are engaged in business outside of the Exchange and independent of its rules and regulations. These firms do not usually engage in business as brokers but as dealers, and in this case no broker acts as an intermediary between the purchaser and the dealer.

The next step in the process of acquiring the shares is the receipt by John Roberts of a share transfer from his broker for his signature. This transfer is in a common legal form, and recites that "I, John Jones" (or such person who is selling the shares) "in consideration of the sum of £105 paid by John Roberts, of 16 Fairview Villas, Hillsgrove, London, N.1, hereinafter called the said transferee, do hereby bargain sell assign and transfer to the said transferee 100 £1 ordinary shares of and in the undertaking called the Ironworks Company, Limited, to hold unto the said transferee his executors administrators and assigns subject to the several conditions on which he held the same immediately before the execution thereof and he the said transferee does hereby agree to accept and take the said 100 shares subject to the conditions aforesaid."

CONSIDERATION FOR TRANSFER.

A most important point in connection with this transfer form which constantly gives rise to misunderstanding, is the amount of the consideration money A note appears on the transfer that " the consideration money set forth in a transfer may differ from that which the first seller will receive, owing to sub-sales by the original buyer." This note which appears on the transfer form is not properly understood by nine out of ten investors unaccustomed to Stock Exchange transactions. The following explanation may assist the investor who has been confused by the fact that the consideration sum stated on the transfer differs sometimes from the amount received by him on the sale of shares. After the armistice of the Great War, when houses were in keen demand, it became a common practice for many speculative persons to purchase a house without any intention to live in it or to keep it as an investment, but for the purpose of selling it to another person at a profit. When a house is purchased, a contract for sale is signed and entered into by the first seller with the purchaser, and after investigation a deed of conveyance is drawn up in which the name of the purchaser is inserted. But where a deed of conveyance is not prepared until some weeks and sometimes months after the house has been bought, the purchaser who has bought the house speculatively may be able to sell it to another person at a higher sum, and will put that purchaser's name forward when the deed of conveyance is drawn up, so that the actual sale will take place between the original seller and the second purchaser (that is, to the sub-purchaser). The amount of money received by the original seller will, however, not be the amount paid by the sub-purchaser, but will be that paid by the first buyer who bought the house speculatively for the purpose of selling at a profit. The same situation arises in connection with selling stocks and shares; hence the amount of money stated on the transfer form may differ from that which the first seller will receive owing to the shares having been sold subsequently by the first or original buyer.

The consideration money set forth in a transfer should always be the amount paid by the person who has last bought the shares, and whose name appears on the transfer form as the transferee. Whilst it is possible to check the actual amount at which shares are purchased, it is not possible to check from the transfer form the actual amount received in the case of a sale. Where the investor is dealing with a reputable firm of brokers there is not likely to be any difference between the actual amount received on the sale of shares and the amount paid to the client. Where the brokers are members of a Stock Exchange it is possible, if necessary, to have recourse to the Stock Exchange regulations, and call upon the brokers to produce the "ticket" bearing the price at which the bargain was done or proof of the amount actually received for the shares.

CERTIFIED TRANSFERS.

A purchaser of stock or shares may be unwilling to part with payment for stock purchased until he has some more tangible proof that the seller of the shares actually possesses them than is indicated on the transfer. For this purpose it is customary for the transfer to be "certified." This means that the certificate for the shares which the holder is selling has been deposited with the company, and in this case the transfer will have endorsed on it the signed statement of the secretary of the company that "certificate for 100 shares is lodged at the company's office." This form of "certified transfer" is all that can be legally demanded of the seller. He is in no way responsible for any delay in respect to the issue of a new certificate for the shares to the purchaser. This rests entirely with the officials of the company, and may be delayed owing to the absence of the necessary number of directors whose signatures are required to a new share certificate before it can be issued, or because the transfer books of the company have been temporarily closed for audit purposes.

REGISTER OF MEMBERS.

The Companies Acts require that the register of members (that is, shareholders), commencing from the date of the registration of the company, shall be kept at the registered office of the company, and, except when closed under the provisions of the Act, shall during business hours (subject to such reasonable restrictions as the company in general meeting may impose, so that not less than two hours in each day be allowed for inspection) be open to inspection of any member gratis, and to the inspection of any other person on payment of one shilling, or such less sum as the company may prescribe, for each inspection. The Act also provides that any member or other person may acquire a copy of the register, or any part thereof, or of the list and summary required by the Act, or any part thereof, on payment of sixpence, or such less sum as the company prescribe, for every hundred words or fractional part thereof required to be copied.

FORMS OF ISSUE.

There are three forms in which stocks or shares are issued—(1) Registered, (2) Inscribed, (3) Bearer.

In the first form, that is of registered stocks and shares or debentures, the name of the holder is registered in the books of the company on receipt of the transfer duly signed, witnessed and stamped in accordance with the provisions of the Companies Acts. No certificate will be issued by a company unless such transfer or other "written instrument" (where a special form of transfer is required by the company), is lodged with it. A registered stock or share, transferable in this form, is termed a registered share, indicating that the owner is registered in the share register of the company.

Inscribed stocks are those where the names of the holders are inscribed (in other words, written) in the books kept for the purpose by the bank or agency appointed for the purpose by the issuers of the shares or bonds. The Bank of England acts in this respect for British Government inscribed stocks. Only what are called stock receipts are issued to the purchaser, but, as these do not mean more than an acknowledgment of the amount paid to the seller by the purchaser for the stock, they have no value in themselves. The proof of ownership is whether the stock named is inscribed, that is fully written in the books kept for the purpose by the bank, and these are open to inspection by the public on payment of a small fee.

Bearer certificates take two forms: (*a*) Scrip certificates, acknowledging payment of instalments where a bond is newly issued and is being paid for in fixed amounts at stipulated dates; (*b*) Share warrants issued for fully-paid shares or stock. These bonds or warrants can pass from hand to hand without any transfer or form showing a change of ownership. In some instances bearer bonds and bearer share warrants have a name written on them of the first person to whom the bearer bond was issued, and in this case the bond or warrant will be endorsed with the person's signature indicating that he has sold all his rights in it.

It will be noted that inscribed stock, *cannot be lost* because no receipt or certificate exists independently of the inscribing of the owner's name in the stock books. Certificates of registered shares and stock *may be lost but they cannot be negotiated* without a transfer. Such certificates can usually be replaced on application to the company and by giving an indemnity. Lost bearer bonds *can be negotiated* by any dishonest person who finds them. It will thus be understood that inscribed is really the safest form in which to hold a security, and it is usually adopted by trustees. Registered certificates are the form usually adopted in the case of companies where ordinary safety is exercised. Bearer bonds, being the most freely marketable, are consequently the most easily negotiated in case of theft.

CHAPTER IV

PROSPECTUSES: UNDERWRITING: MEETINGS

WE have now arrived at the stage where an investor has become a holder of stock or shares of a company *by purchase in the open market.* There are, however, many thousands of persons who acquire their holdings in stocks and shares *by subscription* to new issues of capital made by old-established companies, and to capital issued by newly-formed companies. A new issue of capital, especially by a new company, will always attract the attention of investors because of its unknown possibilities, encouraging that vague hope which every investor has that the shares may prove one of the great prizes of the financial world, and destined to command a very high price in years to come. It is this peculiar fascination which the unknown has for the human mind that makes the prospectus of a new company such dangerous reading for the inexperienced investor.

CLASSES OF PROSPECTUSES.

Prospectuses may be divided into three classes: (*a*) Prospectus of an established company issuing fresh capital; (*b*) Prospectus of a private company with an established business being converted into a public company and issuing new capital; (*c*) Prospectus of a new company seeking capital to establish a new business. A consideration of the first two classes is comparatively easy, the investigation depending almost entirely on the audit of the balance-sheet assets and the profit and loss accounts of the business. These particulars should be given in the prospectus in detail over a number of years. Where "average profits" are cited without any adequate explanation for the absence of detailed figures for each separate year, the intending subscriber should proceed cautiously, for the business may be on the down-grade, and the existing owners only desirous of getting out before its entire failure. It is important that balance-sheet assets should be valued by an independent firm of valuers, whose name fully appears in the prospectus. Where the balance-sheet is reproduced from the accounts and no valuation other than that of the directors appears, it is a point which should be further investigated. In all cases, the date of valuation is an important point to be noted. On the value of the balance-sheet assets depends the capital security provided for the issue of shares. (*See* also Chapter X, p. 115.) The total amount of the assets having been ascertained, the investor should deduct therefrom, if it has not already been done in the prospectus, the amount of outstanding debentures or charges ranking in front of the proposed new share issue. The balance of assets will represent the amount of security (according to book values) which is provided for the shares. An example may be given. A company with £1,000,000 share capital, and £200,000 of debentures outstanding, proposes to issue £500,000 of new shares. The total balance-sheet assets amount to £900,000. From this sum deduct £200,000 of outstanding debentures, leaving £700,000 as security for the share capital. Shares for £500,000 having already been issued, the total issued capital, when the second issue of 500,000 shares is made, will be £1,000,000. The assets available would be £700,000, plus £500,000 receivable from the new shares, that is £1,200,000. The security for the share capital would, therefore, be one-and-one-fifth, that is giving a margin of one-fifth of £1,000,000, or £200,000. Everything depends upon the character and value of the assets. Where they consist of fixed assets such as buildings, note should be made as to whether they are freehold or leasehold; if the latter, what number of years the lease has to run before the property ceases to belong to the company. Goodwill often figures in the prospectus for a large amount. This is quite an intangible asset. In the event of the failure of a company or of it being unable to pay a dividend, the value of goodwill would be very small, especially in the case of companies depending upon patents. The security as to income (that is dividend payments) can be examined by means of the profit and loss account of the business. Where the profits are given for a number of years, any big fluctuation should not be overlooked, as it will indicate the susceptibility of the undertaking to any particular condition of trade. For example, the profits of a mineral water company would be affected by climatic conditions such as a wet summer, or the profits of a fashionable dressmaking company by a long period of Court mourning, or a tobacco manufacturing company by a failure of crops.

The prospective investor having satisfied himself as to the amount of security for the capital, the next step which he must take is to examine the security for the income, and try to estimate what amount of surety there is that the interest or the dividends will be duly earned and paid. The assets can now be disregarded, as they are only of consequence in reckoning the security as to capital. A company may own a finely-built factory with first-class machinery and equipment for turning out glass bottles, but, if it can only do so at a loss, the factory and machinery are of little value as security for the production of dividends. For finding the security available for income, attention need only be paid to the profit results. It should be carefully noted whether the profits stated are net, that is after payment of directors' fees, interest on bank or other loans, debentures, etc., also whether depreciation has been allowed.

NET PROFITS.

There is a big distinction between gross and net figures, especially when they apply to profits. If the gross earnings of a railway company are analysed they will be found to contain the whole of the sums received in receipts from the carriage of passengers, goods, etc. It will be apparent that this does not represent the real earning power of the company so far as dividends for the shareholders are concerned. From this figure, representing gross earnings, has to be deducted the working expenses such as fuel, wages, etc. It has become the custom, therefore, to distinguish between the gross and net returns of a railway company in arriving at the receipts. Hence, in trading and industrial companies, the figure is often put forward as the "net profit" after the deduction of working expenses from the gross trading receipts. It should not, however, be regarded as net profit despite the fact that it is often so described by persons who should know better. From this so-called "net profit" has to be deducted interest payable on bank or other loans, debentures, etc., all of which must be met under any circumstances, as explained in a previous chapter. Furthermore, depreciation has to be allowed for. If a drapery company possesses a large amount of stock which it values at £20,000 and it makes a trading profit of £10,000 for the year, such profit cannot be regarded as strictly net, in view of the fact that the £20,000 worth of stock is gradually falling in value owing to changes in fashion, deterioration of goods, etc. A certain amount, say £2,000, should be allowed out of the profits on account of depreciation of the value of the goods in stock. Hence, the real net profit of the company would be £8,000 and not £10,000, It should be carefully noted, therefore, whether in the prospectus the profits stated are "net" or merely given as "trading profits" that is before payment of interest on bank or other loans, debentures, etc., and before payment of directors' fees, allowance for depreciation, income tax, or other taxation for which the company may be liable. All these amounts when deducted may in the aggregate put a very different complexion upon the amount of actual net profits earned by the company. It will usually be found that in the prospectus an average amount of the profits is taken over a period of years for the purpose of estimating the probable dividend. As this average often covers some of the war years or the years following the Armistice, when trade was abnormally prosperous, the prudent investor should make due allowance in arriving at his own estimate for every possible fluctuation in profit. For example, the average net profits may be stated in a prospectus as £60,000. On an issued capital of £500,000 this would enable a dividend of 10 per cent to be paid, requiring £50,000, leaving £10,000 to be carried forward to the next year. The margin of profit over and above the amount of dividend would, therefore, be only one-fifth. This means that the directors would have to distribute profits up to the hilt, that is without regard to building up a reserve fund or to making provision to meet any unexpected loss in a year of bad trade. If the net profits are stated at £100,000, the position would be obviously stronger as the amount required for payment of a 10 per cent dividend (£50,000) would be covered twice over. Where the amount of dividend previously paid by a company or estimated to be paid by a new company before making provision for reserves is covered less than twice over, some caution should be exercised in making the investment. Much depends on individual conditions, and any general lines laid down must be treated as elastic.

In the case of an issue of debentures, it should be carefully noted whether the stock has a definite mortgage on fixed assets of the company or is only a general charge. This constitutes the main difference between the security of a debenture and a note, and has been explained in a previous chapter. Whilst some regard should be paid to the position and standing of the directors (the possession of titles by members of the Board should be ignored as evidence of financial knowledge or directorial ability) all the contents of a prospectus, other than the facts bearing on the security as to income and capital, can be lightly regarded.

There is a class of company which is known as non-prospectus companies. A "market" in the shares of these companies is formed, and through dealings in and outside the Stock Exchange publicity is created, and by this method the necessary capital is secured by the sale of shares to the public. The purchaser of such shares does so independently of the company, and does not rely on information regarding the company contained in a prospectus inviting subscriptions for capital. The Stock Exchange Committee requires, however, that publicity should be given to certain details relating to the formation of a company before permitting dealings to take place in its shares on the Stock Exchange. This regulation explains the occasional appearance in the financial or other newspapers of an advertisement preceded by the following intimation—

"This statement is not an invitation to subscribe but is for information only, and is advertised in compliance with the regulations issued by the Stock Exchange Committee, and the directors of the company collectively and individually assume responsibility for the information contained herein."

APPLICATION AND ALLOTMENT.

Accompanying a prospectus in which new capital is offered to the public, is a "form of application" for shares or debentures, in which the applicant agrees to accept an allotment of the amount of stock or shares for which he applies, and to pay for the same at certain agreed intervals. This form of application usually runs as follows—

"Offer for subscription of 500,000 ordinary shares of £1 each at par.

"Payable—On application 5s. per share. On allotment 5s. per share. One month after allotment 10s. per share.

"To the directors of.................

"Dear Sirs—Having paid to your bankers the sum of................being a deposit of 5s. per share on application for................shares of £1 each of the above issue, I request you to allot to me that number of shares, and I agree to accept the same or any smaller number that may be allotted to me, subject to the Memorandum and Articles of Association and the terms of the Company's prospectus dated the......day of........ and I authorize you to place my name on the Register of Members in respect of the shares so allotted to me, and I agree to pay the further instalments upon the shares allotted to me as the same shall become due, in accordance with the terms of the said prospectus."

The principal point about this form of allotment is that it does not form a contract until the subscriber has received from the company what is called a " letter of allotment " of the shares. It will be apparent at once that the directors of a company offering for subscription a fixed number of shares cannot agree to allot or sell to any individual applicant all the shares he applies for until they know the total number of applications. The applications for shares may reach a million, in which case the 500,000 shares available would be allotted according to the proportion decided upon by the directors. There being no contract until the actual allotment is made, a subscriber who has sent in an application form has the right to withdraw his application by letter or telegram at any time before the letters of allotment have been dispatched by the company. This is an important provision which is not too well known to the public. An investor, who, in the first flush of enthusiasm after reading a prospectus, has applied for shares and shortly afterwards has cause to regret his hasty action, has the right to cancel the application by notifying the company of its withdrawal, but such notice must reach the company before the allotment letter is posted.

Assuming that the application is allowed to remain, the applicant will receive a receipt for the deposit paid, and in due course a " letter of allotment " in which the whole or a proportion of the stock or shares applied for will be allotted. In some instances a receipt for the deposit will not be sent separately, but is incorporated in the letter of allotment. From henceforth the applicant becomes the owner of the shares, and is liable to be called upon to pay the instalments on the shares at the proper dates. These instalments are technically known as " calls " from the fact that they represent the amounts to be " called up " at agreed dates. Liability to pay these " calls " cannot be evaded by sacrificing the shares, even if the shares fall in value to a rubbish price. It can only be escaped by a sale of the shares and the transfer of the new owner's name to the company's register. Where there are more sellers than buyers it is possible that an anxious seller may have even to pay a small amount to another person to take the shares and their accompanying liability off his hands.

The Companies Acts provide that if a shareholder fails to pay any call or instalment of a call on the day appointed for payment thereof, the directors may, at any time thereafter during such time as any part of such call or instalment remains unpaid, serve a notice on him requiring payment of so much of the call or instalment as is unpaid, together with any interest which may have accrued. The notice shall name a further day (not earlier than the expiration of fourteen days from the date of the notice) on or before which the payment required by the notice is to be made, and shall state that in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited. If the requirements of any such notice as aforesaid are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the directors to that effect. A forfeited share may be sold or otherwise disposed of on such terms and in such manner as the directors think fit, and at any time before a sale of disposition the forfeiture may be cancelled on such terms as the directors think fit.

A person whose shares have been forfeited shall cease to be a shareholder in respect of the forfeited shares, but shall, notwithstanding, remain liable to pay to the company all moneys which, at the date of forfeiture were presently payable by him to the company in respect of the shares, but his liability shall cease if and when the company receive payment in full of the nominal amount of the shares.

The next stage is the receipt of a certificate from the secretary of the company. This certifies that John Roberts, of 16 Fairview Villas, Hillsgrove, London, N.1, builder, is proprietor of 100 £1 fully-paid ordinary shares of £1 each in Ironworks Company, Limited, and is duly registered in the share registers of the company. The certificate bears the company's seal, and is usually signed by two directors and the secretary, or such number as is provided for in the Articles of Association of the company.

UNDERWRITING.

In the prospectus there will be found usually a statement that the whole of the issue of shares or stock has been "underwritten." Underwriting is a form of investment that is best left to the professional investor. It is occasionally offered to the private investor by financial houses or stockbrokers, but very great caution should be exercised before participating in this form of investment. When a company is about to be formed and capital issued to the public, it is generally arranged by the promoters that, in return for the payment of a commission, the public subscription to the share capital shall be guaranteed. Thus, in the case of a public offer of 100,000 £1 shares of 20s. each for subscription, agreements will be made with persons who are styled underwriters, under which such persons will agree to take a proportion of the capital which may not be subscribed in return for a commission of 5 per cent, 6 per cent, or such percentage as the directors may decide to give. Thus, if the total public subscription to an issue of 100,000 shares is only 50,000 each underwriter would be called upon to take up 50 per cent or half of the proportion of shares he underwrote. If the underwriter agreed to take 10,000 shares he would be called upon to take up 5,000, that being the proportion which was unsubscribed. For this he would receive 5 per cent on 10,000 shares or £500. In some cases he would agree to take the shares "firm," and in the event of the public only subscribing 50,000 out of the 100,000, he would in that case take the whole 10,000 underwritten by him. Sub-underwriters are persons with whom the underwriters arrange a sub-contract. Thus, the underwriter of 10,000 shares would sub-let up to any similar amount to sub-underwriters at a lower commission in much the same way as an insurance company having a big policy on one building carrying considerable risk such as a theatre or gunpowder works, will place a part of the policy with other insurance companies at a commission so as to distribute the risk.

It is not compulsory for the directors of a company to take the necessary steps to obtain a quotation of the company's shares on the Stock Exchange or for dealings in the shares. The boards of directors of many companies are, in fact, strongly averse to the company's shares being quoted on the Stock Exchange on the ground that it gives rise to speculation in them, and sometimes leads to an artificial rise in the price at which the public may be led to purchase the shares. It may thus be the cause of putting on the register of the company, shareholders who, having purchased their shares at a high price, may be very dissatisfied and cause trouble to the directors in the event of the shares falling in value owing to the declaration of a lower dividend. Where the shares of a company are not quoted or dealt in on a Stock Exchange, it is customary for the secretary to keep a register or list of prospective buyers or sellers of the shares with a view to matching the two parties. Shareholders can, therefore, sometimes obtain from the secretary of companies in which they are interested the name of a prospective buyer of shares. The stocks and shares of many companies which are not quoted or dealt in on the Stock Exchange are sold from time to time by auction by leading firms of London and provincial auctioneers in the same way as any other property. The procedure in respect to transfer, etc., remains the same irrespective of the channel through which the sale is carried out.

The majority of public companies do, however, take steps to obtain the Stock Exchange Committee's sanction to dealings in the shares on the Stock Exchange. This is not the same as an official quotation on the Stock Exchange, but is merely the consent of the Stock Exchange Committee to permit their members to carry out buying and selling of the shares under the rules and regulations of the Stock Exchange. It now becomes possible for John Roberts to sell the shares he holds, should he so desire, according to the market price ruling for them. It is assumed, however, that he proposes to remain a shareholder of the company.

ARTICLES OF ASSOCIATION.

The conduct of the company is regulated by the Companies Acts, and more particularly by its Articles of Association. The Articles of Association comprise a long and formidable legal document which has to be printed and filed in the Companies' Department at Somerset House, where it can be inspected by the public on payment of a fee of 1s. Shareholders of the company are entitled to inspect the Articles of Association at the registered office of the company without charge, and if a shareholder is in doubt on any point regarding the conduct of the company, it is possible for him to check or obtain information by inspection of the Articles. Upon payment of a nominal sum (generally 1s.), he can obtain a copy of the Articles on application to the secretary of the company. The Memorandum of Association, which is also bound up with the Articles of Association, may be disregarded by the investor as of little practical service to him. It merely recites in legal form the powers which the company possesses to trade, and it is customary to include powers in the Memorandum to undertake all kinds of trade, business, etc. A company formed to carry on a confectionery business will also take powers under its Memorandum of Association to build railways in South-West Africa, and even trawling for fish in the North Sea. If companies did not take these wide powers at the time of their incorporation, it would be necessary in the event of their business entailing the use of capital for the purposes named to apply to the High Court for permission. In many instances it will be found that provisions laid down by the Companies Acts have been amended by special clauses in the Articles of Association to suit the particular requirements of the promoters or directors of the company, but the Articles of Association may generally be regarded as the shareholder's reference book to the rights he possesses as a shareholder of the company.

The shareholder possesses certain statutory or legal rights which no provisions in the Articles of Association can affect. It is compulsory for every public company registered under the Companies Acts to hold a statutory meeting of the shareholders within three months of the date on which it is entitled to commence business. A notice of this meeting must be sent to every shareholder on the company's register not less than seven days before the date of the meeting with a report containing particulars of capital receipts, expenditure, etc.

THE STATUTORY REPORT.

The Companies Acts provide that the "statutory report" shall be certified by not less than two directors of the company, or, where there are less than two directors, by the sole director and manager, and shall state—

(*a*) the total number of shares allotted, distinguishing shares allotted as fully or partly paid up otherwise than in cash, and stating in the case of shares partly paid up the extent to which they are so paid up, and in either case the consideration for which they have been allotted ;

(*b*) the total amount of cash received by the company in respect of all the shares allotted, distinguished as aforesaid ;

(*c*) an abstract of the receipts of the company on account of its capital, whether from shares or debentures, and of the payments made therefrom, up to a date within seven days of the date of the report, exhibiting under distinctive headings the receipts of the company from shares and debentures and other sources, the payments made thereout, and particulars concerning the balance remaining in hand, and an account or estimate of the preliminary expenses of the company ;

(*d*) the names, addresses, and descriptions of the directors, auditors (if any), managers (if any), and secretary of the company; and

(*e*) the particulars of any contract, the modification of which is to be submitted to the meeting for its approval together with the particulars of the modification or proposed modification.

The statutory report shall, so far as it relates to the shares allotted by the company, and to the cash received in respect of such shares, and to the receipts and payments of the company on capital account, be certified as correct by the auditors, if any, of the company.

The Act also requires that the directors shall cause a copy of the statutory report to be filed with the registrar of companies forthwith after the sending thereof to the shareholders of the company, and to cause a list showing the names, descriptions, and addresses of the shareholders of the company, and the number of shares held by them respectively, to be produced at the commencement of the meeting, and to remain open and accessible to any member of the company during the continuance of the meeting. It also provides that the shareholders of the company present at the meeting shall be at liberty to discuss any matter relating to the formation of the company, or arising out of the statutory report, whether previous notice has been given or not, but no resolution of which notice has not been given in accordance with the articles may be passed.

The directors usually present at this meeting a brief and somewhat bald statement regarding the existing condition of the company, and as it has only been in existence a short time, such statement does not convey much information to the shareholder.

Consequently, it is often a full twelve months (that is towards the end of the first financial year of the new company) before the shareholder can obtain any information regarding the progress or otherwise of the undertaking in which he is financially interested.

PAYMENT OF DIVIDENDS.

The payment of a half-yearly or interim dividend is usually the first intimation which the shareholder receives regarding the progress of the company of which he is now a part proprietor. The method of paying dividends varies considerably. It is usually stated in the Articles of Association whether the directors are entitled to pay an interim dividend. An interim dividend is a payment on account of the year's dividend on the ordinary shares, and it must not be confused with a half-yearly dividend on the preference shares or with the half-yearly payment of interest on debentures. In Chapter I is stated the essential difference between "interest" and "dividend." Interest is payable on loans or debentures or other borrowed money, and must be paid even if there are no profits. A dividend, representing as it does, the amount divided out of profits, cannot be paid out of capital. If there are no profits there can be no dividend. The amount of dividend paid on preference shares or stock is often loosely referred to as preference share interest, but this term is incorrect. Preference shareholders depend for their dividend on profits, but as they are entitled to be paid before the ordinary shareholders receive any dividend, it is usually provided in the Articles of Association that the dividend shall be paid half-yearly. Directors receive from their accountants a preliminary statement of profits for the first six months of the working of the company. If the results justify it, they declare and pay a half-year's dividend on the preference shares. The Articles of Association also generally give the directors power to pay a half-yearly or interim dividend on the ordinary shares. It is illegal to pay dividends except out of profits, but occasionally instances occur where the profits made in the first half of the year may be extinguished by the loss made during the second half of the year, and the directors find themselves at the end of the financial year in the position of having paid dividends although no profits have been made. A dividend once paid cannot be re-claimed from the shareholder who has received it. On the other hand, no redress can be had against the directors where it can be shown that they acted on the reports of trusted officers of the company regarding profits made. The payment of all interim dividends, whether on preference or other classes of share capital, has to be confirmed at the annual meeting of shareholders. A holder of preference shares cannot insist upon payment of a half-yearly dividend, even if it has been stated in the prospectus that a dividend will be paid each half-year, for such payment depends upon the profits made.

MEASURE OF PROSPERITY.

The first intimation of the progress being made by a new company is consequently to be found in the declaration of a half-yearly dividend on the preference shares. It indicates that a certain amount of profit has been made although the actual figure is not disclosed to the shareholders. If, in addition, an interim dividend on the ordinary shares is also paid, it is a rough-and-ready indication that sufficient profits have been made to pay the second half-yearly preference dividend when it falls due. But that is as far as one may go in drawing deductions from the payment of interim dividends. A brief example may be given because a full appreciation of this point may guide many investors in determining whether to sell or hold shares in a new company at the end of the first six months. Ironworks, Limited, has a capital of £1,000,000, divided into £500,000 8 per cent preference shares and £500,000 ordinary shares, with £100,000 6 per cent debentures. At the end of the first half-year, the directors are satisfied from the returns of the company's officers that the profits amount to £50,000. This figure is, of course, an unknown quantity outside of the Board Room. Six months' interest (£3,000) on the debentures having been paid, there is a prospective balance of £47,000. Out of this, six months' dividend on the preference shares (equal to £20,000) is paid, leaving £27,000. A further £23,000 will be required to meet the debenture interest and preference dividend six months hence, leaving £4,000. This is a small margin, and if there were any doubt about the maintenance of the profit-earning capacity of the company for the next six months, the directors would doubtless not risk the payment of an interim dividend on the ordinary shares. Supposing, however, that the profits for the first half were £75,000 instead of £50,000, the balance available, after deduction of the debenture interest and preference dividend for the whole year, would be £29,000, out of which the directors might safely decide to pay an interim dividend on the ordinary shares of 2½ per cent (i.e. at the rate of 5 per cent for the year), absorbing £12,500 of the profits. The holder of preference shares may, therefore, logically conclude that, when payment is made of the first half-year's dividend and also an interim dividend on the ordinary shares, the due payment of the second half-year's preference dividend is reasonably assured. Where an interim dividend on the ordinary shares is not paid, it may reasonably be concluded that the directors are rightly acting with great caution, and prefer to await the result of the whole year's trading. The Stock Exchange carries this art of "reading the situation" to such a fine degree, that it is often able to forecast the probable dividend results with such accuracy as to lead the public to think it has a knowledge of the actual position. In the case of an established company where interim dividends have been regularly paid on the ordinary shares for many years, the "passing" of an interim dividend is immediately interpreted as a sign that reduced profits will be made in the current year. This reduces the margin of profit behind the preference share dividend. Holders of preference shares should, therefore, not overlook the importance of the ordinary dividend payment, even if they have no direct interest as a holder of the ordinary shares.

Shareholders cannot compel the directors of a company to declare a dividend or distribute any part of the profits unless the Board thinks such a course is desirable, but when a dividend has been declared and a resolution authorizing its payment duly passed at the general meeting of shareholders, it becomes a debt due from the company to the shareholders and the latter can enforce their claim to it. An interim dividend does not represent a debt as it is declared on account of assumed profits, and the directors may decide to defer its payment until the accounts have been completed and audited to the end of the financial year. Shareholders must receive payment of their dividends in cash unless the resolution at the annual general meeting authorizes its payment in any other form. Where the uncalled amount on shares has been paid up by arrangement with the company and interest is payable, this represents a debt incurred by the company, and can be enforced by the shareholder. Where a shareholder through some error or misunderstanding has not received or claimed the payment of dividends declared on shares registered in his name, he should not delay making representations for payment. The company may seek to protect itself behind the Statute of Limitations, or behind a provision in the Articles of Association that any dividends not claimed within a stated number of years shall be forfeited, but it is doubtful if either is sufficient defence to the claim, and if the company's shares are officially quoted on the London Stock Exchange any resistance to the claim by the company might result in the intervention of the Committee, and the withdrawal of the Stock Exchange quotation for the company's shares.

THE FINANCIAL YEAR.

When the interim dividend announcement has been made, the shareholder will not receive further information from the company until some considerable time after the end of the financial year. The financial year of companies varies very considerably, some companies adopting the calendar year, 1st January to 31st December, some follow the national financial year, 1st April to 31st March, others adopt the period customary to the particular trade in which they are engaged (such as drapery companies which usually close their books in February), whilst others range over all the twelve months according to their personal convenience. The time which elapses between the date at which the financial year ends and the actual issue of the directors' report and accounts to the shareholders varies according to the character of the business. Companies engaged in shipping, export trade, or in operations in other countries require a longer time to get in details of their accounts than companies which transact their business entirely in this country.

ANNUAL RETURNS.

Under the Companies Acts it is necessary for each company to file a return in the form of a statement of assets and liabilities once a year at Somerset House, but unfortunately this return is not of much practical service to the shareholder as it does not give any clue as to the profit or loss attending the company's business during the period covered by the return. This can only be obtained from the actual accounts issued by the companies. Here again it depends upon the directors as to the amount of information which is disclosed to the shareholders. Some companies do not issue a profit and loss account, but merely a balance sheet, and this often of a very bald and uninformative character. Shareholders have no means of forcing directors to disclose details of the profit and loss account, nor indeed any information other than that contained in the balance sheet, as the plea generally put forward by the directors is that it is not in the interests of the company to disclose such information.

NOTICE OF MEETINGS.

Directors are required to issue to the shareholders seven days before the holding of the meeting, a printed notice stating the date, time, and place at which the meeting is to be held, and the only step which the shareholder can take to obtain information is to attend such meeting personally and address questions to the chairman on the points about which additional information is required. The chairman can, of course, refuse to divulge any information, but it will usually be found that where a shareholder who has been possessed of his shares for a long period and is not a mere casual speculative holder, the secretary of the company will be only too glad to furnish such information as he may be entitled to give rather than have the harmony of the annual meeting upset by a too inquisitive shareholder. A shareholder, being only a unit of the corporate body of shareholders, cannot expect to obtain information, to the publication of which the majority of shareholders are opposed.

SHAREHOLDERS' RIGHTS AT MEETINGS.

The Companies Acts provide that at any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands, unless a poll is (before or on the declaration of the result of the show of hands) demanded by at least three members, and, unless a poll is so demanded, a declaration by the chairman that a resolution has, on a show of hands, been carried, or carried unanimously, or by a particular majority, or lost, and an entry to that effect in the book of the proceedings of the company shall be conclusive evidence of the fact, without proof of the number or proportion of the votes recorded in favour of, or against, that resolution. If a poll is duly demanded it shall be taken in such manner as the chairman directs, and the result of the poll shall be deemed to be the resolution of the meeting at which the poll was demanded. In the case of an equality of votes, whether on a show of hands or on a poll, the chairman of the meeting at which the show of hands takes place or at which the poll is demanded shall be entitled to a second or casting vote. A poll demanded on the election of a chairman, or on a question of adjournment, shall be taken forthwith. A poll demanded on any other question shall be taken at such time as the chairman of the meeting directs. On a show of hands every member present in person shall have one vote. On a poll every member shall have one vote for each share of which he is the holder. In the case of joint holders the vote of the senior, who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders; and for this purpose seniority shall be determined by the order in which the names stand in the register of members. A member of unsound mind, or in respect of whom an order has been made by any court having jurisdiction in lunacy, may vote, whether on a show of hands or on a poll, by his committee, *curator bonis*, or other person in the nature of a committee or *curator bonis* appointed by that court, and any such committee, *curator bonis*, or other person may, on a poll, vote by proxy. No member shall be entitled to vote at any general meeting unless all calls or other sums presently payable by him in respect of shares in the company have been paid. On a poll votes may be given either personally or by proxy. The instrument appointing a proxy shall be in writing under the hand of an appointor or his attorney duly authorized in writing, or, if the appointor is a corporation, either under the common seal, or under the hand of an officer or attorney so authorized. No person shall act as a proxy unless either he is entitled on his own behalf to be present and vote at the meeting at which he acts as proxy, or he has been appointed to act at that meeting as proxy for a corporation. The instrument appointing a proxy and the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority shall be deposited at the registered office of the company not less than forty-eight hours before the time for holding the meeting at which the person named in the instrument proposes to vote, and in default the instrument of proxy shall not be treated as valid. An instrument appointing a proxy may be in the following form, or in any other form which the directors shall approve—

Company, Limited.

"I of in the county of being a member of the Company, Limited, hereby appoint of as my proxy to vote for me and on my behalf at the ordinary or extraordinary (as the case may be) general meeting of the company to be held on the day of and at any adjournment thereof."

Signed

this day of

In the event of a shareholder being unable to procure desired information he can requisition (in other words, legally petition) the directors to call a special meeting, provided he is able to obtain the signed support to his requisition of holders of at least one-tenth of the issued share capital upon which all calls have been paid. The requisition must state the object of the meeting and must be signed and deposited at the registered office of the company. Directors must convene the meeting within twenty-one days, and if they refuse to act in the matter the shareholders themselves may call the meeting. If the directors are still obdurate the only course open to a shareholder, supported by a majority of his shareholding colleagues, is to engage legal assistance and take the necessary steps for removing the directors from the Board. It is extremely unlikely that any individual shareholder, with no interest in the company other than that of an ordinary investor of a moderate amount of capital, will be prepared to give his time and labour and to risk incurring considerable expenditure. For this reason it may be policy for the shareholder who is bent upon obtaining information to pursue a persistent but legally passive policy of worrying the secretary of the company and making himself as objectionable as possible until he is satisfied. It is unfortunate that there should be no *via media* between open antagonism and humble supplication, but such is often the position. It is generally possible within the first twelve months' working of a company for a shareholder to obtain an accurate idea, from the character of the report and balance sheet and the way in which the general meeting of shareholders is conducted, of the extent to which the directors will take the shareholders into their confidence in the event of the business not coming up to expectations at any time.

CHAPTER V

STOCK EXCHANGE QUOTATIONS

Henceforth the position of the shareholder who has purchased his shares in the open market and the shareholder who has acquired his holding by subscription is the same, except that the latter's legal position in the event of a claim on the ground of misrepresentation in the prospectus is naturally stronger than that of a person who bought his shares in the open market and not as the direct result of any statement made in the prospectus. Both are in possession of certificates of shares—one by direct allotment by the company, the other by transfer from an existing shareholder. Either or both shareholders may desire to dispose of the whole or part of their shares without waiting for the completion of the first year's trading of the company or for the payment of a dividend, especially if the price-quotation for the shares has reached a premium.

STOCKBROKERS.

The first step to be taken by the shareholder is to get into communication with a stockbroker. Members of the Stock Exchange are not allowed to advertise for business purposes or to issue circulars or business communications to persons other than their own principals. A list of members of the Stock Exchange who are stock and share brokers may be seen at the Bartholomew Lane entrance to the Bank of England, or obtained on application to the Secretary to the Committee of the Stock Exchange. As there are more than 2,000 broker members of the Stock Exchange, and no indication is given as to whether they desire to initiate business with new clients who are strangers, this list of names and addresses is not of much practical help to the individual, and especially to the investor of only a moderate capital. If a lady desiring a new dance frock to be made for her, be given a list of 2,000 firms of costumiers from which to choose, she may well hesitate over the reception her modest order may have at the hands of a fashionable modiste of Bond Street or the Rue de la Paix. The investor desiring to buy or sell 50 or 100 shares of 10s. to 20s. each is placed in a similar difficulty since it is obvious that there must be many hundreds of large firms of brokers who do not wish to be troubled with this small business just as there are many hundreds of small firms of brokers who would only be too pleased to receive it. The small investor can usually obtain the name of a broker from his solicitor or banker, having first explained the limitations of his business, and thus open the way to an introduction. Where a holder of shares is loth to do this he must run the risk of being "turned down" by picking out a firm haphazard from the Stock Exchange list and writing to it stating his requirements.

OUTSIDE BROKERS.

There are a large number of firms who engage in stock and share business who are not members of London or provincial Stock Exchanges. Many of these firms are old-established and of considerable financial standing, in some instances possessing greater capital and larger financial resources than the majority of members of the London Stock Exchange. This is due to the fact that a limited liability company can trade as stock and share dealers and thus bring together a large amount of capital, whereas members of the Stock Exchange can only join in partnership and not trade as limited liability companies. The majority of these firms who are non-members do not transact business as brokers but as dealers. It is difficult to distinguish in many cases between such firms which act as financial or issuing houses and firms which simply engage in buying large blocks of stock and re-selling them to the public. There are a few old-established firms of brokers (not dealers or jobbers), who although not members of a recognized Stock Exchange have an arrangement by which they share the commission on business which is transacted through them by members of the Stock Exchange. Banks really act in this capacity inasmuch as they transact business for their customers through members of the London Stock Exchange and share the commission with the Stock Exchange brokers. As in every other department of trade there are weak and strong firms both in and outside the Stock Exchange. The fact that the partners of a firm of engineers are members of a prominent engineering institution or that a doctor holds a medical degree of a leading university is a safeguard, but not a guarantee against negligence in carrying out their respective duties. In the same way the fact that a firm of brokers are members of a Stock Exchange is neither a guarantee against negligence nor of financial soundness. In the case of a member of the Stock Exchange an aggrieved client can bring his complaint before the Committee controlling the Stock Exchange of which his broker is a member, whereas in the case of a firm of brokers or dealers who are not members of the Stock Exchange, the only controlling power is the common law to which an aggrieved client or member of the public can have recourse. The system of fortnightly settlements which was re-introduced on 22nd May, 1922, with contangos, allows of speculative transactions for differences to be executed for the public both by members of the Stock Exchange and by firms who are not members of a Stock Exchange. In the case of Stock Exchange members complaints can be brought under the attention of the committee, and in the event of default in payment by a firm of brokers to their clients it would certainly result in the suspension of the firm as members of the Stock Exchange. In dealing with firms who are not members of the Stock Exchange, the only guarantee that differences will be promptly paid is to be found in the financial credit of the firm, as speculation for differences is not upheld by the law of this country, and the public engaging in these transactions have been subject to the Games Act being pleaded by unreliable firms who desire to escape payment under their contracts. For these reasons the contract note issued by members of the Stock Exchange must bear the words "Subject to the rules and regulations of the London Stock Exchange" and the words "Member of the London Stock Exchange" after the signature of the broker. Many firms who are not members of the London Stock Exchange insert on their contracts "Subject to the rules and regulations of the London Stock Exchange," but this does not mean that they are subject to the control of the Committee as they are not members of the Stock Exchange (the word "member, etc.," being omitted after the signature), although they may be willing to follow the rules and regulations of that institution. The wording of the contract note should, therefore, always be carefully noted by investors who are entering into stock and share transactions for the first time with firms with whom they have previously had no business transactions.

Having decided upon the firm of brokers the shareholder is now in a position to sell his holding or to increase it. For this purpose he requires to know the current quotation for the stock or shares.

"OFFICIAL LIST."

The London Stock Exchange publishes at the close of each working day two lists containing price quotations. One list is entitled the "Stock Exchange Daily Official List" and contains all securities which have received an official quotation on the Stock Exchange. The other is "A Stock Exchange Record of Bargains and Securities which have not received a quotation in the Stock Exchange Official List" but which are marked in accordance with the regulations 6 and 6A of the temporary regulations of the Stock Exchange. The "Official List," by which name the first of the two lists is familiarly known, is divided into 36 sections, such as British funds, corporation stocks, foreign stocks, iron, coal and steel, banks, insurance companies, oil, railways, etc. The amount of issued capital, last dividend, when deducted from the price, the price quotation as at 2 o'clock on the day of issue, and the prices at which bargains have been done as recorded by members, is stated in respect to every stock, bond or share which has been admitted to an official quotation. This record of "Business Done" is summarized and reproduced in the daily financial papers. The following is a typical extract of the prices recorded in the daily paper in respect to the 5 per cent War Loan—

$$96\tfrac{11}{16},\ \tfrac{3}{4},\ \tfrac{5}{8},\ \tfrac{11}{16},\ \tfrac{7}{8},\ 97\tfrac{1}{8},\ 96\tfrac{7}{8},\ \tfrac{13}{16},\ \tfrac{7}{8}.$$

To save work and space the big figure is omitted after the first price unless there is a change in that figure. The sequence of markings of prices in the "Official List" is not necessarily that in which the bargains were effected; hence there is no indication of whether a particular price ruled in the morning or afternoon session. In the foregoing example, the only information intended to be recorded is that the 5 per cent War Loan changed hands at $96\frac{11}{16}$, $96\frac{3}{4}$, 97, $97\frac{1}{8}$, $96\frac{7}{8}$ and so on, at some time during the day.

Against some prices at which business is done appear marks indicating special conditions. These marks are as follows—

‡ Exceptional bargains. ‖ Free of stamp duty. § Small amounts, seller paying stamp and fee. † Small bonds. §§ Late business transacted on the previous day in another Stock Exchange. ¶ Quoted security reinstated from "The Stock Exchange Weekly Intelligence." * Bargains done with or between non-members. ** Bargain done on the previous day.

An explanation of these conditional bargains, which will be helpful to the shareholder in reading Stock Exchange quotations, is given on a subsequent page.

Too much importance should not be attached by the public to the "Official List." The fact that many trustees and investors limit their investment of capital to securities which are officially quoted, has created an impression that an official quotation is the hall mark of a sound security. The Stock Exchange Committee, in granting an official quotation, do not signify more by their action than that certain regulations regarding the publication of essential information in respect to the company issuing the stock or shares have been complied with. Nothing more should be read into their action than this, and certainly no assumption should be drawn that the securities so quoted are more sound or more marketable than securities which are not officially quoted. The presence of a price quotation in the list does not necessarily mean that business can be done either for a purchase or for a sale at the price stated. The list is intended to provide a guide to the approximate price of the security, and a record of the prices at which bargains are effected in the security so far as they have been recorded.

THE "SUPPLEMENTARY LIST."

The "Supplementary List," as the second list is generally called, covers a special field as indicated by its full title. It came into existence owing to the restrictions which were put on dealings in stocks and shares when the London Stock Exchange was re-opened in 1915 after its closure on the outbreak of war. The "Supplementary List" has served so useful a purpose that it is probable that it will become a permanent part of the machinery of the Stock Exchange. The same reservations must, however, be made when reading or using the "Supplementary List" as are applied in connection with the "Official List." One of the greatest drawbacks to the value of the lists to the public is that no indication is given whether the prices of business done represent buying or selling transactions. In this respect many of the provincial exchanges set London a good example in distinguishing between a bargain for sale and for purchase.

The prices recorded in the newspapers are collected mainly from the foregoing two lists, but as the lists which include many thousands of securities have necessarily to be made up at the comparatively early hour of 2 o'clock in the afternoon so that they may be printed and issued on the evening of the same day, the prices given do not always represent the actual price at which the stock is quoted at the end of the day's business. When business is active it continues to be done in the

"Street" after the Stock Exchange is officially closed, and it is often the case that a share will have risen or fallen between the time at which the list is compiled and the time at which business ends in the "Street."

"CLOSING QUOTATIONS."

It is the custom of the financial and many daily newspapers to publish a list of "closing quotations" which are collected independently by the newspaper representatives from firms of brokers and jobbers. As prices of some scores of stocks and shares have thus to be hurriedly collected late in the evening often from different sources, it will help to explain the disparity which occasionally occurs in the closing prices recorded by different newspapers. On the whole question of price quotations investors should always bear in mind that they are only approximate and indicative of the state of the market at the time the quotation was obtained, and that the real price is that at which business can be done when the broker actually enters upon the transaction with the jobber. In very busy times and especially when markets are charged with excitement arising from some important event, an active stock or share will change as many times as there are minutes to the hour.

There is no hard-and-fast rule as to the number of shares which may be bought or sold, but it will readily be understood that jobbers do not care to buy or sell odd numbers of shares, and that the price at which such odd lots can be bought or sold will not be so good. A dealer in furniture will not, as a rule, be willing to sell one or three dining-room chairs out of a set of twelve at the same price per chair as he would sell six or twelve, because he would be left with nine or eleven chairs on his hands, and this number of chairs is not easy to dispose of. Just as the demand for dining-room chairs runs more in sixes and twelves than in threes and sevens, so the number of shares in which dealings take place on the Stock Exchange is usually in multiples of ten or five. A dealer will not be willing to buy or sell 83 or 22 shares on such satisfactory terms per share as he would buy or sell 80, 85, 20 or 25, as he might have left on his hands the odd two or three shares. A transaction in an odd lot of this kind might be described as an "exceptional bargain," marked ‡ in the Official List of "Business Done."

The amount of the share will also be a determining factor in respect to the minimum number dealt in. Shares of a high value (such as Indo-China Steam Navigation deferred ordinary shares of £5 each priced in 1920 at £65 per share) would naturally be dealt in in small quantities. Conversely, shares of a low value, such as some companies' shares of £1 each standing at a shilling, or 2s. 6d. shares priced at a few pence each, would be dealt in in larger numbers. Where the number of shares sold and the amount of money is very small, it is often customary for the seller (instead of the purchaser, as is the rule otherwise) to pay the cost of the stamp and fee involved in the transfer of the shares.

FORTNIGHTLY SETTLEMENTS.

When the Stock Exchange was re-opened, after having been closed for some time in consequence of the outbreak of the Great War, regulations were laid down by arrangement between the Committee of the Stock Exchange and the Treasury under which all transactions were to be carried out on a cash basis. This involved the suspension of the old contango system. The contango or carry over system was revived on 22nd May, 1922, and it is desirable to explain the basis on which this system of account is conducted. In order to facilitate business and to obtain a speedy settlement in connection with bargains either for sale or for purchase, the Stock Exchange fix certain days upon which all bargains should be "settled." These days usually cover a period of a fortnight, and thus established the common expression heard in Stock Exchange matters of the "Fortnightly settlement." On these fixed days all sellers agree to be prepared to deliver stock, that is to be prepared to hand over the name of the person in whose name the stock stands with the requisite signed transfer or, in the case of bearer stock, to deliver the actual bonds. All buyers agree to pay for the stock or bonds purchased since the previous Account. Thus it is only necessary to bring the seller of stock into touch with the last buyer in the course of the Account. If 15th June were fixed as the settling day and A had sold stock to B on 2nd June, B had sold to C on the 3rd, C had sold to D on a subsequent day and D to E on the 10th June, it would only be necessary to transfer the stock from A to E, thus washing out all the intermediary transactions and saving transfer fees, stamp duty, etc., which would be entailed in connection with the transfer of the stock to each of the persons who had bought it and re-sold it during the account. Now on the 10th June, E may find that he is not in possession at the moment of sufficient cash at his bank to pay for the stock on the settling day, the 15th inst. He therefore arranges with his broker to continue or to carry over the completion of the contract until the settling day of the next Account. For this convenience he is required to pay a small sum for interest according to money rates ruling at the time. These are called contango rates. There may be a difference between the price at which the stock is quoted on the 15th June when E finds himself unable to pay for it and the price at which it stood when he purchased it earlier in the Account. This difference E is required to pay, and so that there shall be no dispute between the parties concerned as to the actual price ruling on the day of settlement, the Stock Exchange fixes what is called a continuation day or making-up day. This is the day upon which E must decide whether he proposes to continue or carry over the stock to the next Account or to settle for it. Making-up lists are supplied by the Stock Exchange on the making-up or continuation day fixing the prices of all stocks which it is agreed shall be the quotation upon which the settlement of differences is based. Hence, if E purchased Ironworks ordinary shares at 20s. on the 7th June, and wishes to continue or carry over their settlement until the following Account, and the making-up list showed the quotation of Ironworks ordinary shares at 18s., he would be required to pay as a "fortnightly difference," 2s. per share, and on the commencement of the new Account he would be credited as a new buyer with the shares at the making-up price of 18s., thus continuing the original transaction. Those who desire to settle and pay for their stock must pass the names of the transferees or transferors on the day before the date fixed for settlement. This day is called the name or ticket day. Thus there are three days concerned in each Fortnightly Settlement: (1) Continuation or making-up day; (2) name or ticket day; and (3) account or settling or pay day. As already stated, this method of carrying over or continuing bargains from one account to another was temporarily abandoned, and when it was revived in May, 1922, forward bargains for settlement were prohibited in all securities under the headings "British Funds" and "Colonial and Provincial Government Securities." Also, in view of the state of Foreign Exchanges, dealings for foreign clients resident abroad are only allowed for cash.

"CUM DIV." AND "EX DIV."

The quotation of shares is often marked as "cum div." or "ex div.," sometimes abbreviated as c.d. or x.d. The former expression, meaning cum or with dividend, indicates that the amount of the dividend is still contained in the market quotation, and that a buyer of the shares can claim from the seller the amount of dividend due or in course of payment if a buyer does not receive it direct from the company. Companies close their transfer books for about fourteen days prior to the date on which a dividend is declared, so that it is not always possible for a purchaser of shares to obtain the transfer and registration of the shares in his name before the actual date of payment. In these cases the dividend is forwarded to the name appearing on the share register of the company, and thus is received by the person who has actually sold the shares and has no title to the dividend. The broker representing the purchaser of the shares will, therefore, communicate with the broker representing the seller of the shares and claim from him the amount of the dividend. Ex dividend or x.d. indicates that the amount of the dividend has been deducted from the market price, and if a holder of shares on which a dividend is due to be paid desires to retain the dividend for himself he must distinctly sell the shares ex or less the dividend. It is no hardship to a seller of the shares to have the dividend claimed from him as allowance is made for it in the price, and it will be found upon examination that the market makes full allowance in the price in quoting a share cum dividend or ex dividend. In some very volatile shares in which there is an active market, the price of a share may quickly recover the amount of the dividend deducted, because, in market language, the share "looks cheap" and attracts buyers. For this reason many professional operators sell shares cum dividend, and re-purchase them ex dividend with the prospect of recovering more than the amount of the dividend in capital value, but it is not a practice which should be adopted by the inexperienced investor. Cum coupon and ex coupon have the same meaning as cum dividend and ex dividend, except that the expression applies to the payment of interest on bonds bearing coupons instead of on registered shares. It is usual for the Stock Exchange to quote bonds ex coupon on the date the interest coupon is payable. When a bond is sold cum coupon, the seller must be careful not to detach from the bond the coupon due for payment, but where the bond is sold ex coupon, of course, the coupon should be detached by the seller and presented for payment.

"EX RIGHTS."

Quotations are similarly often marked "ex rights" or x.r. This refers to the fact that any extraordinary rights attaching to the shares have been deducted. Many companies raise capital by offering shares to their shareholders at a price below the current market quotation, thus giving an advantage to the shareholders. For example, if the £1 shares of Ironworks, Limited, are quoted in the market at 30s., and the directors desire to raise new capital they would perhaps offer new shares to the shareholders at 25s. each, thus giving the shareholders the right to acquire an additional interest in the company at 5s. per share below the current market price. When such offers are made to shareholders it is customary for the directors to enclose therewith a form which the shareholder can sign renouncing his right to his proportion of shares at the lower price in favour of some other person. This form is known as a "letter of renunciation." The old shares are henceforth quoted in the market cum rights, and if the shareholder sells to another person it will be necessary for him to sign the letter of renunciation and thus pass on the right to the purchaser to apply for the new shares. When the date upon which application for such new shares has passed, the quotation of the old shares will become ex rights.

"EX BONUS."

The quotation of a share is often stated as ex bonus. Directors may not give away shares of a company. It is illegal to issue shares at a discount or without some consideration, and when it is desired to issue shares as a bonus to shareholders it is necessary first of all to provide the cash for the payment of same. This cash is obtained out of the reserve or undivided profits of the company, and is applied to the payment of shares which are then issued free to the shareholders. Thus reserves are turned into capital, and give rise to the expression "capitalisation of reserves" so frequently used when this form of bonus share distribution was largely adopted in 1920. It simply means that the directors give so much cash out of the reserves of the company to the shareholders, conditional on the latter returning the money to the company in payment of new shares. Instead of the actual cash payment passing through the post, the transaction is carried through in the books of the company and "bonus shares" are thus distributed. In the same way as the old shares are sold cum or ex rights, so they can be sold cum or ex bonus shares. Bonus shares must not be confused with a bonus payment which is sometimes made by companies in addition to the dividend. Many Boards of Directors prefer to pay the same amount of dividend each year instead of paying a big dividend in one year and a very small dividend in another year. The object is to assure to the shareholders a regular income upon the payment of which they may depend. To enable this to be done, many companies set aside each year a sum towards building up an "Equalization of dividend fund" so that if the standard dividend usually paid is 5 per cent, and the profits do not permit of the payment of more than 4 per cent, an additional 1 per cent can be taken from the fund so as to increase the dividend to the regular amount. If in one year there were exceptional prosperity and the directors desired to give the shareholders some participation in it without making any alteration in the amount of dividend, they would pay it in the form of a bonus. Thus, many companies pay a dividend of 5 per cent regularly and a bonus of 1 per cent or 2 per cent or more according to the prosperity of any particular year. In this way the bonus is regarded as something additional and is not looked upon as a precedent or loss in any year when profits are not so favourable. It is a sound method which prevents much disappointment on the part of shareholders and unfair criticism of directors.

OFFICIAL QUOTATION.

In connection with the quotation of shares on the Stock Exchange it has already been pointed out that whilst there is a certain distinction attaching to the share which has an official quotation on the London Stock Exchange, it must in no sense be regarded as hall-marking a security. It is desirable, however, that the shareholder should understand that the statement contained in prospectuses that an official quotation for the shares on the London Stock Exchange will be applied for, does not mean more than that certain conditions laid down by the Committee of the Stock Exchange have been complied with. Rule 136 of the Stock Exchange may be quoted fully here, because more misapprehension is said to arise from this grant of an official quotation than from any other custom of the Stock Exchange—

> "The Committee may order the quotation of a new company in the official list, provided that the company is of sufficient magnitude and importance; that the documents specified in Rule 135 have been duly furnished, and that the prospectus has been publicly advertised, and agrees substantially with the act of parliament, or the articles of association, and in the case of limited companies contains the memorandum of association; that it provides for the issue of not less than one-half of the nominal capital, and for the payment of 10 per cent upon the amount subscribed, and sets forth the arrangements for raising the capital, whether by shares fully or partly paid up, with the amounts of each respectively, and also states the amount paid, or to be paid, in money or otherwise to concessionaires, owners of property, or others on the formation of the company, or to contractors for works to be executed, and the number of shares, if any, proposed to be conditionally allotted; that two-thirds of the whole nominal capital proposed to be issued has been applied for

and unconditionally allotted to the public (shares reserved or granted in lieu of money payments to concessionaires, owners of property or others, not being considered to form part of such public allotment), that the articles of association restrain the directors from employing the funds of the company in the purchase of its own shares, and that a member of the Stock Exchange is authorized by the company to give full information as to the formation of the undertaking, and be able to furnish the Committee with all particulars they may require."

It will be seen from this rule that the Committee of the Stock Exchange does not require or give any information regarding the security at the back of any stock or share that is admitted to quotation, and no warranty, guarantee or any other kind of "hall mark," implied or otherwise, accompanies any stock when it is included in the Official List. The one advantage attaching to a quotation for a share on the Stock Exchange is that it usually, but not always, implies that there are dealings, either active or occasional, in the shares. The existence of a market for shares held by an investor is not an unimportant matter as it obviates the delay and costs attending the private negotiation and sale of a share which does not possess a recognized market. The fact that a company has gone to the trouble of obtaining an official quotation usually indicates that steps have been taken to interest some jobbers on the Stock Exchange in the shares, and that at least one firm of jobbers is prepared to deal, that is buy or sell the shares, and thus "make a market." It will be obvious that there is no guarantee of the permanence of such a market, the existence and prolongation of which must in the end depend upon the amount of genuine purchases and sales made by the public. An appearance of great activity may be given to a share over a limited period, and if the public exhibits no sign of being interested, the " activity " which is suggested by a number of bargains ceases and the market " dries up." " Making a market " is consequently a method which was at one time commonly employed to sell vendors' shares which did not have an official quotation and in which little or no real market existed. The Stock Exchange Committee has strengthened its protection of the public in this respect by adopting as a permanent part of its code a temporary regulation brought into force in 1915, under which dealings were not allowed in any new issue of shares without the permission of the Committee having first been obtained.

CHAPTER VI

SHAREHOLDER'S RIGHTS IN LIQUIDATION, ETC.

After the investor has purchased or subscribed for shares in a new company he is faced with three possible developments: (*a*) The company will be successful and pay dividends regularly, or (*b*) it will be a failure and go into voluntary liquidation, or (*c*) it will, for one of many reasons, be reconstructed and start afresh under altered conditions.

Assuming the company is successful, the shareholder will not perhaps take much trouble to investigate the balance sheet and report issued annually by the directors nor attend the annual meeting of shareholders. It is this policy of "let well alone" that has been unfortunately the cause of many companies being carelessly directed and ultimately brought to grief. Directors are, after all, only human, and if a Board finds that the shareholders are lax in respect to their affairs and careless of their interests in the business, it is natural that directors should also become inattentive to their duties. When a company is successful it is rarely found that shareholders attend the annual meeting, but when something has gone wrong and a loss is incurred or a dividend is not paid, then thousands of shareholders attend the meeting for the purpose of criticizing the directors and "making trouble." The necessity of examining the balance sheets of every company in which an investor has a share interest will be explained later. The dates for the payment of dividends are usually set out in the Articles of Association. Dividends are usually paid at fixed dates on the preference share capital at intervals of six or twelve months. On ordinary shares the dividends can only be paid on approximate dates which depend upon the time at which the accounts are completed and audited. Shareholders pay their income tax on their dividends by the deduction of the tax "at the source." This means that the secretary of the company pays to the Inland Revenue in one sum the whole amount of the tax on the amount to be distributed in dividends to the shareholders, and then proceeds to deduct the proportionate amount from each sum paid in dividends to each shareholder. Companies make a practice of paying their dividends either "less tax" or "free of tax," or free of tax up to a certain amount in the £. If they are paid "less tax" this means that the whole of the income tax for that year is deducted from the amount of the dividend. For example, a dividend of 5 per cent on 100 £1 shares is equal in gross to £5, but the shareholder receiving his dividend warrant will find that there is deducted from this amount, 5s. in the £ (if the current 1922 rate of tax rules), or £1 5s. 0d., the actual amount remitted to him being £3 15s. 0d. On the other hand, some companies have made a practice of themselves paying the amount of the tax, so that in the case of a 5 per cent "free of tax" preference share, the amount paid by the company to the income tax authorities per 100 shares of £1 each would be 25s. with the income tax at 5s. in the £, and the amount paid to the shareholder direct would remain at £5 without any deductions of any kind. This method of paying dividends on preference shares came largely into vogue when the income tax rose from 1s. 2d. in the £ to 5s. and 6s. in the £, the object being to attract capital of investors who did not desire to run the risk of a still further increase in the income tax which might have happened had the war continued for another five years to 10s. or more in the £. Similarly, the company undertaking the payment of such dividends free of tax will benefit in the event of the income tax falling to below 5s. in the £ as now appears probable during the next few years. It must not be overlooked by the holder of " tax free " investments that he must include in the return of his income for assessment to income tax the gross amount of the dividend. In the example cited here he would return £5, not £3 15s. The investor has the right to re-claim any part of the tax which has been deducted from his dividend warrant for which he does not regard himself as liable. To do this he must obtain a form from his local income tax inspector for making the necessary claim to repayment by the Inland Revenue, and he must take great care to retain the income tax voucher which accompanies every dividend warrant, showing if and when the secretary of the company has deducted the amount of tax from the dividend.

WINDING UP.

In the event of a company proving unsuccessful, and the directors deciding, with the approval of the shareholders, to cease business, the winding-up of the affairs of the company may be by the Court, voluntarily, or subject to the supervision of the Court. Unless there is reason to suspect fraud or maladministration of the company's affairs, it is usual for the company to be wound up voluntarily. If one or a number of shareholders have reason to suspect there has been fraud or an attempt to hide up the affairs of the company by voluntary liquidation, an application may be made to the Court for the winding-up of the company. Such shareholder who petitions the Court must have had some of his shares originally allotted to him or have held them for at least six months during the eighteen months before the announcement of the winding-up, and, as he is responsible for the costs incurred in such petition, it is rarely that such action is taken except in conjunction with a large number of other shareholders. In any event, whether the company is wound up voluntarily or by the Court, the shareholder cannot be required to contribute money towards meeting any liabilities which may have been incurred exceeding the amount unpaid on the shares in respect to which he is liable as a shareholder. If a holder of one or more shares of £1 each has paid the full amount of £1 on the shares, that represents the sole sum for which he made himself liable when he subscribed to the shares of the company, and not a penny more can be required of him. In some companies the full amount of the shares may not have been paid up, that is the shares may be of £1 each, having only 10s. paid, and in this case the holder is, of course, liable to contribute towards any deficit up to the amount of 10s. per share, but no more.

A company may be wound up voluntarily when the shareholders have passed a resolution requiring the company to be wound up voluntarily. To carry this out, one or more persons are appointed as liquidators, and on their appointment, all the powers of the directors cease. The liquidator or liquidators take supreme control, but they are responsible legally for the proper conduct of the winding-up, and the distribution of the surplus assets (if any). If a shareholder is dissatisfied on any question arising in the winding-up or with any action of the liquidator, he can also apply to the Court to decide the question just as if the company were being wound up by order of the Court. In the event of the winding-up continuing for more than one year, he must call a general meeting of shareholders, and every shareholder is entitled to receive from the liquidator an account of "his acts and dealings and of the conduct of the winding-up during the preceding year." As soon as the affairs of the company are fully wound up, shareholders are entitled to receive at a general meeting an account showing how the winding-up has been conducted, and how the property of the company has been disposed of. Such meeting must be called by advertisement in the *London Gazette*. If the winding-up is not concluded within one year after its announcement, the liquidator must make certain returns to the Registrar showing the position, and these returns can be inspected by shareholders on payment of a small fee.

RECONSTRUCTION AND AMALGAMATION.

It is often the case that directors desire to reconstruct a company and raise additional capital, or to sell the business either for cash or for shares in another company, and in all such cases the proposals must be approved by a special resolution passed by the shareholders. If any shareholder does not approve of such course, and does not vote in favour of the special resolution at either of the meetings held for passing and confirming the same, he must express his dissent in writing addressed to the liquidator, and leave it at the registered office of the company within seven days after the confirmation of the resolution. He may require the liquidator either to abstain from carrying the resolution into effect or to purchase his interest at a price to be determined by agreement or by arbitration. In such an arbitration the dissentient has to prove the value of his interest. If the shareholder has not taken any steps to dissent from the reconstruction proposals, he will receive a form of allotment showing the number of shares in the new company to which he is entitled, and the amount of assessment (if any) which is payable and when. For example, assuming that Ironworks, Limited, goes into liquidation with a view to reconstruction, the new company—Ironworks New, Limited—may purchase from the old company its business for £37,500 to be satisfied by the form of 50,000 shares of £1 each in the new company, credited with 15s. paid on each share. These shares would then be allotted to the shareholders of the old company and, if accepted by them, they would become liable for the payment of the balance of 5s. per share. This 5s. is termed an assessment. Directors cannot compel a shareholder to assent to a reconstruction scheme or join a reconstructed company if he does not wish, but where he does not accept the scheme and take the new shares offered, it usually involves sacrificing his interest in the company. This is often the wiser course, as reconstruction schemes are sometimes made the pretext for inducing shareholders to part with further capital and to pay commissions and salaries to companies which have been proved to have the poorest prospects of success. Companies of this kind are known to have been reconstructed seven or eight times, and at each reconstruction some among the shareholders have been found to provide further funds.

In the case of amalgamation with another company the transfer of the businesses of both the amalgamating companies is usually made to a third company, and fully-paid shares in the new company are issued to the shareholders of the two amalgamating companies without any assessment or liability for further payment being entailed. The shareholder must bear in mind that the majority of holders of shares have the controlling voice in the conduct of a company just as they have or should have in the administration of a country. If a majority of shareholders agree to a certain course it is just as binding on the minority as an Act of legislation for which a majority of the citizens of the country have voted. The minority may perhaps suffer hardship. Citizens have their remedy in removing their residence to another country if they disagree with the views of the majority, or in the alternative, voting against the Government at a General Election, using every effort to persuade the majority to do likewise. Similarly, shareholders have their remedy in selling their share interest in the company or, in the alternative, voting against the directors and using every effort to persuade the majority to take their view. The shareholder has even more redress than the citizen, since the former can appeal to the Court if he is dissatisfied with any question concerning the conduct of the company, whereas the citizen who is subjected to hardship by Act of Parliament usually finds it better in the long run to grin and bear it.

BANKRUPT AND DECEASED SHAREHOLDERS.

Minors may hold shares in companies in their own names, but it is not usual for directors to allot shares knowingly to persons under legal age, as it would be possible for the latter to repudiate liability for any unpaid calls on shares, and possibly lay claim to the return of any money paid. Women may hold shares and possess and exercise all the rights and privileges that attach to shares held by male shareholders of a company. Under the Married Women's Property Act, 1882, a married woman is entitled to the same benefits as any other shareholder, and any shares standing in her name are deemed to be her separate property. But the Articles of Association of a company may require certain conditions to be complied with by married women as, for example, the payment in full of any uncalled amounts on shares, whilst it is possible in some instances that where there is a liability the directors may be prevented by the Articles from allotting or transferring such shares into the name of a married woman. The husband of a woman shareholder married before the date of the Married Women's Act, 1882, is liable as respects any liability attaching to shares acquired before that date.

If a shareholder dies or becomes bankrupt, his estate is liable for the full amount of calls on any shares held, and also for the future calls which may be made unless the shares are transferred to some other person who accepts the liability. The executors of the deceased shareholder will be regarded by a company as his representative upon production of the probate of the will or letters of administration. Such representative will then be entitled to be paid any dividends and to have the shares transferred into his name.

The Companies Acts provide that—The executors or administrators of a deceased sole holder of a share shall be the only persons recognized by the company as having any title to the share. In the case of a share registered in the names of two or more holders, the survivors or survivor, or the executors or administrators of the deceased survivor, shall be the only persons recognized by the company as having any title to the share. Any person becoming entitled to a share in consequence of the death or bankruptcy of a member shall, upon such evidence being produced as may from time to time be required by the directors, have the right either to be registered as a member in respect of the share, or, instead of being registered himself, to make such transfer of the share as the deceased or bankrupt person could have made; but the directors shall, in either case, have the same right to decline or suspend registration as they would have had in the case of a transfer of the share by the deceased or bankrupt person before the death or bankruptcy. A person becoming entitled to a share by reason of the death or bankruptcy of the holder shall be entitled to the same dividends and other advantages to which he would be entitled if he were the registered holder of the share, except that he shall not, before being registered as a member in respect of the share, be entitled in respect of it to exercise any right conferred by membership in relation to meetings of the company.

In the case of shares with a liability the estate of the deceased is liable, and not the executor personally, although the Articles of the company sometimes make special provision for such liability to be shouldered by the executor or the shares transferred to a purchaser. Where an investor buys shares and dies before the transfer has been accepted, it is a common practice for the brokers who acted for the deceased to ask the transferor to allow another name to be submitted as transferee, the alteration being initialed. A more correct procedure is to let the name of the deceased remain, the executors signing the transfer as his representatives, when the shares will be dealt with in the usual way. In the case of a shareholder being declared a bankrupt, the trustee in bankruptcy who is appointed should produce to the company in which the bankrupt holds shares, the order of the Court, and the estate of the bankrupt then becomes entitled to any benefits or to pay any liability arising on the shares. In the case of a lunatic, the members of the committee representing him will be accepted by the company on production of the Court's order of their appointment.

Shares may be held in the joint names of two or more persons, and should the death of one of the joint holders occur, the surviving shareholder or shareholders are entitled to the shares on the production to the company of a certificate of death.

In the case of stocks or shares held jointly by man and wife, on the death of either and the taking over of the whole holding by the other, estate duty is paid on half the value.

In order to obtain probate it is necessary for the executors of a deceased shareholder to value as at the date of death any securities owned by the deceased. It is customary to ask a stockbroker to value the securities, but this is not essential where proof of the accuracy of the valuation, such as the quotations published in the "Official List," can be furnished if called upon. Where there is a published quotation a price one-quarter of the difference up from the lower to the higher of the official closing prices should be adopted as an estimated price; for example, where the closing prices were 98-100, the price should be given as 98½. Where a death occurs on a Sunday or other day for which no prices are available, the price for the day before or for the latest preceding day on which the Stock Exchange was open should be taken.

DEBENTURE ISSUE.

The position of a shareholder in the event of the company in which he owns shares deciding to issue debentures, may be likened to that of a sleeping partner in a firm where the other partners find it necessary to raise money by a loan secured or unsecured on the assets of the firm. Such loan usually but not necessarily reduces the capital security of the partner. Much depends on the purpose for which the loan is raised, as it will be apparent that the use of additional money in a business often enables larger profits to be made by the partners. Similarly, the issue of debentures by a company may or may not prove advantageous to the shareholder. In the first place, unless an issue of debentures by a company is actually prohibited in the Memorandum or Articles of Association it may be generally taken that the company has power to raise or borrow money on debentures or loan, or in some other form. On the other hand, an issue of debentures cannot be made where preference or ordinary share capital has been previously issued on a condition that debentures should not be issued unless the consent of the shareholders is first obtained. This is usually provided for in the Articles of Association, and every shareholder should make himself acquainted with the contents of the Articles on this point. Special conditions may also occur, such as in the case of a company which was formed after the war to carry on a key industry, where debentures could not be issued without the consent of the Government. A shareholder must always reckon with the possibility of debentures being issued by a company of which he is a shareholder even if it be necessary for the directors to have first to obtain the sanction of a majority of the shareholders. As already stated, the actual position of the shareholder may not be made any the worse and it may be improved by a debenture issue. It is, for example, better that a company should regularize its finance by issuing debentures at a fixed rate of 7 per cent interest for a definite term of years than to be paying high interest for loans for a short period or having an overdraft running with its bankers. In a time when money is cheap it is also more economical to raise money on debentures at 5 per cent or 6 per cent than to issue additional share capital on which shareholders would expect a return of 10 per cent or more. So far as the shareholder is concerned it makes little difference to the security of his share capital or his dividend whether the company borrows money from its bankers or another source or raises money by debentures—either or both are creditors who will rank in front of him in the event of a winding-up or of losses being made. Promoters and directors of companies when offering shares in a new company sometimes seek to attach great importance to the fact that debentures may not be issued without the consent of a majority of shareholders. In practice, the condition possesses little value as it is quite easy for directors to borrow money in other forms, and thus put the shareholders in the same or even worse position than if debentures are issued. The relation of shares to debentures has already been dealt with in the earlier pages. A consideration of the many varying forms of debentures, secured and unsecured, with their attendant legal rights and powers, is outside the scope of a volume which is primarily intended for the shareholder. But as a general rule it will be found that the rights of debenture-holders depend on the terms of the trust deed under which they are issued.

CHAPTER VII

THE STOCK MARKETS

BEFORE investigating the various methods of investment, it is necessary for the investor to understand the different character of the markets in which Stock Exchange securities resolve themselves. It has already been explained how the "Official List" of the London Stock Exchange is divided into about thirty-six sections. These sections do not necessarily constitute different markets in the Stock Exchange. They fall into various salient groups, and these are generally treated as distinct markets in the stock and share articles published in the daily financial and other newspapers.

THE CONSOLS MARKET.

This is the name originally given to the market in British funds which years ago consisted mainly of the $2\frac{1}{2}$ per cent (at that time 3 per cent) Consolidated Stock. Every investor will have heard of the "sweet simplicity of the 3 per cents" indicating that the investor who was in doubt as to how to invest his capital had not the same wide selection of British Government securities as exists to-day. Although Consols have now fallen to a back place as a representative British Government investment, being mainly used by banks, insurance companies and foreign institutions, the title of Consols market is still retained, and is generally descriptive of that section of the Stock Exchange comprising British Government securities and Local Government stocks. Money rates are the dominating factor in this market.

A sudden stringency in money leads to a fall in the price of gilt-edged securities because the rise in the rate of discount makes it more profitable for banks, insurance companies and other institutions to employ their balances in the money market rather than to invest them in the 5 or 5½ per cent stocks. For example, when the Bank of England rate stood at 7 per cent from April 1920 to April, 1921, it obviously was not a good course for banks to invest money in gilt-edged securities yielding only 5 to 5½ per cent. They could loan out the same money to return about 1 per cent more rate of interest. Conversely when the Bank Rate was altered in April, 1921, and gradually fell to 4½ per cent in 1922, the reduction was immediately reflected in the value of all gilt-edged securities which were purchased for investment, until prices rose and the net yield resulting was not much less than could be obtained in the open money market. The second principal influence affecting this market is the state of political conditions, especially as they are reflected on the Budget. A big increase in the income tax will affect all fixed interest-bearing stocks, and its influence will be first reflected in the highest type of gilt-edged security which is to be found in the Consols market. For this reason the Consols market has been regarded in the past as the indicator of tranquillity in political conditions at home or abroad. Conversely, the state of foreign relations is an important influence in controlling prices in the Consols market.

THE FOREIGN MARKET.

In the foreign market are included the bonds of the foreign Governments of the world, but those of most European countries have also their most important centre on the Continental Bourses, such as Paris and

Amsterdam. Berlin and Frankfurt before the Great War were also important centres, but they exercise much less influence to-day. For South American Government stocks and Japanese bonds, the London Stock Exchange is still the principal market. Foreign Government bonds are hardly suitable for the small investor owing to the varying character of the income caused by the fluctuations in exchange, and the difficulty which the investor has in being able to follow intelligently changes in the financial conditions of a foreign country. In the foreign market the bonds of each country are individually affected by its own domestic conditions, which include the financial credit of its Government, the relation between its debt and its revenue, the state of its trade, the vicissitudes of its politics, and, of course, its position as regards war and peace. War or the threat of war or an internal revolution will invariably cause a sudden fall in price.

HOME RAILWAYS.

Home railway stocks lost much of their value as speculative investments when the railways came under the control of the Government in 1914. The series of amalgamations carried out subsequent to decontrol in August, 1921, have still further reduced interest in the stocks to a few groups. The prior charge stocks, that is the stocks which rank as a prior charge on profits, will still always continue to be good securities for the consideration of the investor who requires a larger rate of interest than is obtainable from gilt-edged securities. Railways are an essential service of public utility and, even if highly developed roads and motor services create competition, they cannot entirely replace railways, especially for long distance journeys. The home railway market has several sub-divisions of which it is necessary to take note, as influences affecting one group in particular may sometimes have a less important effect or no effect at all on others. The first and most important is that constituted by the "Heavy" lines, that is the main traffic lines of the Kingdom, and includes the stocks of the London and North-Western, the Great Western, the Midland, the North-Eastern, the Great Northern and the Great Central Railways. In the case of all these lines goods and mineral traffic bulk very largely in the receipts, whilst the position of the North-Eastern in particular depends upon the prosperity of the iron trade. The second group includes the stocks of those companies whose traffic mainly consists of passengers, namely, the Great Eastern, the South-Eastern and Chatham, the London, Brighton, and South Coast, and the London and South-Western Railways. In every case weather conditions and their effect on holiday traffic to seaside resorts often have considerable influence. A fine and sunshiny week-end has had in days when speculative interest was very considerable in the home railway market the effect of increasing the price of Brighton deferred ordinary stock to the extent of a point, the jobbers knowing that the increased passenger traffic to the Southern holiday resorts would be reflected in the amount of the traffic takings published in the weekly return at the end of the week. When the railways came under Government control in 1914, the issue of weekly traffic returns was, of course, suspended. It is impossible to forecast whether the same conditions will once more obtain in the home railway market when the four great groups provided for under the Railways Act of 1921 are finally set up, but a distinction between the Southern group, which is mainly made up of passenger-carrying companies, and the other groups, which are concerned mainly with heavy traffic, should not be ignored. Another group is that concerned with London passenger traffic, which has shown enormous expansion in recent years, and is now practically organized as one whole, together with the motor 'bus system, in the great 'bus-tube combine, with the Underground Electric Railway Company at its head. Finally, there are the stocks of the Scottish railway companies, which form a group by themselves. As indicated, the main factors in considering home railway stocks as investments, are the amount of traffic receipts of the various companies disclosed in their weekly returns, the general movement of trade, and above all, the dividend results and the relation of working expenses to gross receipts. Very considerable differences will still remain between the groups as regards economy of management, financial strength, possibilities of traffic expansion, co-operative working, and even liability to labour troubles. Consequently careful observation is necessary for the investor who desires only to retain those stocks which are progressive dividend-payers.

AMERICAN AND CANADIAN RAILWAYS.

At one time the American and Canadian railway markets formed a prominent centre of activity, but the Treasury mobilization of dollar securities in the early stages of the war resulted in the transfer to American ownership of the big holdings of British investors in the railway companies of the United States, whilst the capital of the Canadian Pacific Railway being in dollar shares, is also largely influenced by the New York exchange. The purchase of the Grand Trunk of Canada by the Dominion Government has also robbed the Canadian railways of much of their interest for investors in the United Kingdom.

FOREIGN RAILWAYS.

Under this head are included for convenience all railways which are not in the United Kingdom, its Colonies, or in the United States. Practically, it is restricted to the Mexican Railway and the railways of South America, since there are no dealings of any importance in the London market in the railway shares of European countries. In each case the special conditions of the country in which the railway operates have to be taken into account, whether it is Mexico, Argentina, or Brazil. The abundance or scarcity of the harvests is the main factor, and the published traffic receipts need to be carefully scanned. Except in Mexico, political conditions are less important than formerly, being much more stable in the more progressive South American Republics than was the case not many years ago. In South America, the Argentine division consists chiefly of broad gauge systems, Buenos Ayres Great Southern, Buenos Ayres Western, Buenos Ayres and Pacific, and the Central Argentine. Among independent railways in Brazil, the San Paulo, owing to its unrivalled position is for its size one of the most prosperous railways in the world. The amount of the coffee crop has an important influence on its revenue. The railways of the other Republics have, generally speaking, a more restricted market apart from Antofagasta (Chili) and Bolivia Railway Company which derives its revenue mainly from the prosperity of the nitrate fields of Chili.

THE INDUSTRIAL MARKET.

The generic term of Industrial market prior to 1914 covered the shares of all the miscellaneous industrial and commercial companies, but owing to the abnormal prosperity of industry in certain directions during the years of the Great War and generally after the Armistice, this market grew to such big dimensions that it has tended to split into a number of sub-divisions, such as textile companies, steamship companies, iron and steel undertakings, motor companies, food purveying companies, and so on. It has been roughly estimated that during the great industrial share " boom " which came to an end in the Spring of 1920, the number of investors in industrial companies' shares more than doubled, and it is probable that the sub-divisions into which these investments have now fallen will continue a permanent feature of the Stock Exchange. Textile companies' shares are influenced by the conditions of the Lancashire cotton trade and mill industry, the Manchester and Liverpool Stock Exchanges being important centres of investment in this market. Steamship companies depend mainly upon the activity of the export trade, freight rates and the supply and value of tonnage generally. It was the acute shortage of tonnage which forced up prices to so great a height in the " boom " years of 1918-19 following the Armistice. Shipping shares are largely dealt in on the Stock Exchange at Cardiff, where a multitude of single-ship companies were formed speculatively during the height of the " boom." Iron and steel undertakings comprise the large class of companies which are engaged in engineering, shipbuilding, construction of machinery, etc., as well as the production of iron and steel. This market is guided mainly by the general conditions ruling in the industrial world, but the price of pig iron and its relation to foreign competition has an important bearing on the values of iron and steel companies' shares. The Birmingham Stock Exchange is concerned largely in transactions in this class of share, and also in the numerous motor car manufacturing companies.

Nitrate-producing companies mainly possess properties in Chili and the value of their shares depends upon the position of the nitrate supplies which are controlled by a producers' association, the consumption sometimes overtaking output and *vice versa*. The principal centre for nitrate companies' shares is the Liverpool Stock Exchange. Gas Companies' shares and electric lighting and power shares and waterworks stocks do not form an active market on the Stock Exchange, although there is usually no difficulty in dealing in them. On the other hand, the shares of this class of company are often sold by auction locally where the position of the company is known, and a better price may be given for the shares by a local resident who desires to become a shareholder in the company than would be given by a stranger who had no sentimental views on the subject.

Tramways and omnibus companies depend for their prosperity upon the amount of their passenger traffic and the cost of labour and petrol, all of which have been variable items in recent years. There is a free market for the preference shares and debenture stocks of these companies, but it sometimes takes time to negotiate the ordinary shares of the less prosperous concerns. Many foreign tramways are owned by British-owned companies whose shares are negotiable on the London Stock Exchange. Telegraph and telephone companies are a small section mainly made up of British Companies operating telegraph cables or telephones in foreign countries. This market is controlled largely by general trade conditions, and the tariff of rates chargeable, and is sometimes seriously affected by reports of competition.

Insurance companies form a distinct market in themselves largely outside of the Stock Exchange. Many years ago insurance companies were limited to a small number, and their shares changed hands by private negotiation. One stockbroker in a small town in the North of Scotland devoted considerable attention to dealing specially in insurance companies' shares, with the result that a large amount of business in many of the smaller undertakings is singularly enough transacted in a small township many hundreds of miles distant from London. Since the Great War marine insurance companies have been an active section, and as the uncalled liability on insurance companies' shares has been either extinguished or called up, the dealings in these shares have increased.

Bank shares are easily negotiable on the London or Provincial Stock Exchanges, although under Leeman's Act it is not possible to buy or sell bank shares speculatively or to deal in them in any form except for cash. The object of this regulation, which has the force of an Act of Parliament, was to prevent persons causing a "run" on any banking institution by fictitious selling of the shares.

MINING COMPANIES' SHARES.

The market in mining companies' shares has grown so large during the past twenty years that it has split up into a number of sub-divisions similar to that which has recently taken place in the industrial share market. Prior to the great Kaffir boom of 1895 when gold was first discovered in quantities in the Witwatersrand, the mining market was a small section of the Stock Exchange limited to dealings in a few old-established Indian gold-mining undertakings and copper producing concerns, such as the Rio Tinto. It is now divided into Kaffirs, which includes the whole of the mines working on the Main Reef of the Witwatersrand, Eastern and South-Eastern Rands, which represents those companies working on the South and South-Eastern parts of the Witwatersrand, diamond companies' shares, Rhodesian and Central African (representing companies working in Rhodesia), West Africans, Westralians, Americans, Russians, Broken Hills, and tin, copper and miscellaneous shares. The Kaffir market is influenced not only by the developments and output of gold from the various mines, but also by the labour in the shape of "boys" who are recruited for labour in the mines. Sometimes there is a poor supply of labour with the result that output falls off and depreciates the value of shares. In the Rhodesian section the output from the mine is also supplemented as an influence by general agricultural and industrial conditions. In the tin, copper and base metal mining companies, the condition of the market is mainly regulated by the demand and supply for the various metals.

RUBBER SHARE MARKET.

When the soil of the Federated Malay States was first discovered as suitable for the culture of rubber, there was a great rush to promote undertakings for acquiring land in the Middle East, suitable for planting rubber trees. As many of the first established companies were able to produce rubber in time to meet the enormous demand which was setting in as a result of the perfecting of motor cars, they were able to pay dividends of a fabulous sum. This caused the public to buy on a rising market, and ultimately extended to what became the great rubber share "boom" of 1910. As these were companies engaged in a commodity previously dealt in in Mincing Lane, the bulk of the dealings in rubber companies' shares took place in Mincing Lane instead of on the Stock Exchange, and for a time the former became a great competitor of the Stock Exchange. As the numerous companies formed during the "boom" period came into production (it takes five years to bring the rubber tree to the producing stage) there was soon more output than the industrial markets of the world could consume, with the result that by 1921 the price of rubber had gradually fallen from 3s. 6d. per lb. to as low as 8d. per lb. The influences which affect the rubber share market are to be found in the relation of the figures of output to consumption, whilst individual companies are influenced by climatic conditions, insect pests, bad management, insufficiency of labour, forest fires, and a score of other factors, even though the price of raw rubber as a commodity may be well maintained.

OIL SHARES.

The oil share market has only attained large dimensions since the demand for petrol during the Great War turned attention to the necessity of exploiting all the available oil resources in order to meet the requirements of the rapidly developing motor industry and engines for industrial use. Whilst there are three large groups which dominate the oil share market, there are numerous smaller companies which are engaged in prospecting for oil whose shares form the object of considerable buying and selling at times when public interest is centred in oil shares. This market is quite the most speculative section of the whole of the Stock Exchange.

CHAPTER VIII

FINANCIAL REPORTS

EVERY shareholder, even if his interest in joint stock companies consists of only a few shares, should make a practice either daily or weekly of checking the price-movement of his investments, and noting the trend of the markets. At first the investor who is unaccustomed to even glance at the money pages of his daily paper may find this irksome, especially if few changes occur, but after doing it regularly for a few weeks he will find it becomes as much a daily habit as his perusal of the sporting, political, legal, or other columns of news in which he has a personal interest. It is sometimes suggested that it is a mistake for the holder of investments to trouble himself about the daily fluctuations in the market prices of his securities, on the ground that such fluctuations are often due to external causes, and only tend to unsettle the investor. This advice would be quite sound if investment securities always maintained a market value. As holders of many securities know from hardly-earned experience, this stability does not exist in any type of investment.

FLUCTUATIONS IN PRICES.

Joint stock companies do not suddenly fall down dead of financial heart disease. The signs and portents of trouble are always to be found first in the market price of the security, and very often long before there is any indication in the directors' report and accounts. A drop of a fraction in the price of a stock may be due to nothing more than the ebb and flow of the day's business, a temporary excess of sellers over buyers, or the liquidation of a deceased shareholder's holding, all of which fail to exercise any permanent influence on prices. On the other hand, if a fall of a fraction occurs at intervals, the shareholder may safely draw the deduction that either the trend of the market as a whole is changing from some external cause affecting all security-values, or that causes have arisen to make a revision of the value of the shares desirable. In either case, the movement will come under the attention of the shareholder who is then able to make closer inquiries. The general condition of markets, coupled with the international political and trade developments of the day, will indicate whether the movement in the price of his shares is due to external causes. Alternatively, the movement will be due to an internal cause, and arise from some trouble brewing in the domestic affairs of the company or the trade in which it is interested. By means of this indirect information it is often possible for a shareholder to escape a loss of capital which will inevitably occur to the shareholder who disregards the trend of market price-movement, and only awakens to the real position when he fails to receive his dividend.

THE FINANCIAL PRESS.

The number of papers and periodicals which provide information on financial matters daily and weekly is legion. It would be invidious in a book of this kind to pick out for recommendation any special newspapers or periodicals. Apart from the three great daily papers, *The Financial Times*, *Financial News*, and *Financier*, which devote the whole of their space to financial affairs, every daily newspaper of importance both in London and provincial cities, records each day the chief price-movements and a summary of the principal financial events. The day when the impartiality and independence of the financial editors (or City Editors as they are called) of the great daily papers might have been challenged, has long since gone. There is no position on a newspaper more open to the limelight of criticism than that of the City Editor, for any departure from strict fairness and impartiality in his comments on financial affairs would at once be recognized by his financial confrères and speedily become known in City circles. Two generations ago the money articles of the papers occupied a very subordinate position in the pages of the daily newspapers, and it was thought unnecessary to do more than obtain a few prices of the leading shares from a stockbroker with such comments added to them as he thought fit to make. The laxity naturally led to considerable abuse, with the result that during the past twenty years the stable has been swept very clean and both proprietors and editors of newspapers have long recognized the responsibilities and importance of the financial sections of their publications. A perusal of this book should equip the shareholder with sufficient knowledge of the technical terms of the stock and share markets to enable him to read and understand the financial article in his daily paper. To assist him in the application of the information given in the preceding pages, a typical stock and share market article from a daily paper has been dissected—

"The feature in the market for investment securities was the strength of the new scrips, among which Auckland rose 1½ to 4½ premium." (*Scrip is the provisional document entitling the holder to receive complete bonds or certificates when the instalments are paid; hence the reference here is to an advance in price of the new partly-paid bonds, that of the City of Auckland rising* 30s. *per* £100 *partly-paid bond* *to £4 10s. 0d. above the price of issue.*) "Consols and the Funding Loan both rose $\frac{1}{8}$, but War Loan again gave way slightly. Movements in home railway stocks were mostly in the upward direction, the Underground and Scottish groups being prominent. There was a disposition to buy Grand Trunk stocks, notably the guaranteed and debentures."

"French bonds advanced a further $\frac{1}{2}$ to 46 for the Fives and 36 for the Fours, on the recent improvement in the exchange." (*An increase in the English or sterling value of the franc would naturally give an increased value to French Government bonds which are for a fixed amount of francs; a 500 franc bond would obviously be worth more in sterling if it took only 50 francs to make up £1 instead of 55 francs.*) "Chinese bonds rallied and there were buying orders from New York for Brazilian and Mexican bonds. German bonds were offered on the fall in the value of the mark." (*The English value of German bonds would fall if the value of the mark fell for the same reason as French bonds rose as explained above.*) "Renewed buying of Argentine railway securities was in progress, and the amount of stock available being small, prices readily responded." (*The dealers having only a small amount of Argentine railway stock on their books, a sudden demand by brokers acting for clients who were purchasers would cause the dealers to increase the price so as to adjust quotations according to supply and demand.*) "Buenos Aires Western closed $1\frac{1}{2}$ higher at $54\frac{1}{2}$. Mexican railway stocks came on offer."

"The tendency of the oil share market was undecided, and at the close prices showed irregular movements, but in the 'Street' dealings there was some bidding for the leading descriptions." (*The 'Street'* *is the term applied to the dealings which take place after the Stock Exchange is officially closed at* 3 *o'clock; it arises from the fact that the business is done actually in the street instead of on the floor of the Stock Exchange. Bargains made between members are just as binding as if made in the Stock Exchange.*) "Mexican Eagles closed unchanged in the House at $6\frac{3}{4}$, but after hours there were buyers at 7" (*Indicates that after the Stock Exchange was officially closed there were buyers in the 'Street' at a higher figure.*) "Trinidad Leaseholds advanced $\frac{3}{32}$ to $2\frac{13}{16}$, and Anglo-Persian new preference at 2s. premium; Ural-Caspian at $1\frac{1}{8}$, Anglo Egyptian 'B' at 2; Apex at $2\frac{15}{32}$; and North Caucasian at $1\frac{1}{16}$ were all firmer. Burmahs fell $\frac{3}{16}$ to $7\frac{7}{16}$ on sales from Glasgow."

"Although the price of the raw material was firmer the rubber share market remained in a lifeless condition." (*Rubber is quoted in the produce markets at so much per lb., and as the rubber plantation companies benefit by a rise in the price at which they can sell their output, an upward movement in the value of rubber sometimes causes the shares of companies to rise in price.*) "Tea shares were generally steady with some inquiry for Assams, Jokai, and Eastern Produce, all of which remain scarce."

"In the miscellaneous market Mond Nickel new debentures which were in short supply rose a further $1\frac{1}{2}$ to $101\frac{1}{2}$. Brewery stocks were in renewed request, and Guinness rose a further 10 points." (*Guinness stock is one of the stocks which command a very high premium owing to the large dividends paid and a movement of* 10 *points is only equal to about* 6*d. on a* £1 *share.*) "Iron and steel shares showed dullness, and in the shipping section P. and O. deferred closed 5 lower. Gas stocks showed strength, Gas Light ordinary marking up to 55¼ and South Metropolitan to 65½. Hudson's Bay shares were in renewed request, but Forestal Land reacted to 27s. 6d."

"South African shares were a dull market, in the absence of business. East Rand, Modders, Springs and Randfonteins all gave way slightly. De Beers deferred on French buying rose ¼ to 12¼." (*De Beers shares being quoted on the Paris Bourse, a change of price at that centre will cause a similar adjustment in London; otherwise it would be possible for arbitrageurs, dealers in international securities, to buy cheaper in London and sell, by cable or telephone, at a profit in Paris.*) "Rhodesian shares had a slightly firmer appearance, Zambesia, Globe and Phoenix, Cam and Motor, and Broken Hill all closing firmer. Rio Tinto reacted ½ to 30½, but Mount Lyell rose 10½d. to 14s., and Barrier shares met with support. Russo-Asiatic closed 10s. buyers, and Spassky at 12s. 6d. Lake Views advanced to 11s. 4½d. on the dividend."

CHAPTER IX

PROGRAMME FOR INVESTMENT

THE reader has now arrived at the point where he should be cognizant of the technicalities of the stock and share markets to prevent him falling a victim to the many pitfalls which lie in the path of the investor.

WORKING TO PROGRAMME.

Before embarking upon the investment of capital, every investor, no matter whether his available capital consists of £20 or £20,000, should realize beforehand the exact policy he intends to pursue in his investment programme. Thousands of investors sustain a heavy loss of capital every year through lack of a definite investment policy and inability to distinguish between investment and speculation. Much confusion of argument arises regarding the division line marking where investment leaves off and speculation begins. It should be easy for the most inexperienced investor to recognize the distinction between investing capital and speculating with it, if he will apply his own personal experience to some common transaction of which he has a little knowledge. If he were asked to purchase a house which was obviously in a state of bad repair with bulging walls and self-advertised cracks in the structure, he would hesitate to do so even if a tenant were forthcoming to occupy the tenement at an absurdly high rent. The application of a little commonsense would tell him that the high rent received from the occupation of the house would not compensate him for the heavy loss of capital which would be involved in the event of the house collapsing. This example is clearly one of speculating with capital in return for a high interest or dividend. It is possible that the transaction might be entered upon in the hope that the land upon which the building stood would be purchased at a high figure by the owners of a neighbouring factory who require to extend their premises or by a possible increase in the value of the land owing to some external development, such as the building of a railway in a district unserved by traffic facilities. But whilst few investors would be found so foolish as to invest capital in such circumstances, without at least fully recognizing beforehand, the enormous risks attending the investment, they will be found ready to purchase stocks or shares in companies regarding which they have made no inquiries as to their stability, financially or commercially. The same instability which was apparent to the observer in the building referred to may also be detected in the balance sheet of many companies in which investors readily and trustfully invest their money in the hope of obtaining a high dividend return. On the other hand, the purchase of a sound building on freehold land, free from all restrictions, and after the building has been surveyed by a competent suveyor and the title of the vendor has been fully investigated, may be regarded as an investment of capital subject to the price at which the property is purchased being a fair one. Precisely the same principle applies in judging the value of an investment in stocks or shares. The title of the vendor selling the shares does not arise because shares change hands by certified transfer, and the possession of the share certificate and the registration of the vendor's name on the share transfer of the company is sufficient legal evidence of title. The investigation of a building by a surveyor should be replaced by the investigation of the company.

This can be carried out by inquiries on the part of the investor through stockbrokers and financial experts, or by personal investigation and analysis of the balance sheet and accounts issued by the company.

THE DIVIDEND GUIDE.

It is a common and very truthful saying, that the safety of capital invested in stocks and shares is in inverse ratio to the dividend, that is where the dividend is exceptionally high it should be regarded as a danger signal to the purchaser and invite his investigation as to its cause before actually purchasing the shares. In all the big insurance companies, banks, trust companies, finance houses and institutions which have the investment of big sums of money, there is a large staff of experts daily engaged in the examination of securities with a view to the investment of money. When, therefore, the attention of the investor is drawn to some stock or share which is put forward as exceptionally secure, and yet yields an abnormally high rate of interest, it should at once be treated as suspect, as it is very unlikely that such an attractive investment would have escaped the expert eyes of the numerous professional persons engaged daily in search of such investments. Primarily, the investor should make up his mind before proceeding to the investment of a penny of his capital as to whether he intends to invest for safety and a modest return, or for speculation with his capital in the hope of obtaining a high income.

There are several methods of investment which have from time to time been originated by various investment institutions, with more or less success. Trusts, insurance companies, and banks generally, adopt some specific method, but at the same time they do not allow such plan of investment to take precedence of "Safety first." Hence, if a trust company follows the principle of distributing its capital over various industries it would not purchase an ill-secured stock or share in a particular industry because it was necessary to have that industry in its programme of distribution. Rather would it leave its investment programme incomplete than slavishly follow a rule which would incur the risk of part of its capital. Some companies have adopted the principle of distributing capital geographically. A part of the capital is invested in stocks and shares or bonds of different countries, the argument being that all countries are subject to different influences, and consequently the capital being thus distributed over a wide area maintains an equilibrium. This method of distribution has one very weak spot. The leading securities of all countries have an international market, and the investor here is usually only in a position to buy and sell those securities of foreign countries which are quoted in the London market. Hence, all such geographically distributed stocks being marketable in one centre, such as London, are subject to the influences which affect that centre. It is only possible, therefore, for the geographical distribution of investments to be properly carried out by the purchase of stocks which are dealt in and influenced by different markets in different parts of the world, and the private investor has no facilities for carrying out an investment programme of this kind.

DISTRIBUTING CAPITAL.

Another method of investment which has received support is that of distributing the capital over the various markets on the Stock Exchange which have already been outlined on a previous page. This method of distribution is closely allied in some respects to speculation, as it brings into the programme the embarkation of capital in such markets as mining, rubber, oil, etc., as well as in the more stable sections comprised by gilt-edged securities. Another investment plan which is followed, is to confine the whole of the capital to investment in trustee stocks. This is, of course, necessary where trustees are acting under clauses contained in a deed of trust, but the experience of trustees during the past generation has been so unsatisfactory in respect to the enormous depreciation in the value of such stocks, that many private investors have ceased to regard trustee stocks as a satisfactory security for investment. Trustee stocks are unfortunately controlled solely by the movement of the money market, and as it is not within the power of the private investor to forecast movements in this market, he is often subject to considerable disappointment in finding that he does not escape depreciation even in gilt-edged securities. On the other hand, for the investor who is not prepared to investigate personally the position of the undertakings in which he proposes to invest his capital, trustee stocks must always remain the best form of investment for him. In British Government securities, such as the various War Loans, Victory Bonds, and Funding Loan, etc., there is ample scope for the investor of the most varied character to meet his individual requirement.

NEED FOR CAUTION.

It is when the investor departs from the region of gilt-edged securities bearing a fixed rate of interest and finds himself in the field of ordinary shares subject to all the trading and commercial risks which necessarily accompany the conduct of any business at the present day, that he is apt to go astray. The rare instances where ordinary shares in a commercial undertaking have been purchased at a low figure and sold at an enormous price are recalled to inflame his imagination with the possibility of great gains. He loses sight of the significant fact that there are about £20,000,000,000 of securities quoted in the "Official List" of the London Stock Exchange, and that nearly every one of these was subject to a heavy fall in price during the big slump in values which followed the deflation of prices in 1920. The farther the investor gets away from fixed-interest stocks into stocks and shares which have a fluctuating dividend, the greater the caution he must exercise in his investment of capital. For whilst a certain loss of capital may attend the investment of money in the safest Government stocks, it is rarely that the income is totally lost. The British Government has never yet defaulted in the payment of interest on its bonds even in the face of the gravest crisis, and to persons who are easily susceptible to anxiety or worry there is nothing more destructive of health than a continuous fear that the income upon which the investor relies may unexpectedly diminish or disappear altogether. Dr. Saleeby, the distinguished physician and sociologist, once underwent a serious surgical operation, at a time when money matters happened to be concerning him, though without any occasion whatever for worry. The psychical effect of the operation showed itself, before and after, he has told us, by an absurd obsession with this matter of money which caused far more distress than the operation itself. This abnormal and fetishistic power of causing worry keeps many thousands of investors from reaping the full fruits of their thrift. One vital principle in the investor's policy should be to discard any investment which is calculated to cause worry. Immediately a shareholder finds that the fluctuations in Stock Exchange value of a stock or share which is held begins to cause him anxiety, then it is time for him to be rid of that investment. But not, as many investors do, to rush into the purchase of some other equally volatile share, and only dethrone one demon of worry to make a place for another. It is for this reason that one may often read the advice given by financial newspapers in an answer to a correspondent that an investment inquired about is unsuitable for a lady. The adviser assumes that a lady depends on the income derived from the investment of her capital and is, therefore, likely to be subjected to greater anxiety and worry than a man who probably draws the bulk of his income from some kind of employment.

FIXING AN INCOME.

The prospective investor having decided whether he is temperamentally suited to the carrying out of a programme involving only a little risk or a very large amount of risk, or no risk of any kind, should make up his mind as to the amount of income with which he will be content. The investor must "budget" beforehand as to the amount of his requirements; otherwise he will find himself in the midst of his financial year faced with the necessity of selling a safe 5 per cent security in favour of a speculative 10 per cent share because he has outrun the income received from his capital. For the purpose of providing a concrete example, we will take the case of the small investor who obtains sufficient for his current expenditure from his business or employment, and has saved a capital of £2,000 for investment purposes. He wishes to adopt a sensible investment programme entailing no more than ordinary commercial risks and producing him an average additional income of about £120 to £140 per annum. There are few gilt-edged securities such as

Government stocks or similar bonds which will provide this income (equal to 6 per cent to 7 per cent), and although there are many commercial companies' debentures and preference shares which would yield this sum, it would be subject to a certain amount of risk. The old advice not to put all one's eggs in one basket will immediately occur to the mind of the investor. It is very old advice, but as a famous judge remarked about an old precedent in law, it is none the worse for being old. It seems to be infinitely better than the dictum of a well-known financier to put all your eggs in one basket, and then watch that basket. On the other hand, it is just as rash to distribute one's financial eggs over various baskets if the baskets are to be carried to market in the same cart, or in other words, it is a mistake to confine one's investments to one market even if the capital is spread over several securities. It will at once be apparent that an investment of capital confined to ten different colliery companies' shares would be affected by the selling price of coal, or the investment of capital in ten shipping companies affected by a fall in freights.

"WATERED" CAPITAL.

It will have been seen in previous pages that the security obtainable from bonds and debenture stocks is greater than that obtainable from share capital, since in the former case the holder occupies the position of a creditor whilst the shareholder occupies the position of a partner. The former is in a position to demand payment whether profits are made or not, whereas in the latter case the shareholder is subjected for his dividend and the ultimate return of his capital to the carrying on of the undertaking at a profit. For this reason debentures command a higher price in the market and the yield obtainable upon them is less than can be obtained on the more speculative share capital. The investor may anticipate being able to obtain a return of 6 to 6½ per cent on debenture stocks having good commercial security, 6½ to 7½ per cent on cumulative preference shares of prosperous commercial and industrial undertakings, and 8 to 10 per cent on ordinary shares in industrial companies. In mining, oil, and other more speculative concerns the yield will, of course, range from nil up to hundreds per cent. Too much importance should not be attached by the investor to the fact that many companies in recent years have, owing to financial stringency, been compelled to offer as much as 8 per cent on the security of debenture stock. Many companies which have been compelled to pay these high rates of interest have unfortunately allowed themselves to distribute their reserves in the shape of bonus shares to their shareholders during the prosperous years of 1918-19, thus to a great extent "watering" their capital. "Watering" of capital is an American vice caused by the distribution of shares to shareholders as a bonus paid for out of undivided profits or reserves. It will be apparent that the swelling of capital in this form does not bring in new cash to a company, and consequently does not increase the profit-earning capacity of the concern. It increases the volume of the capital without increasing its strength; hence the term "watering." Apart from one or two commercial undertakings this method of finance was not adopted in this country until the imposition of the Excess Profits Duty in 1917 caused directors to try and increase their capital so as to reduce the amount payable in Excess Profits Duty. It has left a large number of companies in a position where the directors will find it very difficult to maintain the payment of dividends, and one of the probable features of the financial world during the coming years will be the necessity of reducing the capital of many companies by writing down the nominal value of the shares.

DEAL IN QUOTED SHARES.

Unless the investor has private or local knowledge of a company he should give preference to investment in a company whose shares are officially quoted on one of the recognized Stock Exchanges of the United Kingdom. This does not guarantee that in the event of it being necessary to realize, a buyer can always be found, but it gives the seller a better prospect. Where a security is quoted on a Stock Exchange buyers or their brokers will naturally first make their inquiries in that quarter. It also offers to the seller a greater likelihood of a fair price being obtained according to demand and supply, just as the offer of a property by auction will generally establish the real selling value as distinct from any sentimental or external influence which may affect the price when the bargain is done privately. As the existence of a market for a stock or share is a benefit to the investor he must be prepared to pay a little extra for this marketability. It is quite common to hear it said that it is foolish to pay 100 or 101 for a 5 per cent British Corporation stock quoted on the Stock Exchanges when you can buy at two or three points less a well-secured British Corporation stock which is not quoted. Both corporation stocks being secured on the rates of important cities it is argued that both are equal in value as investments, and as the latter is the cheaper therefore it is the best. The argument is quite sound where the investor is prepared to lock up his money for forty or sixty years or until such time as the Corporation redeems the loan, but it would entail much annoyance, delay, and possible loss if the holder of the stock desired to realize for cash and found it difficult to find a purchaser at a fair figure. Insurance companies invest their funds very largely in unquoted municipal stocks because they are not likely to require to realize them until they mature, but it is better that the private investor should be able to realize his investments with the smallest trouble and cost. But it is neither desirable nor necessary that the investor should sacrifice a substantial part of his income for the sole purpose of only holding securities which are realizable at short notice. Hence in re-arranging lists of investments so as to improve the income yielded by the capital a certain proportion, about one-fifth of freely marketable bankers' securities, such as Government bonds, should be incorporated, and the remaining four-fifths of the capital invested in good securities quoted in the " Official List " of the London or provincial Stock Exchanges. The investor should investigate with caution securities which are not dealt in on a recognized Stock Exchange. A certain proportion of unquoted securities which are quite sound do sometimes find their way to the investing public ; but in most cases knowledge of these investments is confined to the firms issuing them, and consequently they are difficult to sell outside these channels. As a general rule, securities about which information is not readily obtainable are unsuitable for the investor.

CHAPTER X

BALANCE SHEETS

BEFORE making an investment of money in an industrial or commercial undertaking, it is highly desirable that the prospective investor should obtain a copy of the last published accounts of the company, in order to examine the amount of security behind his proposed investment.

INSPECT PREVIOUS ACCOUNTS.

It is a common custom for investors to purchase shares upon the recommendation of bank managers, stockbrokers, and other experts without taking any steps to investigate the financial position of the undertaking in which the capital is intended to be invested. This custom is quite contrary to that which is followed in respect to investment of capital in any other class of security. When it is proposed to invest money in the purchase of a building it is the invariable practice to obtain an expert valuation from a reliable surveyor. The amount of knowledge which is required by the individual investor for the purpose of arriving at his own valuation of the security of debentures or shares of a company, can be obtained by the application of ordinary business common-sense. When a purchase of shares in a particular company is under consideration, a courteous letter should be addressed to the secretary of the company asking whether a copy of the last report of the directors and accounts of the company could be sent for temporary inspection, as a purchase of the shares is contemplated. It is possible that many secretaries of companies would decline to send the accounts to a person whose name was not already on the share register of the company, but the competition for capital has been so keen in recent years that this autocratic attitude has been very largely abandoned. As it is not unreasonable to expect that an investor would desire to examine the balance sheet of a company *before* instead of after investing his capital, it will be found that in most cases the secretary will forward the necessary document provided, of course, that a stamped envelope is enclosed, and an undertaking given to return the accounts if it is desired. Failing obtaining this information officially from the secretary, it is possible to secure a copy of the statement of assets and liabilities (*see* p. 46) from the Companies' Registration Department at Somerset House on payment of a comparatively small fee, or to inspect it personally on payment of the usual search fee of 1s. at Somerset House. If neither of these courses is available to the investor, the stockbroker who has been engaged for the contemplated purchase should be able to obtain the necessary information.

ANALYSE THE BALANCE SHEET.

Assuming that the balance sheet has been obtained, the investor should examine it first of all with a view to finding what amount of capital security exists for the debentures or shares in which he proposes to invest his money. Most companies publish both a balance sheet and a profit and loss account, although many undertakings restrict the information they give to the former document only. The balance sheet provides the necessary details as to the security available for the capital and the profit and loss account, as its title suggests, gives an indication as to the profit or income likely to be derived from the investment. As already explained in a previous page, there is no uniform method adopted by companies in drawing up their accounts.

Balance sheets will be found to possess hundreds of variations which it is obviously impossible to review here. Taking the most simple form of balance sheet for our purpose, the reader will obtain sufficient indication of the line to pursue in investigating balance sheets which may show variations. On page 112 is an imaginary balance sheet of Ironworks, Limited. On the left-hand side is stated the capital and liabilities of the company; on the right-hand side is set out the assets owned by the company.

Dealing first with the liabilities, we see that the capital issued is less than is actually authorized by the company. This means that under the Memorandum and Articles of Association the directors are already authorized by law, if the shareholders approve, to issue capital up to the amount of £350,000 in the form stated, but that at the date of the balance sheet the actual amount of capital issued only consisted of £250,000, 100,000 6 per cent cumulative preference shares being held in reserve for future use if desired. The company has issued debentures to the amount of £30,000 bearing 5 per cent interest, and has a loan from its bankers of £10,000. It owes £100,000 to various persons, and also owes to the reserve fund £50,000, and to the profit and loss account £28,000, making a total liability of £468,000. The first stumbling block of the investor is the difficulty of explaining why the reserve of the company should appear under liabilities. A reserve is undivided profit, and is, therefore, a debt of the company to the shareholders in just the same way as a certain sum is owed to the profit and loss account. If the reserve fund did not appear under liabilities it would be impossible to balance the account when it came to show among the assets on the other side the various investments in which the reserve has been invested. On the assets

IRONWORKS, LIMITED

BALANCE SHEET TO 31ST DECEMBER, 192..

Liabilities.	£	*Assets.*	£
Capital authorized—		Buildings, fixed plant and machinery	180,000
200,000 ordinary shares, £1 each		Goodwill	36,500
150,000 6% cum. pref. shares, £1 each		Patents and patent rights	1,000
Capital Issued—		Stock-in-trade	50,000
200,000 ord. shares £1 fully paid	200,000	Sundry debtors	150,000
50,000 6% cum. pref. shares £1 fully paid	50,000	Investments—War Loan, etc.	50,000
Debentures	30,000	Cash	500
Bankers' Loan	10,000		
Sundry Creditors	100,000		
Reserve	50,000		
Profit and Loss Account	28,000		
	£468,000		£468,000

side the company possesses buildings, fixed plant, and machinery to the value of £180,000. It will be noted that it is not stated whether the buildings are freehold or leasehold, nor whether depreciation has been written off at any time since the original valuation, and to what extent. These are, of course, important points, especially in respect to the freehold or leasehold character of the buildings. It is possible that the secretary of the company would be quite willing to give the necessary information as to whether the buildings are freehold or leasehold, although it is possible he may withhold any information regarding the amount, if any, written off for depreciation. Goodwill appears in our imaginary balance sheet at £36,500. Goodwill is quite an intangible asset, that is it has no material existence. It consists of the good feeling or will which has been built up between the company and its customers, or, put in other words, in the credit and good name attaching to the concern. In the event of the company failing and going into liquidation, it is doubtful whether the same goodwill will attach to the concern, and therefore, any amount figuring on the assets side of a balance sheet as goodwill should be largely ignored by the prospective investor unless it is a concern in which a huge sum has been expended in advertising over a long period of years in order to advertise a special name. This applies sometimes in such cases as companies owning proprietary foods, patent medicines, and patented articles of known and established value. Separate from goodwill are patents and patent rights, although this item is often incorporated with that of goodwill. It is usually written down to a very small sum, but it is often just as intangible as goodwill. The stock-in-trade must be accepted by the investor at the balance sheet valuation. It is generally valued by the managing director or managers of the departments of the company, and in most instances may be accepted as reasonably sound in the event of the company continuing as a going concern. Sundry debtors may be treated in the same way. The investments in War Loan are obviously the amount which has been set aside to reserve, which we saw under the heading of liabilities. It is customary to state in a balance sheet whether the investments are taken at the cost price or at the current market quotation, and in the absence of the latter statement it may be assumed that the £50,000 entered here represents the original cost. The amount of £500, cash in hand, is very small, and indicates that the company is working with too small a cash capital, and that it may be necessary to issue more capital in order to ease the position. It is due to this small amount of cash that the directors have apparently found it necessary to go to their bank for a temporary loan of £10,000. In order to find the capital security behind the £30,000 of 5 per cent debentures the following self-explanatory method of extracting the figures from the balance sheet may be adopted—

CAPITAL SECURITY BEHIND 5% DEBENTURES

	£
Total assets	468,000
Deduct—Goodwill, patent rights, etc.	37,500
Total tangible assets	430,500
Deduct—Bank loan and sundry creditors	110,000
	320,500
5 per cent debentures	30,000
Surplus assets	£290,500

Goodwill, patent rights, etc., must be deducted as being of intangible value, and bank loan and sundry creditors must also be deducted in view of the fact that there is no information before the investor at the moment that the debentures are secured by first mortgage deed upon the assets of the undertaking, in which case they would rank before the ordinary trade and unsecured creditors. It will be seen that in the event of the company being wound up there is £320,500 of assets to meet the payment of the £30,000 of debentures, or sufficient to cover the debentures 10½ times over. It is obvious, therefore, that the debentures are thoroughly well secured in respect to capital. Proceeding to apply the same method to the 6 per cent preference shares we get the following result, showing that the preference shares are also well secured, being covered nearly six times over by the available assets remaining after the debenture-holders have been paid off—

CAPITAL SECURITY BEHIND 6% PREFERENCE SHARES

	£
Available Assets	290,500
6 per cent preference shares	50,000
Surplus assets	£240,500

The security for the ordinary shares may be worked out in the same form—

CAPITAL SECURITY BEHIND ORDINARY SHARES

	£
Available assets	240,500
Ordinary shares	200,000
Surplus assets	£40,500

It will be seen that the margin of assets over the amount required to pay out the ordinary shares is comparatively small, but it has to be remembered that the ordinary shareholders have also the additional benefit of such sum as may be realized in the event of liquidation from the sale of the goodwill, patents and patent rights owned by the company and valued by the directors at £37,500.

Now it has been assumed in our calculations that the investor is buying the shares on the basis of the nominal balance sheet value of £1 or the debentures at the par value of £100. This, however, may not be the case if it is intended to purchase either the shares or debentures in the open market where they may be obtainable only at a premium. The investor, therefore, must not assume the value of the ordinary share capital as 200,000 shares of £1 each, but as 200,000 shares of 22s. 6d., 25s., 30s., or such figures as the shares may be quoted at and which it will be necessary to pay if it is desired to purchase them. Hence, if the 200,000 ordinary shares are quoted at 22s. 6d. the actual capital of the company would be £225,000 so far as the purchaser of shares in the undertaking is concerned, or if the shares are quoted at 30s. the actual capital involved would be £300,000. It will be clear that if the company were wound up and were able to return to the ordinary shareholders only £200,000, the shareholders who purchased at 22s. 6d. would lose 2s. 6d. per share, although the company might have paid off the whole of the liabilities and returned the whole of the capital as shown on the balance sheet. Hence, the market valuation of the capital must be taken in working out the security behind the shares. In the event of the ordinary shares in the case of Ironworks, Limited, costing the purchaser 22s. 6d. each, the actual amount to be deducted from the available assets would be £225,000, still leaving a small surplus. But if the ordinary shares cost the purchaser in the open market 30s. each, the actual amount of capital involved would be £300,000, whereas the available balance sheet assets amount to only £240,500. In the event, therefore, of the company being wound up and the assets realizing the balance sheet value of £240,500, plus £37,500 represented by Goodwill, patent rights, etc., the total available for distribution to the shareholders would be £278,000 or £22,000 short of the actual value put on the shares by the Stock Exchange. In this case the Stock Exchange would be valuing the assets of the company at a higher level than that at which they appear in the balance sheet. In some instances this higher valuation may be sound, especially if the company is showing considerable progress, and it is believed that the assets have increased in value. It is what is known in Stock Exchange terms as discounting the increased or prospective value of the undertaking. For example, if it became known generally that Ironworks, Limited, six months after the balance sheet had been issued, obtained a profitable contract which would benefit the company, the Stock Exchange would increase the value of the shares and possibly bring the market value considerably above that justified solely on the basis of the balance sheet and accounts made up to a date six months previously. The investor must, therefore, look upon any payment he may make for the shares over and above the "break-up" value shown by the assets in the balance sheet, as an amount paid over and above the real value of the shares. This difference may be regarded as the price he pays for the speculative possibilities before the company, but it must nevertheless be thoroughly understood that in the event of the company being wound up and only the balance sheet figures being realized he may lose the extra amount he has paid for the shares.

It may be taken as a general rule that entries in a balance sheet which are not clear should be investigated all the more closely because it is commonly found that it is these obscure items which hide the weak spots. They are generally to be found on the credit side of the balance sheet as for some unexplainable reason directors who desire to paint the best balance sheet picture apply their energies to swelling or over-stating the value of the assets instead of under-stating the amount of the liabilities. In drawing up a statement of one's own assets and liabilities there is really no difference between the foolishness of over-stating the value of a house which you own and under-estimating your debts to other persons. The inflation of assets appears to be excusable in the eyes of some directors who would regard the under-stating of a company's liabilities as a sin. Among other intangible items which are to be found in a balance sheet on the assets side in addition to goodwill, is the common one of "preliminary or formation expenses." When a business is formed into a joint stock company, a certain amount of expenses are incurred in connection with the payment of stamp duties on the capital, fees, printing and development expenses where a prospectus is issued, etc., and this sum is regarded as an asset to the company. It is, of course, nothing of the kind, and although it is legitimate for the company to take credit for it, it should be written off as soon as possible out of the profits of the first few years. Where a company is more than two or three years old and preliminary or formation expenses appear in the balance sheet, it should at once arouse the suspicion of the investor, because other items in the balance sheet may be similarly weak. Where "Loans" appear on the assets side without any indication as to their character, security, or to whom they are made, they should especially be investigated, as it is not uncommon to find loans made by the directors out of the funds of one company to another company in a weak financial position of which they are also directors. It was this bolstering up of one company by another which brought about the downfall of a notorious group of companies some years ago. Owing to the increased value of buildings in recent years, it has become the custom for some companies to re-value this asset and increase it to a substantial sum. Where the re-valuation took place at the height of the property boom in 1920 it is possible that such valuation is in excess of the market at the present day. Where a re-valuation is stated to have taken place the date should, if possible, be traced.

"Shares in other companies" are often included at a value placed upon them by the directors of the company. They are shares, as a rule, held in subsidiary companies which have been formed either in the United Kingdom or in foreign countries for the expansion or working of businesses controlled by the parent company. Such shares should be independently valued. Depreciation is an important point to investigate, although owing to the general rise in the value of fixed assets since 1914, the amount to be written off for depreciation may not necessarily be so large as before the Great War. In the case of collieries and other similar properties which are gradually wasting in value, a big depreciation is necessary, and if it is not met in the balance sheet by the directors, the prospective shareholder should make allowance for the fact in the price he pays for the shares, and set aside a certain proportion of his dividend as a protection against the day when the property of the company will become valueless. Particularly does this apply to gold-mining and similar undertakings. The most important part of the balance sheet is the character of the auditors' certificate or report which must be attached to each balance sheet in accordance with the provision of the Companies Consolidation Act, 1908.

THE AUDITORS' REPORT.

Auditors have an accepted form of certificate, and although the words may sometimes vary, the terms of the certificate are generally drawn up on the following lines—

> "We have examined the above balance sheet and in accordance with the provisions of the Companies Consolidation Act, 1908, beg to report that we have obtained all the information and explanations we have required. In our opinion the balance sheet is properly drawn up so as to exhibit a true and correct view of the state of the company's affairs according to the best of our information and the explanations given to us, and as shown by the books of the company."

It should be explicitly understood that the auditors of a company are the servants of the shareholders and not of the directors. On this point the following is the extract from the Companies Consolidation Act, 1908—

"The auditors shall make a report to the shareholder on the accounts examined by them, and on every balance sheet laid before the company in general meeting during their tenure of office, and the report shall state—

(*a*) whether or not they have obtained all the information and explanations they have required; and

(*b*) whether, in their opinion, the balance sheet referred to in the report is properly drawn up so as to exhibit a true and correct view of the state of the company's affairs according to the best of their information and the explanations given to them, and as shown by the books of the company.

The balance sheet shall be signed on behalf of the board by two of the directors of the company, or if there is only one director, by that director, and the auditors' report shall be attached to the balance sheet, or there shall be inserted at the foot of the balance sheet a reference to the report, and the report shall be read before the company in general meeting, and shall be open to inspection by any shareholder.

Holders of preference shares and debentures of a company shall have the same right to receive and inspect the balance sheets of the company and the reports of the auditors and other reports as is possessed by the holders of ordinary shares in the company.

This section shall not apply to a private company, nor to a company registered before the first day of July, nineteen hundred and eight."

It has sometimes been contended that auditors should give more information to the shareholders regarding the accounts than is contained in the printed certificate laid down by the Act. In some cases auditors will emphasize for the benefit of the shareholder points which are not made clear in the balance sheet. Examples of this may be found in the explanation given by the auditors where stocks have been taken by the company's officials and valued subject to a special provision for covering fluctuations in the market prices of raw materials, or where the item "sundry investments" is not made perfectly clear in respect to the value put upon them. In the latter case, the auditors' certificate is generally of a negative character, that is it will be certified that "We have had no evidence submitted to us as to the value of the item 'sundry investments.'" This means that the investments are in companies whose shares are not dealt in on the Stock Exchange, and the directors have not demonstrated to the auditors that any particular value attaches to them. In this instance the valuation of the investments in the balance sheet is made solely on the responsibility of the directors. Despite its bald character, the auditors' report is a very important part of the documentary evidence which the investor should examine before investing capital, and under no circumstances should investment be proceeded with where the auditors' certificate casts any doubt upon the value of the assets stated in the balance sheet.

As already stated, the item of stocks on the assets side of the balance sheet is generally that which is subject to manipulation where it is desired to inflate the assets. No amount of precaution on the part of a firm of auditors can prevent them being misled frequently by the valuation put upon the stocks in hand as they are necessarily in the hands to a large extent of the managers of the company. It is obviously impossible for auditors to possess an expert knowledge of all the various kinds of stocks and manufactured goods which are held by trading, industrial, and manufacturing companies, so that they are forced to accept the certified valuation of the manager or directors of the company. It has been suggested that auditors should be empowered by law where they have reason to doubt the value put upon the stocks, to call in an expert valuer for the purpose of providing an independent valuation.

INFLUENCE OF FOREIGN EXCHANGE.

Prior to the Great War it was not necessary for holders of shares in English registered companies doing business in foreign countries to pay much regard to the influence of foreign exchange upon their investments. Owing to the enormous output of paper money subsequent to 1914, a large number of countries have now a very debased currency, and the amount of paper money which is equivalent to a pound sterling in this country has changed very considerably. Consequently the English registered companies in foreign countries may suffer a heavy loss when they remit their earnings or profit to London for conversion into English money, and its subsequent distribution to the shareholders. An example may be quoted in the case of an English registered company carrying on business in Paris. Assuming that its issued capital is £100,000, and it makes a profit in Paris of 125,000 francs, this would, previous to the war, have been worth in London at the rate of exchange then current (25 francs to the £) £5,000, or sufficient to provide the directors with enough cash to distribute a dividend if they wished up to 5 per cent on the issued capital. The depreciation in the value of the franc in comparison with the English £ made it necessary, during a great part of 1922, to provide 50 francs to equal £1 in this country, so that if the company were still earning profits on its pre-war basis of 125,000 francs, at the rate of exchange sometime current in 1922 (50 francs to the £) this would be equal in English money to £2,500, or only sufficient to provide cash for the directors to distribute a dividend of 2½ per cent on the issued capital. The question of foreign exchange thus becomes one of great importance to the investor. In examining the balance sheet of companies which do foreign business it is necessary to note carefully at what rate of exchange the receipts of the company and assets are brought into the balance sheet. In some companies which do business in France, the rate of exchange on which the balance sheet is compiled is still 25 francs to the £ so that the investor must make considerable allowance for the reasons already stated. Where the rate of exchange fluctuates it may, of course, cause the company to make a profit when it improves above the normal rate, as in the case of British companies working in Brazil when the English value of the milreis went up in the early years of the war to over 16d., or in the case of British companies working in New York and having a capital issued in dollars, who benefited by the fact that \$3·81 were equal to a full £ instead of it requiring \$5 to equal a £ as in pre-war times. In both cases such companies would naturally make a profit in bringing their earnings to this country. The chairman of the Buenos Ayres and Pacific Railway Company, which owns a very large railway system in the Argentine, stated at a meeting of the shareholders in 1919 that every penny above par in the rate of exchange on Buenos Ayres represented a profit to the company of between £4,000 and £5,000 per month, and when the exchange rose to the high level of 7d. the company was able to remit home a profit approaching £100,000 per month. When the exchange rate fell to 40d. or 7½d. below par, the position was reversed, with the result that nearly all the Argentine railway companies suffered heavy losses in 1920 and 1921 because they had to remit home their earnings at a loss. It should not be difficult for the investor to trace whether a company derives a large part of its income from foreign companies, and given information regarding the rates of exchange between London and the country in question, the investor should be able to detect any possible source of weakness. The rates of exchange on each country are given fully in the newspapers each day, and an expert knowledge of the workings of foreign exchange is not necessary in order to see the effect which a movement of exchange may have on the fortunes of an individual company.

INDEX

Printed in Bath, England, by Sir Isaac Pitman & Sons, Ltd.
x—(1903)

A SELECTION FROM THE LIST OF

COMMERCIAL HANDBOOKS

Published by

SIR ISAAC PITMAN & SONS, LTD.

Complete Catalogue sent post free on application.

LONDON: PARKER STREET, KINGSWAY, W.C.2.

BATH: Phonetic Institute. MELBOURNE: The Rialto, Collins St.
NEW YORK: 2 West 45th St. TORONTO: 70 Bond Street.

The Prices contained in this List apply only to the British Isles, and are subject to alteration without notice.

TERMS

Cash MUST *be sent with the order,* AND MUST INCLUDE AN APPROXIMATE AMOUNT FOR THE POSTAGE. *When a remittance is in excess of the sum required, the surplus will be returned.*

Sums under 6d. can be sent in stamps. For sums of 6d. and upwards Postal Orders or Money Orders are preferred to stamps, and should be crossed and made payable to SIR ISAAC PITMAN & SONS, LTD.

Remittances from abroad should be by means of International Money Orders in Foreign Countries, and by British Postal Orders within the British Overseas Dominions. Colonial Postal Orders are not negotiable in England. Foreign stamps CANNOT BE ACCEPTED.

ARITHMETIC

PRICE

Arithmetic and Book-keeping.
By THOS. BROWN, F.S.S., and VINCENT E. COLLINGE, A.C.I.S. In two parts.
Part I . . . . Net 2/6
Part II . . . . Net 1/3

Arithmetic of Commerce.
By P. W. NORRIS, M.A., B.Sc. (Hons.) . . Net 4/-

Complete Commercial Arithmetic. 3/6
Answers . . . . Net 1/6

Complete Mercantile Arithmetic.
With Elementary Mensuration.
By H. P. GREEN, F.C.Sp.T. (With Key) . Net 6/-

PRICE

Counting House Mathematics.
By H. W. Porrit and W. Nicklin, A.S.A.A. . Net 2/-

Elements of Commercial Arithmetic.
By Thomas Brown . . . . . . Net 2/6

Metric and British System of Weights, Measures, and Coinage.
By Dr. F. Mollwo Perkin . . . . . Net 3/6

Principles and Practice of Commercial Arithmetic.
By P. W. Norris, M.A., B.Sc. . . . . Net 7/6

Rapid Methods in Arithmetic.
By John Johnston. Revised and Edited by G. K. Bucknall, A.C.I.S. . . . . . . Net 1/-

Smaller Commercial Arithmetic.
By C. W. Crook, B.A., B.Sc. . . . . Net 2/-
Answers . . . . Net 1/6

The Slide Rule Applied to Commercial Calculations.
By R. M. Shireby . . . . . . Net 2/6

BOOK-KEEPING AND ACCOUNTANCY

Accountancy.
By F. W. Pixley, F.C.A., *Barrister-at-Law* . Net 7/6

Accountants' Dictionary.
Edited by F. W. Pixley, F.C.A. In 2 Vols. . Net 63/-

Accounting.
By S. S. Dawson, M.Com., F.C.A., and R. C. de Zouche, F.C.A. . . . . Net 10/6

Accounts of Executors, Administrators, and Trustees.
By William B. Phillips, A.C.A., A.C.I.S. . Net 5/-

Advanced Accounts.
Edited by Roger N. Carter, M.Com., F.C.A. . Net 7/6

Advanced Book-keeping. Net 3/6
Answers . . . . Net 2/6

Auditing, Accounting, and Banking.
By Frank Dowler, A.C.A., and E. Mardinor Harris, A.I.B. . . . . Net 7/6

PRICE

Auditors : Their Duties and Responsibilities.
By F. W. PIXLEY, F.C.A. . . . . Net 21/-

Balance Sheets : How to Read and Understand Them.
By PHILIP TOVEY, F.C.I.S., ... Net 2/6

Book-keeping and Commercial Practice.
By H. H. SMITH, F.C.T., F.Inc.S.T. 1/9

Book-keeping for Beginners.
With Answers to the Exercises.
By W. E. HOOPER, A.C.I.S. . . . . Net 2/6

Book-keeping for Bootmakers, Retailers, and Repairers.
By F. W. WHITFIELD . . . . . . Net 3/6

Book-keeping for Commercial and Secondary Schools.
By C. H. KIRTON, A.C.I.S. . . . . . Net 6/-

Book-keeping for Retailers.
By H. W. PORRITT and W. NICKLIN, A.S.A.A. . Net 2/6

Book-keeping Simplified.
By W. O. BUXTON, A.C.A. (Hons.) 3/6
Answers . . . . Net 3/-

Book-keeping Teachers' Manual.
By C. H. KIRTON, A.C.I.S., F.Inc.S.T. . . . Net 7/6

Branch Accounts.
By P. TAGGART, A.S.A.A. . . . . . Net 3/-

Business Book-keeping.
By J. ROUTLEY . . . . Net 3/6

Commercial Goodwill.
By P. D. LEAKE, F.C.A. . . . . . Net 21/-

Company Accounts.
By ARTHUR COLES, F.C.I.S. . . . . . Net 7/6

Complete Book-keeping. Net 6/6
Answers . . . . Net 4/-

Cost Accounts in Principle and Practice.
By A. CLIFFORD RIDGWAY, F.C.A. . . . . Net 5/-

Depreciation and Wasting Assets,
And Their Treatment in Computing Annual Profit & Loss.
By P. D. LEAKE, F.C.A. . . . . . Net 15/-

		PRICE
Dictionary of Book-keeping. By R. J. Porters	Net	7/6
Elements of Book-keeping. By W. O. Buxton, A.C.A. (Hons.)	Net	2/6
Full Course in Book-keeping. By H. W. Porritt and W. Nicklin, A.S.A.A.	Net	5/-
Higher Book-keeping and Accounts. By H. W. Porritt and W. Nicklin, A.S.A.A.	Net	5/-
Hotel Book-keeping.	Net	2/6
How to Become a Qualified Accountant. By R. A. Witty, A.S.A.A.	Net	3/6
Manual of Book-keeping and Accounting. By A. Nixon, F.C.A., and H. E. Evans, A.C.A.	Net	10/6
Manual of Cost Accounts. By H. Julius Lunt	Net	7/6
Manufacturing Book-keeping and Costs. By G. Johnson, F.C.I.S.	Net	5/-
Municipal Book-keeping. By J. H. McCall	Net	7/6
Notes of Lessons on Book-keeping. By J. Routley	Net	3/6
Practical Book-keeping. By G. Johnson, F.C.I.S.	Net	6/-
Principles of Auditing. By F. R. M. De Paula, O.B.E., F.C.A.	Net	7/6
Primer of Book-keeping.		2/-
Answers	Net	1/6
Principles of Book-keeping Explained. By I. H. Humphrys	Net	2/6
Questions and Answers in Book-keeping and Accounting. By F. F. Sharles, F.S.A.A., A.C.I.S.	Net	10/6
Railway Accounts and Finance. By Allen E. Newhook, A.K.C.	Net	5/-
Shopkeepers' Accounts Simplified. By C. D. Cornell	Net	2/-
Theory and Practice of Costing. By E. W. Newman, A.C.A.	Net	10/6

BUSINESS TRAINING, COPY BOOKS, ETC.

PRICE

Business Handwriting. Net 1/6

Business Methods and Secretarial Work for Girls and Women.
By HELEN REYNARD, M.A. . . . . . Net 2/6

Commercial Handwriting and Correspondence.
Net 3/-

Commercial Practice.
By ALFRED SCHOFIELD . . . . . . Net 4/-

Counting-House Routine. 1st Year's Course.
By VINCENT E. COLLINGE, A.C.I.S. . . . Net 1/9

Counting-House Routine. 2nd Year's Course.
By VINCENT E. COLLINGE, A.C.I.S. . . . Net 3/6

Course in Business Training.
By G. K. BUCKNALL, A.C.I.S. 2/6

Elements of Commerce.
By F. HEYWOOD, A.C.I.S. . . . . . Net 4/-

Handbook for Commercial Teachers.
By FRED HALL, M.A., B.Com., F.C.I.S. . . Net 2/6

How to Become a Private Secretary.
By J. E. McLACHLAN, F.I.P.S. . . . Net 3/6

How to Enter the Mercantile Marine.
By R. A. FLETCHER . . . . . . Net 3/6

How to Teach Business Training.
By F. HEELIS, F.C.I.S. . . . . . . Net 2/6

How to Write a Good Hand.
By B. T. B. HOLLINGS . . . . . . Net 1/6

Junior Woman Secretary.
By ANNIE E. DAVIS, F.Inc.S.T. . . . Net 2/-

Manual of Business Training. Net 5/-

Modern Business and Its Methods.
By W. CAMPBELL, Chartered Secretary. . . Net 7/6

Office Routine for Boys and Girls.
In three stages. First Stage . . . . . . 8d.
Second and Third Stages . . . . Each 1/-

Popular Guide to Journalism.
By A. KINGSTON . . . . Net 2/6

		PRICE
Practical Journalism and Newspaper Law.		
By A. BAKER, M.J.I., and E. A. COPE . .	Net	3/6
Principles and Practice of Commerce.		
By JAMES STEPHENSON, M.A., M.Com., B.Sc. .	Net	8/6
Principles of Business.		
By JAMES STEPHENSON, M.A., M.Com., B.Sc.		
Part I	Net	3/–
Part II	Net	3/6
Routine of Commerce.		
By ALFRED SCHOFIELD	Net	4/–
Theory and Practice of Commerce.		
Being a Complete Guide to Methods and Machinery of Business.		
Edited by F. HEELIS, F.C.I.S. Assisted by Specialist Contributors	Net	7/6

CIVIL SERVICE

Civil Service Arithmetic Tests.		
By P. J. VARLEY-TIPTON	Net	2/6
Civil Service Essay Writing.		
By W. J. ADDIS, M.A.	Net	2/6
Civil Service Guide.		
By A. J. LAWFORD JONES	Net	2/6
Civil Service Practice in Précis Writing.		
Edited by ARTHUR REYNOLDS, M.A. (Oxon.) .	Net	3/6
Copying Manuscript, Orthography, Handwriting, Etc.		
By A. J. LAWFORD JONES. Actual Examination Papers only	Net	3/6
Digesting Returns into Summaries.		
By A. J. LAWFORD JONES	Net	2/6
Elementary Précis Writing.		
By WALTER SHAWCROSS, B.A.	Net	2/–
Indexing and Précis Writing.		
By A. J. LAWFORD JONES	Net	2/6
The Civil Servant and His Profession.	Net	3/6

ENGLISH AND COMMERCIAL CORRESPONDENCE

		PRICE
Commercial Correspondence and Commercial English.	Net	3/6
Commercial Dictionary.	Net	2/-
English Composition and Correspondence. By J. F. DAVIS, D.Lit., M.A., LL.B. (Lond.)	Net	2/6
English for Commercial Students. By H. W. HOUGHTON	Net	2/6
English for Technical Students. By F. F. POTTER, M.A.		2/-
English Grammar. By C. D. PUNCHARD, B.A. (Lond.)	Net	2/-
English Grammar and Composition. By W. J. WESTON, M.A., B.Sc. (Lond.)	Net	5/-
English Mercantile Correspondence.	Net	3/6
English Prose Composition. By W. J. WESTON, M.A., B.Sc. (Lond.)	Net	3/6
Guide to Commercial Correspondence and Business Composition. By W. J. WESTON, M.A., B.Sc. (Lond.)		2/6
Guide to English Composition. By the REV. J. H. BACON	Net	2/-
How to Teach Commercial English. By WALTER SHAWCROSS, B.A.	Net	3/6
Manual of Commercial English. By WALTER SHAWCROSS, B.A.	Net	3/6
Pocket Dictionary.	Net	2/-
Practice in English. By P. H. REANEY, M.A.		2/6
Principles and Practice of Commercial Correspondence. By J. STEPHENSON, M.A., M.Com., B.Sc.	Net	7/6
Punctuation as a Means of Expression. By A. E. LOVELL, M.A.	Net	1/-
The Correspondence of Commerce. By A. RISDON PALMER, B.Sc., B.A.	Net	4/-

COMMERCIAL GEOGRAPHY AND HISTORY

		PRICE
Commercial Geography of the British Empire Abroad and Foreign Countries.	Net	3/-
Commercial Geography of the British Isles.	Net	2/6
Commercial Geography of the World.	Net	4/6
Commercial History. By J. R. V. MARCHANT, M.A.	Net	5/6
Economic Geography. (See "ECONOMICS," below.)		
Economic History. (See "ECONOMICS" below.)		
Elements of Commercial Geography. By C. H. GRANT, M.Sc., F.R.Met. Soc. . .	Net	2/6
Elements of Commercial History. By FRED HALL, M.A., B.Com., F.C.I.S. . .	Net	2/6
Examination Notes on Commercial Geography. By W. P. RUTTER, M.Com.	Net	2/-
Principles of Commercial History. By J. STEPHENSON, M.A., M.Com., B.Sc. .	Net	7/6
The World and Its Commerce.	Net	2/6

ECONOMICS

British Finance (1914-1921). Edited by A. W. KIRKALDY, M.A., B.Litt., M.Com.	Net	15/-
British Labour (1914-1921). Edited by A. W. KIRKALDY, M.A., B.Litt., M.Com.	Net	10/6
Dictionary of Economic and Banking Terms. By W. J. WESTON, M.A., B.Sc., and A. CREW	Net	5/-
Economic Geography. By JOHN MCFARLANE, M.A., M.Com. . . .	Net	10/6
Elements of Political Economy By H. HALL, B.A.	Net	2/6
Guide to Political Economy. By F. H. SPENCER, D.Sc., LL.B.	Net	3/6

	PRICE
History and Economics of Transport. By A. W. Kirkaldy, M.A., B.Litt. (Oxford), M.Com. (Birm.), and A. Dudley Evans . . . . Net	15/-
Labour, Capital and Finance. By "Spectator" (W. W. Wall, F.J.I., F.S.S.) . Net	3/6
Local Government of the United Kingdom. By John J. Clarke, M.A., F.S.S. . . . Net	7/6
Outlines of Central Government. By John J. Clarke, M.A., F.S.S. . . . Net	1/6
Outlines of Industrial and Social Economics. By John J. Clarke, M.A., F.S.S., and James E. Pratt, A.C.I.S. . . . . Net	1/6
Outlines of Local Government. By John J. Clarke, M.A., F.S.S. . . . Net	2/6
Outlines of the Economic History of England: A Study in Social Development. By H. O. Meredith, M.A., M.Com. . . Net	7/6
Plain Economics. By John Lee, M.A., M.Com.Sc. . . . Net	3/6
The Housing Problem. By John J. Clarke, M.A., F.S.S. . . . Net	21/-
Value for Money. By Sir Wm. Schooling, K.B.E. . . . Net	2/6

BANKING AND FINANCE

Bankers' Advances. By F. R. Stead. Edited by Sir John Paget, K.C. Net	6/-
Bankers' Advances Against Produce. By A. Williams, A.I.B. . . . . . Net	6/-
Bankers' Credits and all that Appertains to Them in Their Practical, Legal, and Everyday Aspects. By W. F. Spalding . . . . Net	10/6
Bankers' Securities Against Advances. By Lawrence A. Fogg, Cert. A.I.B. . . Net	

PRICE

Bank Organization, Management, and Accounts.
By J. F. DAVIS, M.A., D.Lit., LL.B. (Lond.) . Net 6/-

Dictionary of Banking.
A Complete Encyclopaedia of Banking Law and Practice.
By W. THOMSON and LLOYD CHRISTIAN . . Net 30/-

Eastern Exchange.
By W. F. SPALDING . . . . . . Net 15/-

Elements of Banking.
By J. P. GANDY . . . . . . Net 2/6

English Public Finance.
By HARVEY E. FISK . . . . . . Net 7/6

Foreign Exchange and Foreign Bills in Theory and in Practice.
By W. F. SPALDING, Cert. A.I.B. . . . Net 7/6

Foreign Exchange, A Primer of.
By W. F. SPALDING . . . . . . Net 3/6

Functions of Money, The.
By W. F. SPALDING . . . . . . Net 7/6

Money, Exchange, and Banking.
In Their Practical, Theoretical, and Legal Aspects.
By H. T. EASTON, A.I.B. . . . . . Net 6/-

Notes on Banking and Commercial Law.
By T. LLOYD DAVIES . . . . . . Net 3/-

Practical Banking.
By J. F. G. BAGSHAW. With Chapters on The Principles of Currency, by C. F. HANNAFORD, A.I.B., and Bank Book-keeping, by W. H. PEARD . . . . Net 7/6

Simple Interest Tables.
By SIR WILLIAM SCHOOLING, K.B.E. . . . Net 21/-

Talks on Banking to Bank Clerks.
By H. E. EVANS . . . . Net 2/6

The Bankers' Clearing House.
By P. W. MATHEWS . . . . . . Net 7/6

Title Deeds and the Rudiments of Real Property Law.
By F. R. STEAD . . . . Net 6/-

INSURANCE

PRICE

Common Hazards of Fire Insurance.
By W. G. Kubler Ridley, F.C.I.I. . . Net 5/-

Guide to Life Assurance.
By S. G. Leigh, F.I.A. . . . . . . Net 5/-

Guide to Marine Insurance.
By Henry Keate . . . . . Net 3/6

Insurance.
By T. E. Young, B.A., F.R.A.S. A complete and practical exposition. With sections on Workmen's Compensation Insurance, by W. R. Strong, F.I.A.; and The National Insurance Scheme, by Vyvyan Marr, F.F.A., F.I.A. . . . . Net 10/6

Insurance Office Organization, Management, and Accounts.
By T. E. Young, B.A., F.R.A.S., and Richard Masters, A.C.A. . . . . . . Net 6/-

Law and Practice as to Fidelity Guarantees.
By C. Evans and F. H. Jones . . . Net 6/-

Pension, Endowment, Life Assurance, and Other Schemes for Commercial Companies.
By H. Dougharty, F.C.I.S. . . . . Net 6/-

Principles of Insurance.
By J. Alfred Eke . . . . . . Net 3/6

Principles of Marine Law. (See page 19.)

Talks on Insurance Law.
By J. A. Watson, B.Sc., LL.B. . . . Net 5/-

The Successful Insurance Agent.
By J. J. Bisgood, B.A., F.C.I.S., J.P. . . Net 2/6

Workmen's Compensation Insurance.
By C. E. Golding, LL.B., F.C.I.I. . . . Net 5/-

SHIPPING

Case and Freight Costs.
By A. W. E. Crosfield . . . . . Net 2/-

Consular Requirements for Exporters and Shippers to all Parts of the World.
By J. S. Nowery . . . . Net 7/6

PRICE

Exporting to the World.
By A. A. PRECIADO . . . . . . Net 21/-

How to Export Goods.
By F. M. DUDENEY . . . . . . Net 2/-

How to Import Goods.
By J. A. DUNNAGE . . . . . . Net 2/-

Import and Export Trade.
By A. S. HARVEY . . . . Net 21/-

Shipping.
By A. HALL and F. HEYWOOD . . . . Net 2/6

Shipping Business Methods.
By R. B. PAUL . . . . Net 3/6

Shipping Office Organization, Management, and Accounts.
By ALFRED CALVERT . . . . . . Net 6/-

The Exporters' Handbook and Glossary.
By F. M. DUDENEY . . . . . . Net 8/6

SECRETARIAL WORK

Chairman's Manual.
By GURDON PALIN, *of Gray's Inn, Barrister-at-Law,* and ERNEST MARTIN, F.C.I.S. . . . . . Net 5/-

Company Secretarial Work.
By E. MARTIN, F.C.I.S. . . . . . Net 2/6

Company Secretary's Vade Mecum.
Edited by P. TOVEY, F.C.I.S. . . . . . Net 3/6

Debentures.
A Handbook for Limited Company Officials, Investors, and Business Men.
By F. SHEWELL COOPER, M.A., *Barrister-at-Law* Net 6/-

Dictionary of Secretarial Law and Practice.
Edited by PHILIP TOVEY, F.C.I.S. A comprehensive Encyclopaedia of information and direction on all matters connected with the work of a Company Secretary. With contributions by nearly 40 eminent authorities . . . . Net 42/-

Secretarial Work—contd.

PRICE

Guide for the Company Secretary.
By ARTHUR COLES, F.C.I.S. . . . . . Net 6/-

Guide to Company Secretarial Work.
By O. OLDHAM, A.C.I.S. . . . . . Net 3/6

How to Become a Company Secretary.
By E. J. HAMMOND, A.C.I.S. . . . . . Net 3/6

How to Become a Private Secretary.
By J. E. McLACHLAN . . . . . . Net 3/6

How to Take Minutes.
Edited by E. MARTIN, F.C.I.S. . . . . Net 2/6

Outlines of Transfer Procedure in Connection with Stocks, Shares, and Debentures of Joint Stock Companies.
By F. D. HEAD, B.A. (Oxon.), *of Lincoln's Inn, Barrister-at-Law* . . . . . . Net 3/6

Practical Share Transfer Work.
By F. W. LIDDINGTON . . . . . . Net 3/6

Prospectuses: How to Read and Understand Them.
By PHILIP TOVEY, F.C.I.S. . . . . . Net 5/-

Secretary's Handbook.
Edited by H. E. BLAIN, C.B.E. . . . . Net 6/-

Transfer of Stocks, Shares, and Other Marketable Securities.
By F. D. HEAD, B.A. . . . . . . Net 10/6

What is the Value of a Share?
By D. W. ROSSITER . . . . . . Net 2/6

INCOME TAX

"Abacus" Income Tax Tables.
By E. J. HAMMOND, A.C.I.S. . . . . . Net 2/-

Corporation Profits Tax.
By P. D. LEAKE . . . . Net 1/-

Income Tax and Super Tax Practice.
By W. E. SNELLING . . . . . . Net 12/6

PRICE

Practical Income Tax.
By W. E. SNELLING . . . . . . Net 3/6

Super Tax Tables.
By G. O. PARSONS . . . . . . Net 1/-

Taxation Annual.
By W. E. SNELLING . . . . . . Net 10/6

INDUSTRIAL ADMINISTRATION

Common Sense and Labour.
By S. CROWTHER . . . . Net 8/6

Current Social and Industrial Forces.
Edited by L. D. EDIE . . . . . . Net 12/6

Employment Management.
Compiled and Edited by DANIEL BLOOMFIELD . Net 8/6

Factory Administration in Practice.
By W. J. HISCOX . . . . Net 8/6

Industrial Control (Applied to Manufacture).
By F. M. LAWSON, A.M.I.C.E., A.M.I.Mech.E. . Net 8/6

Lectures on Industrial Administration.
Edited by B. MUSCIO, M.A. . . . . . Net 6/-

Management.
By J. LEE . . . . Net 5/-

Modern Industrial Movements.
Edited by D. BLOOMFIELD . . . . . Net 10/6

Outlines of Industrial Administration.
By R. O. HERFORD, H. T. HILDAGE, and H. G. JENKINS
Net 6/-

Principles of Industrial Administration, An Introduction to.
By A. P. M. FLEMING, C.B.E., M.Sc., M.I.E.E., and
H. J. BROCKLEHURST, M.Eng., A.M.I.E.E. . Net 3/6

Problems of Labour.
Compiled and Edited by DANIEL BLOOMFIELD . Net 8/6

Research in Industry.
By A. P. M. FLEMING, C.B.E., M.Sc., M.I.E.E., and
F. G. PEARCE, B.Sc., A.M.I.E.E. . . . . Net 10/6

		PRICE
Sharing Profits With Employees. By J. A. BOWIE, M.A.	Net	10/6
The Psychology of Management. By L. M. GILBRETH	Net	7/6
Workshop Committees. By C. G. RENOULD	Net	1/-

BUSINESS ORGANIZATION AND MANAGEMENT

Business Management for Small Retailers. By H. W. THEEDAM	Net	3/6
Card Index System.	Net	2/6
Clubs and Their Management. By FRANCIS W. PIXLEY, F.C.A.	Net	7/6
Colliery Office Organization and Accounts. By J. W. INNES, F.C.A., and T. COLIN CAMPBELL, F.C.I.	Net	7/6
Counting-House and Factory Organization. By J. GILMOUR WILLIAMSON	Net	7/6
Drapery Business Organization, Management, and Accounts. By J. ERNEST BAYLEY	Net	7/6
Filing Systems. By E. A. COPE	Net	3/6
Grocery Business Organization and Management. By C. L. T. BEECHING and J. ARTHUR SMART	Net	6/-
Manual of Duplicating Methods. By W. DESBOROUGH	Net	3/-
Municipal Organization. By MONTAGU H. COX, LL.B.	Net	5/-
Office Machines, Appliances, and Methods. By W. DESBOROUGH, F.C.I.	Net	6/-

PRICE

Office Organization and Management, Including Secretarial Work.
By LAWRENCE R. DICKSEE, M.Com., F.C.A., and H. E. BLAIN, C.B.E. . . . . . . Net 7/6

Solicitors' Office Organization, Management, and Accounts.
By E. A. COPE and H. W. H. ROBINS . . Net 6/–

The Organization of a Small Business.
By W. A. SMITH . . . . Net 2/6

ADVERTISING AND SALESMANSHIP

Ads. and Sales.
By HERBERT N. CASSON . . . . . Net 8/6

Advertising
By HOWARD BRIDGEWATER . . . . . Net 2/6

Advertising as a Business Force.
By P. T. CHERINGTON . . . . . . Net 10/6

A Short Course in Advertising.
By A. F. OSBORN . . . . Net 12/6

Business Man's Guide to Advertising.
By A. E. BULL . . . . Net 3/6

Buying Goods.
By A. E. BULL . . . . Net 2/–

Commercial Travelling.
By ALBERT E. BULL . . . . . . Net 3/6

Craft of Silent Salesmanship.
By C. MAXWELL TREGURTHA and J. W. FRINGS Net 5/–

Efficient Salesmanship.
By F. W. SHRUBSALL . . . . . . Net 2/–

Mail Order Business, Conducting a.
By A. E. BULL . . . . Net 2/–

Making Advertisements and Making Them Pay.
By ROY S. DURSTINE . . . . . . Net 12/6

Modern Methods of Selling.
By L. J. HOENIG . . . . Net 10/6

		PRICE
Modern Publicity. By A. W. Dean	Net	2/6
Practical Press Publicity. By A. L. Culyer	Net	3/6
Practical Salesmanship. By N. C. Fowler, assisted by 29 expert salesmen, etc	Net	7/6
Principles of Practical Publicity. By Truman A. de Weese	Net	10/6
Salesmanship. By W. A. Corbion and G. E. Grimsdale	Net	3/6
The New Business. By Harry Tipper	Net	8/6
The Psychology of Advertising in Theory and Practice. By W. Dill Scott, Ph.D.	Net	12/6

BUSINESS HANDBOOKS AND WORKS OF REFERENCE

Business Man's Encyclopaedia and Dictionary of Commerce. Edited by J. A. Slater, B.A., LL.B. (Lond.). Assisted by about 50 specialists as contributors. A reliable and comprehensive work of reference on all commercial subjects, specially written for the busy merchant, the commercial student, and the modern man of affairs. Four vols.	Net	£4/4/–
Business Man's Guide. Edited by J. A. Slater, B.A., LL.B.	Net	6/–
Business Statistics. By R. W. Holland, O.B.E., M.A., M.Sc., LL.D.	Net	3/6
Business Terms, Phrases, and Abbreviations.	Net	3/6
Commercial Arbitrations. By E. J. Parry, B.Sc., F.I.C., F.C.S.	Net	3/6
Commercial Commodities. By F. Matthews, B.Sc., A.I.C., F.C.S.	Net	12/6

Business Handbooks and Works of Reference—contd.

PRICE

Commercial Contracts.
By E. J. PARRY . . . . . . Net 5/-

Commercial Self-Educator.
Edited by R. W. HOLLAND, O.B.E., M.A., M.Sc., LL.D.
Two Vols. . . . . Net 30/-

Commodities of Commerce.
By J. A. SLATER, B.A., LL.B. . . . . Net 6/-

Complete Guide to the Improvement of the Memory.
By the late Rev. J. H. BACON . . . . Net 1/6

Dictionary of the World's Commercial Products.
By J. A. SLATER, B.A., LL.B. (Lond.) . . Net 3/6

Discount, Commission, and Brokerage Tables.
By ERNEST HEAVINGHAM . . . . . Net 1/6

Drapery and Drapers' Accounts.
By RICHARD BEYNON . . . . . . Net 3/6

Ironmongery and Ironmongers' Accounts.
By S. W. FRANCIS . . . . Net 3/6

Mercantile Terms and Abbreviations.
Net 1/6

The History, Law, and Practice of the Stock Exchange.
By A. P. POLEY, B.A., *Barrister-at-Law*, and F. H. CARRUTHERS GOULD . . . . . . Net 7/6

The Investor's Manual.
By W. W. WALL, F.S.S., F.J.I. . . . . Net 3/6

The Money and the Stock and Share Markets.
By EMIL DAVIES . . . . Net 2/6

LAW

Bankruptcy, Deeds of Arrangement, and Bills of Sale.
By W. VALENTINE BALL, M.A., *Barrister-at-Law* Net 12/6

Bills, Cheques, and Notes.
By J. A. SLATER, B.A., LL.B. . . . . Net 6/-

	PRICE
Companies and Company Law.	
By A. C. Connell, LL.B. (Lond.) . . . Net	6/-
Company Case Law.	
By F. D. Head, B.A. (Oxon.) . . . . Net	7/6
Examination Notes on Commercial Law.	
By R. W. Holland, O.B.E., M.A., M.Sc., LL.D. Net	2/6
Elementary Law.	
By E. A. Cope . . . . Net	5/-
Examination Notes on Company Law.	
By R. W. Holland, O.B.E., M.A., M.Sc., LL.D. Net	2/6
Guide to Company Law.	
By R. W. Holland, O.B.E., M.A., M.Sc., LL.D. Net	3/6
Guide to Railway Law.	
By Arthur E. Chapman, M.A., LL.D. (Camb.) Net	7/6
Guide to Bankruptcy Law and Winding-up of Companies.	
By F. Porter Fausset, B.A., LL.B., *Barrister-at-Law* Net	3/6
Guide to the Law of Licensing.	
By J. Wells Thatcher . . . . . Net	5/-
Inhabited House Duty.	
By W. E. Snelling . . . . . . Net	12/6
Legal Terms, Phrases, and Abbreviations.	
By E. A. Cope . . . . Net	3/-
Law of Repairs and Dilapidations.	
By T. Cato Worsfold, M.A., LL.D. . . Net	3/6
Mercantile Law.	
By J. A. Slater, B.A., LL.B. (Lond.) . . Net	7/6
Outlines of Company Law.	
By F. D. Head, B.A. (Oxon.) . . . Net	2/6
Partnership Law and Accounts.	
By R. W. Holland, O.B.E., M.A., M.Sc., LL.D. Net	6/-
Principles of Marine Law.	
By Lawrence Duckworth . . . . . Net	10/6
Railway (Rebates) Case Law.	
By Geo. B. Lissenden . . . . . . Net	10/6
Solicitor's Clerk's Guide.	
By E. A. Cope . . . . Net	4/-

PRICE

The Elements of Commercial Law.
By A. H. DOUGLAS, LL.B. (Lond.) . . . Net 2/6

The Commercial Law of England.
By J. A. SLATER, B.A., LL.B. (Lond.) . . . Net 3/6

The Law of Contract.
By R. W. HOLLAND, M.A., M.Sc., LL.D., *of the Middle Temple, Barrister-at-Law* . . . . . . Net 5/-

The Legal Aspect of Commerce.
By A. SCHOLFIELD, M.Com., A.C.I.S. . . . Net 7/6

The Law Relating to Trade Customs, Marks, Secrets, Restraints, Agencies, Etc., Etc.
By LAWRENCE DUCKWORTH, *Barrister-at-Law* . Net 1/3

The Law Relating to Secret Commissions and Bribes (Christmas Boxes, Gratuities, Tips, Etc.).
By ALBERT CREW, *Barrister-at-Law.* With American Notes by MORTEN Q. MACDONALD, LL.B. . Net 10/6

The Law Relating to the Carriage by Land of Passengers, Animals, and Goods.
By S. W. CLARKE, *of the Middle Temple, Barrister-at-Law* . . . . Net 7/6

The Law Relating to the Child : Its Protection, Education, and Employment.
By R. W. HOLLAND, O.B.E., M.A., M.Sc., LL.D. Net 5/-

Wills, Executors and Trustees.
By J. A. SLATER, B.A., LL.B. (Lond.) . . . Net 2/6

TRANSPORT

Industrial Traffic Management.
By G. B. LISSENDEN . . . . Net 21/-

How to Send Goods by Road, Rail, and Sea.
By G. B. LISSENDEN . . . . Net 2/-

Motor Road Transport for Commercial Purposes.
By J. PHILLIMORE . . . . Net 12/6

The History and Economics of Transport.
By A. W. KIRKALDY, M.A., B.Litt., M.Com., and A. D. EVANS . . . . Net 15/-

PITMAN'S

COMMON COMMODITIES AND INDUSTRIES SERIES

In each volume of this series a particular product or industry is treated by an expert writer and practical man of business in an interesting non-technical style. Beginning with the life history of the plant, or other natural product, he follows its development until it becomes a commercial commodity, and so on through the various phases of its sale in the market and its purchase by the consumer. Industries are treated in a similar manner, so that these books form ideal introductions to the particular industries with which they deal.

In crown 8vo, about 150 pp., including many illustrations, and, where necessary, a map and diagrams. **3s.** net.

Tea.
By A. Ibbetson.
Coffee.
By B. B. Keable.
Sugar.
By Geo. Martineau, C.B.
Oils.
By C. Ainsworth Mitchell.
Wheat and Its Products.
By Andrew Millar.
Rubber.
By C. Beadle and H. P. Stevens, M.A., Ph.D., F.I.C.
Iron and Steel.
By C. Hood.
Copper.
By H. K. Picard.
Coal.
By Francis H. Wilson, M.Inst.M.E.
Timber.
By W. Bullock.
Cotton.
By R. J. Peake.
Silk.
By Luther Hooper.
Wool.
By J. A. Hunter.
Linen.
By Alfred S. Moore.
Tobacco.
By A. E. Tanner.
Leather.
By K. J. Adcock.
Clays and Clay Products.
By Alfred B. Searle.
Paper.
By Harry A. Maddox.
Soap.
By William H. Simmons, B.Sc. (Lond.), F.C.S.
Glass and Glass Making.
By P. Marson.
Gums and Resins.
By Ernest J. Parry, B.Sc., F.I.C., F.C.S.
The Boot and Shoe Industry.
By J. S. Harding.
The Motor Industry.
By Horace Wyatt, B.A.
Gas and Gas Making.
By W. H. Y. Webber, C.E.
Furniture.
By H. E. Binstead.
Coal Tar.
By A. R. Warnes, F.C.S., A.I.Mech.E.
Petroleum.
By A. Lidgett.
Salt.
By A. F. Calvert, F.C.S.
Zinc and Its Alloys.
By T. E. Lones, M.A., LL.D., B.Sc.

Common Commodities Series—Contd.

Knitted Fabrics.
By John Chamberlain and James H. Quilter.

Cordage and Cordage Hemp and Fibres.
By T. Woodhouse and P. Kilgour.

Carpets.
By R. S. Brinton.

Asbestos.
By A. L. Summers.

Photography.
By W. Gamble, F.R.P.S.

Acids, Alkalis, and Salts.
By G. H. J. Adlam, M.A., B.Sc.

Silver.
By B. White.

Electricity.
By R. E. Neale, B.Sc. (Hons.).

Butter and Cheese.
By C. W. Walker Tisdale and Jean Jones

Paints and Varnishes.
By A. S. Jennings, F.I.B.D.

Aluminium.
By G. Mortimer, M.Inst.Met.

Gold.
By B. White.

Stones and Quarries.
By J. Allen Howe, O.B.E., B.Sc., M.I.M.M.

Lead.
By J. A. Smythe, Ph.D., D.Sc.

The Clothing Industry.
By B. W. Poole, M.U.K.A.

Modern Explosives.
By S. I. Levy, B.A., B.Sc., F.I.C.

The British Corn Trade.
By A. Barker.

Engraving.
By T. W. Lascelles.

Telegraphy, Telephony, and Wireless.
By Joseph Poole, A.M.I.E.E.

The Raw Materials of Perfumery.
By Ernest J. Parry, B.Sc.

Cold Storage and Ice Making.
By B. H. Springett.

The Electric Lamp Industry.
By G. Arncliffe Percival.

Gloves and the Glove Trade.
By B. E. Ellis.

The Jute Industry.
By T. Woodhouse and P. Kilgour.

The Film Industry.
By Davidson Boughey.

The Cycle Industry.
By W. F. Grew.

Drugs in Commerce.
By J. Humphrey, Ph.C., F.J.I.

Cotton Spinning.
By A. S. Wade.

Sulphur.
By H. A. Auden, D.Sc.

Ironfounding.
By B. Whiteley.

Textile Bleaching.
By Alec. B. Steven.

Alcohol.
By C. Simmonds.

Internal Combustion Engines.
By J. Okill, M.I.A.E.

Hats.
By H. Inwards.

Velvet.
By J. H. Cooke.

Dyeing of Fabrics.
By A. J. Hall.

Concrete.
By W. Noble Twelvetrees, M.I.M.E., A.M.I.E.E.

Wine and the Wine Trade.
By André L. Simon.

Wall Paper.
By G. Whiteley Ward.

Sponges.
By E. J. J. Cresswell.

Clocks and Watches.
By G. L. Overton.

Incandescent Lighting.
By S. I. Levy, B.A., B.Sc.

Oil for Power Purposes.
By Sidney H. North.

The Fishing Industry.
By Dr. W. E. Gibbs.

Starch and Starch Products.
By H. A. Auden, D.Sc., F.C.S.

Talking Machines.
By Ogilvie Mitchell.

FOREIGN LANGUAGES

FRENCH

		PRICE
Progressive French Grammar. By Dr. F. A. Hedgcock, M.A., D.ès.L. Part I, 3/6 Net. Part II, 3/– Net . . . Complete	Net	5/6
Commercial French Grammar. By F. W. M. Draper, M.A., B.ès.L.	Net	2/6
French-English and English-French Commercial Dictionary. By F. W. Smith	Net	7/6
Commercial Correspondence in French.	Net	3/6

GERMAN

A New German Grammar. By J. Keegan, M.A.	Net	5/6
Commercial German-Grammar. By J. Bithell, M.A.	Net	3/6
German-English and English-German Commercial Dictionary. By J. Bithell, M.A.	Net	10/6
Commercial Correspondence in German.	Net	3/6

SPANISH

Spanish Commercial Grammar. By C. A. Toledano	Net	4/6
Spanish-English and English-Spanish Commercial Dictionary. By G. R. Macdonald	Net	15/–
Manual of Spanish Commercial Correspondence. By G. R. Macdonald	Net	4/6

ITALIAN

Italian Commercial Grammar. By Luigi Ricci	Net	4/–
Mercantile Correspondence, English-Italian.	Net	5/–

PORTUGUESE

		PRICE
Practical Portuguese Grammar.	Net	7/6
Mercantile Correspondence, English-Portuguese.	Net	3/6

PITMAN'S SHORTHAND

Pitman's Shorthand holds the world's record for speed and accuracy

For Complete List of Text-books, Phrase Books, Dictation Books, Reading Books, etc., see Pitman's "SHORTHAND AND TYPEWRITING CATALOGUE."

Pitman's Shorthand Instructor.		5/-
Pitman's Shorthand Commercial Course.		5/-
Pitman's Shorthand Rapid Course.		5/-
English and Shorthand Dictionary.		10/-
Shorthand Dictionary.		7/6
Shorthand Clerk's Guide. By V. E. COLLINGE, A.C.I.S.	Net	2/6
Progressive Dictator.		2/6
Phonographic Phrase Book.	Paper 1/6, Cloth	2/-

TYPEWRITING

Pitman's Typewriter Manual.		5/-
A New Course in Typewriting. By MRS. SMITH-CLOUGH, F.Inc.S.T.	Net	2/6
Exercises and Tests in Typewriting.		4/-
Practical Course in Touch Typewriting. By C. E. SMITH		2/6
Dictionary of Typewriting. By H. ETHERIDGE	Net	7/6
Mechanical Devices of the Typewriter. By R. T. NICHOLSON, M.A.	Net	6/-
The Work and Management of a Copying Office.	Net	10/6

Complete List post free on application.

Sir Isaac Pitman & Sons, Ltd., Parker St., Kingsway, London, W.C.2

Printed in Bath, England, by Sir Isaac Pitman & Sons, Ltd.
(1886w)