Municipal and corporation bonds, Terms, customs and usages. A ...

Montgomery Rollins

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MUNICIPAL AND CORPORATION BONDS

TERMS, CUSTOMS AND USAGES

A REFERENCE BOOK FOR THE INVESTOR AND BANKER

BY

MONTGOMERY ROLLINS

Other books by the same author:

Government Bond Values — Interest Payable Quarterly
Tables of Bond Values — Interest Payable Semi-Annually
Tables of Bond Values — Interest Payable Annually
Laws Regulating the Investment of Bank Funds
Serial and Instalment Bond Values
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PREFACE

The continued demand for an earlier work of the author's, entitled "Money and Investments," which treats more exhaustively upon financial matters in general, encouraged the thought that smaller books, separately covering the main branches of finance, might be welcomed both by the banker and the investing public.

Hence, this little volume, relating to Bonds — their purchase and sale, and other matters of interest to all concerned in that vast field of investment — is offered as the first of a set of such books; it being the intention to follow with one treating of Stocks, another of Commercial Paper, and so on.

The contents of each will include more or less material from the former book, "Money and Investments," but abridged or extended, according to the necessities of the subjects and space available.

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BONDS

A

A and O. Interest payable semi-annually. April and October.

"A" Bond. Used when securities are divided into classes, such as "A bond," "B bond." (See "Preferred Stock.")

Accountant. See "Auditor."

Accrued Interest. One of the most common expressions in connection with investment dealings, and one very frequently not clearly understood. Let us take, for example, a $1,000 bond bearing 4% interest, or, in other words, paying the holder $40 yearly. The interest is payable January 1st and July 1st, each year; $20 at each time. This interest will not be paid before it is due; that is, in the month of June the interest due July 1st cannot be collected; but, suppose Maria Jones had held the bond in her possession until the first of June, she would, therefore, be entitled to the interest upon her money at the rate of 4% annually from January 1st last, at which time she received the interest then due. Therefore, if Maria Jones wishes to sell this bond to Henry Drake at a price, say, of par and "accrued interest," she would receive from him $1,000 — the principal sum of the bond — and also the interest upon the $1,000 from January 1st to June 1st, or five months, at the rate of 4% per annum. Drake would, therefore, have paid to Maria Jones five months' interest, which he could not collect until the 1st of July, at which

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time he would collect not only the five months' interest paid Maria Jones, but the additional one month's interest, for the time which he had had his money invested; therefore, the amount of money paid to Maria Jones would not be lost by Drake, but would come back to him, together with his one month's interest, on July 1st.

This is the only method by which it is possible to sell any security upon other than interest dates, without loss of interest to the holder, except an additional price be placed directly upon the security at the time of its sale, equal to the interest which has "accrued" since the last interest payment. Most stocks are sold in this latter way. Bonds are ordinarily sold upon the various Stock Exchanges with "accrued interest," except "defaulted" and "income bonds," which are sold without interest — or "flat," as it is called. "With interest," "and interest," or "interest added" are expressions, either of which is used in the same sense as "accrued interest." If a note is drawn payable "with interest" and no rate is mentioned, the legal rate of interest prevailing in the State where the note is made payable is understood.

Accumulated Interest. See "Accrued Interest."

Active Bonds. Securities which are frequently bought and sold; quoted daily, or nearly so, in the newspapers or reports of the various stock exchange transactions. When trading in a security ceases for any considerable time, it becomes "inactive."

Adjustment Mortgage Bonds. There are very few of these in existence, the most notable example being that of the Atchison, Topeka & Santa Fé Railway Co., which, in the reorganization of 1895, scaled down its original first mortgage to 75%, for which new first mortgage

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bonds were issued, and the difference, namely, 25% of the principal, and the defaulted interest, adjusted by issuing other bonds. These were accumulative "income bonds" for the first five years and then became a fixed obligation. These are known as "adjustment mortgage bonds."

It must be evident that the name arises from the "adjustment" of the indebtedness to an amount upon which it is anticipated that the earnings of the corporation will be able to meet the interest.

A. J. O. J. April, July, October, and January; interest payable quarterly, beginning with April.

All or Any Part. The next subject explains this in part, to which it is the opposite, as the condition is that any amount, or even all, of the issue may be sold to the successful bidder.

All or None. This can best be understood by first reading "Sealed Bid." "All or none" is a condition imposed by the bidder for an issue of securities, by which it is understood that in the event of his bid being accepted, he is to take the entire issue, but no less amount. Or the seller of the security may stipulate that the successful bidder shall be bound by this same condition.

Amortise (or Amortize). The payment of a debt by means of a sinking fund. (See "Sinking Fund.")

And Interest. See "Accrued Interest."

A. N. F. M. August, November, February, and May; interest payable quarterly beginning with August.

Annual Interest. Interest payable once a year. Very few investments have interest payable at such infrequent intervals, and are not considered

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as desirable as in the cases where interest is payable semi-annually or quarterly.

Annuity Bonds. The only example in American finance of an issue of this nature, that the writer has been able to discover, is that of the Lehigh Valley R. R. Co., which, in 1873, brought out an issue of "consolidated mortgage bonds," part of which are known as perpetual "annuity bonds," and do not mature unless interest is defaulted. The irredeemable feature explains the use in this connection of the term "Annuity."

Anticipation of Taxes. See "Tax Relief Bonds."

Assented Stocks (or Bonds). In the event of a corporation passing through a reorganization where the security holders are requested to give "assent" to a certain plan; in the case of a stock being "assessed;" or similar instances where the consent of each share or bondholder is desired, some banking house or trust company is usually selected to receive the securities and stamp thereon in each case the fact that the holder has "assented" to the plan or paid the "assessment." If more than one "assessment" is called for, "first assessment paid," "second assessment paid," etc., as the case may be, will be stamped on the security. Securities so stamped may have quite a different market value from those not stamped, for it is evidence of the assent or non-assent to the plan.

Financial columns and stock exchange sheets refer to the above in the brief method of "assented," "ass't. pd.," "1st ass't. pd.," etc.

Assessed Valuation. When a banker offers for sale a bond of any municipality, the "assessed valuation" is one of the important facts set forth. There is a general rule that the total debt of a municipality shall not be greater than a certain percentage of the "assessed valuation" after taking into consideration any sinking fund

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or debt for water works — which are supposed to be self-sustaining. The "assessed valuation" is the value fixed upon the property of the municipality by authorized officials for the purpose of taxation, but the rules for fixing the assessment vary in the different States. In Massachusetts, for instance, it is customary to assess property somewhere near its marketable, or real value, whereas, in many of the western States the assessment is based upon about a third of the marketable value, or, even, in some cases, a lesser percentage. It is necessary, therefore, to have some knowledge of the percentage which the "assessed valuation" in a given State bears to the marketable value of the property, in satisfying oneself as to whether or not the indebtedness of a municipality is excessive for the valuation given.

The "real valuation" is very frequently given in banker's circulars, offering municipal bonds, for the purpose of enabling an investor to reach the conclusion above mentioned. This "real valuation," however, is largely guess work, but long familiarity with such matters has enabled the bankers to approximate such figures with a reasonable degree of certainty.

Assets. Everything of any supposed value belonging to a person, business, or corporation, is called "assets;" such as property, real estate, machinery, merchandise, material and stock in process of manufacture, cash and debts receivable, patent rights, trade marks, good will, profits, etc.

Assumed Bonds. Bonds issued by a corporation, the control or ownership of which passes into the hands of another corporation, which latter agrees to be responsible for the payment both of the principal and interest of such bonds,

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are spoken of as "assumed bonds;" that is, the "parent company" assumes the indebtedness. In railroad finance, such securities are spoken of as "divisional issues," which is really what they are. Again, they are frequently referred to as "guaranteed bonds," but in the latter case the fact of the guarantee appears upon the bonds themselves.

Unless a payment of an issue of an absorbed company has been actually assumed by the "parent company," the investor can only look to the value of the property actually mortgaged as security for its investment, although the principal and interest on such issues might be protected by the larger company for the good of its own credit. Where the bonds have been actually assumed, then the "parent company" may be looked to for the final payment, although even in such a case it is not advisable to purchase securities of a branch or division which is not of sufficient importance to the controlling company to make it worth while to maintain the same and keep it in good physical condition.

Attorney's Opinion. The necessary procedure by a corporation issuing bonds is very complex, and the work, after it is accomplished, is generally reviewed by some competent lawyer, and approved by him, before such an issue of bonds is accepted by a banking house. His written statement or approval is called an "attorney's opinion," or "legal opinion."

In the case of a municipality issuing bonds, the steps which it must take also necessitate great care, and it is likewise customary to have some competent attorney approve the issue. In fact, all banking houses of repute condition a purchase of bonds upon the same being approved by their attorney, and in making a contract for purchase this phrase is usually inserted: "The necessary

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papers evidencing the legality of the issue satisfactorily to our attorney to be furnished us, prior to our taking up and paying for the bonds."

An investor in bonds should assure himself that the banking house offering the same has a proper "attorney's opinion" covering the issue, unless it is some well known established issue which has been upon the market for years, and which is the obligation of such a stable and established corporation or municipality that he has the right to assume that all such steps have been properly taken. One would hardly ask for a "legal opinion" covering an issue of City of Boston bonds, which has been outstanding for some years.

The opinion of a lawyer, no matter how clearly setting forth the correctness of the legal status of an issue, does not for a moment imply that such an issue is a sound investment, for, as one writer has well said: he "has never yet known a security so poor that a lawyer's opinion could not be had to back it."

When an "attorney's opinion" is produced there are one or two precautions which should be taken. In the first place, the bond issue covered by the opinion should be thoroughly described, so that there may be no way of mistaking its identity; again, the attorney should state clearly that he has not only examined all the papers necessary to establish the legality of the issue, but, furthermore, that he has examined one of the executed bonds and approved the same. There have been cases known where all the steps leading up to the issuing of bonds had been approved by some attorney, but when the bonds themselves were finally issued, they did not agree with the conditions set out in the papers furnished. Such a bond would probably not be a legal or binding obligation or, at least,

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it might give an opportunity to escape payment, if the inclination to do so existed.

Auditor. One who makes a profession of examining and reporting upon the financial condition of a firm, corporation, municipality, etc.; a person competent to examine accounts; compare the charges with the vouchers; to establish the fact that the financial condition is, or is not, as represented. A railroad "Auditor" is the official who examines the accounts of the different ticket offices, departments, etc., to ascertain that no errors or dishonest acts have occurred. The Auditor of Public Accounts is he who examines into the accounts of all the departments of a State, for instance, and so on.

It is generally customary for investment bankers to employ an "auditor," or expert accountant, to examine in detail the books of a corporation which is already in existence and running, to verify the earnings as rendered by such corporation, and whose bonds, stocks, or other obligations it is the banker's intention to purchase. Of course, in the case of many corporations, like large established railroads, which are obliged to furnish, at stated intervals, a public statement of their earnings, sworn to by the road's own officials, it is very often not customary to have their accounts verified in this way, but in the case of street railways, electric light companies, gas companies, etc., and even in the case of the smaller railroads, the custom is generally followed.

It is, perhaps, a safe statement to make that on the average, one out of three issues of corporation bonds investigated, and generally, at some considerable time and expense, are declined by bankers after examination. The direct money expense, and the loss of time to the banking houses from this source, is considerable in the long run, and an investor must understand that

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it is done primarily to protect his interests, and, next, to maintain the good reputation of the banker.

There are, of course, some exceptions to this rule; banking houses have been known to buy issues of bonds without proper investigation or the employment of sufficiently expert examiners, but the bankers in general must not be condemned on account of the faults of the few. This fact is emphasized because of the unfair charge often made of the desire of the average banker to sell anything that will sell and so make a profit. The investment public little knows the care which is generally taken to safeguard its interests, and even in spite of all this care, some unforeseen condition, like possibly unexpected competition, or the invention of some new method of accomplishing what the corporation in existence may already be doing, will bring disaster, and, in such cases, the investor is always too prone to heap all the blame upon the banker.

The writer desires to lay considerable stress upon the importance of the wording of an "auditor's certificate." There are certificates and certificates, and although a banker may state that a certain issue of bonds has been safeguarded by a careful examination into and report upon the earnings of the corporation, yet that fact in itself is not sufficient. Knowledge should be had somewhat as set forth by the following, which appeared in the Wall Street Journal:

"The public . . . has suffered enough disappointment from accounts certified by reputable auditors to make the whole question of the public accountant and his function a matter of direct interest to the investor. It is very hard for the outsider to discriminate between what is really a trustworthy certificate and what is a bad one. There is no standard form.

"Here is a typically bad certificate:

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"'We certify that the above condensed balance sheet is correct, according to the books and accounts."

"'(Signed) ....

"'*Accountants.*'

"Such a certificate has little value. If the affairs of the company have been administered against the stockholders' interests and for the benefit of a dishonest executive it is certain that the books submitted to examination will balance.

"There are plenty of good certificates. Here is one in abridged form which amply protects the stockholder:

"'We have examined the account books and vouchers of this Company and its associated companies and have verified the consolidated profit and loss account and balance sheet published herewith. We find the inventories sound and conservative. The depreciation and reserves are such as to leave no doubt in our minds that the final balance asset values are safe. Every care has been taken to include in the balance sheet all ascertainable liabilities of the company.'"

Authorized Issue. The total amount of stocks, bonds, or whatever the security may be, which a company may legally sell in accordance with the terms imposed by its charter, by-laws, or otherwise.

Authorized Stock, Bonds, etc. The amount of each which a company may lawfully issue.

Average Life of Securities Maturing at Different Intervals. The reader will find, toward the end of the subject "Net Return upon the Investment," an explanation of how to compute the average life of securities maturing at different intervals.

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Average Maturity. See last part of "Net Return upon the Investment."

Award. In relation to investments, acceptance of a proposition to buy; generally used in reference to some issue of bonds, for the purchase of which bids have previously been submitted. (See "Sealed Bid.")

A. & F. August and February; interest payable semi-annually beginning with August.

A. & O. Interest payable semi-annually, April and October.

B

Bank Commissioner. One who examines into the affairs of, and has certain supervision over, the chartered banks in the State under which he is appointed. For example: the Governor of the Commonwealth of Massachusetts appoints a man whose duty it is, with his assistants, to see that all the savings banks and trust companies within the Commonwealth comply with the laws regulating them. This is largely done by making periodical examinations into the affairs of each institution. This board of commissioners is empowered to pass upon and decide many questions which may be referred to it by various banks and trust companies (their powers extend to certain other institutions), such as whether a particular investment may be legally bought, etc. In fact, the powers are broad, and when properly exercised there should be comparatively few financial disasters among the banks and trust companies over which it has control.

Basis. As used in connection with the income yield of securities it indicates the average annual percentage return upon the money invested. (See "Net Return upon the Investment.")

"B" Bond. Used when securities are divided into classes, such as "A bond," "B bond."

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Below Par. A price less than face value. (See "Par.")

Belt Lines. Short lines of railroad located at terminal points for the purpose of transferring traffic from one railroad to another. The name originated because of railroads approaching a city from different directions and finding the necessity of connecting with one another over another line of rails, which, owing to the density of the population, have generally followed a circular or belt course around all or a portion of the city. Where there are two of these belt systems, one encircling the other, they are often distinguished by being known, one as the "inner belt" and the other as the "outer belt."

"Belt lines" are valuable and necessary properties, and, as a rule, have proved good investments.

Betterment (or Improvement). When a railway company replaces a 60 lb. rail with a 90 lb. rail, the cost of the additional 30 lbs. of metal per yard is usually charged first to a "betterment account" or "improvement account." The question as to how it shall be eventually treated at the end of a fiscal year depends largely upon the financial condition of the company. One which is prosperous very likely may charge this directly to "operating expense;" otherwise, it may be charged to "capital account" or "construction account," but only companies of limited financial resources would so treat an expenditure of this nature. Many experts hold that the capitalization of a "betterment" should be only in proportion to the increased earning ability conferred upon the property by the "betterment."

Bid and Asked Prices. The quotations at which a given security may be either bought or sold.

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Blanket-Mortgage. A mortgage covering several different properties, or a collection of properties, and given to secure a single debt, or sometimes given to secure indebtedness previously created in different forms. When a mortgage of this kind is given, an underlying lien (inaebted. ness having prior claim) is generally implied The usage of this term is, after all, somewhat vague. It is occasionally applied in about the same sense as "general mortgage," but, the writer thinks, improperly so, unless, possibly, upon a system composed of two or more companies, for there is, perhaps, this difference: The latter covers property owned by one corporation, and used in the general conduct of its business, as a railroad, for instance, whereas a "blanket mortgage" more particularly covers several separate properties, each of which may have no similar or common use with the others. A mortgage might be issued to cover a property under construction, and so worded as to also cover the property when completed; all equipment, future acquired property, etc. This would really be a "first mortgage," and so called, as there is a certain dislike to the term "blanket mortgage," and, although in the case just cited the mortgage might also be considered a "blanket" first mortgage, on account of its liberal provisions in regard to the future, no one would think of using that word in such a connection.

The present tendency in creating mortgages is to eliminate the "future" or "hereafter acquired" clause, as it may become troublesome when companies desire new property and must raise additional funds for the purpose. To be prohibited from so doing on account of being obliged to place new property under an existing mortgage, may be a hardship. It is often possible to get around this restriction, however, in many

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ways; as by the issue of a "purchase money mortgage" or an issue of bonds by a separate corporation, guaranteed by the parent company.

Block. A "block of stock" or a "block of bonds" means a considerable amount of such security bought or sold in one transaction. The sale of 5,000 shares of stock at one time would be considered as a "block." Sometimes, when the securities of a corporation are offered for public sale or subscription, a certain amount of stock is required to be purchased with a given amount of bonds; these combinations of securities are known as "blocks."

Board of Education. For school purposes, a separate municipality is often created with its own officers and territorial lines. Such geographical divisions are often called "School Districts." This custom is very common in the middle and far West, and "Board of Education" and "School District" bonds are those issued by such municipalities. The name "School District" is more commonly applied in certain sections of the West where the cities are subdivided into several districts and the same method of subdivision is extended to the rural sections; whereas the title "Board of Education" is more commonly in use in sections where practically the entire city is embraced in the district.

These bonds have, as a rule, proved very safe investments. The appropriation of money for the education of children appeals to the average American, which, together with the fact that many of the western States have received financial aid in the way of public lands for school purposes, has made a sound basis for the establishment of good credit.

Bond. An instrument by which a government, municipality, or corporation contracts and agrees to pay a specified sum of money on a given date

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(sometimes reserving the right for earlier payment), the bond itself being a coupon-bearing (or registered) note under seal; the coupons representing the quarterly, semi-annual, or annual interest, as the case may be, at a fixed rate. (See "Corporation Bonds.")

Cleveland, in his "Funds and Their Uses," distinguishes between a bond and an ordinary promissory note in this way: "The only way that a bond is distinguished from an ordinary promissory note is by the fact that it is issued as a part of a series of like tenor and amount, and, in most cases, under a common security. By rule of common law the bond is also more formal in its execution. The note is a simple promise (in any form, so long as a definite promise for the payment of money appears upon its face), signed by the party bound, without any formality as to witnesses or seal. The bond, on the other hand, in its old common-law form, required a seal, and had to be witnessed in the same manner as a deed or other formal conveyance of property, and though assignable was not negotiable. This is still the rule within many jurisdictions."

In the case of a "corporation bond," a mortgage is usually placed upon the property to secure the issue. In the case of the government or municipality, no mortgage is necessary, although sometimes certain revenues are pledged for payment of the principal, or interest, or both. The government or municipality, as a rule, simply issues its promise to pay under seal in the form of a "bond" as already described.

Bonded Debt. The fixed indebtedness of a municipality or incorporated company in the form of bonds. (See "Bond.")

The question of the amount of bonded indebtedness fair to place upon property — fair to both the shareholders and bondholders — is a

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question deserving of much serious consideration. There is a general belief that the property of a corporation should only be mortgaged to the extent of its unchangeable value; that is, the minimum value of such property, as generally recognized, in a time of public adversity. Mortgaging a property to this extent would leave the shareholders to take the risk of the fluctuating value, and it is proper that they should do so, for, as a rule, the bonds on a property are expected to pay a less rate of interest than the dividend return to the shareholders. It is impossible to give any set rules here; each case will have to be judged upon its own merits. The amount of sinking fund must be taken into consideration, also the kind of property mortgaged. For instance, some properties depreciate through wear and tear much faster than others — street railways, for example, more rapidly than electric light or gas plants. (This subject will be found more fully treated under the heading "Sinking Fund.")

In the case of municipal bonded indebtedness, a very prominent lawyer once made the statement that no municipality could ever stand a greater "net indebtedness" than 5% of its assessed valuation, and that is a very good rule to follow, but, like all good rules, it has its glaring exceptions; for instance, the assessed valuations of some Far West and Middle West communities are very much less, in proportion to the marketable value of the property, than here in the East. (This is more fully set forth under the heading "Assessed Valuation"), and, in such cases, a greater net indebtedness than 5% might be fully justified.

Another thing to be considered is not to be influenced too much by the offer of a new issue at a figure below the par value — that is, at a discount. If a railway corporation sells an issue

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of bonds having 20 years to run, bearing 5% interest, and receives but 80 cents on a dollar for the same, the purchaser is prone to believe that the net earnings need to provide for only 5% on the bond issue, but when these bonds mature, 20 years afterwards, they must be paid off at par, or 20% in excess of the original selling price. This 20% must come from some source, and, therefore, it would be better for the purchaser to spread this 20% over the time which the bonds have to run, estimating the issue roughly, bearing, say, a 6% rather than a 5% rate; then, judge whether, or not, the corporation can stand such an interest charge. On the whole, it is better financiering for a corporation to issue its bonds at a rate of interest which will warrant their sale in the close proximity to par.

Bond of Indemnity. In investment matters the common use of the "bond of indemnity" is in case of a lost security. It is a form of guaranty protecting a corporation (firm or individual) in event of presentation at some future time of a security which had been lost by the owner and the corporation issuing the same had issued a new security in its stead. The usual way of obtaining such a "bond of indemnity" is to apply to some "guaranty and indemnity company" which makes a business of furnishing such bonds upon satisfactory evidence that the security has been lost or destroyed. For this bond, which is really a form of insurance, a reasonable charge is made.

Bond Reserve. In recent years, banks in this country have adopted the practice of investing some portion of their funds in bonds, which are supposed to be quickly convertible into cash in case of necessity. This is a safeguard, and an

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investment of this kind by a banking institution is often known by the above title.

In his recent investigation of bond holdings by banks, Wm. C. Cornwell ascertained that banks in the United States containing $10,458,000,000 of deposits, held $1,771,000,000 of bonds, not including United States bonds. Therefore 19.94% of the total deposits were held in bonds.

Bond (payable) to Bearer. Either an ordinary coupon bond, or a registered (registered as to principal only and with coupons) bond which has been so registered that it is good in the hands of the bearer and may pass from hand to hand without transfer upon the registration books.

Bond Values Tables. It is expected that the reader has first familiarized himself with the matter under "Net Return upon the Investment."

As there suggested, tables of bond values are used to compute this "net return." The writer has many times been asked the principle on which the computation of these tables is based, and surprise is often expressed upon finding that a mere calculation by simple arithmetic does not give the same results as are to be found in the ordinary tables in use. These people have proceeded to take, as an illustration, a bond bearing 6% interest, maturing in ten years, for which they had paid 110. They immediately divide the amount of premium — *i. e.* 10% — by the length of time the bond has to run — in this case, ten years — and obtain 1 as the result, which they deduct from 6%, and assume, therefore, that the "net return" to them upon the investment is 5%; ten per cent. premium being charged off at the rate of 1% per annum.

The failure in this reasoning arises from the fact that tables of bond values are based upon the fundamental principle that the holder of a

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bond is expected, at the maturity of each one of the coupons, to re-invest a sufficient portion of the interest money received, and keep it so invested until the maturity of the bond, so that the face value of the bond added to the accumulation of re-invested interest, will, at its maturity, be exactly equivalent to the original cost of the same.

Right here is where the authors of such tables diverge and form two separate schools, so to speak. The first assumes that the rate of interest at which the money set aside from the maturing coupons shall be compounded is the same as the computed net return upon the investment. That is to say, if a bond is sold at such a premium as to net the investor 6%, it is assumed that the portion re-invested shall be compounded at 6% without regard to the average rate of interest that will probably prevail during the life of the bond. Suppose, for example, an investor in bonds may have one lot netting him 6% per annum and another lot netting him 4% per annum. The assumption arises that a certain portion of the interest payments, even although they may happen to fall due upon the same day, shall be re-invested at compound interest at 6% and 4% respectively. It seems absurd to assume that those two separate rates of interest will be prevailing at the same time for a similar grade of securities, or that there is any possibility that a holder of bonds will in any way guide himself in the re-investment with any consideration of the "net return" existing upon the bonds in question.

The second school, which is undoubtedly the correct one, but which principle has never been generally adopted, assumes the rate for re-investment of the interest as fixed at some definite per cent., say 4, with entire disregard of the "net return" upon the original investment.

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It will be seen at a glance that it is much fairer to predict the future investment of money at an average rate of, perhaps, 4%, than in such widely diverging rates as in the first plan.

Bonus. In matters financial this has several uses. It may be a premium given for a loan, for a charter or other privilege granted a corporation; it may be an extra dividend to shareholders, or may be stock thrown in with the sale of bonds or other stock, and, in this last use, perhaps, it is most common. An illustration would be: A banker offers a client, say, $10,000 bonds of a certain railway or other corporation, which bonds in themselves might not be very attractive to the investor. In order, therefore, to accomplish the sale of the same with greater ease, the banker gives, or throws in, as a "bonus" a certain amount of stock — probably of the same corporation.

Bonus Bonds. Bonds issued by a muncipality to encourage the building of a railroad or some manufacturing industry. (For more information, turn to "Railroad Aid Bonds.") They are not considered a desirable investment.

Boston Method of Figuring Interest. See "Interest."

Bottomry Bond. The contract given for the securing of a vessel to the lender as a pledge for the payment of the loan.

Broken Lot. Same as "odd lot" in reference to stocks, and less than $10,000, par value, in bonds.

C

Cable Companies — Securities of. Since the laying of the first submarine cable in the Atlantic Ocean, the world has now been girdled with them. The large expense contingent upon their

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laying, repairing, etc., has been considerably reduced, but the liability to breakage and the consequent cessation of business is considerable The ocean bed is uneven, and there is necessarily a considerable wear and tear, to say nothing of the dangers of ship anchors and icebergs. The repairing of a break has been much simplified as it is now scientifically possible to calculate with great accuracy the location of the break, and, by the aid of charts, to find and pick up the two ends. There is an element of risk about cable company investments; but, nevertheless, they seem to be regarded as an established form for the employment of money.

Call. A demand for the payment of money; a demand for payments (generally in installments) of subscriptions to stocks or bonds; an assessment for which one is legally liable; a notice of intention to prepay a bond or warrant.

Callable. This indicates the right on the part of the issuer of a security to pay it off — usually under certain conditions — previous to its actual date of maturity; "subject to call;" "subject to redemption."

Called Bonds. Bonds called for payment or redemption. In many issues of bonds the right is reserved to pay off all, or a certain portion of the issue, under conditions and at such times as may be specified in the bonds and deed of trust.

Bonds which are "callable," that is, subject to this right of prepayment, are oftentimes considered undesirable, owing to the fact that the notice of a bond being "called" may not reach the attention of the holder, and, as a result, he may lose interest by not discovering that it has ceased until the time of presentation of the next coupon. It is important, therefore, that the holder of a bond subject to redemption previous to its actual maturity, shall be conversant with

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the terms under which such bond may be "called," and ascertain, from time to time, whether or not the "call" has actually been issued. It is proper that the banking house selling such a bond should itself keep track of this matter, and notify its customer in case of a "call" being issued affecting any of his securities, and many bankers try conscientiously to do this; but in spite of their best efforts "calls" are apt to pass unnoticed (and if so, no blame should be placed upon them), so it is wise for each holder to protect himself in this regard.

Capital Account. The question often arises as to the proper account to charge expenditures made upon a property; that is, whether such expenditures properly should be paid for out of the earnings of the company — charged to "operating expense" — or whether they may be considered as actual improvements, and, therefore, paid for from increased capitalization. If the latter case, it should be definitely ascertained if such expenditures will increase the actual earning capacity of the corporation. To exhaust this subject by numerous illustrations which would be necessary, is not feasible here. One example must suffice. If a railway replaces a wooden station with a brick station, but thereby not increasing the earning capacity of the road, such an expenditure represents a "replacement" and should properly be charged against the earnings of the property; but if the same road builds a side-track into some manufacturing plant, which results in increased business to the property, such an expenditure is an "improvement" and may be properly paid for by increased capitalization, although, of course, many railroads would pay for such a small item as this directly out of the earnings, pursuing an ultra-conservative course.

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Capitalization. For the purpose of this work, this subject has reference to the stocks and bonds which a corporation has outstanding.

Simplicity in "capitalization" is always to be commended, and the simpler form the less likelihood there will be of the need to call the "doctors of finance" in the shape of a "reorganization committee." A simple "capitalization" is one class of stock and perhaps a single issue of bonds — if desired — and secured by a "first mortgage." This does not argue that there are not securities of corporations with nowhere near this simple "capitalization," which are not sound, for there are hundreds of such which are extremely safe, but these are very largely the outgrowth of this resourceful and rapidly growing country. Many of the older corporations did not adequately provide for this growth in their first "capitalization," and newer and more complex issues had to be brought out to provide legitimate funds for the company's increased demand for business. The advice at the beginning of this paragraph is for new companies forming. "Capitalize" simply, and look far enough ahead so that enough of all issues may be authorized to meet any demand for increased service.

Capitalization of Earnings. The issuing of securities based upon a corporation's earning ability; the issuing of securities upon which reasonable rates of interest or dividends can probably be paid from earnings, rather than making such issues equal in face value to the actual value of the property.

Capital Liabilities. Generally speaking, the total bond and stock issues of a corporation.

Care of Securities. Every reasonable precaution should be taken against the loss of a security, either by theft, fire, or whatever the

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case may be, and no better precaution can be taken than by the rental of a box in some Safe Deposit Company. There is no recorded instance of an effort to break into a modern safe deposit vault. The physical obstacles offered by the construction are too great. There are a great many who think they cannot afford this; but, in the long run, it is to prove a very cheap method of insurance. The keeping of one's securities in the ordinary safe in the house, store, or office, is practically no protection at all against the present day scientific burglar.

Again, many safes do not give proper protection in case of fire. The keeping of securities in concealed places, like in some old stocking or under the bricks of the hearth, is likewise unsafe, especially in case of fire, and the urgent advice of securing the rental of a safe deposit box is here repeated.

In any event, have a complete list of your securities, and keep the same in a different place from that in which the securities themselves are kept — in an entirely different building — so that if the securities are destroyed by fire, the same fire will not be likely to destroy the list. This list should be a fairly complete description so that in case of loss the securities can be so completely described as to fully identify them. It should give, in each case, the name of the security, the number it bears, if any, the date of its issue, the face value, the rate of interest, when due; and it will be worth while to take additional description, such as when interest is payable, of whom bought, etc. All this information is valuable, as it may also save a trip to one's safe deposit vaults to obtain information regarding some particular security, which may be wanted for other reasons than in case of identification on account of loss. For instance: certain bonds may be "called for payment" and it is

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often necessary to know if one holds any of the numbers called.

There are small books issued, with ruled pages, with blank spaces and printed headings, by the use of which an investor will be guided in taking all the information necessary.

In event of loss of a security, notify immediately the corporation issuing the same, also the banker from whom it was purchased, giving in each case a complete description of the security.

If it is a municipal bond, notify the municipality and the banker.

If it is a Government Bond, see that subject.

If it should be a mortgage upon real estate, bring the attention of your lawyer to it without loss of time.

(See " Bond of Indemnity.")

Car Mile. The travel of a car one mile. It is the unit of a car movement employed in all relations that have to do with cost and service rendered.

Carry. To furnish the money. A man asks his broker to " carry the bonds two days " for him. If he agrees, the broker understands he will not be paid for the bonds until the expiration of that time, but, in the meantime, he gets no additional " promise to pay " or security on the part of the customer. In this case, it is more or less of an accommodation to the customer; it is simply a delayed delivery on a contract to buy. In a " joint account " (see that subject) one of the parties may agree to " carry " the bonds until sold, receiving certain special compensation therefor, but having no other security for furnishing the money than the bonds themselves.

" Carry " is a word very commonly used in financial matters with many slightly different

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applications, but the above should be sufficient to make its meaning understood, however used.

Car Trust. A corporation formed for the especial purpose of purchasing railroad rolling stock and leasing the same to operating companies. In effect, the rolling stock is actually sold to the operating company, which pays for it by piece-meal, in the form of a rental; the cars, etc., becoming its property when final payment is made.

Securities are often issued by "car trusts" secured by the equipment leased, the rentals as received going to reduce the indebtedness. Precautions to be taken in such an investment are set forth under the last paragraph of "Equipment Trust," all of which subject read.

Car Trust Certificates. See "Equipment Trust."

Cash Assets. Actual money on hand or within easy reach. Property quickly convertible into money is often included.

Cats and Dogs. Low grade securities; those of uncertain value; securities which do not belong in the investment class, but are highly speculative.

Caveat. In the financial sense, a notice to stop payment.

Certificate of Incorporation. When it is desired to form an incorporated company, a paper called a "certificate of incorporation," or one having a similar title, must be filed with the Secretary of the State under which it is desired to incorporate. Such papers, in their requirements, vary in the different States, but, in general, must give about such information as follows:

Names of the officers and the majority of the

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directors, name of the corporation and the purpose for which it is constituted, the location of the principal place of business, the kinds and amount of stock, the day of the first meeting, a copy of the articles of agreement, etc.

Certificate of Indebtedness. Simply a floating indebtedness in more or less of a fixed form. Let us take the example of a corporation which wishes to borrow some large sum of money — a million dollars or more — for some definite period, say one year. It not being, perhaps, possible to make one loan to cover this sum, the amount may be divided into smaller notes of $5,000 or $10,000 denominations, and placed among different holders. Such a security might bear the title of "certificate of indebtedness." It is nothing more than a "promissory note." In case of failure on the part of the company to pay the same the holder has no recourse except application for a receiver.

Certified. Any fact which has been vouched for in writing. The expression is often seen, "the issue is (has been) certified to by," and then naming some trust company. The meaning of this is that the company which is named in the mortgage as trustee is not supposed to allow the bonds to be issued until all the provisions in the mortgage leading up to that point have been fulfilled. There is, as a rule, a printed form on each bond, to be properly signed by the trust company as the last necessary act before the actual delivery of the bond, and which makes it a binding obligation upon the corporation issuing the same. This is only in the case of a corporation issue and not necessary in relation to a municipal bond.

Certified Accountant. See "Certified Public Accountant."

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Certified Public Accountant. One who has passed an examination (in certain States) and received a certificate authorizing him to use the title "Certified Public Accountant," or the initials "C. P. A.," which signifies that he is qualified, by the test of that State, to perform such duties as set forth under the subject "Auditor."

In Great Britain "Chartered Accountant" has the same meaning.

Charter. A governmental or State grant of certain powers and privileges to a company at the time of its incorporation. A railway company must obtain a charter before it can have legal existence.

Charter Bonds. United States Government bonds legally required to be deposited with the Treasurer of the United States before a certificate of authority will be issued for the bank to begin business.

Chartered Accountant. The same as an "auditor," to which refer; only a "Chartered Accountant" is one officially authorized to do such work, and is an English title for one who holds a charter from the "Institute of Chartered Accountants."

Chartered Public Accountant. See "Chartered Accountant" and "Auditor."

Clear. To free from encumbrance. Bonds stocks, or any securities, are "cleared" when the person who has contracted to purchase them pays for and receives delivery of the same. Or a broker, acting without sufficient capital, may purchase $50,000 bonds from Scott, and sell them almost immediately to Hall, making a profit or commission on the transaction. He is not able to pay Scott for the bonds, and he, therefore, employs his bank, or possibly some other broker,

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to pay for and receive the bonds, and then make delivery to Hall; the difference between the purchasing and selling price, less the clearing charges, to be paid to the first broker. This is called "clearing." At the time of purchasing bonds a broker may say to the seller: "Jones & Co. will clear these bonds for me," meaning that the seller will make delivery of the bonds to Jones & Co. for the broker's account; the broker, in the meantime, instructing Jones & Co. as to the transaction.

Many firms make a specialty of "clearing" securities for other brokers, the usual charge for this work being about $2.00 for each 100 shares of stock or for each $10,000 in bonds.

Closed Mortgage. A mortgage under which no more indebtedness can be incurred; the amount of indebtedness authorized under the terms of the mortgage has been reached.

Closed Out. All sold.

Close Prices. Changes in prices by small fractions; or a difference between the bid and asked price of but, say, 1-8 %.

Col. or (Coll.). Collateral.

Collateral. Really "collateral security." This is security for the performance of agreements, or for the payment of money, and is something deposited with the evidence of debt to satisfy the claim of the lender in case of failure on the part of the borrower to meet the indebtedness when due. For example, Prescott & Co. desire to borrow $100,000, and, to facilitate the operation, agree to deposit with the bank which is to loan them the money, bonds or stocks of known value, and acceptable to the bank, having a market value of, say, $120,000; being salable at the time of loan for about $20,000 more than the amount borrowed. This $20,000 is called

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the "margin." Suppose the market value of these securities declines to $100,000. By agreement, the bank could demand Prescott & Co. to either pay off part of the loan, or deposit additional security equivalent to the decline in the market value of the collateral. If this is not forthcoming, the lender has the right to make a public sale of the securities; it being immaterial whether the loan is a "demand" or "time loan."

If, when the loan matures, Prescott & Co. are unable to pay it, the bank would have the right to sell the collateral, and from the proceeds first deduct the amount due for principal and interest; the balance, if any, it would pay back to Prescott & Co. In the case of a loan upon collateral security, therefore, the value and character of the collateral is the first consideration. A loan may be made with reasonable safety to a firm of even comparatively unknown reputation, if it is able to deposit security of established and well-known value, whereas, in the case of loans made without collateral, the financial standing and condition of the borrower must be the main consideration. Twenty per cent. is about the usual margin required.

Loans on "collateral" are usually made on "call," as explained under "Demand Loan," but are, nevertheless, frequently made on time, for thirty, sixty, or ninety days, or even six months or a year. If they are made in this manner, the time is usually for six months or less. They may be either "discounted" or made with interest payable at maturity, as the case may be. The borrower usually has the privilege of substituting collateral for that already pledged; that given in exchange, however, must always be satisfactory to the lender. In case of investment bankers, whose securities are changing from time to time as they buy and sell, or in the case of a stock broker who is buying

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and selling for his clients, the privilege of exchanging collateral is very necessary. In such an exchange as this, the borrower usually hands in with his new collateral an "Exchange of Collateral" slip, which describes the new security pledged as well as that withdrawn.

By the above it will be seen that collateral loans may be known as "demand collateral paper" or "time collateral paper."

Collateral and Participating Bond. A very uncommon issue. The illustration given under "Participating Bond" will apply in this case.

Collateral Income Bonds. An "income bond" secured by collaterals. (See "Income Bonds.")

Collateral Loan. The obligation or promise to pay of an individual, firm, or corporation, on demand or maturing in a year or less time, and which individual, firm, or corporation has deposited with the holder of the note, stocks, bonds, or other securities, which, in case of the note not being paid when due, may be sold by the holder of the note, and so much of the proceeds of the same as may be necessary to satisfy the debt retained by the lender, and the balance, if any, returned to the borrower. (See "Collateral.")

Collateral Mortgage Bond. (Read "Collateral Trust Bonds.") A "collateral mortgage bond," technically, should be secured by a deposit of bonds which, in turn, are secured by mortgage. But this title has been much abused, and bonds issued with such a title frequently are secured by stocks only, as was the case recently with a large Western railway company (Holding Company) which authorized an issue of $75,000,000 "collateral mortgage gold bonds" secured by a pledge of nothing but the stock of another railway company.

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Collateral Note. A promissory note secured by stocks, bonds, mortgages, or other securities. A "collateral note," of course, may be given by an individual, firm, or corporation. (See "Collateral.") It is quite a common form of borrowing among many of the railway companies, as evidenced by the Cincinnati, Hamilton & Dayton Railway Co. issuing, in 1905, $15,000,000 4½% "collateral notes." To secure these notes there was deposited with the Central Trust Company of New York, as trustee, securities, which had an estimated market value, at the time, of $24,000,000.

These afterward defaulted, and the individual holder of a five thousand dollar note had but little to say, on so large an issue, regarding the sale of the collateral for the protection of his investment. This was all managed by a committee, which acted in a peculiarly dilatory way.

It is not wise to rely too much upon the character of the collateral; for, however good it may be, if it becomes to the advantage of those in control of the property, to handle it for the benefit of the property rather than for the benefit of the note-holders, the latter will be likely to suffer. Therefore, the high standing and credit of the company actually obligated is of the utmost importance. Of course, the securities held as collateral should be sufficient in value to properly secure the notes at the time of issue, and their nature and how important to the issuing company also have a direct bearing. But it is reiterated that the market value of the collateral should not be accepted as too convincing.

Collateral Trust Bonds. Issued by a corporation, not secured by a mortgage upon its own property, unless upon certain real estate and subject to previous liens thereon, but secured

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by depositing in trust securities of other companies. Such a bond may, however, be indirectly a first mortgage through mortgages which have been deposited as above indicated. For instance, under the heading "Joint Bonds" is described a bond issued against stock of the Chicago, Burlington & Quincy Railroad Co. In this case, these "joint bonds" are really "collateral trust bonds," and are in no sense a mortgage. Suppose, however, some of the first mortgage bonds of the Chicago, Burlington & Quincy Railroad Co. had been deposited; this "collateral trust," or "joint bond," would, in that case, have been indirectly a first mortgage upon the Chicago, Burlington & Quincy Railroad.[1]

The value, as an investment, of such a bond as described above, depends upon two things: first, the value of the securities pledged for its payment, and their desirability if, through default, they become the property of the bondholders; second, the strength and ability to pay of the corporation actually issuing the bond and what obligation, if any, such corporation is under to pay in case of insecurity of the collateral pledged. (See "Convertible Collateral Trust Bonds.")

Collection of Coupons. See "Coupons — Collection of."

Common Stock. That part of the capitalization of a company upon which dividends may be

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[1] The Armstrong Committee, in its recommendations after investigating the New York life insurance companies, expressed disapproval of collateral trust bonds secured by stock collateral. "Collateral trust bonds" at their best have many objectionable points, and cannot be classed as conservative.

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paid only after satisfying the requirements of the floating debt, bonds, and "preferred stock," if any. It represents the speculative ownership in a corporation, as a rule. At times, however, the earnings of the companies are so large that the "common stock" receives much larger dividends than the preferred, and sells at much higher prices. When the earnings of a company very largely increase or there are indications of some profitable "deal," the "common stock" is apt to reflect it by a rise in price greater than the other securities of the same company.

In some corporations after the "common stock" has received a certain rate of dividend, there is a division of balance of the earnings between the preferred and "common stocks," or some other similar plan is adopted. This goes to show that a "common stock" is not necessarily entitled to all earnings after payment of the preferred dividend.

There are many "common stocks," paying no dividends, which sell at seemingly unreasonably high prices. This, among other reasons, is because it is expected that dividends will sooner or later be paid, or that the stock may some time be bought for the purpose of control, and, consequently, is valuable on account of its voting power.

Although "common stocks" usually carry with them voting power, yet there are examples of corporations where the control goes to the preferred holders, although representing a par value far less in amount than the common.

A "common stock" which has a "cumulative" preferred stock preceding it, is not so valuable from a dividend standpoint as if the preferred is "non-cumulative" (see the subjects in quotations), for unless the earnings of a company are so large as to make dividends upon both classes of stock almost assured, the "cumulative"

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feature may, at some future time, act to the detriment of the common.

Conducting Transportation. Those studying the earnings of a railroad company will often find the "operating expenses" subdivided under various headings, including the above, which should consist of the following as prescribed by the Interstate Commerce Commission: Fuel, water supply, oil, tallow, waste, and other supplies for locomotives, switchmen, flagmen, watchmen, engine and roundhouse men, telegraph expenses, train service supplies and expenses, station service and supplies, loss and damage, injuries to persons, clearing wrecks, operating marine equipment — if any — advertising, outside agencies, commissions, stock yards and elevators, rent for tracks, yards and terminals, rents of buildings and other property, payments for switching charges, car mileage and hire of equipment greater than receipts therefor, besides superintendence, stationery, printing, and other expenses in connection therewith.

Confirm. To "confirm" is to reduce to writing an order or agreement previously given or made verbally.

Consol Certificates. Issued by the National City Bank of New York to represent ownerships in the "Consols" (to which refer) of Great Britain and Ireland, and which are traded in here in America in lieu of the original "consols." This method greatly simplifies such transactions.

Consolidated Annuities. Three per cent. consolidated annuities. See "Consols." (The rate is now 2½%.)

Consolidated Bonds. See "Consolidated Mortgage Bond" and "Consols."

Consolidated First Mortgage. As commonly used in relation to bond issues, it has the same

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meaning as "first and consolidated mortgage," to which refer.

Consolidated Mortgage Bond. Theoretically the name of a corporation bond secured by a mortgage on the entire property formed by the consolidation of several smaller properties. Such a mortgage may be a first mortgage upon the property so consolidated, or it may be subject to earlier mortgages issued by one or more of the several companies consolidated. In the latter event, it would not only be a "consolidated mortgage bond," but, likewise, a "general mortgage bond." (See "General Mortgage Bonds.") The name "consolidated mortgage" is used to distinguish such an issue, in the case of a railway company, from "divisional bonds;" that is, mortgages upon the separate properties consolidated.

In practice, the names given to different bond issues, railway issues especially, are often technically incorrect, and frequently a "consolidated mortgage bond" differs materially from this definition.

A very common use of the term is for an issue created to take the place of — refund — other issues having a prior lien to it, but which are not yet due, the new debt being intended to eventually consolidate the funded indebtedness of the company. In a case such as this, the new issue is usually large enough to retire the prior indebtedness and furnish funds for needed improvements. An equal amount of the consolidated issue is always left in the hands of the trustee to take the place of the underlying bonds as they mature, and it is also proper to allow for an increased issue of the consolidated bonds, from time to time, for further improvements, a restriction being generally inserted in the trust deed that bonds so issued shall be up to only a

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certain percentage of the actual cost of the improvements.

Consols. The name applied to a large part of the Government securities of Great Britain; that portion which is known as the "Three Per Cent. Consolidated Annuities" or "Consolidated Threes." The Government retains the right to pay the principal at its pleasure.[1] The rate has now been reduced to 2½% on these, and they are, consequently, known as "2½% Consols," also called "Goschens."

The two per cent. bonds of the United States Government are known as the "Two Per Cent. Consols."

Any bond issue which has taken the place of various previous issues, of different rates, maturities, etc., so that the indebtedness has become consolidated into a uniform issue of bonds may be known as "Consols," *i. e.* "consolidated bonds."

Construction Account. "Construction account" is treated as an asset; "capital account" as a liability. Many corporations expend money and incur indebtedness which they charge to "construction account," with the idea of eventually issuing new capital in the way of stock or bonds, and, from the proceeds of such issue, replenish their cash for money expended, or use the proceeds to pay the indebtedness incurred

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[1] "By 25 Geo. II. the balance of annuities granted by 8 Geo. I. was carried to a three per cent. stock, formed in 1731, and they were (in 1752) consolidated into one stock — the new stock is still called 'three per cent. consols.' The word consols is a contraction for consolidated." — "*History and Principles of Banking,*" *Gilbart.*

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for the items charged to "construction account." (See also "Capital Account.")

Construction Company. A corporation — a firm, individual, or an association of individuals, etc., may perform all the functions of a "construction company" — which constructs some public work such as a steam or electric railroad. For the purposes of this book, ordinary contractors are not included. The "construction company" here referred to is one which agrees to turn over the completed property in exchange for all, or a part of, the company's securities. This ensures a sale of stocks or bonds, etc., sufficient to pay for the construction. It offers, at times, opportunities for those in control of the "construction company" to obtain securities at low prices, if there is a wide margin of profit between the actual cost of the construction and the face value of the securities taken in payment. It, likewise, affords a chance for a company to issue "watered securities," *i. e.* securities exceeding in their face value the actual value of the property which they represent, provided that the officers in charge of the affairs of the company are substantially the same as those of the "construction company," as is sometimes the case.

Construction Mortgage. Same as "Building Mortgage." (See "Mechanic's Lien.")

Continued Bond. Same as "extended bond."

Conv. Convertible.

Conversion Parity. (First read "Convertible Bonds.") If one security is convertible at par into another at 200, they are upon a "conversion parity," or equality, when selling at those respective prices. If the former is quoted at 50 and the latter at 100, they would still be upon a "conversion parity." This example, however,

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does not take any account of accumulated dividend or interest upon the securities, which, to get actual "conversion parity," must be considered.

Convertible Bond. A bond, which, at the option of the holder, is convertible, under certain conditions, into other securities issued, usually, by the same corporation.

As a rule, bonds are convertible into stock. One of the best illustrations is an issue of bonds of the American Agricultural Chemical Co. They are convertible into the stock of the company at par, and bear 5% interest. The stock of the company pays dividends in excess of the interest upon the bonds, and is quoted at a price above par. The result is, that the bonds, which, in themselves, might not be selling even at par, were it not for the convertible feature, follow closely the price of the stock.

It does not necessarily follow, however, that if the price of a stock into which a bond is convertible falls below its conversion price, that the quotations of the latter will be sympathetically affected. For, its market value then would depend entirely upon its investment value as a bond. The only influence which the convertible privilege has upon a security is to carry it above its intrinsic investment value when the security into which it is convertible advances beyond the "conversion parity."

The attractive feature about "convertible bonds" is that they are considered much safer than the stock, and when, at the time of issue, the stock is not selling above its conversion price. The purchaser of the bonds, therefore, feels reasonably secure of his money. But in case the stock should advance in price beyond the conversion equality, he might reap a profit from the convertible privilege; in other words,

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he probably has nothing to lose, and, possibly, much to gain. It is the lottery or speculative feature which gives such investments their popularity. In case the stock is "converted" the annual interest charge becomes contingent instead of fixed.

Convertible Collateral Trust Bonds. This issue is endowed with practically the same features as a "collateral trust bond," to which subject the reader is referred. The main difference, however, is that the former is secured by collaterals, which may be exchanged, from time to time, for other collaterals, with the consent, for instance, of the trustee. The convertible feature is not a bad one, as it sometimes enables the issuing company to take advantage of an increase in the market value of possibly all or part of the collateral securities, and paying off part, or possibly all of the issue, the proviso almost always being inserted that the issuing company may redeem the issue in part or entire under such conditions. Should none of the issue be paid off, or a proportionate amount not paid off to offset the collaterals withdrawn, the trustee would demand other satisfactory collaterals to fill the deficiency. There are other similar good features of minor note attached to the convertible class and, upon the whole, as between the two issues, the convertible one is the more preferable, other conditions being equal.

Convertible Debenture. The only difference between a "convertible debenture" and a "convertible bond" is as to the way the loan is secured, which will be clearly understood by turning to the subject "Debenture Bond." A good illustration of such an issue is that of the American Telephone and Telegraph Co., "Convertible Debenture" 4's, to which there is attached the lottery feature of convertibility into

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stock after three years from the date of issue and before the expiration of twelve years, at stipulated prices.

Convertible Income Bonds. See "Income Bonds."

Convertibles. Securities which, at the option of the holder, are convertible, under certain conditions, into some other security, issued, usually, by the same corporation. For examples see "Convertible Bond," "Convertible Collateral Trust Bonds," and "Convertible Debenture."

Convt. Convertible.

Corporate Stock. Principally used to designate the long term indebtedness of the City of New York, as opposed to the short term obligations which are usually denoted "Revenue Bonds" (See that subject), running two or three years or less, and "Assessment Bonds," maturing in about ten years from date of issue.

Corporation. A charter may be obtained from the legislature of a State, or from such officers as may be authorized to grant charters, or, even under certain conditions, from Congress. This charter is an instrument which states the privileges, etc., which the body incorporated thereunder enjoys. The different ownerships in the business to be conducted under this charter are represented by shares of stock, and the owners thereof are known as stockholders. Very large enterprises, such as railroads, etc., are generally conducted in an incorporated form, as such large amounts of capital are wanted, necessitating so many subscribers, that a partnership agreement would be unwieldy. And, also, owing to the desire which would arise from the multiplicity of ownership for transference or sale of the same to other parties. A corporation is more perma-

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nent in its character than a partnership, or a business conducted by an individual.

There are many enterprises, very largely of a public nature, such as gas, electric lighting, street railways, etc., which must lawfully be conducted by incorporated companies, so that there may be more or less State control of the same. Still another reason in favour of incorporating is that the owners of the shares are limited in their liability for the debts of the corporation, whereas, if the business were conducted as a firm, each partner would be liable for all the partnership debts.

Although, formerly, corporations were usually created to conduct the larger enterprises, to-day their use has been extended to almost every conceivable business or industry. It might be found difficult to secure money to "finance" many such if it were not possible to obtain numerous stockholders for small amounts.

Corporation Bonds. A bond issued by an incorporated company, the ownership of which is represented by shares of stock; a bond of a joint stock company. Bonds issued by governments, States, or any territorial subdivision thereof, although corporation bonds, in one sense, are not so known in the banking world, but are known as "government bonds," "State bonds," and "municipal bonds." Occasionally an exception is made, as "corporation stock[1] of the City of New York," meaning New York City bonds. Investment bonds are in general covered by two classes, "corporation" and "municipal." (Read "Bond.")

The former are, usually, secured by a mortgage upon all, or a portion, of the property of the company obligating itself to pay the same.

[1] In Great Britain this is also a common name for municipal securities.

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They can be issued only by permission and under the direction of the company's shareholders.

It is customary to protect the rights of bondholders by selecting some trustee — usually a trust company — to hold the mortgage against the property, and to carry out certain acts necessary to the issue. (See "Trustee.")

A bond of this class states on its face many of the rights, both of the issuing company and the holder, and refers to the deed of trust in further accordance with which the issue is created. (See "Trust Deed.")

Corporation Securities. Except in very special cases this is a common title for stocks, bonds, etc., issued by incorporated companies, such as railways, electric light, gas, water, etc., but occasionally some such expression as "corporation stock of the City of New York" will refer to the municipal obligation of the same.

Coupon. Interest coupons are small certificates attached to that part of the bond representing the principal sum, each coupon representing the interest upon the bond for a certain period, there being attached to each bond a sufficient number of these coupons to represent the interest for the entire length of time which the bond may be outstanding before maturity. These coupons, or certificates, are cut off as they severally become due, and presented at the place designated for payment.

Do not detach coupons from a bond other than the next one maturing. Many investors have the habit of visiting, at infrequent intervals, their safe deposit vaults or "places of concealment," in which they keep their securities, and cutting from their bonds, at such periodical visits, the two or more next maturing coupons, which they will keep at home in some place subject to possible loss or destruction. That in itself

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is sufficient reason for not doing this, but another objection to this plan is that if, for any reason, a bond, with the coupons so detached, is sold, it necessitates delivering it with the cut unmatured coupons pinned thereon, which is more or less objectionable for many reasons.

When it is intended to send bonds to London for sale, from which coupons not due have been detached, they should be re-attached by means of gummed paper, and not pinned to the bonds.

Coupon Bonds. Any bonds which have attached interest notes or coupons which may be presented for payment at stated intervals as the interest becomes due, and which notes or coupons are made payable to bearer. (See "Coupon.")

Coupon Notes. A "coupon note" would seem to be an ordinary promissory note having a long enough time to run to call for different interest payments, the interest being represented by attached tickets or coupons, which must be presented, from time to time, in order to collect the interest. In most circumstances these notes would naturally be made payable to bearer, passing from hand to hand without indorsements, but this is not necessarily so, as the note may be drawn payable to some person or order, in which event it passes by indorsement; this, however, not affecting the coupons, which are good in the hands of any bona fide holder without endorsement. The notes accompanying a great many of the Western farm mortgages are in coupon form.

"Coupon notes" comprise those having a comparatively short time to run, say five years or less, but when issued by a corporation, in what way they technically differ from a "debenture," it is difficult to say, unless the fact that the latter has a longer life explains it.

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Municipalities desiring to borrow money for a relatively short time, yet longer than six months, often issue " coupon notes." This has also been a favourite form of security issued by many corporations of late which have borrowed large sums for short periods.

Coupon Off. Same as " Ex-Coupon."

Coupons, Collection of. Coupons are almost always made payable to " bearer," that is, like a ten dollar bill, good in the hands of any one, therefore, care should be taken in transmitting them from one point to another. The simplest method on the part of an individual to collect the money due upon the coupon is to take it, about a week previous to its maturity, to his local bank, requesting the bank to attend to the collection for him. Banks have the safest and most thorough systems for coupon collecting.

If it is necessary or more desirable to send coupons to some distant point and not through the local bank, registered mail is the usual method, although express companies are occasionally used for this purpose.

Be sure to cut off from all bonds the proper coupons for the next interest period. It is surprising how often investors detach coupons due the wrong year or the wrong month in the same year.

C. P. A. Certified Public Accountant.

Cremation Certificate. A signed statement by certain persons especially selected or appointed, or a certain committee authorized so to do, that they have witnessed the burning (total destruction by fire) of the securities or papers named in the certificate.

Cumulative. This, as a rule, has reference to " preferred " shares of stock. Unpaid dividends upon such stocks accumulate from year to year,

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and must be paid before the common or other stocks which come after can receive anything. A "cumulative" issue often acts to the detriment of the common shares, as it naturally lessens the chances of dividends upon them.

A good illustration is that of the Rutland Railroad Company preferred and common stocks. The former is 7% cumulative, and the amount of unpaid dividends now due on this stock (October, 1909) and which have accumulated through failure from year to year to meet the 7% requirements, amount to 180%. Unless, therefore, some readjustment of the financial plan can be made, the common stock has a very questionable value, for if no dividends can be paid upon it until the back dividends accumulated upon the preferred have been made up, there seems little hope for the common from a dividend standpoint.

Cumulative Income Bonds. See "Income Bonds."

Cumulative Preferred Stock. See "Cumulative."

Currency Bond. A bond not specifically payable in gold coin, but in any lawful money.

Current Assets. "Shifting and changeable assets" such as cash on deposit and on hand, loans, accounts and bills receivable, etc.

Current Liabilities. Amounts owed subject to constant change, such as accounts payable, loans payable, bills payable, interest and dividends accrued towards the next payments, pay rolls, etc. Floating indebtedness of all kinds comes under this heading.

D

Date of Bonds. Care should always be taken to avoid dating an issue of bonds upon Sunday.

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A New Jersey city issued recently $50,000 worth of bonds dated on Sunday. New ones had to be created to replace them.

D. C. 3.65s. "District of Columbia bonds" bearing 3.65% interest. (See subject in quotations.)

Debenture. "Debenture bond" (which subject see) is the security usually understood by this term. Throughout the Dominion of Canada, however, as well as Great Britain and her colonial possessions in general, the term "debenture" is used in speaking of municipal obligations, such as we refer to as "bonds." Canada being more or less influenced by its dealings with the United States, uses the expression "municipal bond" almost as much as "municipal debenture," although, in speaking on the subject generally, they make a distinction by using the word "debenture" to indicate a municipal issue as against the word "bond" for a corporation security. In Great Britain, the word "debenture" is often used to distinguish "debenture" issues of railroads where there is no "trust deed" securing the same.

Debenture Bond. An evidence of indebtedness issued by a corporation having precedence over its preferred and common stocks. It is commonly nothing more than a note, very likely in coupon form, and not secured by mortgage.

A so-called "debenture bond" does sometimes carry a lien of some sort upon the property of the company, but the writer is of the opinion that "debenture" is not the proper title for a bond so secured, but "mortgage debenture" should be used. Certainly in this country in the earlier days of banking a "debenture bond" was one unsecured by mortgage; not so in England, however.

Provision is often made that no mortgage

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indebtedness shall be created during the life of a "debenture" issue which shall not equally secure the latter. This is a very desirable feature and enhances its value.

Technically, when a railway or other corporation deposits stocks and mortgage bonds in a trust company and issues another bond against them, a "debenture mortgage" is the result, but, by custom, such bonds are often called "collateral trust."

There are issues bearing the name of "debenture mortgage bonds" which are actually secured by junior liens directly upon the property, as in the case of the Wabash Railroad Company, which has such an issue, divided into two classes: Series A and B, commonly called "debenture A" and "debenture B" bonds; the former having preference for interest only over series B. Interest on either issue is not payable unless earned, and is non-cumulative.

The desirability of a "debenture bond" as an investment depends largely upon the financial status of the corporation by which it is issued, and upon the amount of indebtedness having a prior claim. No foreclosure can be accomplished in case of default; the holder is simply a noteholder and must take what he can get after all prior claims are satisfied.

Debenture Income Bonds. See "Income Bonds."

Debenture Mortgage. There was a very general custom, some years ago, on the part of "farm mortgage companies" of issuing what were known as "debentures." The farm mortgage company would deposit, say, $110,000, par value, of mortgages upon real estate, with some trust company, and issue against them $100,000 worth in "debentures" bearing a less rate of interest than the mortgages. There was supposed to be

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less risk to the investor in buying one of these "debentures" than in purchasing any specific mortgage. This class of securities should be called "debenture mortgages." Comparatively few such investments, however, are being dealt in at present.

Debenture Mortgage Bonds. See "Debenture Bond."

Deed. A document in writing (generally a printed form to be filled out in writing is used) rendered authentic by the seal of the party whose intention it is supposed to declare; in practice, a document used for the purpose of transferring the title of real property from one to another. In law a "deed" is any instrument bearing a seal.

"Deeds" conveying real estate are commonly of two kinds. First, a "quit-claim deed," by which the one giving it in no way holds himself responsible for any defects in the title; that is to say, he merely transfers his own rights and interests therein, whatever they may be, and if the title is imperfect the one accepting the deed can recover nothing. Second, a "warranty deed." This differs from the last named by the party giving the deed guaranteeing the property conveyed to be free from any defects of title, and under this the acceptor of the deed is entitled to recover should a defect subsequently be discovered.

Deed of Trust. See "Trust Deed."

Deferred Bonds. The holder of such a security receives a gradually increasing rate of interest up to a fixed rate, after which time, the rate of interest is supposed to be uniform. Or bonds upon which the interest is deferred until some future date.

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Definitive Bonds. The actual bonds for which "Temporary Receipts" (see that subject) are often given, and for which the latter are exchanged.

Deliveries. Deliveries of securities upon the New York Stock Exchange must be made not later than 2.15 P. M. on the day sold, if for "cash" or if sold in the "regular way" then before 2.15 P. M. on the following business day. On half-holidays which the exchange observes, cash sales require delivery not later than 11.30 A. M. No deliveries are made on Saturdays.

If delivery is offered after hours the buyer may refuse it until the following business day, but the seller has no right to demand interest for the extended time.

Demand Collateral Paper. See "Collateral."

Demand Loan. A form of note or promise to pay, the borrower having the right to pay off the loan at any time — presumably not the same day it is made — and likewise the lender the right to demand payment, Sundays and legal holidays being excepted in each case.

In New York the custom prevails for parties to demand loans either wishing to make or receive payment, to give notice to that effect before one o'clock P. M., and for payment to be made before 2.15 P. M. that same day. It is not customary to call loans there on Saturday, Friday loans carrying over until Monday. In that State any rate of interest is permitted on collateral call loans of $5,000 or upwards.

Unless written otherwise in the note, a "demand note" bears legal interest after demand for payment has been made; it is payable on presentation without "grace." The laws differ in various States as to the length of time an indorser is held on a "demand note," but generally for a limited time only.

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Rate of interest may be stated in a note of this nature, but it is quite customary for borrowers of "call money" (as it is otherwise known) to have no stipulated agreement as to the rate with the lender, his charge for interest varying, from time to time, in accordance with the money market. In case of any change it is customary for the holder of the note to notify the borrower of the rise or fall of interest upon the loan; such action being referred to as "marking up rates," or "marking down rates." At times the rate of interest may seem excessive to the borrowing party and he may prefer to exercise his right to pay the loan off, either with cash on hand or by borrowing elsewhere. In the latter event, it is known as "shifting loans."

"Demand," or as they are more commonly termed, "call loans," are at present mostly made by bankers and brokers borrowing on collateral securities, and are not so much in vogue among other classes of borrowers.

Denomination. The face value of a bond. Most bonds are issued in the "denomination" of $1,000, although the $500 and $100 "denominations" are not uncommon, and bonds of almost every conceivable "denomination" have been placed upon the market from 50 cents up to $1,000 and, occasionally, for a greater sum than the last named; especially is this so in the case of registered bonds. Our Government bonds may be issued in $50,000 pieces.

Depreciation. In making up a statment of earnings of a business or corporation it is very easy to deceive oneself by not taking into proper consideration the falling off in value of the property on account of the wear and tear; machinery becoming antiquated; reduction of the life of the property as in the case of a mine, etc. In

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examining the statement of earnings furnished by a company in which a person is considering investing money, this matter of "depreciation" should be seriously considered. It differs, of course, in different industries, but it is safe to say that the depreciation in what is called an industrial property is considerable. Some manufacturing concerns make a point to set aside each year from their profits a sum equal to 10% of the cost value of all the machinery and 6% of the cost value of the buildings. The question of charging off real estate depends upon the location, etc. In street railways, the depreciation is very large. This does not appear at first, and in new roads the net earnings are given as much larger than they will appear later on unless there is an increase in business. The wear and tear to electric plants is considerable. In many classes of business which have been running years, so that the depreciation is constantly apparent, calling for repairs to the machinery, etc., it may be a sufficient safeguard to charge all such repairs, replacements and the like to operating expenses, and create no special fund to cover it, but it must be certain that such repairs and replacements are equal to the actual depreciation. If some method is not adopted to set aside from earnings each year a sum to offset the depreciation of the property, the share and bondholders of such a corporation will eventually find that they have had their investment gradually returned to them in the shape of dividends and interest, representing a piecemeal payment of their principal sum rather than actual profits of the corporation. Bear in mind that it is always easy for any corporation, by a method of bookkeeping, to show fictitious earnings, and it is to safeguard this very thing that a competent "expert accountant" should, in the majority of cases, verify the earnings of a corporation

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before the investor may safely purchase its securities.

A distinction is made between " depreciation " and loss resulting from " wear and tear," on the ground that no matter if a plant is continually kept in the most thorough repair, the time is bound to come when, on account of newer mechanical devices and inventions, it will have to sooner or later be entirely replaced. A piece of machinery, even in the best of repair, may be suddenly thrown out and replaced by a different one. The former is but little more than old junk; the cost of the new is what must be provided for by a " depreciation account."

Destroyed Securities. See " Care of Securities " and " Bond of Indemnity."

Development and General Mortgage. See " Development Mortgage."

Development Mortgage. Usually issued by a railroad corporation — but also by street railways or others — for the purpose of providing funds for additions, improvements, etc. Thus, an issue may be a " junior lien " upon all or a part of the property, or may be the ordinary " general mortgage," to both of which subjects refer. A typical example of a " development and general mortgage " is that of the Southern Railway Co., which has outstanding an issue due April 1st, 1956, created for the purpose of funding certain capital obligations and divisional prior liens, and to secure the means for future additions, improvements, etc., upon the entire system. Eventually, this issue should become a first lien upon certain railroads absolutely owned, and a second lien on other portions, subject to existing divisional liens, and a general lien upon certain other portions.

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Direct Obligation. The obligation to pay on the part of the person, corporation, etc., named. As an example, take the Baltimore & Ohio R. R. Co., Southwestern Division bonds. These are really a first mortgage upon certain portions of the railroad property, but, in case of financial disaster to the road, if there were not sufficient value in such property as the mortgage covers, the Baltimore & Ohio R. R. Co. itself would be responsible for the payment of the difference. Again, if the earnings of the property covered by the mortgage are not sufficient to protect the interest and principal of the bonds, as due, the Baltimore & Ohio R. R. Co. is liable for any deficiency.

"Special Assessment" and School District issues are usually not the "direct obligations" of the entire town or city.

Discount. The percentage or price of a security below its par or face value. Taking the face value as $100, a share of stock selling at 95 would be selling at 5%, or $5 per share, "discount." The par value of various securities differs, however (see "Par"), therefore, it does not argue that because a share of stock is quoted at 95 it is selling at a "discount," for, if by chance the face value of that share happens to be $50, it would — unless two shares were quoted as one, as is sometimes done — really be selling not at a "discount," but at a premium of 90%.

A note is "discounted" when the interest upon the same is deducted by the lender from the amount loaned; that is, the borrower pays the interest in advance. This amount of interest retained by the lender is called the "discount," or "bank discount." The amount of money which the lender obtains, that is, the face of the note less the "discount," is called the "proceeds," or "net avails."

By this method, he does not receive a sum of

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money equal to the face of the note, because the lender has deducted the interest.

District of Columbia Bonds. The bonds of the District of Columbia bear 3.65%, for the payment of which — principal and interest — taxes are levied upon the property within said District. But the faith of the United States is also pledged for the payment of these securities, so they are considered United States Government bonds.

Divisional (or Division) Bond. A railway issue secured by a mortgage upon a division and not upon the entire property, but, as a rule, the direct obligation of the railway company itself. A "divisional bond," however, may cover a property afterwards taken into a consolidation. In that sense, the term is merely used to distinguish such a bond issue from one upon the consolidated property, and would not, in that case, probably bear the promise to pay of the latter. (See "Consolidated Mortgage Bond.") A "divisional bond" may bear the guaranty of the parent company, but an investor should not allow himself to feel secure merely on that alone, but should always consider the actual value of the property mortgaged; in other words, should judge the "divisional bond" purely upon its own merits, irrespective of the guaranty. Should the "division" not prove valuable to the main line, the guaranty might turn out to be worthless when demand for payment should be made of the "parent company" as has frequently proved to be the case.

Divisional Mortgage. See last subject.

D. M. J. S. December, March, June, and September; interest payable quarterly beginning with December.

Dollar Bonds. The English term for a bond of a face value of so many dollars, — American

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bonds, — distinguished from bonds representing "pounds sterling," etc.

Dollar Exchange. "Exchange" drawn payable in dollars.

Drainage Bonds. In some Western States the laws provide for the issuing, generally by districts territorially formed for the purpose, of bonds to raise money for the proper drainage of such districts, which bonds are payable from taxes levied on all the taxable property in the district. This is a form of municipal bond, and they are usually known as "drainage district bonds." A town, city, or county may issue bonds for drainage purposes, however.

Drawings. When bonds to be redeemed prior to their actual maturity are drawn by lot, the number of every unredeemed bond is placed upon a separate slip of paper, and so protected from the sight of some impartial person that he may draw the required number of bonds in much the same way as the drawings in a lottery. This is referred to as "The Drawing," and, in foreign countries where there are many outstanding issues of bonds which are not only subject to redemption in this fashion, but which include with each drawing a real lottery accompaniment, entitling the holders of a certain few numbers to premiums or bonuses, the drawings are attended by great public interest. The New Orleans "Premium Bonds" (see that subject) is the only illustration of this in America.

Drawn Bond. Drawn by lot for payment. (See "Called Bonds.")

D. & J. December and June; interest payments semi-annually beginning with December.

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E

Electric Light Company Securities. When electric lighting was first introduced, it resulted in depreciation in the market price of gas company securities. It has been found, however, that gas and electric light companies can work harmoniously together, there being separate fields for them to cover, but the superiority of electric lighting over gas is bound to create for it a permanent demand. It is not uncommon now for a man living in a small country town to be supplied with electricity and for him to gaze in wonder at the still prevalent gas posts in many of our large cities. Its use is less detrimental to the health than gas, and not injurious to wall and ceiling decorations. Its safety over the use of lamps is favourable to its increased use.

Now that it has proven possible to transmit electrical power long distances at small loss, the investor must not only consider the likelihood of competition from a local plant, but from some plant located in another town or city in the same section, and, therefore, for this and many other reasons, it is desirable that rates charged locally shall be reasonable and satisfactory to the consumers, so that there will be less temptation for an outsider to invade the territory. There may be some exclusive clause of the franchise which will protect the local company from an invasion of this kind, but all these matters are to be considered.

Find out how long the franchise has to run. If it is a bond being considered, the franchise should always outlive it. (In this connection it would be well to turn to the subject "Franchise.") Consider the earnings, which should give net results of at least twice the amount required to pay the annual interest charge, and provide a moderate sinking fund. A sinking

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fund which will redeem two or three per cent. of the issue annually is desirable if the plant is located in the smaller cities or towns. In the larger cities, which are considered to be growing communities, a sinking fund may not be so necessary, provided the bond issue does not exceed 60 or 70% of the replacement value of the property. In smaller places, 50% of the replacement value of the property is large enough for a bond issue. The wear and tear on electric lighting properties is considerable, and it should be well understood by the intending investor that proper sums are being set aside yearly to cover this depreciation; and this should be from the very starting of the plant, because, when everything is new, this wear and tear is not apparent, except to a small degree, but the ratio of this increase is quite rapid as the property grows older. Consequently, this should be anticipated in the beginning. It is very essential that an electric light plant should be maintained in a high physical condition, which maintenance should be paid for from its earnings without any increase of indebtedness, and it is that against which the investor must guard.

Electric light plants in small towns are not desirable sources for investment, and are worth considering at all only when low priced water-power is obtainable, and, in this connection, it is wise for the investor to read what is given under "Power Company Bonds," as relates to the sufficiency of the power.

Electric light properties may be easily duplicated, unless the wires are in underground conduits and thus occupy a strategic position something like a gas company. It is well to ascertain whether or no the municipality has any right of purchase at some future time, which might work to the disadvantage of a security holder. The amount of business tributary to

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the company is naturally important, and especially important is the question of the contract, if any, with the municipality, to furnish the public lighting. If this contract exists, unless it is a reasonable contract and runs as long, at least, as the bond issue, it should not be considered at all by the purchaser of bonds, and should seldom be considered by the investor in the stocks of such a company. At its expiration it might not be renewed, or, if renewed, upon less favourable conditions. It is right for the intending purchaser of securities of a property of this kind, unless with the above exceptions, to eliminate the earnings from the city contract entirely in studying the company's statement of earnings. (Read also the subject "Gas Company Bonds.")

As a whole, electric light securities have proved very satisfactory and comparatively little loss has been incurred. It is reasonable to suppose that with all the modern improvements, and the present well-known methods of handling this business, that with ordinary precaution on the part of the investor, safe investments in properties of this kind may be readily made.

Electric Railway Securities. When it became possible to economically apply electric power to the street railway service, the first step was naturally the conversion of the horse propelled cars to those driven by electricity, and this change has very generally taken place throughout the country. While there were roads to be so converted, there was not so much attention paid to constructing new lines. Of late years, however, this field has been extensively exploited, and, perhaps, in some instances, too much so. Although a vast number of roads have been honestly built and capitalized, there have been construction companies and promoters who were so

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anxious to profit from the building of electric roads, that some ill-advised properties have been financed. This is especially true in the smaller towns and sparsely settled sections. This zeal for construction is bound, in such cases, to result in some re-organizations. In many instances, the impending disaster may be averted by the consolidation with, or the sale of the property to, a connecting line of greater importance, which can, with its own power and equipment, more economically conduct the smaller line.

Whereas, as stated above, there have been some ill-advised roads constructed; roads built where there is little business, little to support them, or, as we might say, where the nickels do not exist in sufficient quantities, this is not the whole trouble. Recent construction shows a great contrast to earlier methods. The latter allowed the use of too light rails and much equipment which is now out of date, and the construction was almost exclusively upon the highways. Modern methods take all these matters into consideration. The physical condition, such as grades, curves, general construction, etc., are all important. In New England, the hilly character of the country with the sharp and frequent curves makes it unsafe to run heavy cars at express speed. The privilege of constructing over a private right of way is frequently difficult to obtain. The cost for the removal of snow in roads running upon the highway is far greater than if operated over a private right of way. In many sections of the country, where it is possible to build long stretches of road, practically without curves and appreciable grades, all conditions incident to a low operating cost are favourable.

High rate of speed over privately owned rights of way is, where the natural conditions are favourable, resulting in the carrying of through

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passengers for long hauls, and the transportation of freight to very profitable ends. It is continually bringing electric railways into stronger competition with the steam roads. The introduction of dining, sleeping, and drawing-room cars is making one system of transportation more like the other. The filling in of small links of road here and there is furnishing the means for long distance service, and, withal, the electric railway situation is constantly shaping itself upon a permanent basis and upon different lines, capable of a reasonable certainty as to results.

The modern inter-urban electric railway, which has the best chance for a successful future, is the one which operates over a private right of way, and approximates, in its character, the construction and equipment of the standard steam railroads.

The inter-urban electric has a distinct function, and it is predicted that the ultimate outcome will be that these roads will do most of the short haul passenger business, and leave to the steam roads the long haul and freight. And, furthermore, that many electric roads feeding into, or parallel with, the steam roads will eventually be absorbed by the latter.

It is a peculiar fact, and recognized by many, that the inter-urban road parallelling the steam road does not result in a reduction of the passenger business of the latter, but seems to create a new business for itself. In other words, it is recognized that the "trolley lines" "breed" business.

Much information and experience have been gained of late, and the roads now being constructed are on a different scale and less likely to come to grief than the earlier ones. Judging by this, it is reasonable to suppose that new properties, built according to modern methods,

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and serving populous communities, will prove desirable and profitable investments.

Some of the things to consider in the selecting of a street railway security have already been set forth, to which may be added:

The length of franchise, which, in the case of a bond, or other security, having a definite maturity, should always outlive it. (See "Franchise.") The earnings should be given careful consideration Proper charges should be made each year for improvements, and assurance had that the road is being maintained in a high state of physical condition from its earnings, and that no new indebtedness is being created to pay for what is strictly wear and tear. (In this connection it may be well for the reader to consider the matter under "Depreciation.") When a property of this kind is first constructed it is usually in a high state of efficiency, and the road and equipment do not begin to show visible increased cost of maintenance for the first few years, thus permitting it to be operated at a lower cost than later on when the wear and tear will become more apparent and replacements necessary. A road giving service where the riding is more or less for pleasure, rather than for necessity, is also likely to show unduly large earnings at first, owing to the novelty afforded the patrons. Thus, the earnings of a new road should be studied from this point of view.

The power is all-important, whether it be purchased or furnished from the road's own plant. The question is: If furnished by water-power, is the power sufficient for service at all times of the year, and has provision for the future been taken into consideration?

In all such matters the opinion of a well-established expert engineer should be furnished, and his report should not only cover the physical condition of the property, but should enter with

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care into the business tributary to the road. In considering this, the reader is asked to turn to the subject "Auditor," which treats further upon this matter.

The net earnings of a company ought to be at least, double the interest charges; the mortgage ought not to exceed 75% of the replacement value of the property; a "sinking fund" is, at times (see that subject), advisable, which it is well should become operative at an early date after the issuance of the bonds.

Engineer's Certificate. This is a statement over the signature of an engineer as regards the physical condition of a railroad or other property. This is further explained under the next subject, but the wording of such a certificate should be in form so as to show beyond peradventure that exhaustive examination has been made and that all construction was proper; that power, for example, is sufficient for the present needs, and likely to be so for reasonable future requirements; that, if a water-power enters into the proposition, the supply of water is sufficient at all times, and, if not, that proper provision has been made for auxiliary power by the use of coal, and so on. In fact, on an "engineer's report" depends so much that too great pains cannot be exercised in studying into such a report and ascertaining if all reasonable care and precautions have been taken. Let the engineer be one of good repute and standing, and let his report be sufficient to set forth in detail all necessary information.

It has become the custom for railway and other public service corporations to allow for an extension of the property by a further issue of bonds up to a certain rate of the actual cost for such an extension, all based upon "engineer's certificates." It is, therefore, of extreme importance that these certificates should properly

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show the expenditure of this money. It is not a bad idea that an affidavit, signed by the president and treasurer of the company, should go with such reports, showing them to be true.

Engineer's Report. A report by one who by previous education and experience is competent to investigate the physical condition of a railroad, electric light, or such a property as he may be employed to report upon.

In purchasing at first hand from a corporation desiring to sell its obligations, it is customary to employ an expert engineer to report upon the physical condition of the property belonging to the corporation. Let us take for example, a street railway whose bonds have been offered to a banker for purchase, and who has contracted for them subject to the usual conditions as to finding everything as represented. Among other experts, a competent engineer is employed to thoroughly examine the machinery, road-bed, ties, rails, overhead construction, rolling stock, etc., to find if it is thoroughly up-to-date and capable of fulfilling the demands likely to be placed upon it. In this regard, let the investor, among others, bear this point in mind: that the most favourable report from the best engineer in the country certifying to the conditions of this street railway does not argue that its bonds will prove to be a safe investment, because no matter how good a road is from a physical standpoint, there must be sufficient business — present or prospective — to warrant its existence, and to provide for its proper maintenance as well as to protect the interest and principal of the bonds. It is better to have, perhaps, a poorly constructed road running through a section furnishing an enormous amount of business, which will provide earnings to not only safeguard the bonds, but enable the road to be later brought up to a

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proper physical condition, than it is to have the best road which engineers can construct running through a country with inadequate business tributary to it. See also last subject.

Equipment. This is a railroad term and refers to all rolling stock; its locomotives, cars, snow-plows, hand-cars, etc.

Equipment Bonds, Certificates or Notes. See "Equipment Trust."

Equipment Trust. It is a common practice among railways, in buying cars, locomotives, etc., to mortgage the same and sell securities secured by this mortgage to raise money for the payment of the equipment. These obligations are known as "equipment bonds," "equipment notes," "equipment trust certificates," etc., or, when upon cars only, "car trust certificates," etc. A manufacturing concern might also issue "equipment securities."

A typical example is that of the Southern Railway which issued June 1, 1904, 4½% Equipment Trust Gold Certificates. One hundred and twenty passenger and freight locomotives and 2,500 cars were mortgaged to secure these certificates. They are the direct obligation of the Southern Railway Co., in addition to being secured by a first mortgage upon the equipment named, no part of which should be released until the entire issue is paid.

The safety of such issue depends largely upon what proportion the issue bears to the actual cost of the equipment, and whether or not it is to be paid off fast enough to prevent the equipment mortgaged depreciating in value below the amount of the certificates outstanding; that is, equipment of this kind wears out very fast, and the certificates should, therefore, mature with that idea in view. (See also "Car Trust.")

This form of short time obligation has been

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looked upon favourably from the investment standpoint. It is stated by one financial writer that no default in this country has ever yet occurred in these securities. They have commonly been issued up to about 80% of the cash value of the equipment, and in serial form, payable about 10% annually.

Equity. The common meaning in reference to investments is the value in the property over and above its indebtedness; for instance, to the stockholders of a railroad belongs its "equity." In the case of a mortgage upon real estate, the value of the property above the mortgage would be the "equity."

Equivalent. See "New York Equivalent."

Escrow. The common use in banking is: anything is placed "in escrow" when, by mutual agreement between two parties, it is placed in the hands of a third party, to be held until the fulfilment of some condition, when it shall be delivered or returned in accordance with the agreement.

Exchequer Bonds. In England, very much the same as "exchequer bills." They have a definite time to run, however, not exceeding six years, with interest at not greater than 5½% per annum; the rate being fixed for the full period at the time of issue. This is a form of indebtedness for short time borrowing and is not confined to Great Britain. There they were first introduced in 1853.

Ex-Coupon. Without interest; coupon already due, or about to become due, detached.

Ex-Interest. Without interest; coupon for interest just due and detached.

This term is particularly used in reference to "registered bonds," which, inasmuch as the interest is forwarded to the holder by check,

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are, to a certain extent, treated more or less from the standpoint of shares of stock. When the checks for interest are sent out to registered bondholders, they go forward to holders of record as of a certain date. Any sale of such a bond upon or immediately after a certain date, or, in other words, during the closing of the books, would be sold "ex-interest;" that is, the interest check would go to the previous holder and the purchaser makes his transaction upon that understanding. There is at times a difference in the quotations between the registered and coupon bonds of the same issue, equal to the amount of the coupon. A registered 6% bond, for example, on which 2% (four months) interest has accumulated, might be quoted at 106, which would be the equivalent of the same bond in coupon form selling at 104 "and interest." Registered bonds selling "ex-interest" are at that time quoted about equally in price, as 104 "ex-interest" and 104 "and interest" are equal one to the other. A better understanding of this may be had from reading "Registered Bond."

Expert Accountant. See "Auditor."

Extended Bonds. A bond of which the payment of the principal is put off to some future date; the issue ordinarily not being replaced by other bonds, but the same ones being left in the hands of investors; the security behind the bonds remains the same. In such an event, it is customary to attach sufficient new coupons to cover the interest for the time extended, or new bonds, coupons and all, may be given in exchange for the old. Most issues of this nature are extended at a less rate of interest than borne by the original ones. "Extended bonds" have stamped or printed thereon the essential facts of the extension, and, if there are old coupons which can

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be used, they are stamped or printed so as to show the lower rate of interest.

Extension Bonds. Secured by a first mortgage (" Extension bonds " may not be secured by a first mortgage, but if so would certainly be an exception to the rule) upon an extension of a railroad system, and, usually, guaranteed by the company proper. Besides being a first mortgage upon the extension, such a bond is often a " second " or " junior " mortgage upon other property. In the case of the " Pacific Extension 4's " of the St. Paul, Minneapolis & Manitoba Railway Company, the bonds are secured by a first mortgage on all the company's lines in Idaho and Washington and by a second mortgage upon its lines in Montana.

Whereas, this class of investment is dependent somewhat upon the amount of the issue in proportion to the proper cost of the extension, and the need of such extension to the larger road, yet the standing of the latter and the value of its guaranty are largely to be considered.

External Bonds (or Loan). An issue of government bonds sold abroad, as designated from money borrowed at home.

F

Face Value. The value of a security, regardless of any coupons, as appears in the security itself; the principal. (See " Par.")

F. and A. Interest payable semi-annually, February and August.

Fee Simple. A landed estate belonging to the owner and his heirs and assigns for ever.

Finance. To " finance " an enterprise is to raise the necessary money for its needs.

Finance Committee. See " Savings Bank."

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Finance Company. In the United States, the "holding company" (to which refer) is commonly known as a "finance company," but the meaning in England is totally different. There the term has reference to companies dealing in corporation securities.

Financial Year. Sometimes used in the place of "fiscal year," to which refer.

Fineness. See "Standard of Weight and Fineness."

Firm Bid. See "Offered Firm."

First and Consolidated Mortgage. See "First Consolidated Mortgage."

First and General Mortgage Bonds. This indicates an issue secured by a "general mortgage" (see "General Mortgage Bonds") on all the property and by a "first mortgage" on a part of it.

First and Refunding Mortgage Bond. It might be well to read the matter under "First Refunding Mortgage Bond," by an understanding of which a "first and refunding issue" may be readily comprehended. An issue such as the last mentioned should be one which has extended a genuine first mortgage upon the whole property which it covers, but it may be such an issue as described in the case of the Old Colony Street Railway bonds under the subject of "First Refunding Mortgage Bond." The *and*, therefore, inserted between "first" and "refunding" leaves a very uncertain meaning as to what such an issue really is, and it is essential that an investor should ascertain exactly the terms of the mortgage itself.

First Consolidated Mortgage. Read "Consolidated Mortgage Bond." By a "first consolidated mortgage" issue is generally indicated

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what would be literally understood by such a combination of words; viz.: a consolidated mortgage issue and the first one of such placed upon the property. But a "first *and* consolidated mortgage" would be quite a different thing. It would indicate not only a "consolidated mortgage" issue upon the property, but a "first mortgage" upon some parts; that is, upon such parts as had not been previously mortgaged.

First General Mortgage Bonds. (Read "General Mortgage Bonds.") This is not only an issue secured by a "general mortgage," but the first one of that nature placed upon the property.

First Lien. See "First Mortgage," meaning the same in reference to bonds.

First Lien and General Mortgage. This is taken as an example of an issue of bonds bearing, apparently, two names. It is impossible to take the amount of room necessary to describe every possible combination of names of this kind which may be used in the designation of a mortgage. The Norfolk and Western Railway Co. has an issue of 4% bonds bearing the above title. It is a "first lien;" that is, "a first mortgage," on approximately 200 miles of road, but upon 1,592 miles there are other mortgages which would come ahead of this particular mortgage, and, therefore, upon that portion of the road it is a "general mortgage," so-called. It will be seen that the part of the road upon which the issue is a "first mortgage" is comparatively small.

First Mortgage. (Read "Mortgage.") There are sometimes several mortgages placed upon the same property. The one having the prior claim to or preference over the others is known as the "first mortgage." This will be better

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understood by reading the next subject and also the matter under "Second Mortgage."

First Mortgage Bond. A promise to pay in the form of a bond and secured by a first mortgage. (See "Mortgage.") It has first claim on the property of the corporation, as well as upon the earnings. A bond of this kind is so well understood, that little more need be said of it here. A word of warning, however, may be wise: do not think that a "first mortgage bond" is always secured by a first mortgage on all the property of the corporation. A company, at the time of the issuing of such a bond, may be a comparatively small affair, but later grow into much prominence by the absorbing of other properties. On most, and possibly all, of the absorbed properties there may have already been mortgages existing, and, therefore, the "first mortgage bond" of the original company may be but one of several such on the combined companies, although enjoying the credit attached to bearing the name of the parent company.

One more note of caution may be sounded here; namely, not to lay too much stress upon the fact that a bond is a first mortgage; because if it is a first mortgage it does not imply that it is a good mortgage; in other words, good security for the debt. A first mortgage on some property may be far inferior to a second or third mortgage on another. The first mortgage part merely indicates that it is better secured than any other indebtedness upon the same property.

First Mortgage Trust Bond. This is a form of a "collateral trust bond" (to which subject the reader is referred), and by which it will be seen that under certain conditions a bond of this nature may be indirectly a first mortgage. A "first mortgage trust bond" is, therefore, one secured by a deposit of other bonds which are

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in themselves secured by a first mortgage. An issue of this nature is that of the Louisville & Nashville Railroad Co., which is secured by a deposit of the first mortgage 5% bonds of the Birmingham Mineral R. R. Co., and the first mortgage 6% bonds of the Owensboro & Nashville Ry. Co.

First Refunding Mortgage Bond. Do not confuse this with a "refunding *first* mortgage bond." Note that there is quite a difference whether the word *first* qualifies "refunding" or "mortgage." A "refunding first mortgage bond" takes the place of a "first mortgage" issue, which has been outstanding and which the company desires to extend, not pay off. The new (or refunding) issue is a *first mortgage* pure and simple, as was the original one. But not necessarily so an issue in which the word first preceded "refunding." In this case, there may be no first mortgage securing it, but may simply be the first "refunding" issue which the company has put out, and, in that sense, the adjective applies to "refunding" only. But usually the issue is a first mortgage on a small part of the property, although not upon the whole. An actual example would be the case of the Old Colony Street Railway Co. which had outstanding April 1, 1905, $1,777,000 "first refunding mortgage bonds," so-called, but secured by a first mortgage on a power station and only 41¼ miles of track out of a total mileage of 367; against the balance other mortgage bonds amounting to $4,667,000 held prior claims.

It is, of course, contemplated that this "first refunding mortgage" issue shall, at some future time, become a first mortgage on all the property, by the retiring of the $4,667,000 bonds as they become due, and replacing them with an equal amount of the "first refunding mortgage" issue.

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Firsts. First mortgage bonds.

First Trust Mortgage. This is an example of the wilful misusing of the title of a bond, and was so used by a banking house to designate an issue, the proper title to which was "First Mortgage and Collateral Trust." Evidently there was a dislike to the "collateral trust" idea, and, therefore, "trust mortgage" was used in lieu thereof. "Trust mortgage" is a very vague wording and hardly proper under the circumstances.

The attention of the reader is again called to the necessity of not only a careful consideration of the exact and proper title of any security, but is advised to possess himself of information giving the exact status of such security in relation to other obligations of the same company; and is likewise strenuously advised to read with great care all the printed matter appearing upon the face of a bond, or its coupons, and to pursue a like course in relation to every security to be purchased or loaned upon.

Fiscal Year. Any yearly period, regardless of the calendar year, at the end of which any firm, corporation, or municipality may close its books in order to determine its financial condition.

Five Twenties. Bonds due in twenty years, but subject to redemption after five years from date of issue, at the pleasure of the issuer.

Fixed Charges. The "fixed charges" of a corporation are generally conceded to be the interest upon its bonds and floating debt, sinking fund, if any — although the latter may be shown under a separate heading — rentals, taxes, and insurance. (Railroad companies include insurance under "general expenses.")

Sometimes these three latter items are given under a separate heading and not included in "fixed charges," but unless they are included in

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the operating expenses of the company, they should be included in the " fixed charges."

Some very prominent " accountants " call " fixed charges:" " bond interest, taxes, and rentals," but there seems no reason why " sinking fund " and fire insurance, on permanent property at least, should not also be included. Many circular descriptions of bond and stock issues recognize " bond interest " only as " fixed charges," but this is more or less deceptive.

There is good authority for believing that in good times the " fixed charges " of a corporation should not exceed much, if any, 50% of the net earnings; this in order to provide for the decreased earnings of bad times.

Flat. Without interest. (See " Accrued Interest.")

Float. To " float " a company means to sell its stock or securities; thus raising needed money for capital, etc.

Floating Debt. All notes or forms of indebtedness calling for payment within a comparatively short time, as distinguished from bonds or other fixed forms of indebtedness.

F. M. A. N. February, May, August, and November; interest payable quarterly beginning with February.

Foreclosure. A method of enforcing payment of a debt secured by mortgage by taking and selling the property which it covers. This is done when the " mortgagor " has failed to pay the interest or principal of the debt which the mortgage secures, or to perform some other condition set out in the instrument. In most States, the property is sold under a power to sell contained in the mortgage itself, but in some States, where this is prohibited, an order to sell must be obtained from the court. The

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proceeds are applied to the indebtedness secured by the mortgage, other liens, and " foreclosure " expenses. Any balance must be returned to the property owner — the " mortgagor."

Foreclosure Value. In buying bonds of any corporation one of the things always to be considered is what the value of the property would be in case the bonds should not be paid, and the holders should have to " foreclose " and take possession of the property. Of course, this same fact is to be considered in regard to a mortgage of any kind. The value of such property, or the probable price at which it can be sold, is called its " foreclosure value." If the mortgage on a property is $100,000, and the holders are obliged to " foreclose," and should afterwards sell the property for $50,000, the " foreclosure value " would be the last mentioned sum, representing a loss to the holders of half their investment.

Forfeit. A deposit made, for instance, by John Smith to insure his fulfilling his part of a contract entered into with Charles Jones; this deposit to become the property of Jones in case of Smith's failing to carry out his agreement. (See also " Sealed Bid.")

Fractional Lots. The usual units for transactions upon the stock exchanges are based upon 100 shares of stock or $10,000, par value, in bonds. Transactions for less amounts are known as " fractional lots," or " odd lots." On many exchanges smaller amounts, say 50 shares of stock or $5,000, par value, in bonds, are the units.

France, Government Bonds of. See " Rentes."

Franchise. A particular privilege granted, generally, to an incorporated body. It is necessary, for instance, for a street railway company

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to obtain a "franchise;" that is, a privilege to operate and do business, before constructing its road. A franchise may be perpetual; *i. e.*, granted for all time, but very frequently it is limited in its duration.

Great care should always be taken by a purchaser of a bond to be sure that the franchise covering the property bonded does not expire before the date of the maturity of the bond. In buying stock in a corporation, which, for all practical purposes, has no date of maturity, the length of the franchise should be taken into consideration, for if at its expiration it cannot be renewed, or renewal obtained only under arduous conditions imposed upon the corporation, it might not be desirable to be among its stockholders. The value of a terminable "franchise" is questionable. In these days of the agitation for "municipal ownership" this franchise question is a very serious one, and time should be allowed to investigate thoroughly, and the future read with all the care possible.

Franc Loan. An issue of bonds, or similar securities, the principal and interest of which are payable in "francs," *i. e.* French money.

Freight Density. The same as ton miles per mile of line. It measures the general volume or density of business done.

To find the "freight density," as it is called, of a railroad, divide the total number of tons (for a given period) carried one mile (or the "ton mileage") by the number of miles of line operated. Example: Take a railroad 100 miles long. Suppose, to make it as simple as possible, that all freight carried was for half its length, and that in a year 1,000,000 tons were hauled the 50 miles. This would give 50,000,000 tons hauled one mile; *i. e.* 1,000,000 tons hauled 50 miles is the same as 50,000,000 tons hauled one

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mile. Dividing this "ton mileage" by 100 — the number of miles of line operated — we get 500,000, which is the number of "tons carried one mile per mile of line."[1] (See "Ton Mile" and "Ton Mile Cost.")

Freight Miles. Same as "ton miles." This is explained under "Freight Density."

Fully Paid (Full Paid). No more due; no further payment may legally be demanded. A stock is "fully paid" when it has been issued in exchange for its face value in cash, or its equivalent; issued in exchange for its value in property. In many States it is unlawful to issue stock in all, or, at least in certain classes of corporations except as "fully paid." This law is sometimes circumvented by property, which is desired by a certain corporation, being purchased in the name of some disinterested person, and by him sold to the corporation at a great advance in price, the corporation paying him in stock, equivalent in its face value to the price at which the property is taken over. This stock is afterwards distributed in accordance with the previous arrangement made. This is a questionable proceeding, but is a practice which has been largely entered into, particularly in recent years. (See "Non-assessable.")

Funded Debt. The bonded, or other debt, of a more or less permanent nature.

Funding. Converting debts — not bonded — of various amounts and maturities, or a debt now or soon due, into a unified form, usually with a fixed rate of interest, maturity, etc. As an example, imagine a city to have outstanding

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[1] Statistics of Railways in the United States 1904. Interstate Commerce Commission.

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debts in the form of notes which fall due from time to time, and which the city has to renew or extend, and which it appears unable, from its resources, to pay off for a term of years. By the method of renewing, from time to time, excessive rates of interest are often paid, and, in the long run, it is an expensive way of borrowing. By the issuing of bonds, at a favourable opportunity, money may be obtained at a lower rate of interest, and a saving made to the city. The selling of bonds in this case to pay off the notes is called "funding." Unless the expenses incurred in the process of "funding" are included as part of the new issue, the latter sold at a discount, or a premium (or bonus) paid to retire the former debt, the "funding" issue should be equal in amount to the indebtedness "funded." The habit is to issue bonds to "fund" a debt, but issuing stock or any more or less permanent kind of security to provide for floating indebtedness is, to all intents and purposes, "funding."

Funding and Real Estate Mortgage Bonds. A good example of an issue of this kind is that of the Western Union Telegraph Co., which has an authorized issue of $20,000,000, dated May 1, 1900. These are secured by a first mortgage upon the company's real estate in New York and Chicago, together with all buildings, fixtures, and telegraphic equipment thereon. The company agrees that no future lien shall be created upon any of its real and personal property within the United States having priority over these bonds, or create any mortgage without recording a prior lien as security for the payment of the principal and interest of these bonds.

The object of a loan of this kind is when a relatively small issue is to be made to save the trouble and expense of mortgaging all the property of a company by selecting certain

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parcels of real estate sufficient to properly secure the issue.

F. & A. Interest payable semi-annually February and August.

G

Gas Company Bonds. Issue secured by first mortgages, or "junior mortgages" properly protected, upon gas works have proven a satisfactory class of investment. The percentage of loss has been remarkably small; the failures of gas companies have been comparatively few. It was thought that the advent of electrical lighting would injure existing gas companies, but improved methods of manufacture have enabled them to reduce rates and remain prosperous.

By substituting gas for the low candle power of coal a household fuel has come into use in the form of gas stoves. These are a source of great income to the gas companies.

In many instances, the combination of the two forms of lighting under one company has been successful.

The usual care should be given in the selecting of gas company securities for investment. Net earning should be not less than twice the interest charges; the mortgage ought not to much exceed 50 or 60% of the replacement value of the property; the franchise must outlive the bond issue; a reasonable sinking fund is desirable; competition must, of course, be considered; the city or town contract [1] for lighting should be at a satisfactory rate so that there is

[1] Under "Electric Light Company Securities" will be found further information relating to city contracts, which applies with equal force here.

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likelihood of its being renewed from time to time, and rates to all customers must be reasonable compared with similar conditions elsewhere.

Natural gas propositions should be approached with caution. Many of them are proving short-lived.

Gen. (or Gen'l). General — general mortgage.

General and First Mortgage Bonds. See "General First Mortgage Bonds."

General Expenses. This is one of the subdivisions of the form prescribed by the Inter-State Commerce Commission, for the classification of the operating expenses of a railroad. It includes the salaries paid clerks and attendants and general officers, insurance, legal expenses, general office expenses and supplies, stationery and printing properly belonging to the same, and other expenses.

General First Mortgage Bonds. It is difficult to understand why the word "first" should appear in such a title as the above, as it is used. In practice, such an issue is either not secured by a "first mortgage" at all, but is just a plain "general mortgage" (see "General Mortgage Bond") or is, at the best, a "first mortgage" on but an insignificant part of the property, in which case, "general *and* first mortgage" would be the proper title. To be sure, a "general first mortgage" may become a *first* lien after the earlier lien issues have been paid.

General Mortgage Bonds. This title has taken the place of the old, but now disliked, "blanket mortgage." Secured by a mortgage upon the property of a corporation and subject to earlier mortgages placed upon parts or all of its property. This is a very common method of borrowing money on the part of railway companies, and has been necessitated in this country by its

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remarkable growth and development. The railroads, which at the time of their early construction provided inadequately for the enormous demands upon their capacity for handling traffic, as since developed, issued bonds covering the property at the time of its construction, many of which have not yet matured. The enormous increase in business of such a railway has demanded tremendous enlargements to its road and equipment, and, as the value of such property is largely in excess of the original mortgage or mortgages placed upon it, a "general mortgage," so-called, is issued, representing, in part, the value of the property in excess of the earlier mortgages. When such a "general mortgage" is issued, it is usually made large enough not only to provide for the needs of the company at the time of its issue and, possibly, for future extensions under proper restrictions, but to set aside in the hands of the trustee of the mortgage sufficient bonds to be later disposed of to replace the earlier mortgages as they fall due. This automatically results in a "general mortgage" eventually becoming a "first mortgage."

The investment value of the above depends upon the standing of the company,—its net earnings available for interest charges upon the issue, etc., — the amount of underlying liens, and, in short, what equity there is in the property above the general mortgage issue. In this connection read also "Consolidated Mortgage Bond."

Gold Bonds. In America, bonds payable in United States gold coin of the present standard of weight and fineness.

Gold Standard of Value. See "Standard of Value."

Good-Will. When this term is used in reference to a business or industry, it indicates the

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business already established. It is the material value of a business as a profit-producing enterprise, either realized or prospective.

Some writers define this subject as the bonded debt of a plant less its valuation at forced sale. Others, as the advantage or benefit which is acquired by an establishment, beyond the mere value of the capital, funds, or property employed therein.

Buildings, machinery, etc., may be almost valueless for any other purpose than for the particular product they are turning out, and, consequently, the indebtedness against such a property is, to quite an extent, dependent upon its success. "Good-will" varies much in different industries. In a case where there is more or less of a monopoly it may be very valuable, or where the character of the goods manufactured enjoys such an established reputation and demand that there is little danger of competition. But long consideration should be taken of this item in the assets of a corporation in determining the amount of indebtedness which may be placed upon the same. It is better financiering to value the "good-will" only in reference to the issue of stock, and then conservatively.

Goschens. See first part of "Consols."

Government Bonds. Formerly we understood these to be the interest bearing obligations of the United States of America, but now that New York has become such an international money centre, and Americans, like the English, have begun to deal in foreign securities, many of the other government issues — Germany, Japan, Great Britain, etc., — are largely held here.

There are some very salient features about the credit of the United States, which is the

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highest of any nation on earth. In the first place, our Government bonds sell at a higher price, or, in other words, at a lower interest return, than the bonds of any other nation. There are over $730,000,000 outstanding bearing only 2% interest, being the lowest rate of any national issue. This is due to several reasons, viz.: the existing belief in the ability of the Government to meet its obligations; the fact that it maintains the standard of gold payments, and, added to this, the non-taxable features of the bonds, for they cannot be taxed by either Government, State, or other municipality of the Union, and, besides, carry the privilege of deposit with the government by national banks to secure circulation; that is, the issuing of national bank notes.

Government bonds are issued in two forms, coupon and registered. (See "Coupon Bonds" and "Registered Bond.") The former may be converted into registered bonds of the same loan, but there is no law authorizing the conversion of registered into coupon bonds. Coupon bonds, for exchange into registered, should be addressed to the "Secretary of the Treasury, Division of Loans and Currency." The Department makes no charge for conversion.

In case of loss of registered bonds, notify the Secretary of the Treasury without loss of time in order that a "caveat" may be entered to prevent the transfer of the missing bonds on the department's books. Thoroughly describe each bond, giving its number, the face value, act under which issued, rate per cent., etc., all of which is another argument for retaining a careful description of one's securities. The Treasury Department will not stop payment on lost coupon bonds, or coupons themselves, and all such will be paid to the party presenting them to the department; no attention whatsoever being paid

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to notices to the contrary from the legitimate owners.

There are many regulations in which the investor or dealer in Government bonds should be versed; such, for instance, as relating to relief in cases of destroyed or defaced bonds and destroyed coupons, transfer of bonds, assignment of bonds, and of the same by attorneys, etc., all of which are set forth very specifically in a book entitled "Regulations of the Treasury Department in Relation to United States Bonds," which it is advisable to apply for, as only the most essential points are touched upon in the treatment of the subject herein.

The issue of Government bonds bearing interest and outstanding to-day are as follows:

Panama Canal Bonds bearing 2% interest, redeemable Aug. 1, 1916, but due Aug. 1, 1936, interest payable quarterly, beginning with February 1st. Also, another like issue redeemable Nov. 1, 1918, but due Nov. 1, 1938, interest payable quarterly, beginning with February 1st.

Consols of 1930 bearing 2% interest, redeemable after April 1, 1930, interest payable quarterly, beginning with January 1.

Loan of 1908-1918, bearing 3% interest, redeemable after Aug. 1, 1908, interest payable quarterly, beginning with February 1.

Loan of 1925, bearing 4% interest, redeemable after Feb. 1, 1925, interest payable quarterly, beginning with February 1.

The "transfer books" are closed during the month immediately preceding dates of interest payments, with the exception of the 4% loans of 1925, in which case the books close on the 15th day of the month preceding interest payment. Bonds not received for transfer prior to, or upon, the day fixed for the closing of the books will not be transferred until after the reopening of the same, and, consequently, the

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interest for that quarter will be paid to the parties whose names appear in the old bonds.

Much information may be obtained in relation to Government bonds from those making a specialty of dealing in them, who, in some cases, have issued books full of data upon the subject.

The Supreme Court of the United States handed down a decision in 1906 to the effect that interest upon United States Government bonds is taxable, whether the bonds are owned by an individual or corporation, and whether the interest is held in the form of draft, check, or money.

Government securities may be considered among the luxuries of investments. Those of our own country and Great Britain rank the highest. Probably nothing safer can be found, if the low interest return is no objection. They always afford a ready market, and are in constant demand among banking institutions, insurance companies, trustees, etc. The market value is, of course, influenced by political and industrial conditions, so, likewise, of other investments. Government securities are constantly fluctuating, but the price variations are of no great moment. At least, it is fair to assume that even in a great crisis the fluctuations would probably be less than the average of other securities.

The writer does not undertake to treat of this subject beyond the two nations above referred to. It is impossible to treat of the Government securities throughout the world. Investment in French "rentes," German and Japanese bonds, and in those of many other nations, is unquestionably safe; but many South American countries should, to illustrate, be approached with caution.

Governments. "United States Government bonds." (See "Government bonds.")

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Gravel Road Bonds. Bonds bearing this title have been issued in Indiana for the purpose of defraying the cost of grading, draining, and surfacing roads with gravel. They have invariably been "Special assessment bonds," (to which subject refer.)

Gross Earnings. The total amount of income received by a corporation during any stated period from the operation of its legitimate business. In some cases, the income derived from rentals or securities owned of other corporations, in which possibly some of the surplus money of the company may be invested, is included in gross earnings. Strictly speaking, however, such items as this latter should come under a separate heading.

Ground Floor (Price). A price less than which no one obtained the security. A term often used to designate the price at which the originators of a financial proposition, such as a syndicate, obtained a participation or interest therein, as distinguished from the price at which the same securities were later sold to the public at large.

"He got in on the ground floor," meaning that he was a participant in the original syndicate.

Guarantee. An undertaking that the engagement or promise of another shall be performed. The 4% bonds of the Ogdensburg & Lake Champlain R. R. Co. are guaranteed by the Rutland R. R. Co., which means that the latter promises their payment in case the former, for any reason, does not fulfill its obligation.

An issue of bonds may be guaranteed in several ways: First, the principal of the bond may be guaranteed only; second, the interest only; third, guaranteed both principal and interest. Those are the three principal forms. Also read next subject and "guaranty."

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Guaranteed Bonds. (What is set forth under the next subject may be read in this connection.) The main point is not to judge a bond on its guaranty alone, but look upon it as the obligation of the issuing company without considering the guaranteeing company, and if that does not prove the mortgaged property of sufficient value to the guarantor to make the guaranty worth while, then it is no proper outlet for hard-earned savings. Naturally, the investor must examine into such matters as the form of "guaranty" (see that subject, and "Guaranteed by Indorsement"); the terms and conditions upon which it was given; whether the principal and interest are both guaranteed, etc.

Guaranteed by Indorsement. This is a term very frequently used. There is a distinction between "guaranteed by indorsement" and "guaranteed." An issue of bonds, for instance, has been "guaranteed" by a company other than the one issuing the same; these bonds may have been guaranteed after their issue, and the fact of such guarantee may not appear on the bonds. In case of an issue "guaranteed by indorsement" each bond bears upon it the statement that it is "guaranteed" by the corporation in question, and the signature of the proper officer of such corporation appears in the statement setting forth the "guarantee."

Guaranty. In financial matters, "guaranty," or "form of guaranty," usually means the printed or written form, properly signed, upon a security, whereby some party, not originally issuing the security, promises its payment; that is, guarantees the same.

A "guaranty" may not appear upon the bond or stock itself, as explained under "Guaranteed

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by Indorsement." The form of "guaranty" either appearing upon the security, or set forth in some separate contract, must have careful consideration on the part of the investor. For instance, in the case of a bond, the form of "guaranty" should be such that the guaranteeing company must live up to its guarantee, if necessary to do so, *by paying the sum called for into the hands of the trustee of the mortgage*, so that the coupons will be paid as presented and properly cancelled by the trustee. This is to prevent the guaranteeing company from purchasing the coupons and holding them as a claim against the mortgaged property. A simple wording of a "guaranty" of this kind is as follows: "For value received the Ohio & Florida Railway Co. guarantees and assures the payment of the principal and interest of the foregoing bond at the office of the Penn Trust Co., in the city of Philadelphia, Pa., as and when same respectively come due."

The form above is that part of the form of "guaranty" which compels the guaranteeing company to pay the interest and principal of the bond at the office of the trust company, which is the point it is intended to emphasize here.

Also see that the property guaranteed is cf sufficient value in earning capacity and otherwise to the guaranteeing company so that there may never in the future be occasion for the latter to try to evade its liability. In other words, do not purchase a guaranteed security merely because it bears the "guaranty" of some other strong corporation. Ignore such "guaranty" for the time being, and consider the value of the property independently and its value to the guaranteeing company. Exceptions undoubtedly may be taken to this last, as in the case of some of our well thought of railroad companies, but, in a general way, this suggestion is worth considering.

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H

Hawaiian Island Bonds. Issued under authority of Congress, but the obligation of the Hawaiian Islands, and not of the United States Government. The Congress has exempted from taxation the "Fire Claim 4's," so-called, which were issued to reimburse the owners of property destroyed at the time of the bubonic plague at Hawaii. The question has been raised, however, whether the rest of the Hawaiian issues are tax-exempt in the United States. A legal opinion has been rendered which indicates that such is probably the case.

Holding Company. Formed for the especial purpose of holding or owning the shares of another company or other companies; an arrangement whereby financial combinations may indirectly control operating companies through ownership of their capital stocks. A good example is that of the Amalgamated Copper Co., which is a "finance company," so-called, controlling the stocks of certain operating copper companies.

This is generally done to circumvent the law, and thus bring about indirectly the virtual consolidation of two or more companies, when to do so directly would be illegal; or where it may be impossible to bring about an actual consolidation by the acquisition of all the outstanding stock. The "sub-companies" — as the several corporations thus brought together are termed — maintain their individual existence as before, but the officials managing the same are appointed by the "holding company." This latter is incorporated under the laws of some such State as New Jersey, Maine, or West Virginia, which has enacted laws to attract such corporations. The Northern Securities Corporation, brought into existence under the laws of the first named

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State, is one of the most colossal examples of the kind yet attempted. In this case, it was desired to consolidate certain railways; the laws of some of the States, crossed by the roads, prohibited the consolidation of parallel or competing lines. It was held that these were such, and, therefore, to get around this, another corporation was formed in New Jersey, and its shares issued in exchange for the shares of the railways in question. However, this has been held to be illegal by the Supreme Court of the United States, and the stocks so taken in exchange have been ordered distributed among whom the Court, in its decision, conceives to be the proper owners. (See " Merger.")

A " holding company " may or may not result in good. In general, the principal is wrong, as it naturally results in stock watering, and concentrates control. It brings about unhealthful stock gambling, and stifles competition.

House of Issue. A banking house which has the selling of a given issue of securities.

Hydro-Electric Securities. See " Power Company Bonds."

Hypothecate. To place on deposit collateral security; stocks, bonds, etc., as a pledge for a loan.

I

Improvement. See " Betterment."

Improvement Bond. See next subject.

Improvement Mortgage Bonds. A " junior mortgage " is usually understood. An " improvement mortgage " secures an issue of bonds necessitated in order to provide funds for improvements, additions, betterments, etc., to a property. As in the case of a " general mortgage bond," it is customary to make the authorized

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issue large enough to also provide for future improvements when needed, and to replace earlier mortgage bonds as they mature or can be paid off. Their investment value depends not only upon the credit standing of the company, but upon the amount of bonds whose claims must be satisfied first, the character of the improvements for which issued, etc. Consider them from the standpoint of at least a "second" and probably a "third mortgage bond."

An issue of this class is that of the Denver and Rio Grande R. R. Co. Gold 5's, brought out to provide means for laying a third rail to broaden the narrow-gauge road to standard gauge and for other improvements.

"Street improvement," and "public improvement" bonds, among the municipal issues, are often referred to as "improvement bonds."

Inactive Bonds. Securities which are bought and sold only at infrequent intervals; seldom quoted; difficult for the public at large to ascertain the market value of. There are brokers, or bankers, in nearly every important city who make a business of dealing in inactive securities in general, or are specialists in regard to certain ones. (See "Active Bonds.")

Income Basis (or Return). See "Net Return upon the Investment."

Income Bonds. There is very little difference between an "income bond" and "preferred stock," except that upon the former the interest is expected to be paid if earned. The management may decide otherwise, however. Such a bond is usually secured by a pledge of the net earnings of the corporation after payment of interest and sinking fund, if any, upon all indebtedness having a prior claim. An "income bond" may be "cumulative;" that is, if the earnings in any one year do not suffice to pay the interest, the

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sum lacking is carried forward into following years until paid in full. Also called "Preferred Bonds," or "Preference Income Bonds," if having some preference rights over other issues. They are sometimes redeemed by "sinking funds" and, in some instances, acquire mortgage rights if interest is unpaid, or if principal is unpaid at maturity. In the case of there being no mortgage rights, "income bonds" are often known as "debenture incomes." If they carry the convertible feature, as set forth under "Convertible Bond," they are termed "convertible incomes."

A bond issue of this nature may have a detrimental effect upon the value of all stocks of a company, as it lessens the likelihood of dividends upon the same.

This is not a desirable class of securities. Too much depends upon the board of directors.

Independent Telephone Companies. See "Telephone Securities."

India Rupee Paper. See "Rupee Paper."

Indorsed Bonds. The New York Stock Exchange rules provide that "Coupon Bonds issued to Bearer, having an indorsement upon them not properly pertaining to them as a security, must be sold specifically as 'Indorsed Bonds,' and are not a delivery, except as 'Indorsed Bonds.'"

An example of a bond which comes under this heading is one upon which some person's name has been indelibly written.

It is a safe plan never to deface a security in any way. If any memorandum or other writing is necessary, write it on a separate piece of paper and attach it to the security.

Indulgence. To extend the time for the payment of an obligation.

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Industrials. See "Industrial Securities."

Industrial Securities. Securities issued by manufacturing companies. There has, possibly, been no class of securities which has attracted greater attention the last few years than "industrials," so-called, and but few that are less established in the minds of the public as to its permanent value, as is evidenced by the fact that stocks and bonds of such corporations can be purchased at prices to pay very large returns upon the money. One of the largest of the "industrials" is the United States Steel Corporation.

The larger "industrials" result from the consolidation of several concerns which had previously been in the same line of manufacturing; theoretically, so that the business of the whole may be administered to the best advantage of all; deliverance from competitive sacrifices, with the large profits which concentrated management assures. Bonds have not as yet been issued upon "industrial" properties, in proportion to their total valuation, to such an extent as upon railways. This, perhaps, arises from the uncertainty as to the foreclosure value of "industrial" properties, and that it would lessen their borrowing ability in the form of short time or "call" notes. Some of these companies are great borrowers in this way at certain seasons of the year; others at all times, if business is active. There is no great value attached to such a plant for right of way or for franchise, as in the case of a railway, nor do such plants, as a rule, occupy strategic positions which give them great added value. The value of these concerns depends very largely upon their successful conduct, and, in case of the sale at foreclosure of a manufacturing plant, it frequently brings but a small price because its buildings and machinery

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have a comparatively low value unless in successful operation.

The assets of the new "industrials," against which stocks and bonds may be issued, should be carefully considered. The plant and machinery may be almost valueless for any other purpose. Good-will and patents are also often reckoned as assets, but such have very little value except so long as the corporation is prosperous. The good-will of a bankrupt company would sell for but very little money at foreclosure. One corporation has eliminated the good-will from its accounts, thereby reducing its total assets about $5,000,000. (See "Good-will.")

The "industrials" are very largely speculative investments, and until they have been through a long period of business depression, as have already our railroads, it will be impossible to determine their permanent investment value. They yield more than railroad securities as the risk is greater. The hard times of the middle "nineties" resulted in a large percentage of the railway mileage of this country going into the hands of receivers and through a process of reorganization, which, in most cases, was radical enough, when followed by the period of expansion and industrial activity, to place them upon a permanent footing. The "industrials" must, therefore, sooner or later go through a similar period before the necessity for reorganization can be ascertained. Those that weather such storms in financial safety may then, as a class, be selected as good investments and should, after such a period, sell at prices commensurate with that belief.

It will be seen that the real value of an "industrial" very largely depends upon the permanent successful conduct of its business and a definite understanding of its earning capacity. The class of commodities produced deserves

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serious consideration; that is, the value of such a product to the community at large and the necessity for the continued operation of the plant, and to what extent, either through control of raw materials, or otherwise, the company can dominate its particular line of business.

To go into the matter further requires a knowledge of whether or no a reduction of expenses has been accomplished by consolidation, and an increase of earnings effected for a like reason. Is the company carrying a "floating indebtedness;" and, if so, the reason therefor? Are proper charges being made for depreciation. and, altogether, a conservative system of book-keeping being pursued so that the dividends are warranted? It is very easy to be misled by the manner in which the books of any corporation are kept, but the keeping of the books of an industrial concern offers especial opportunities for deceiving the public. Corporations of this kind should not, on the average, from year to year, divide among their stockholders more than about one half the net earnings; the balance going into permanent improvements, or reserved as surplus.

The dividend record should be studied for as far back as possible. A good record in this way is an argument in favour of bond security. In considering stocks beware of "over-capitalization."

The fact, also, that orders are in hand for the full capacity of the plant for months ahead should not be given too much weight, for past experience has shown that in times of sudden widespread financial and business disaster, consumers have had no scruples about cancelling contracts, and it has not proved worth the while to try to enforce the same to any great extent.

The preferred stock in "industrials" has usually equalled the value of the property

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above the bonds, if any, plus the necessary working capital, leaving the common stock to obtain its value from economics in operation expected to result from centralized management, and surplus earnings expended upon extension and improvements, or otherwise retained in the business.

For many reasons "industrial" shares and bonds are more subject to manipulating than most railway securities.

In Funds. Having money for the purpose required.

Inner Belt. See "Belt Lines."

Instalment Bonds. Described under "Serial Bonds."

Int. Short for "interest."

Intercepting Sewer Bonds. In some cities where the cost of the sewers is borne by the owners of the abutting property especially benefited by each particular sewer, there is a certain proportion of the whole system for which it is deemed proper that the municipality at large should be responsible, and, in such cases, the town or city itself may issue bonds for such a purpose bearing the above title.

Interchangeable Bonds. After understanding the difference between a "registered" and a "coupon bond" by referring to those subjects, it will be clear that "interchangeable bonds" are those which are changeable from "coupon" to "registered," and back again from "registered" to "coupon," at the request of the holder. Many issues, the bonds of which have once been converted into a registered form, may not again be issued as "coupon bonds."

Interest. The charge made and which the borrower pays for the use of money, usually expressed in percentage based on a year, *i. e.* if $3

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is paid for the use of $100 for six months, it is an equivalent to $6 for one year, and is expressed as "6 per cent.," or "6 %." Money, like any other commodity, has a value and payment must be made for its rental, or use.

The matter of figuring interest is an arithmetical one hardly necessary to treat of here, but there are several methods of computing the time for which interest is figured, which it is well to understand.

First, the New York Method, which is undoubtedly the correct one. The time is computed by taking the actual number of days elapsed; that is, suppose a note to be dated March 1st; the interest on the same to be computed to July 7th; there would be 31 days in March, 30 days in April, 31 days in May, 30 days in June and 6 days in July, a total of 128 days. After obtaining this result, an interest table is used based upon there being 365 days in the year; or, in other words, the yearly interest rate divided by 365 gives the rate for one day. Now this differs from the Boston Method (as it is termed in that city) which calls for the use of an interest table based upon there being but 360 days in the year, from the fact that the time elapsed is computed as so many months and days, each and every month being accepted as 30 days; 12 times 30 equalling 360. One month, therefore, is figured as 1-12 the yearly rate. Supposing this to be 6%; then the interest for one month would be ½ of 1%. From July 5th to September 7th would be reckoned as 2 months and 2 days.

The difference between the New York and Boston methods may be shown in a practical way by computing the interest on, say, $100 for 6 months at 6% per annum By the former method, supposing the months to be August to January inclusive, the elapsed time would be 184 days, and the result $3.025. But by the

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Boston method, which would reckon the elapsed time as 6 months, irrespective of what months, the result would be $3. Again supposing the months to be January to June inclusive, and the year not a "leap year," then the elapsed time would be 181 days or 1½ days less than one half a year by the New York method, but a full half year by the Boston method.

There is a third plan which has not been as yet definitely named, and is not in general use. A sort of combination of the two foregoing. The actual time elapsed is computed by the New York method, the number of days obtained divided by 30, and the 360-day table, as called for in the Boston method, used.

The different methods of computing interest on bonds (in such a case as a bond or other indebtedness having fixed maturity date of coupons, the Boston method is the more correct), notes, and other securities, will often account for a variation on the part of two different people figuring the same transaction in accordance with the customs in the two different cities in which the figures are computed.

Remember these facts: midnight ends the legal day, and any loan of money through the midnight hour calls for one day's interest; for illustration, a loan at 5 P. M. on July 5th and repaid early in the morning on July 6th, would be reckoned as one day. This will also make clear that in computing the number of days for which interest runs, the day on which the loan is made is not included in the computation. From July 7th to July 14th is seven days, because seven midnights have passed. July 7th is not included in the reckoning; otherwise it would be eight days.

Interest Accrued. See "Accrued Interest."

Interest Added. See "Accrued Interest."

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Interest-Bearing. Securities which bear interest.

Interest Payable Annually. See "Annual Interest."

Interest Payable Quarterly. See "Quarterly Interest."

Interest Payable Semi-Annually. See "Semi-Annual Interest."

Interest to Follow. Payable at maturity. A most common use of this term is in connection with money borrowed for a comparatively short time, generally not exceeding six months. Suppose, for example, that A borrows $10,000 from B at 5%, "interest to follow," the note payable six months from its date. It would mean that B would not receive interest on the loan until the expiration of the six months. (See "Discount.")

Interim Certificate. A temporary certificate issued to the purchaser of a given security until the properly engraved, lithographed or printed security can be issued to take its place. They are often issued by the corporation itself but more frequently by some trust company.

Internal Loan. An issue of bonds placed among investors in the country by which issued.

Inter-Relation of Interest. At times, the control by a certain group of men of the stock of one or more railway companies, and control on the part of these railways or other companies is so far-reaching, and the operating of such roads so largely dominated or influenced by the group of men mentioned, that competition, which otherwise might exist between such roads, disappears, on account of the "inter-relation of interests" existing. Or two railway companies may either by direct ownership, or through the

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control of their own large stockholders, own together the controlling interest in a third railway, which, on account of this common ownership, may be operated to the common benefit of the two owning roads. There exists here an "interrelation of interests."

Intersecting Street Improvement Bonds. If the reader will first read the subject "Street Improvement Bonds" and then read what is given under "Intercepting Sewer Bonds," it will be understood that "intersecting street improvement bonds" are bonds issued by the municipality itself to defray its proportion of the street improvement expense not properly chargeable against the abutting property.

Investment Board. See "Savings Bank."

Irredeemable Debentures. In Great Britain, for example, there have been issued many railroad company "debentures" (see "Debenture Bond") which have no fixed dates of maturity, as in the case of our bond issues, but which are irredeemable; perpetual; more like a stock.

The English railroads labour under this disadvantage: many of these "irredeemable debentures" bear a high rate of interest, which is a perpetual charge upon the companies. It would be of great advantage to them if, in times when low interest rates were prevailing, these issues might be converted or "refunded," as we say, into lower interest-bearing securities, and thus an interest saving for all time to come be accomplished. The irredeemable feature prevents this, however.

Irrigation Bonds. In many sections of the West, in order to successfully carry on agriculture, artificial irrigation must be maintained. Companies are sometimes formed which undertake this work, and which issue bonds for the purpose of raising money towards defraying the cost,

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Again, sections of a State may be set aside in the form of a district, called an "irrigation district," which may be authorized to issue bonds for irrigation purposes, and which are payable from taxes levied upon all the real property in this district. This is a form of municipal bond, and, likewise, is somewhat of the nature of a "special assessment bond."

Matters to be considered before investing money in bonds of this kind, whether issued by company or district, are: First, the general character of the section benefited; whether by the artificial application of water a fertile and productive agricultural section is produced. Next, the water supply; its permanency, sufficiency, and the legal right to use the required amount. It is far better to select only those issues where the project is completed and the water actually delivered upon the land in good and sufficient quantity. Again, the class of settlers or farmers dwelling in the irrigated section. If the bonds are secured by a deposit of mortgages, be sure that the latter are only those given by bona fide settlers, living upon and operating the land. Of course the near location of a market and transportation facilities are also important.

Issue House. See "House of Issue."

Issue Par. The price at which a security is first sold, or issued, regardless of its actual face value.

Issue Price. The price at which an issue of securities is offered to the public. In the case where an issue had been previously underwritten, "issue price" is used in contrast to "underwriting price," the difference in the two prices representing the underwriter's profit, from which certain commissions or other expenses may be deducted.

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J

Jail Bonds. A form of municipal indebtedness created for the purpose of building or enlarging a jail and, usually, a county obligation.

J. A. J. O. January, April, July, October; interest payable quarterly, beginning with January.

J. and D. Interest payable semi-annually, June and December.

J. and J. Interest payable semi-annually, January and July.

Joint Account. Two or more persons having mutual or "joint" interest in a venture or enterprise. A simple example: Two bankers buy $100,000 bonds at 98 "on joint account." These bonds are sold at 100. There is, therefore, $2,000 to divide between the two bankers, each being first allowed to charge up all his expenses incurred in the transaction. The conditions of each "joint account" may vary greatly. One banker may "carry" all the bonds and be allowed a special profit for so doing; or, each may be allowed a commission for all bonds which he sells; or other conditions depending upon the details of each individual transaction.

Joint Bid. A bid submitted bearing the signatures of two or more parties.

Joint Bonds. There are not many such bonds in existence. The best example is the "joint bond" issued by the Northern Pacific and Great Northern Railroad Companies. The majority of the stock of the Chicago, Burlington & Quincy Railroad Co. was purchased in the interests of both the Great Northern and Northern Pacific Railroads, and a "joint bond," so-called, issued, being the direct obligation of both the companies in question, secured by a deposit of the Chicago,

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Burlington & Quincy stock at $200 per share, and guaranteed by the two first named railroads above. The Chicago, Burlington & Quincy Railroad Co. already has its own bonded debt. This security is in reality a "collateral trust" issue and is so called on the bond; a "joint collateral trust."

Joint Collateral Trust Bonds. See last subject.

Joint Mortgage. This is explained under "Joint Bonds;" that is to say, such a bond as there described would be a "joint mortgage bond" if secured by a mortgage on the property of the Chicago, Burlington & Quincy R. R. Co., and guaranteed by the Great Northern and Northern Pacific Railroad Companies.

J. O. J. A. July, October, January, and April; interest payable quarterly beginning with July.

J. S. D. M. June, September, December, March; interest payable quarterly, beginning with June.

Judgment Bond. Issued in satisfaction of a debt adjudged legal by a decision of the court. Such bonds, presupposing an ability to pay, are considered safe; the courts recognizing no right of the issuing party to avoid payment unless the existence of fraud in obtaining the judgment can be demonstrated.

Judgment Debt. An indebtedness which has been legalized by action of a court.

Junior Bonds or Securities. Bonds over which another issue has precedence, and which latter, in case of foreclosure, would have prior claim upon the property.

Junior Lien. See "Junior Mortgage."

Junior Mortgage. A mortgage over which some other mortgage would take precedence in the case of foreclosure. "Junior mortgages"

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would have reference to all but the "**first** mortgage."

J. & D. Interest payable semi-annually, June and December.

J. & J. Interest payable semi-annually, January and July.

K

Keep Alive. Not cancelled, but still drawing interest. If a company buys in some of its own bonds for its "sinking fund" account, and continues to pay interest upon them as if in the hands of an outside party, the bonds are said to be "kept alive."

L

Land Grant Bonds. These are not very common to-day, but were formerly issued by railway companies which pledged, as security for same, lands granted them by the Government, and usually redeemed from the proceeds of their sale.

Land Grant Certificates. See "Land Grant Bonds," which do not differ materially in the form of security pledged for their payment.

Lawful Money. Money which the Government declares to be legal tender (see "Legal Tender") in payment of obligations; money which the creditor may not refuse in the payment of a debt except where otherwise expressly stipulated in the contract. Some bonds are payable in gold, others in lawful money (see "Payable in Gold"). If the latter, any legal tender money may be used; the borrower not being obliged to pay in gold.

The "Opinions of the Attorney General of the United States" gives the following: "The term 'lawful money' is understood to apply to every form of money which is endowed by law with the legal tender quality."

Under the revised statutes of the United States,

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neither gold certificates, silver certificates, nor national bank notes are endowed with legal tender properties.

Lawful Money Bonds. Bond payable in "lawful money" (see that subject) of the United States.

Legal Investments for Savings Banks. Expressions like "legal for Massachusetts savings banks," or "legal for New York savings banks," have appeared so many times in circulars of bond houses in connection with this, that, and the other offering, that it seems almost as if every one who has had occasion to look at such circulars, must either have accepted these phrases without attaching any particular meaning to them, or must have a clear understanding of what is meant.

This information is given in connection with describing an issue of bonds for two purposes: First, to notify a bank official that the bonds may be purchased by his bank in strict compliance with the law; Second, to give the bond recommendation to a private investor from the fact of its being legal for savings banks to purchase. The laws of the majority of States regulate specifically in what bonds, stocks, etc., a savings bank may invest the money of its depositors. Limitations placed upon such investments differ in the various States, but, at the time of writing, some of the Eastern States which fairly well limit their investments in this way, and, therefore, a good guide to follow, are: New York, Massachusetts, Connecticut, Vermont, Maine, New Hampshire, Rhode Island, and New Jersey.

Legality of Securities. See "Attorney's Opinion."

Legal Opinion. See "Attorney's Opinion."

Legal Rate of Interest. A fixed rate, established by State law, greater than which no charge may be made for the use of money. An interest

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charge exceeding the legal rate is called "usury" and may be penalized by the courts. In some States no attempt is made to interfere between the lender and borrower establishing any agreed rate of interest, the legal rate in such cases being simply to prevent creditors exacting unfair rates from the debtors.

No national bank is allowed to charge interest in excess of the legal rate of the State in which located. In absence of such State limitation, a national bank may charge a maximum rate of 7%.

In New York State, any rate of interest is legally permitted on "collateral call loans" of $5,000 or upwards, but in that State, as elsewhere, the regular legal rate is often successfully evaded by charging the borrowers a commission in addition to the interest rate.

Legal Tender. Money which may be legally used in the payment of a debt, and which the creditor must accept. The laws of the United States specifically state the legal tender qualities of all forms of money in this country, as follows:

"Gold coins, standard silver dollars, subsidiary silver, minor coins, United States notes, and Treasury notes of 1890 have the legal tender quality as follows: Gold coin is legal tender for its nominal value when not below the limit of tolerance in weight; when below that limit it is legal tender in proportion to its weight; standard silver dollars and Treasury notes of 1890 are legal tender for all debts, public and private, except where otherwise expressly stipulated in the contract; subsidiary silver is legal tender to the extent of $10, minor coins to the extent of 25 cents, and United States notes for all debts, public and private, except duties on imports and interest on the public debt. Gold certificates, silver certificates, and national bank notes are non-legal tender money Both kinds of

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certificates, however, are receivable for all public dues; and national bank notes are receivable for all public dues except duties on imports, and may be paid out for all salaries, demands, etc., owing by the Government within the United States, except interest on the public debt and in the redemption of the national currency."

Foreign coins are not legal tender in the United States.

"Cours legal" is the French term for "legal tender."

Legal Tender Bonds. Bonds payable in any "legal tender" (see that subject) money of the United States.

Levee Bonds. Particularly issued in the South by Levee Districts; that is, municipal subdivisions, the taxable property therein being assessed for the principal and interest of the debts. These bonds are issued to defray the expenses of building and maintaining levees for the reclamation or protection of land which would otherwise be submerged by water all or part of the time. Investors should look into one of these issues very carefully before purchasing. The wealth of the taxable property in the district, the necessity of the levee and the probable permanency of the work, are deserving of thoughtful consideration. A levee which is so situated and constructed that it is apt to be easily washed away is by no means a good foundation for investment. Some of these issues have proven quite satisfactory; as a class they yield a high return upon the investment.

Liabilities. All debts or obligations of any kind to pay money, or its equivalent, are called "liabilities;" something owed.

Capital stock, accounts payable, funded and floating indebtedness, surplus, losses, etc., all appear under this heading.

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Lien. A claim against the property which the possessor may retain until the satisfaction of some demand or a debt due him. A mortgage is a "lien." "Liens," however, vary in their character. One may hold the first "lien" against a property which would be equal to holding the first mortgage; in other words, nobody has a prior claim against it. A "second lien" would be equal to a second mortgage and so on. This word "lien" has been used in such ways as to confuse the investor. There was an issue of bonds brought out by one of our large railroad companies some years ago, which were called "prior liens," and many investors assumed that these were secured by a mortgage prior to any other, while, as a matter of fact, this was not the case, there having been another issue brought out previous to these, and there was also an issue which came after the "prior liens." The "prior liens," so-called, did take precedence over some other obligation, but there was still an obligation, preceding them. Many investors who bought these bonds without this understanding lost money thereby.

Liquid Assets. Money, or property of all kinds, which may be readily converted into money.

Liquid Resources. See "Liquid Assets."

Live Assets. Investments upon which interest has been or is expected to be paid as due, or income-producing property.

London Equivalent. Read "New York Equivalent," which applies here, transposing the two cities.

Lost Bonds. See "Care of Securities."

Lottery Bonds. Bonds which may be drawn by lot at some date earlier than the actual maturity specified in the face of the security, or such securities as referred to in "Premium Bonds" might be considered as "lottery bonds."

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M

Maintenance of Equipment. A heading of an account as exhibited in the operating statement of the earnings of a railroad and should include, as determined by the Interstate Commerce Commission, all renewals and repairs to rolling stock, marine equipment if any, as well as shop machinery, tools, etc., superintendence, stationery, printing, and other expenses incurred in relation thereto.

Maintenance of Way and Structure. This heading is often seen under the "Operating Expenses" of a railroad company and, as classified by the Interstate Commerce Commission, includes the following: Repairs of roadway, renewals of rails and ties, repairs and renewals of bridges, culverts, fences, road crossings, signs, cattle guards, buildings and fixtures, docks, wharves and telegraph, stationery and printing in connection with the foregoing; also minor expenses referred to as "Other Expenses," which go to preserve a good physical condition of the line of road.

M. and N. Interest payable semi-annually, May and November.

M. and S. Interest payable semi-annually, March and September.

M. A. N. F. May, August, November, February; interest payable quarterly, beginning with May.

Manual Exchange. In relation to investments, the actual exchange of one security for another. A practical illustration would be the case of a city limited by law to a certain indebtedness; such limitation practically having been reached, and an issue of the bonds maturing which the city wishes to replace (refund) by another issue.

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To sell the new issue and with the proceeds take up the old, might, for the time being, result in the city's exceeding its debt limitations, thereby invalidating the new issue of bonds. In order to overcome this point, the new bonds must be exchanged for the old, proper affidavit being taken certifying to the fact. By this method, the two issues are not outstanding at the same time, and a "manual exchange" of the securities has been accomplished.

Manufacturing Aid Bonds. See "Railroad Aid Bonds."

Mark. (Reichs-mark.) The German monetary unit of value, equal to $.238 United States money; also a Finnish coin equivalent to $.193 our money.
On the New York stock exchange $1.00 is reckoned as the equivalent of 4 German marks, although there is an actual difference of $.048, which must be considered in quoting securities affected thereby.

Market Value. The "market value" of a security at any given time is the price which it will (probably) bring if sold, or the price at which a security can (probably) be bought.

Mechanic's Lien. A lien on real property (see "Lien") which the law allows to mechanics and labourers for work done, or to those supplying materials, in the construction of buildings or improvements to real property. A lien of this kind should always be recorded in the Register of Deeds' office the same as a mortgage. In buying property, or taking a mortgage upon the same, the non-existence of "mechanics' liens" is one of the things to be ascertained. In some States, such liens as the above would precede any claim of the contractor; in others, just the reverse. A mortgage put on a property under improvement — "building mortgage," so called

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— would, in many States, have prior claim to any "mechanics' liens" afterwards recorded.

In most States, these liens can be enforced against the property by the unpaid employees of a builder or contractor even though the owner has paid the builder or contractor in full. Consequently, all building contracts should provide that the last payment be retained until the time for filing "mechanics' liens" (usually thirty days) has expired, as, otherwise, the owner may be compelled to pay the employees after paying the employer.

Merger. A consolidation; an amalgamation; a combination of two or more corporations under one management. The old meaning in law was a merging or drowning of a less estate into a greater. One of the most notable examples of its financial meaning is the International Mercantile Marine Company, which now controls so many of the large trans-Atlantic lines.

Ripley says: "The practical difference between this form of merger and a holding company appears principally in those cases where the holding company owns not all but only a part of the capital stock of its constituent corporations. Where, as in the case of the United States Steel Corporation or the American Agricultural Chemical Company, the entire ownership of the stock of the constituent companies occurs, the holding company becomes truly a legal fiction."

Mixed Collateral. When a loan is secured by more than one kind of collateral (see "Collateral Loan"), as, for example, part railway bonds and part municipal bonds, the collateral is called "mixed." A loan secured in this way is known as a "mixed (collateral) loan."

M. J. S. D. March, June, September, and December; interest payable quarterly, beginning with March.

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Mortgage. An instrument signed, sealed, and given by the borrower (or " mortgagor ") to the lender (or " mortgagee "), or to a third party who holds it as trustee for the lender, by which the latter has the right to possess himself, by following proper formalities, of property described in the instrument, in case the borrower does not meet his indebtedness as set forth in the conditions agreed to at the time of creating the debt. In general, a " mortgage " is, to all intents and purposes, a legal transfer of title to property to take effect only in case the money is not paid, to secure which the transfer was given. It is a method of securing to the lender certain property, in case of failure to pay on the part of the borrower. A wife must also sign and acknowledge the instrument.

A " mortgage " may be given to secure the performance of other conditions than the payment of a debt, and sometimes is.

The word " mortgage " is used to mean either the act of " mortgaging " or the instrument by which it is effected, called the " mortgage-deed."

Mortgage Bond. A promise to pay in the form of a bond and secured by a mortgage on property.

Mortgage Collateral Trust Bonds. See first paragraph of " Collateral Trust Bonds."

Mortgage Debenture. This is explained under " Debenture Bond."

Mortgage-Deed. See " Mortgage."

Mortgagee. The individual, firm or corporation, to whom property is mortgaged; the one holding the mortgage; in other words, the lender of money.

Mortgage Sale. The sale of property mortgaged as security for the payment of a debt or the

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fulfilment of a contract, as explained under "Foreclosure."

Mortgagor. (The proper spelling of this should be "mortgageor," but by custom the "e" has been dropped.) The person, firm, or corporation which signs or gives a mortgage against property; the one who grants the estate as security for debt; in other words, the borrower of the money. The man who mortgages his house and land as security for $10,000 is the "mortgagor."

Municipal Bond. Any legally authorized bond issued by village, township, city, county, State, or any territorial subdivision of the same, the payment of which must be accomplished through the collection of taxes, assessed upon the property embraced in the division or subdivision issuing the bond.

Read the matter under "Attorney's Opinion" and apply in the purchase of a bond of this class. Other facts to be ascertained are: The "net indebtedness" — considering this from the standpoint of its ratio to the "assessed valuation" — what revenue producing property is owned, whether or no there is a sound "sinking fund" plan or other method established for the ultimate payment, rather than "refunding" the indebtedness, the past financial standing of the municipality, and the length of time since there has been — if ever — default in its obligations. If there has been trouble of this kind, the reason for it should be ascertained and judgment taken accordingly. Then one should consider the character of the population, and the class of citizens administering public offices, and who are likely to do so in the future. There is good reason for not buying bonds of a city cursed with frequent strikes, and dependent upon one class of industry. A city wholly dependent upon the lumber business is not a

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good risk, for example. Is the community experiencing a "boom?" If so, be sure that its debts are not being contracted along the same lines. Also consider the surrounding country and its resources, and the likelihood of the municipality, in question, growing or losing in population.

No issue of bonds should ever be countenanced for the payment of current expenses, or for payment of interest upon outstanding indebtedness (which is, properly, a current expense).

It is not wise to purchase bonds running longer than the life of the improvement for which the indebtedness is created. Assuming that the life of a fire engine is ten years, that street paving will not wear more than fifteen years, and so on, bonds issued for such purposes should become due and payable within that time, and not refunded. In other words, the entire indebtedness should be extinguished at its final maturity, not postponed from generation to generation. The application of the serial form of payment cannot be more opportune than in such cases. (See "Serial Bonds.")

There are so many things to be considered in selecting a bond of a municipality whose credit is unknown to the purchaser, that but a general idea can be given here. The circulars of bond houses set forth with much exactness most things necessary to know. They should be studied with care, and thoughtful inquiry made of business conditions and resources of the place under consideration.

If the reader is entirely inexperienced in the purchase of this class of securities, then the perusal also of such subjects as "Legal Investment for Savings Banks," "Bond Values Tables," and "Net Return upon the Investment" is advised.

Mutual Savings Bank. A savings institution,

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all the profits of which belong to the depositors; mutual ownership. Most savings banks are of this kind, and are without capital stock. However, there are in Pennsylvania, for example. savings banks of both kinds, those with and those without capital stock.

Savings banks with capital stock are known as "stock savings banks," and the stockholders of such institutions derive their profits after the payment of the interest to the depositors.

The management of savings banks having capital stock is vested in a board of directors and officers, the same as any other corporation, but a "mutual savings bank" is managed by what is known as a board of trustees, formed by its organizers at the time of its creation, and having the power among themselves to fill vacancies.

M. & N. Interest payable semi-annually, May and November.

M. & S. Interest payable semi-annually, March and September.

N

National Debt. In this country, all outstanding obligations of every kind of the United States Government; not only the bonds of the Government, but such other indebtedness as paper money, which the Government promises to pay, less the amount of gold in the Treasury available for the payment of the same. (See "United States Public Debt.")

Negotiable. A security which can be transferred from one person to another either by directly passing from hand to hand, as in the case of money, coupon bonds, a check made payable to "bearer" or "cash," etc., or by indorsement, as in the case of a note, check, or draft, payable to the order of a person, etc.

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An instrument or security which cannot be passed from hand to hand or is not good in the hands of any holder except the one to whom it was originally issued, unless by the consent of the person or corporation issuing the same, is "non-negotiable."

From the standpoint of finance, the formal requisites of negotiable paper are concisely put by Francis M. Burdick as follows:

"(*a*) It must be in writing and signed; (*b*) it must contain an unconditional order or promise to pay a certain sum of money; (*c*) it must be payable at a determinable time; (*d*) it must be payable to order or to bearer; (*e*) a bill of exchange (including check) must name or indicate the drawer."

Negotiable Instrument. See "Negotiable."

Negotiable Paper. See "Negotiable."

Negotiable Securities. First read "Negotiable," after an understanding of which "negotiable securities" may be defined by stating that they are all forms of commercial paper, bills of exchange, drafts, municipal, Government and corporation bonds, and, in fact, anything that may be termed an investment security which has the requisite attributes of negotiability.

Negotiate. To sell, dispose of, transfer, barter, accomplish a transaction. To "negotiate a loan;" to make a loan, borrow money.

An instrument is "negotiated" when it is transferred from one party to another in such a manner as to constitute the person to whom transfer is made the holder thereof.

Net Debt. See "Net Indebtedness."

Net Earnings. The divisible income applicable to interest upon indebtedness of all classes, sinking fund, and dividends upon stock of a corporation or business industry for any stated period of time. The method of bookkeeping

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differs in various corporations, and unless specially noted, so that the investor may not be deceived, such items as taxes and insurance should be deducted before the amount of "net earnings" is derived. It is generally conceded proper to deduct such items and give the "net earnings" as a divisible income as noted above.

Net Income. After all costs of operating and fixed charges of every kind have been deducted from the earnings of a corporation, the balance, which is the amount available for dividends, may be called "net income."

Net Indebtedness. The laws of Massachusetts, relating to the investment of savings bank deposits, give a very good definition of this term as follows:

"The words 'net indebtedness' shall mean the indebtedness of a county, city, town or district, omitting debts created for supplying the inhabitants with water and other debts exempted from the operation of the law limiting their indebtedness, and deducting the amount of sinking fund available for the payment of the indebtedness included."

Of course, this would not apply in all cases, although the usual meaning, in reference to a municipality, is the deducting of the amount of water indebtedness, if any, and sinking fund. In the case of a State, as a rule, the sinking fund is about all that can be deducted to determine the "net indebtedness." The net debt of a corporation would be the total debt less "sinking fund" or money on hand specially set aside for the payment of same. In bookkeeping it would be considered the difference between the assets and liabilities.

Net Price. The lowest price; the price less all discounts or other allowances.

Net Profits. This is used rather more in a commercial sense than "net earnings;" the

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latter being applied in reference to railroads, telephone companies, etc. "Profits" have more the reference to the gain arising from dealing in commodities, and is the gain in any business undertaking of the above nature after taking into consideration the capital invested in such an undertaking, all its expenses incurred in management, and losses sustained, if any.

Again "net profits" and "net earnings" (see that subject) may be used to mean one and the same thing. Or, in some instances, both terms may be used in the same system of bookkeeping, as, for instance, "net profits" to mean the earnings of the business before any losses for bad debts or such like have been deducted, and "net earnings" after such deduction.

Net Return upon the Investment. The proportional rate which the income upon any investment bears to the total cost, interest excepted, of that investment, taking into consideration the time which the investment may be outstanding before being paid off.

Stocks, as a rule, have no definite date of maturity, although there are exceptions to this; therefore, stocks are usually figured as perpetual. Bonds and most other classes of investments have a fixed time to run. In the former case, a simple illustration would be that of a stock selling at $200 per share, and paying dividends at the rate of 8% per annum; in which event the ratio of the dividend $8, to the total cost, $200, would be 4, or, in other words, the net return to the investor would be 4%. If the stock sold at $100 per share and paid $4 per annum in dividends, the net return would be 4%.

In the case of bonds having a fixed date of maturity, the problem is somewhat more complicated, and special tables are in use to which investors usually turn to ascertain what the net

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return is upon an investment of that kind. It will do to take as an example a bond bearing 5% interest, and which has exactly ten years to run before maturity. If it is sold at $108.18, that is to say, $1,081.80 for each one thousand dollar bond, the net return to the investor would be 4% per annum, which is 4% for each of the ten years, and is 4% upon the entire sum — $1,081.80 — invested.

This brings up the point that, although — to use the above example — the bond costs $1,081.80, at the end of ten years, when it matures, the holder will only receive $1,000. In the meantime, he will have received $50 yearly in interest. All of this $50, therefore, should not be considered as income, for a sufficient amount of it should be set aside each year to liquidate the $81.80 premium paid for the bond.

Some such expression as this is often seen: "Yielding 4% for the first ten years and 5% for all the time thereafter which the bond may run." This means that the municipality or corporation issuing the bond has the right to pay it off any time after ten years, but may not absolutely be obliged to do so until some later date, say twenty years. These are called 10-20 year bonds, or 10-20's, meaning that they are absolutely due in twenty years, but optional on the part of the issuing party to pay any time (usually upon an interest date) between ten and twenty years. It is not safe on the part of the seller of this bond to estimate that it will run longer than ten years. The greater the length of time which any form of indebtedness, with a fixed rate of interest, and selling at a premium, may be outstanding, the greater the percentage in interest return to the holder, at a given price; therefore, in the case of this 10-20 year bond, the seller figures the net return on the basis of its being outstanding ten years

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only, and, in the case cited, returning 4% to the investor. But should it run twelve years for instance, before being paid off, the net return to the investor would be 5% per annum for the two additional years; or, in other words, the full rate of interest which the bond bears.

The shorter the length of time which a bond has to run when selling at a discount, the greater the interest return to the investor, prices being equal; just the opposite from a bond selling at a premium.

In the selling of bonds and figuring the interest return, or yield, the following rule must always be observed, if the issue is "optional," so-called, as in the case of the 10-20 year bond just mentioned.

Rule for Computing the Interest Yield upon Optional Bonds

For bonds selling at a premium, the interest return must be computed upon the shortest possible time which the security may be outstanding. For bonds selling at a discount, the interest return must be computed upon the basis of the greatest possible length of time which they may be outstanding.

In buying an issue of "serial bonds" (see that subject) many bidders make the mistake of averaging the life of the issue, and then, by the use of a table of bond values, basing the bids upon this average maturity; whereas, a separate bid should be computed for each maturity and then an average price taken. If bonds are bought at a premium by the first method and retailed by maturities, either a loss will result, or a lesser profit than expected.

How to compute the average life, or maturity, of a lot of bonds falling due at different intervals, is best explained by the following example.

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To find, on March 1, 1907, the average maturity of

$5,000	(par value)	due	July	1, 1910
8,000	"	"	"	1, 1912
10,000	"	"	"	1, 1915
7,000	"	"	"	1, 1920

From March 1, 1907, to July 1, 1910, is 3 1-3 years. Likewise, for the subsequent periods the time is 5 1-3 years, 8 1-3 years, 13 1-3 years.

Three ciphers may be struck out of each of the par value amounts and we have the following:

$$\begin{array}{rrcr} & 5 \times 3\frac{1}{3} & = & 16\frac{2}{3} \\ & 8 \times 5\frac{1}{3} & = & 42\frac{2}{3} \\ & 10 \times 8\frac{1}{3} & = & 83\frac{1}{3} \\ & 7 \times 13\frac{1}{3} & = & 93\frac{1}{3} \\ \hline \text{Adding} & 30 & & 236 \end{array}$$

Dividing the footing of the right-hand column by the footing of the left-hand, the average maturity is obtained; namely, 7 87-100 years.

The reader will do well to familiarize himself with the matter under " Bond Values Tables."

Net Surplus. The profits which are left after paying all the expenses of operating, taxes, insurance, interest on debts of all kinds, sinking fund, if any, and dividends. As distinguished from "surplus," the latter would be before making deductions for dividends; "net surplus," after deducting dividends. Some writers believe that preferred dividends should be deducted before arriving at the "net surplus," but not dividends upon the common stock.

New York Equivalent. The price at which a security in New York equals the London quotation, taking into consideration cost of shipment, rate of exchange, loss of interest and incidentals. This is so accurately understood that

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tables are used by which the "New York equivalent" of a London quotation can be quickly ascertained, whatever the rate of exchange. All London quotations of securities dealt in in America must be reduced to their "New York equivalent" to be of any comparative value in this country. This has more particular reference to what are known as "international securities." (See also "New York Stock Exchange Usage.")

New York Method of Figuring Interest. See "Interest."

New York Stock Exchange Usage. In all transactions upon the New York Stock Exchange where the face value of a security is expressed in English pounds sterling, the transactions are figured at $5.00, equivalent to one pound sterling, without regard to the "rate of exchange" or the actual equivalent in dollars and cents to the pound sterling. In all such transactions, an allowance has to be made for the actual difference arising from the "usage." (See also "New York Equivalent.")

In the same manner, on the London Exchange, United States securities are reckoned at the rate of $5.00 to the pound, Dutch at 12 guilders, French and Italian at 25 francs and 25 lire respectively, and German at 20 marks.

New 2's. United States Government 2% bonds redeemable after 1930, and known as "Consols." (See "Government Bonds.")

New 3's. United States Government 3% bonds redeemable after August 1, 1908, and known as "Loan of 1908-1918." (See "Government Bonds.")

N. F. M. A. November, February, May, and August; interest payable quarterly beginning with November.

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Nominal Assets. Although by this is especially understood property of uncertain, undetermined, or of no value, yet it is also extended to mean assets (property) of all kinds, belonging to a person, firm, or corporation. (See " Assets.")

Non-Assented. Securities, the holders of which have not agreed to a certain plan, as one of "reorganization," for illustration. (See " Assented Stocks.")

Non-Cumulative. First read matter under " Cumulative." In the case of a " non-cumulative " stock, if a dividend is not paid at its regular fixed period, there is no obligation on the part of the corporation to make the amount up at any succeeding time; for instance, a given stock is known as " a 7% non-cumulative," and during the year 1909 it paid dividends at the rate only of 3%, the holder of that stock has no right to expect the additional 4% to be paid him at any future time.

All shares are " non-cumulative " unless otherwise stated. If the entire stock issue of a company is simply one class of " common " there would be no object in injecting the " non-cumulative " feature.

Non-Interest-Bearing. Securities which do not earn (pay) interest.

Non-Negotiable. See " Negotiable."

Notary Public. One who receives a commission from the State and is empowered to take acknowledgments, depositions, administer oaths, protest negotiable instruments, etc.

Not Subject to Previous Redemption (or Call). A security which the issuer has no right to pay off previous to the date of maturity specified therein.

N. & M. November and May; interest payable semi-annually beginning with November.

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O

Obligation. This is a term for indebtedness and has a very general use. Bonds of municipalities, corporations, or of any nature, may be referred to as "obligations;" so may an indebtedness of any form. (See "Direct Obligation.")

Odd Lots. See "Fractional Lots."

Offered Firm. There is a distinction between "offered firm" and "subject to sale" (the meaning of the latter is set forth under the subject of that heading), but in the case of "offered firm" one offers to sell another certain securities, or anything else for that matter, giving definite time for the acceptance of the offer. Or, one may make an offer, that is, a bid, that in turn will be good for a definite time; in which event it is known as a "firm bid." Anything may be "offered firm for three days," by which the intending purchaser has that length of time to decide in; or a bid may be made "firm" for that length of time, and is known as "firm bid for three days."

O. J. A. J. October, January, April and July; interest payable quarterly beginning with October.

Open Mortgage. A mortgage under which more indebtedness can be incurred; the amount of indebtedness authorized under the terms of the mortgage has not been reached. The opposite of "Closed Mortgage."

Operating Companies. Broadly speaking, any company which is actually in possession of, and operating its own business, but in investment matters it has a more restricted sense. It refers to a company which is owned or controlled by another, but which latter, *i. e.* the "controlling

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company," only indirectly conducts the management of the former, which, by its own officials, under general instructions from the controlling company, actually manages its operation.

Operating Expenses. The cost of every kind incurred in operating any corporation or business industry for any given period of time. It is sometimes not customary to include taxes, insurance, etc., as an operating charge, but unless a distinct separation is made of these items, so that the information shall not be kept from the investor, it is proper that they should be included either in "operating expenses" or "fixed charges." Woodlock says that taxes properly belong under the latter.

The Interstate Commerce Commission has prescribed for railroad companies the following classification for "operating expenses:" (1) Maintenance of Way and Structures, (2) Maintenance of Equipment, (3) Conducting Transportation, (4) General Expenses — all of which will be found explained under the several headings.

Operating Surplus. This is the profit remaining after taking into consideration all costs of every nature of operating any corporation or business industry for a given period of time. Whether or no taxes and insurance should be deducted before arriving at the amount of the "operating surplus" depends upon the system of bookkeeping; but unless they are deducted a distinct separation should be made so that those interested should not be misled. Interest on capital, indebtedness, etc., should not be deducted before determining the "operating surplus."

Optional After (or Optional Bonds). See "Net Return Upon the Investment."

Optional Bonds. Bonds in which the right is reserved by the issuer to pay off at an earlier

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date than the actual date of maturity. A bond due in twenty years, but subject to redemption after ten years, is of this class, and would be termed a 10/20.

Orders. County, city, State, etc. (See "Warrant.") Any written instructions to pay money, as "checks," "bills of exchange," etc.

Outer Belt. See "Belt Lines."

Outside Bonds. Those not dealt in upon the regular exchanges.

Outstanding Issue. The total amount of stock, bonds, or whatever the security may be, which a company has already placed upon the market. A company, for example, may be legally authorized to issue $5,000,000 in first mortgage bonds; suppose it should have issued but $2,000,000 of these, leaving $3,000,000 yet to be issued. $2,000,000 would be the amount "outstanding."

Overcapitalized. A company with more securities outstanding than it is able to return interest or dividends upon. (See "Capitalization.") Meade defines overcapitalization "as that condition in which the par value of the securities of a company exceeds their actual value based on profits."

Overissue. When a corporation issues more of a security than it is legally permitted to, it has made an "overissue."

Overlying Mortgage. A mortgage to which some one, or more, other mortgages have prior claims; the opposite to "underlie," to which refer. (See "Junior Mortgage.")

Overnight Loan. A loan of money to be repaid the following day

O. & A. October and April; interest payable semi-annually beginning with October.

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P

Paid-Up Stock. Same as "fully paid stock." (See "Fully Paid.")

Panama 2's. United States Government bonds; one issue redeemable after August 1, 1916, but due August 1, 1936, and one redeemable Nov. 1, 1918, but due Nov. 1, 1938, and known as the Panama Canal Bonds. (See "Government Bonds.")

Par. State of equality; equal value; equivalence without discount or premium.

The usual meaning of "par" is 100; that is, a share of stock, for example, which bears on its face the statement that it represents a value of $100. In practice "par" is used in a broader sense, for the "par value" differs in various securities. Bonds are in denominations, varying from fifty cents (as were once issued by a Western City) to very large amounts. Pennsylvania Railroad stock represents shares of $50 each; the Grand Trunk Railway Co. of Canada, £100 ($486.66); many manufacturing stocks are for $1,000 a share; some bank shares likewise; many mining stocks represent shares of ten cents, twenty-five cents, one dollar, etc. So "par," as used in the financial world, really means the actual face value of any security, without regard to its denomination. This is often confusing to an investor, from the fact that a stock may be quoted at "ninety," which has a "par value" of fifty, and which is, therefore, quoted at forty dollars premium, whereas the investor, not knowing its "par value," may think it below "par;" really, the stock is quoted at 80% above "par," for if its parity were changed to 100 (or two shares made into one) its quotation of 90 would equal 180. This often misleads the unposted into buying a stock ("because it is

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cheap") thinking it is selling at a discount, when it really is at a high premium.

In buying a security, ascertain the actual par value in dollars and cents and then calculate its selling price on the basis of a par value of $100. This will show the ratio between the original capitalization of the security and the quoted market value of the entire issue of such security.

Parent Company. A corporation controlling or owning other companies. The United States Steel Corporation is a "parent company." The Carnegie Company, the Federal Steel Company, etc., integral parts of the larger corporation, are "subsidiary companies."

Participating Bond. One which, while secured by a mortgage on a specific property, provides that the holder shall share in the profits accruing to the issuing corporation through ownership of the shares in other corporations, and which may or may not be additionally secured by the deposit of such securities. A good illustration is that of the Oregon Short Line 4% Participating Gold Bonds, which were issued in 1902. These were a direct obligation of the Oregon Short Line Railroad Company, but were additionally secured by the deposit of the stock of the Northern Securities Co., par for par, to the amount of the bonds issued. The bonds themselves were to receive 4% per annum from August 1, 1902, until February 1, 1904, on which date, and on the first day of February of each subsequent year, they were to receive, in addition to the regular payment of 4% per annum, an amount equal to any dividends and interest in excess of 4%, upon the amount of outstanding bonds, that had been paid in cash during the preceding year upon the collateral deposited with the trustee as security against these bonds. This issue has been called for payment.

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Par Value. See "Par."

Passenger Density. The total number of passengers which a railroad carries one mile divided by the number of miles of line operated. (See "Freight Density.") The Interstate Commerce Commission concisely expresses the "passenger density" as the "passengers carried one mile per mile of line."

Passenger-Mile. The movement of one passenger one mile. It is taken as the unit of cost and service in passenger transportation. (See "Ton-Mile.")

Passenger-Mile Cost. This is the cost of carrying one passenger one mile. (See "Ton-Mile Cost.")

Payable in Gold. Bonds, notes, etc., in which the borrower agrees to pay the principal or interest, or both, as the case may be, in gold. In this country, the wording of such a promise usually reads "payable in gold coin of the United States of the present standard of weight and fineness." Such wording is desirable, as it provides that the borrower shall pay in coined gold of the United States, fulfilling the requirements of the standard coining laws as at present enacted, eliminating the danger arising from any future laws passed of lesser conservative nature during the life of the investment. (See "Standard of Weight and Fineness.")

Payable in Lawful Money. Bonds, notes, or other evidences of indebtedness, in which the borrower agrees to pay principal, or interest, or both, as the case may be, in "lawful money" of the United States; money which the Government declares to be "legal tender" (to which subject refer).

Payment Stopped. See "Stop Payment."

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Per Pro (or Per Procuration). A signature by an agent having limited authority usually contained in a power of attorney. A letter signed,

Per pro White & Co.,
Charles Black,

or

James White & Co.,
per pro Charles Black,

is an example. The latter is the more correct method of signing, although the former is in more common use among merchants. This phrase is sometimes still further abbreviated as "p. p."

A signature of this kind is considered of itself an announcement of limited authority, a statement of the limitations of which will be furnished on request. Persons accepting instruments signed in this manner without investigating the authority of the agent signing them do so at the risk of afterwards discovering that the agent has exceeded his authority.

Philippine Bonds. The bond issues of the Philippine Islands have been by authority of Congress. The United States, however, is not legally responsible for their payment, they being obligations of the Philippine Islands only. By an Act of Congress these bonds are exempt from taxation throughout the United States.

Place. To place an issue of bonds is to find a market for it; to sell it.

Plain Bond. A bond not secured by mortgage; practically the same thing as a "debenture bond" or a "certificate of indebtedness." It would not be supposed to have a "sinking fund."

Plant. All the fixed part of a concern (manufacturing, transportation, etc.) except its land; the buildings, machinery, etc.

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Point. One per cent. A security rises three points when it advances three per cent. in price.

Port of ——— Bonds. Two notable examples are issues by the Port of Portland, Oregon, and the Port of New Orleans, La. A description of the former will suffice. It embraces the city and much adjacent territory; has its own officials, and creates its own indebtedness, for which payment all the taxable property in this distinct municipality is held. The object for which it was created was for the purpose of obtaining suitable ways for navigation at Portland, and between that city and the sea.

Pound. The English unit of value (formerly the shilling was the unit) equal to $4.866½ in United States money; the sign for it being £. The adding of the word "sterling" to "pound," is to designate a pound in money from a pound in weight. Also the monetary unit of Egypt, equivalent to $4.943, and written thus: £E.

Pound Sterling. See "Pound."

Power Company Bonds. Within the last few years, this class of bonds has come into considerable prominence. The ability to economically transmit electrical energy a great distance to generate power is the underlying factor in this industry. With a good water-power, and a demand for power at satisfactory prices within a reasonable distance of the property, there should be little question as to the success of these companies as a class. A low cost of operating has resulted in large profits in many instances. Far-seeing financiers look forward to a time when either the price or scarcity of coal will create a tremendous demand for electricity generated by water-power, and there is a growing belief that the better selected and located of such powers will become very valuable. The rapid inroads

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upon Niagara Falls for such a purpose, and the enormous amounts of money which have already been spent there in development of power companies, is an indication of this belief.

In selecting power company bonds as an investment, the usual facts as regards class of men behind the enterprise, management, contracts for business, etc., should be taken into consideration. But the main facts to consider are: The sufficiency of water-power for all time to come, and a plentiful water supply throughout the year; the location of the plant itself — near enough to industries of a stable character to create a permanent demand for the electricity generated; the likelihood of competition from other water-powers in the same section; if the water-power is not owned, the right to operate same must endure for a longer period than the life of the bond issue; and, finally, the climatic conditions under which power is generated and distributed, and the cost of fuel in that particular section, should be carefully studied.

To illustrate with regard to this last: In California, the price of coal is high, likewise fuel oil, except in sections favourably located as regards the oil wells.

In some of the mining regions of Mexico most of the fuel is brought on the backs of donkeys, making the cost of generating steam power very great (about $200 per horse-power per year). Many water-power companies can sell power very profitably at $25 per horse-power.

It does not follow that the conditions mentioned in the last two paragraphs are essential to the successful conduct of such a company, but are some of the things favourable to success.

Other facts conducive to economical management in the operating of enterprises of this nature are, that they are naturally free from the

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dangers of anti-trust legislation, labour disputes, devastating fires, catastrophes, such as wholesale railroad accidents, and abnormal rises in the cost of raw materials, some, or all, of which factors may have to be considered in other industries.

Inasmuch as " power bonds " are a somewhat new security upon the market the investor has been able to obtain profitable interest returns by purchasing them, but there is very little question as to the extremely safe character of many of these issues.

Power of Attorney. In financial matters, a written or printed paper signed — and witnessed or acknowledged before a justice of the peace — given by one person to another, whereby the latter receives authority to sign a paper or document, etc., in the former's name and stead, such signature having the same force and value as if signed by the person delegating the authority. " Powers of attorney " are much used in the transfer of stock certificates.

It is necessary that a " power of attorney," in order to confer any authority upon a person, must specify the powers conferred. The language used may be, and frequently is general and somewhat vague, in which case, it is a question of construction of the instrument whether any particular power has been conferred, but a " power of attorney " in order to constitute a person an attorney to perform any particular act must have some language specifying the powers conferred and which the attorney may exercise on behalf of his principal.

Power of Sale. A clause inserted in a mortgage note or in any other form of indebtedness which gives the lender the right to sell the property securing the debt, if not paid as specified. Wills sometimes give " power of sale " to executors, that property may be converted into cash.

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P. P. These letters are in place of "pro procuration," to which refer.

Preference Bonds. Practically the same as "income bonds."

Preference Income Bonds. See "Income Bonds."

Preferred Stock. A stock which has a claim upon the property and earnings of a corporation prior to some other stock; that is, it comes after the bonds and floating debt, if any, but ranks ahead of what is known as "common stock." When a "preferred stock" is created, it naturally follows that it precedes another issue, called "common stock." The first mentioned stock is about what its name indicates, — it has preference over the common. The form of this preference differs in various corporations, but, as a rule, in case of the winding up of the corporation, the preferred stockholders have the right to be paid out of the assets before the common stockholders receive anything. The conditions as to the payment of dividends on "preferred stocks" also vary. In some cases, a dividend must be paid if earned; in other cases, it must be paid before any dividend upon the "common stock." It may be "cumulative" (see "Cumulative") or, after the common stock has received an equal amount, both may share alike, and so on. The most common way, however, is to give the "preferred stock" the first claim upon dividends up to a certain per cent. The best example of this is in the case of The American Tobacco Co. preferred stock, which is entitled to receive 6% per annum before the common receives any. In this case, the earnings of the company are so large that the common stock, in actual practice, receives a higher rate of dividend (35% per annum at the present time — 1909) than the "preferred," and sells

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in the market at a higher price — 100 for the preferred and 475 for the common. Most common stocks, however, sell at a less price than the preferred.

There are numerous cases of "first" and "second preferred" issues, the nature of their preference being somewhat different from each other, but both have preference over the common shares. Sometimes "class A" and "class B" preferred stocks are issued, being simply another nomenclature for "first" and "second preferred."

Preferred shareholders, usually, but not always, have the right to vote at stockholders' meetings. In some instances the voting right per share is greater on the preferred than upon the common stock.

Prem. Short for "premium."

Premium. The percentage or price of a security in excess of its par or face value. Taking the face value as $100, a share of stock selling at 105 would be selling at 5%, or $5 per share, premium. The par values of various securities differ, however (see "Par"), therefore, it does not argue that if a share of stock is quoted at 150 it is selling at a premium, for if, by chance, the face value of that share happens to be $500, it would really be selling, not at a premium at all, but at a material discount.

Premium Bonds. The City of New Orleans has bonds outstanding known by the above title. It seems that they are of a small denomination and the interest upon them is not paid until they are drawn for redemption by lot; then the principal, together with simple interest from July, 1875, is paid the holder. There are also prizes which amount to about $100,000, which are likewise annually distributed among those whose

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bonds are redeemed. These prizes, or premiums, range from $20 to $5,000. The United States Government has recently looked upon this as a lottery scheme, and has issued an order barring such bonds from the mail.

Present Standard of Weight and Fineness. See "Payable in Gold."

Principal. The principal of a bond, or any other security, is its face value; that is, the amount, regardless of interest or premium, which the investor is entitled to receive at the maturity of the obligation; the sum on which the charge for interest is reckoned. "Par value" denotes the "principal" of a share of stock.

Prior Lien. See "Lien."

Prior Lien Bonds. If a bond bearing this title is honestly what the name would indicate it to be, it should take precedence over any other mortgages (or bonds) against the property; that is, it should technically be prior to any other indebtedness. The juggling with security names, with the evident intent of misleading the investor, however, has resulted in "prior lien bonds" being issued which may be prior in their rights to some other indebtedness of the company, but an investigation will show that there are other mortgages prior to the one in question. It behoves one in purchasing a "prior lien bond" to ascertain just exactly what its claim is upon the property.

Prior Redemption. See "Called Bonds."

Privilege of Registration. Many bonds are issued in coupon form, but with the right reserved to the holder to have the same registered either as to principal or interest, or both, as the case may be, but the holder of the bond is not obliged to exercise this privilege unless he so desires. (See "Registered Bond.")

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Profit Sharing Notes (or Bonds, etc.). A rather uncommon security, but best explained by an illustration: The Underground Electric Railways Co. of London in 1903 issued notes secured by a deposit of stocks of its constituent companies. It was provided that in the event of the sale of any of the stocks at over 95, one half of the net profits of such sale should be set aside for the benefit of the notes outstanding at the time.

Promoter. One who finds the bankers, or moneyed men, to finance; that is, furnish, through their clients or otherwise, the necessary capital to organize and set in motion a corporation or industry; the "middleman," as it were, between the corporation needing the capital, and those whose business it is to place the corporation's securities upon the market; in other words, sell them to their clients.

The "promoter" usually does not attempt to sell securities directly to the investor, but, rather, wholesales them to those who do, such as bankers, etc.

Perhaps no better illustration of the work performed by a "promoter" can be given than that of E. S. Meade in his "Trust Finance" as follows: "The promoter performs an indispensable function in the community by discovering, formulating, and assembling the business propositions by whose development the wealth of society is increased. He acts as the middleman or intermediary between the man with money to invest in securities and the man with undeveloped property to sell for money. In the present scheme of production, the resource and the money are useless apart. Let them be brought together, and wealth is the result."

A "promoter" is one who often makes it his occupation to hunt up corporations which desire to issue securities, and bring such securities to

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the attention of some banker, and, in case of the issue being found satisfactory and accepted by the latter, the "promoter" receives a commission or fee for his services. It may almost be said that he is a manufacturer of stocks and bonds. A "promoter" must not be confused with a banker, although the latter may, at times, be a "promoter," for he may occasionally originate the idea, for instance, of building a new railroad, and carry through all the details of its coming into existence, create the securities and wholesale them in part or entire among other bankers. In such a case, he is a "promoter" of that particular enterprise.

The honest and enterprising "promoter" has been one of the most useful agents in the development of this great country.

Prospectus. A description, generally printed, but sometimes typewritten, setting forth the plan of some enterprise about to be undertaken. It differs from a "circular" in its use among bankers as being more a detailed description of some issue of securities and of the property covered by them, and for distribution among what are known as "underwriters" or the few who are invited to share, to a certain extent, in the profits resulting from the sale of the issue when offered to the public at some later time. The description of the same securities and property, when offered for general sale to the public, would be called a "circular," although, perhaps, this fine distinction in the meaning of the two words is not always strictly followed. The terms are used to a certain extent interchangeably.

Provisional Certificates. This is an English term for our "interim certificates."

Public Accountant. The same as an "auditor," to which refer.

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Public Debt. See "United States Public Debt."

Public Funds. In reality, bonds issued by a Government (and the Government debt is so termed in Great Britain), but by usage in America also bonds of States, cities, counties, towns, etc.

Public Loan. Interest-bearing Government indebtedness.

Public Service Corporation. Railway, street railway, gas, telephone, electric light, water companies, etc.

Public Utilities Companies. Same as last subject.

Purchased Line (or Lines) Mortgage. A railroad may purchase all, or the controlling interest in, one or more other lines of railroad, which roads in themselves, perhaps, were not of very high standing until purchased by the company first mentioned. There may be some reason why the purchasing company cannot issue more bonds of its own for the needs of the purchased line (or lines) and, therefore, may issue a mortgage directly upon the purchased line (or lines) itself, but the mortgage may bear the name of the owning railroad, but, in case of default in the interest or principal, the owner could only look to the property actually mortgaged for his protection. Of course, the terms of such mortgages vary greatly, but, as a rule, a "purchased line mortgage" is only a mortgage upon the line actually purchased and not any obligation of the parent company, unless guaranteed by the same.

Purchase Money Bonds. Bonds commonly given by one corporation in exchange for the stock of some other corporation purchased by the former. An example is that of the Kings County Electric Light & Power Co., of Brooklyn, N. Y., which bought the entire capital stock of the Edison Electric Illuminating Co. In paying

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for this stock, the former company issued "purchase money bonds" in exchange. These bonds are secured by deposit of the Edison Company's shares with the trustee, and by a lien upon the properties of the Kings County Company, subject to an issue of $2,500,000 first mortgage 5s. The "purchase money bonds" are additionally secured by deposit with the trustee of a cash guarantee fund of $1,000,000.

Purchasing Receipt. A temporary receipt, issued to the purchaser of a security, to be taken up later by the permanent security when issued. Often referred to as a "temporary receipt," to which subject refer.

Q

Quarter Days. January 1st, April 1st, July 1st, and October 1st.

Quarterly Interest. Interest payable four times a year. If interest on a bond is payable January 1st, the three next corresponding quarterly periods would be April, July, and October 1st. The interest on all United States Government bonds is payable quarterly, but not on the majority of issues.

Quarterly Settlement-Days. In the United States, January, April, July, and October 1st. Upon these days, the majority of interest payments fall due, as well as many bonds and other obligations, necessitating large disbursements of money.

Quasi-Municipal. A municipal corporation established by law, without the franchises of such a corporation generally.

The laws of the State of Maine specifically refer to a "quasi-municipal" corporation in regulating the investments which a savings bank may make. A recent bank examiner of that State interprets a "quasi-municipal corporation" as follows: "The

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legislature intended by that term to cover municipal corporations created for a special purpose, not having general municipal powers like towns and cities. It applies to Water Districts, like Augusta Water District, and Gardiner Water District."

Quick Assets. Anything that can be readily converted into cash without the necessity of taking a prohibitive loss. Government bonds are always considered a "quick asset;" perhaps the quickest of assets in this country, as in the most distressing money market conditions they are supposed to be convertible into cash at a less sacrifice than any other security under like conditions.

Qu. Jan. (or Qu. Feb., etc.). Quarterly beginning with January, or with whatever month is named.

R

Ragged Bond. When unmatured coupons have been cut from a bond and attached to it again by a pin, or some such method, the security is termed a "ragged bond."

Railroad Aid Bonds. Issued by municipalities to raise funds in order to give financial assistance to a railroad. This is nothing more nor less than a "subsidy" (refer to that subject) except that, in order to give the assistance, the municipality finds it necessary to borrow the funds. A great many bonds of this nature were issued by the Southern and Central States during the period immediately following the Civil War, and a great many of these issues have been repudiated. "Railroad aid bonds" are a questionable investment, as well as bonds issued in aid of any special enterprise, although perhaps "railroad aid bonds" have stood the test better than

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similar issues marketed to give assistance to manufacturing concerns.

A great many of the most reputable bond houses have consistently refused to handle any bonds issued in aid of railway or other private enterprises.

Railroad Equipment Companies. Corporations which manufacture rolling stock and other equipment for the railroads. Some of the most important are the American Locomotive Co., the American Car & Foundry Co., the Pressed Steel Car Co., and the Railway Steel-Spring Co.

Railroad Securities. Probably the best indication of existing business conditions is the railroad earnings; they reflect good and bad periods with wonderful precision. They are transporters, not producers of wealth. The prices of railroad stocks and bonds follow very closely, in the long run, the course of their earnings.

Without railways, the wheels of progress in this country would come almost to a standstill. There is hardly any industry, outside of agriculture, which means so much to the country as the great distributing arteries, the railways. The conservative savings bank laws relating to investments in the various States are being constantly amended to permit of the purchase of additional railway issues, recognizing the soundness of this class of securities. As soon as an issue becomes known as a legal investment for savings banks, say, in New York, Connecticut, or Massachusetts, such an issue advances in price, making the net return to the investor much less than previously. There are many high grade railway issues, now not accepted under the law by the savings banks of the large Eastern States, which, perforce, must become so in the not very distant future, and a careful selection of such issues to-day may offer a reasonable chance for

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an enhancement in the value of the principal, in the case of a long-time bond.

The thought of any serious competition to the large trunk lines, on account of the building of new through routes, may practically be eliminated. The cost, in the present rapidly increasing density of population, of obtaining right of way for the construction of any through line and for the obtaining of suitable terminals (In this connection read the subject "Terminal Company Bonds.") in the large cities would absolutely prohibit the completion of such a route. It would be unable to return sufficient interest upon the investment, owing to its extraordinary cost, to make it attractive. Therefore, the railroad building of the country, from now on, must be very largely limited to the building in the more sparsely settled sections and to branch lines, or feeders, to the large roads already in existence.

Unless the established roads be, in the future, selfishly managed or overburdened with indebtedness from poor financiering, there seems no reasonable doubt as to the permanent solvency of the large majority of such corporations. The investor, however, must be brought face to face with the intricate problem of the proper selection of a railroad bond, and, to that end, must not be misled by a title which a railroad issue may bear. leading one to think that it occupies a position, as regards claim upon the assets of the property, closer than is absolutely the fact. Study carefully each bond issue; find out just how it is secured; consider the earning ability and physical condition of the road and confine yourself, as nearly as possible, to the issues which are not preceded by earlier mortgages; otherwise, be sure that there is an ample margin of security and earning capacity over the above such earlier mortgages to protect the later one issued and

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under consideration. Such bond issues as prior liens, first consolidated, general mortgage, consolidated mortgage, etc., may all be misleading, and the real status of such a mortgage should be clearly understood before purchase is made.

The tremendous expenditure by the American railroads of to-day for improvements is necessitating an abnormal increase in the capital account, *i. e.* new securities. The question may well be asked if the net earnings will permanently increase in proportion to the increased capitalization. Such has not been the case in Great Britain, and many wise financiers, as well as practical railroad men, believe that we have reached our limit in the increase of per cent. of net earnings to capitalization in this country. This argues for the conservative investor to select those securities which have the earliest claims upon assets and earnings, *i. e.* "first mortgage bonds," to illustrate, "preferred" rather than "common" stocks, etc.

In selecting a railroad bond, first or junior issue, the selling price of the stock is a good guide. If it is, and has been for some years, quoted at a good premium, and can show a good record for dividends paid, it argues for safety in the bonded capitalization.

One very important fact to ascertain in the investigating of any railroad company, is whether or no it is keeping up its physical condition and making proper expenditures for the same directly from earnings. The tendency of recent years is to run much heavier rolling stock and larger train loads, calling for heavier rails, more substantial bridges, and a reduction of sharp grades and curves, all of which many of our better roads have accomplished. The statement has been made that a road which has not spent at least $10,000 per mile for such purpose within the past ten years is behind the times. Roads

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which have been able to accomplish this without increasing their indebtedness on account thereof should be considered, everything else being equal, sound financially.

Compare cost of operating any road under consideration with that of other companies similarly located, and form, thereby, an opinion as to whether or not the particular road is being economically managed.

The management of a railroad property, its control, class of business tributary to it, its competition, or the likelihood of competition, the importance of its terminals, must all be carefully investigated. The large agricultural business tributary to the Union Pacific system, or the numerous coal fields which pay tribute to the coal-carrying roads, are factors of undeniable strength. Some short railroad which may in itself originate a vast freight tonnage, like one occupying a strategic position in a mining district of practically a permanent character, may be a very sound proposition, although but a small one.

Ascertain if the freight rates, expecially if it is a railroad not doing an interstate business, and so not amenable to the railway rate law, are excessive. A road may have such a monopoly that it may be charging exorbitant rates and tempt competition. For a permanent, prosperous condition of any railroad so situated, fair passenger and freight rates are essential.

Some roads may be so clearly dependent upon agricultural products that a crop failure would be disastrous. A road to be a one-crop or a one-industry road must be based on the traffic of an industry of a fairly permanent character.

Railroad managers have, of late, given much attention to the investment basis of their companies. It is becoming more the custom not to pay, or increase, dividends, until the permanency of the rate is reasonably assured. The paying for

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improvements out of earnings is a very good feature, and is so universal that it is estimated that our whole railroad mileage earns double what it distributes in the way of dividends.

We differ somewhat from the English in our way of estimating the intrinsic value of a railroad issue, and this is partly due to their custom of placing irredeemable debentures, while we put out bonds with a definite date of maturity. Even, although in practice our issues are not paid when due, but refunded, we, nevertheless, consider what the value of the property will be at the loan's maturity. In England, the irredeemable feature eliminates that factor and results in a careful analysis of the road's earning power, so that the interest rate may be permanent, as in the case of a stock. And, perhaps, they are following the truer course, for the value of a railroad, if it cannot earn its charges under good management and normal conditions, is doubtful — leaving out of consideration the possibility that some other company may buy it. It is said that about 93% of the railroad capitalization is invested in immovable property.

It is becoming the generally accepted opinion among financiers that the value of a railroad should be determined by its present and future net income.

Railway Trust Bond. Another name for a "collateral trust bond."

Rail, Weight of. It is customary to speak of a 50, 60, or 90, etc., pound rail. This means the weight of the rail per yard; that is, a "90 lb. rail" weighs 90 pounds for each three feet in length.

Readjustment. By reading the subject "Reorganization" it will be seen that that refers to a rearrangement of the capitalization of a company which had been unable to meet its

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obligations, so that under the new plan better results may be looked for. Proceedings of this nature are generally forced upon the company by its creditors, or security holders, and the property put through "foreclosure proceedings." A "readjustment" is virtually the same thing; cause and effect being the same, but a voluntary proceeding on the part of the security holders, and customarily without foreclosure.

Real Estate Mortgage Bonds. Naturally, any bonds secured by a mortgage upon real estate would come under this title. An example of such a bond, issued by a corporation, is that of the Western Union Telegraph Co., which has a "funding and real estate mortgage" issue, bearing 4½% interest, due May, 1950. In practice, such a bond may be issued by a corporation at a time when a comparatively small amount of money is needed, when it would not be necessary, for its proper security, to mortgage other property of the corporation, there being sufficient real estate, such as, for example, lands, and buildings thereon, which in itself would be ample security for the bond issue. Such property may be mortgaged to especially secure a real estate issue and thus raise the needed money, and leave a large part of the balance of the corporation's property free from that particular encumbrance.

Real Valuation. See "Assessed Valuation."

Receiver's Certificates. A form of indebtedness issued by authority of the court against property under the management of a receiver, for the purpose of borrowing money. These certificates take precedence over all other indebtedness of the company, even over a first mortgage, — except money due for wages and other necessary operating expenses, — and must be first paid. "Receivers' certificates" are usually sanctioned

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by the court only to defray necessary expenses for the continued operation of a corporation, the ceasing of which would be a public calamity; such as a railroad, lighting plant, etc.

Reconstruction. This term is used in Great Britain as the equivalent of our "reorganization."

Record a Mortgage. See last paragraph of "Mortgage."

Redeemable. Same as "callable."

Redemption Bonds. Issued to redeem — pay off — other bonds which are due or which the company or municipality has the right to prepay before maturity. Same as "Refunding" Bonds.

Refunding. Issuing a new lot of bonds to take the place of those falling due, and which for inability, or other reasons, the corporation or municipality is not to pay off in cash. Suppose, for example, a city has some bonds maturing which were previously issued for "Water Works;" the city brings out a new issue to replace them; this new issue ought to be called "Refunding Water," it may, however, be called simply "Refunding."

It is always advisable to ascertain the nature of the debt being "refunded" and to assure oneself that it was originally contracted for a proper purpose. This is one reason why it is well that the name be specifically set forth in the bond, as above suggested. It is desirable that the attorney examining into the legality of a "refunding" issue should likewise investigate the legal status of the old debt.

Refunding First Mortgage Bond. See "First Refunding Mortgage Bond." The two titles are quite distinct in their meaning.

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Register a Mortgage. The same as to "record a mortgage." See last paragraph of "Mortgage."

Registered Bond. (Read first "Coupon Bond.") "Registered bonds" are of two forms: First, registered as to principal and interest both; second, registered as to principal alone.

A "registered bond" has the name of the owner filled out on its face, but cannot be transferred from one person to another without indorsement upon the back by the party in whose name it is registered and sending to some designated office or municipality for transfer; the same as a share of stock. A new bond will be issued to the holder and made out in his or her name. There is no objection to a "transfer in blank" and passing the bond from hand to hand, by which plan any holder may fill in his or any name upon the back in the transfer blank and forward to be transferred at his leisure. But as the ownership of a bond is, as far as the corporation or municipality is concerned, the last registered holder thereof, it is to such holders that checks for interest are mailed, and in accepting a "registered bond" "transferred in blank" a transfer of the same should be made upon the books in time to permit the rightful owner to receive the next maturing interest.

In the first case above mentioned the bond bears no interest coupons, but the interest is mailed, as it matures, directly to the holder, in the form of a check, but the principal sum must be collected by proper indorsement upon the back and presentation to the proper authority.

In the second case: a bond registered as to principal only. There are coupons attached, the same as in the ordinary "coupon bond," which are collected in the usual manner of coupons, but the principal sum of the bond itself is regis-

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tered, and to be collected must be indorsed and forwarded to the proper authority.

The reason for registration is primarily for safety, for should there occur a theft or loss a "registered bond" can be of no value to any one else. There is much inconvenience about a "registered bond" in case of its sale. Most bonds are in coupon form. (See "Interchangeable Bonds.")

Registered Coupon Bond. A bond described under "registered bond." The principal alone is registered, the coupons being payable to bearer, and the interest collected by detaching and presenting the same for payment. The interest on the ordinary "registered bond" is remitted to the registered holder by check.

Regular Lot. The regular unit of transaction upon the Stock Exchange. This will be readily understood by reading the subject "Fractional Lots."

Re-Hypothecate. To re-pledge, by a broker, stocks, bonds, etc., as security for a loan, which securities had, in turn, been deposited with him by some customer as security for money advanced on account of the latter.

Renewal Bonds. Created to extend an issue due; same as "refunding bonds."

Rentes. Usually, the Government bonds of France. It is the largest of existing debts, with Russia next.

Reorganization. Rearrangement of the financial plan or capitalization of a corporation which has been unable to meet its obligations at maturity, so that interest and dividends may be earned and paid. New management may be needed and possible changes in the physical condition of the property. (See "Readjustment.")

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Reorganization Committee. By reading the last subject it will be understood that the working out of a new system of capitalization for a corporation in financial difficulties must be placed in the hands of some persons competent to deal with the same. It is the custom for the security holders to select a number of men for this purpose, which are known as a "reorganization committee," and who are often given broad powers, the securities being deposited with some trust company under a plan of reorganization, which may be called a bondholders' or stockholders' agreement, or designated by some such title.

Replenish a Loan. To increase the collateral security.

Resources. Property of all kinds; everything owned; cash on hand, notes and bills receivable, merchandise; in fact everything that one possesses, including what is due him.

Rest. Surplus or undivided profits; the accumulated and undivided profits of the "Bank of England" are its "rest." With us "surplus" is the term commonly used.

Revenue Bonds. A temporary debt created for the purpose of raising funds for current expenses, and in anticipation of the collection of taxes. Such a debt, however, is usually in the form of notes.

Rolling Stock. Locomotives, cars, hand cars, snow plows; in fact all such equipment of a steam, electric, or other railway.

Rupee Paper. The Government securities in India, being payable, both principal and interest, in "rupees" (a silver coin equal to $.3244 1-3 United States money), are termed "rupee paper." When, however, payment is demanded in England bills of exchange on Calcutta are given.

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Sanitary District Bonds. Separate municipalities, not territorially the same as the cities which they embrace, but, usually, greater in extent, have at times been formed for the purpose of securing pure water supplies, removal of sewage, etc. The Sanitary District of Chicago is the most notable example. It has its own officials and creates its own indebtedness, for which all the taxable property therein is held for payment. It is 358 square miles in extent; embraces all of Chicago and considerable adjacent territory, and is legally permitted an indebtedness of not exceeding 5% of the assessed valuation. The well-known "Chicago Drainage Canal" is the effort of this district.

Satisfied. When an indebtedness or obligation is paid, it is said to be "satisfied."

Savings Bank (or Institution). A bank organized under the State laws, or under Federal laws if in the District of Columbia, for the purpose of receiving deposits, the intent being that such deposits shall largely be the savings of the small earners, such as labourers, wage earners, and small salaried persons in general, who are not expected to be in a position to intelligently invest money for themselves, and whose savings are so small that no adequate form of investment can easily be found. The aggregate of these savings in any one bank is supposed to be invested by an intelligent board of men elected for that purpose, usually called the "Board of Investment" or "Finance Committee." The legal restrictions placed upon the investment of "savings bank" funds vary greatly in different States, some being very strict and conservative and properly safeguarding the interest of the depositors; others woefully lax and unsafe.

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At present the States with the best regulations, beginning with the most conservative, are New York, Massachusetts, Connecticut, and then, perhaps, Vermont, Rhode Island, Maine, New Jersey, and New Hampshire.

One able financial writer makes a very good point that institutions of this kind do not conduct strictly a banking business; that is, they take deposits not for their own use, but for the safe-keeping and benefit of the depositors, making safety a consideration before profit.

Interest ranging from 3 to 5%, according to the bank, is paid on money deposited, in accordance, of course, with the rules and regulations of the institution.

The laws of different States, or the regulations of different banks, vary more or less as to the amount which any one depositor may have standing to his credit on the books in any one bank. Unfortunately, this rule is easily avoided by a depositor's making use of the name of his wife, mother, sister, etc., and opening up accounts under their names.

(See also " Mutual Savings Bank.")

Savings Bank Bonds. As this term is used among financiers, bonds which certain Eastern States, which have passed the most conservative legislation in relation to bonds in which the savings banks therein may invest, as New York and Massachusetts, are commonly understood. The term may, however, be used to refer to bonds which the savings banks of any State may buy provided that State has passed any restrictive legislation whatsoever in relation thereto.

Savings Banks with Capital Stock. Explained under " Mutual Savings Bank."

Savings Institution. See " Savings Bank."

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Scaled. When a corporation or municipality is unable to meet the principal of, or interest upon, a debt, and is able to arrange a continuation of the debt at a lesser rate of interest, or an extension of the debt for a less principal sum, or both of the above, then the interest has been "scaled," or "the debt scaled," or both, as the case may be.

School District Bonds. See "Board of Education."

Scrip. In financial transactions, a temporary paper or certificate is often issued, to be exchanged later for money or a permanent certificate, or whatever the "scrip" entitles the holder to receive.

S. D. M. J. September, December, March, and June; interest payable quarterly beginning with September.

Sealed Bid. When an issue of bonds is offered for sale for which intending buyers must submit "sealed bids," these buyers must state clearly in writing what they will pay for the bonds, in accordance with the conditions imposed by the seller. The buyer, usually, adds such conditions regarding the legality of the issue, etc., as may seem to him wise. Most issues of municipal bonds are sold in this way. The "sealed bids" must all be in by a fixed date and should properly be opened in the presence of those authorized to make the sale, and, so far as may be, at the same time. This ensures all bidders being treated alike. After opening the bids the bonds are "awarded," or sold, to the highest responsible bidder who is given a reasonable time to satisfy himself as to their being as advertised, and valid. Sometimes a deposit is required of a certain amount in cash, or its equivalent, with each bid, which is called a "forfeit." It is customary to

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use for this purpose a "certified check" for the amount required, and made payable, for instance, as follows: "Pay to the city of New Orleans, when accompanied by one hundred thousand dollars, par value, of legally issued bonds of the said city" — describing the bonds. This prevents the use of the check by the city in case it cannot, or does not, comply with the conditions as to legality, imposed by the bidder.

The question of the proper wording of a "sealed bid" has been much discussed and different forms are in use, but after describing the issue, for which the bid is being submitted, the following wording may be used as a protection to the bidder.

The usual papers evidencing the legality of the issue *satisfactorily* (note the spelling of this word) to our attorneys to be furnished us prior to our taking up and paying for the bonds.

It is not unusual for municipalities, in advertising for sale an issue of bonds for which sealed bids will be received, to reserve the right to reject any or all bids. This safeguards them against the necessity of making a sale, provided no satisfactory bid is received.

Seasoned Securities. Those of long standing and established value.

Second Consolidated Mortgage Bonds. An issue secured by a mortgage subsequent to one "consolidated mortgage" (refer to "Consolidated Mortgage Bond") already covering the property, and to all other prior mortgages. It bears, roughly speaking, the same relation to all the earlier mortgages as the "consolidated mortgage" issue does to all issues prior to that one. A bondholder of this class must consider the sum total of all prior indebtedness secured by the "first consolidated" and earlier mortgages, in order to determine what value, if any,

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there is left in the property to secure his investment. It must certainly rate along somewhere with a "third mortgage" and, perhaps, a "fourth." Yet the rapid increase in the value of the property due to good business and large improvements may warrant the debt.

Second Mortgage. A mortgage placed upon property which already has another mortgage existing upon it; for instance, a certain piece of real estate supposed to be worth $10,000 is already pledged as security for a mortgage for $5,000; the owner wishes to borrow $2,000 more, and finds some one who is willing to accept a "second mortgage," upon the same for that amount, making the total mortgage indebtedness against the property $7,000. Suppose the owner of the property is unable to pay the interest, when due, on the "second mortgage;" in order for the holder of this mortgage to protect himself, he must foreclose the property under his own mortgage and pay the holder of the first mortgage his due.

In taking a "second mortgage" one should have reason to believe that the property will, at any time during the life of his mortgage, bring, at forced sale, a price sufficient to pay off both mortgages, because the first mortgage must be satisfied in full before the "second mortgage" holder receives anything.

Second Mortgage Bond. A bond secured by a mortgage upon a property which already has one other mortgage existing upon it and which latter mortgage would have prior claim upon the property and its earnings. (See "Second Mortgage.")

Seconds. Second mortgage bonds.

Secured Notes. The plain notes of a corporation, that is, having no mortgage claim upon the

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property, but secured by other stocks or bonds. This is merely another term for "collateral notes," or "collateral trust notes." It is customary to have the par value of the collateral security in excess of the par value of the notes secured.

Securities Companies. These are "holding companies" (to which refer), corporations formed to hold the shares of other companies. The shareholders of the "securities companies" own through this medium interests in other corporations.

Semi-Annual Interest. Interest payable twice a year. If interest on a bond is payable January 1st, the next corresponding half yearly period would be July 1st. The interest, or dividends, upon most investments is payable semi-annually.

Senior Mortgage (or Lien). First, or prior mortgage; having precedence over some other mortgage or lien. "Senior mortgages," when used in reference to some particular mortgage, would indicate all mortgages having prior claim (senior to) that one.

Serial Bonds. An issue of bonds which is payable in instalments. In California, every municipal issue must be made payable — and paid, not refunded — during forty years from its date.

The custom of issuing bonds payable either in series or by instalments is becoming more prevalent. This class needs no sinking fund. It has been proven conclusively that the serial method of payment is more economical than that of the sinking fund.

The State of Massachusetts has recently inaugurated a serial issue, and other States have done likewise. City, county, town, special assessment, and district bonds of all classes —

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particularly drainage and irrigation districts — maturing after this fashion, are to be found in increasing quantities. Many school district bonds of the Canadian Northwest Provinces have been marketed payable upon the instalment plan. This will give an idea of the general and increasing tendency of States and municipalities to follow this system of redemption. Turning to corporation issues, it may be said that those which have for their security exhausting or depreciating properties, such as mines, oil wells, quarries and the like, or railroad equipment, vessels, etc., are generally, and certainly should be, redeemed by yearly payments. Among the latter will be found many of the " car trust " or " equipment trust " issues.

It may also be of value to treat somewhat more exhaustively upon the subject of instalment bonds, a typical example of which was illustrated in those of the American Mail Steamship Company. This Company issued some 6% bonds, the whole issue being payable in ten annual instalments, but, instead of certain bonds being due each year, one-tenth of each bond was made so payable, being made up of ten principal coupons of $100 each, besides the coupons for the interest; the interest coupons growing proportionately less in amount from year to year. This method treats every bondholder without partiality. In case of the bonds eventually proving an unsatisfactory investment, each holder would have had equal amounts paid off on each bond. But when certain numbered bonds mature each year, the holders of the earlier paid bonds — in the event of financial insecurity of the issue — would have been the fortunate ones. The objection, of course, to a partial payment bond — by which this plan of issue should be technically known — is that, unless the investor owns a considerable amount

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of them, it will call for the re-investing of a small principal sum annually, which is often difficult of accomplishment. Theoretically, however, the partial payment bond is the true method of payment, as all holders fare alike.

Seven Thirties. Bonds bearing interest at the rate of 7.3% per annum. The writer knows of no such bonds being issued at the present time, but they were more or less frequently met with in the past, and some issues are still outstanding. The peculiar rate was based on its being equivalent to 2c. per day interest for each $100 invested. During the years of the Civil War, the United States Government borrowed large amounts by the issuance of "seven thirties." Among municipalities, Newport, Kentucky, has given us an example.

Simple Interest. Interest upon the principal sum only. An example will perhaps make this clear: Green loans Black $1,000 for six months at 5%, the interest amounting to, say, $25. If at the end of that time the interest is not paid, Green cannot collect additional interest on the $25 for such time thereafter as Black fails to make the payment. "Compound interest" would permit of charging interest on the $25; that is, interest upon interest. In savings bank accounts, "compound interest" is usually allowed; that is, at the end of stated intervals, say twice a year, the interest accumulated upon the depositor's account is entered to his credit, increasing the principal sum that much, and the total sum goes on drawing interest.

Sinking Fund. Sums set aside at stated intervals to provide for the payment of all or part of the principal of a debt. A method of sinking or extinguishing it; a provision for an obligation not yet matured, and as binding upon the issuer as any other provision of the mortgage.

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This money is sometimes used to buy in, or pay off, some of the debt itself, from time to time, under conditions provided; or may be held until the maturity of the debt and then applied to its payment, and, in the meantime, invested in other securities, so that it may increase in amount.

The conditions attached to sinking funds differ, but the best form is that which applies the money as raised directly to the extinguishment of the debt for which it was created, thus avoiding any possible loss by temporarily investing it otherwise.

In many bond issues, a condition is imposed that the sinking fund shall be applied to the principal by the calling by lot of a certain number of bonds annually. This is very objectionable, and it is hard to advance any good reason for such a plan. It frequently works hardship upon investors who own bonds, subject to call in this way, and it often prevents bonds advancing to a premium, owing to the fact that every bond of an issue subject to call by lot must necessarily be looked upon as subject to payment at the next call, making it unsafe to figure the interest return upon such bonds based on but a comparatively short time to run. In practice, however, many issues, as, for instance, the Louisville & Nashville 6's, have advanced to a premium, although subject to call. This is one of the exceptions, and, moreover, when these bonds are called, they are paid at 10% premium. A better plan is explained under "Serial Bonds."

The "sinking fund" feature is deserving of much thought, and should be well understood by the investor. It will be found referred to in many places in this book, and is something the purchaser of bonds cannot afford to pass over lightly.

Generally speaking, "sinking funds" are

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desirable in issues against properties which have not demonstrated a tendency to liberal expenditures out of earnings for the maintenance of the property at a high standard of efficiency; and, also, in the case of properties which are exhausting themselves, such as mines, oil wells, and the like. Or, in other words, "sinking funds" are advisable in those issues, the security of which is likely to become less before maturity. Industrial concerns dependent upon a business of an unstable character should create "sinking funds" for the retirement of indebtedness. In large corporations, like our well-established railroads, many financiers argue against the establishment of a "sinking fund" altogether. It is in the smaller corporations where the future cannot be so well anticipated that a "sinking fund" should be most carefully considered.

The question of a sinking fund, even in small corporations, is becoming more and more a debatable one; although, in lack of such a safeguard, some other provision should be made, and the commonly accepted one is a fund set aside for "depreciation," for a better understanding of which, see that subject. How the sinking fund provision worked to the disadvantage of a small western street railway will make this clear.

The trust deed provided that a certain per cent. of the issue should be redeemed annually. This took such a large proportion of the surplus earnings that the road suffered from inability to maintain itself upon a modern standard, and thus, at the end of ten years, although the sinking fund had been promptly met, the road was in a deplorable condition. In this case, it would have been much better for the safety of the bonds had the same amount been put back into the property in the way of modernizing the equipment, for instance, than for it to have been

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used in redeeming the bonds. To illustrate; an indebtedness of $100,000 against an appreciating and growing property is better than a gradually reducing amount against a property that is going behind faster in value and earning capacity than is offset by the reduction in the indebtedness. Accidents are more likely to occur, and business to be seriously handicapped. Depreciation must be guarded against, whatever other conditions are provided for the reduction of the indebtedness. But, if a depreciation account is stipulated in the Trust Deed, the clause should be drawn with care, so that the money shall not be used merely to replace wear and tear, but for the avowed purpose of keeping the property up to date, or for additions likely to increase the earnings.

Sinking Fund Bonds. It is not often nowadays that bonds are issued with "sinking fund" as the principal title, but generally with some such nomenclature as "First mortgage 4% sinking fund bonds." Formerly, bonds were occasionally issued as simply "sinking fund" bonds, notably, the Union Pacific Sinking Fund issue which matured in 1899. As a matter of fact, any bond may be a "sinking fund" bond, the sinking fund feature being simply one of the provisions provided for in the deed of trust, for a better understanding of which see "Sinking Fund."

Sinking Fund Mortgage. A mortgage securing a bond redeemable by a sinking fund would be so termed. (See "Sinking Fund.")

Slow Assets. Property which cannot be readily converted into money; property which is not salable at the time, but which may be during some future period.

Small Bonds. Transactions in United States Government Bonds are usually for $1,000 par

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value or multiples thereof. Quotations on "small bonds" often differ from those of larger denominations of the same issue, according to supply and demand.

Any bond of a lesser denomination than $1,000 is called a "small bond."

Special Assessment Bonds. Bonds for which a special district, or section, of a city (or county) is taxed to meet interest and principal; the city as a whole not being held for their payment, the idea being that the section improved by the expenditure of the proceeds of the bond sale should be responsible for the payment of the bonds. (Read "Street Improvement Bonds," all of which applies here.) It is better for the novice in investment matters to avoid these bonds altogether.

Stamped Security. Any stock, bond, or other security, which, since its original time of issue, has been stamped showing some new condition or privilege by which it is bound, or to which it is entitled.

Standard of Weight and Fineness. The proportion by weight of pure metal in coins to the alloy is the "fineness." In the United States, it is 900 parts by weight to 100 parts of alloy, in both gold and silver. The weight of a gold dollar is 25.8 grains and a silver dollar 412.5 grains. The "present standard of weight and fineness" in this country, therefore, provides for gold and silver dollars as above.

State Bonds. An obligation in the form of a bond issued by a State, the payment of which must be accomplished through the collection of taxes assessed upon the taxable property embraced within its corporate limits.

Some State issues have valuable assets in the shape of income-producing properties, which

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contribute towards the payment of the principal and interest of its obligations; such, for instance, are the large profitable State-owned wharves and docks in San Francisco.

Again, an indebtedness of this nature may be incurred for some improvement more or less local in its nature, the particular section benefited being primarily responsible for the liquidation of the debt, for which, nevertheless, the State has obligated itself for payment. An example being bonds issued by the Commonwealth of Massachusetts for the benefit of the Metropolitan Water District.

The interest return from most of our State securities is not large, and, consequently, their purchase is more or less limited to institutions such as insurance companies and savings banks, or to trustees of estates, or to those seeking a particularly conservative form of investment, and who can afford the low rate of interest.

The past record of " State bonds " has not been a very happy one. Many of the issues have entailed great losses upon the holders. These debts, however, were incurred under different conditions than at present existing, and there is not to-day any reason to believe that any of our State issues of recent date are anything but safe holdings.

The fact that States cannot be sued by an individual is a point which has always deterred some investors from placing money in securities of that kind.

Steamship Company Bonds. The average investor has not had the opportunity to familiarise himself with this class of investments, owing to the somewhat infrequency of these issues appearing upon the market. One very notable example is that of the International Mercantile Marine Co.

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To safeguard an issue of bonds on vessel property, it is better that the ships should be comparatively new; otherwise a careful appraisement of their value should be obtained, and, in any event, if the mortgage is to cover the vessels only, without other property or guaranty, the bonded debt should not much exceed 50% of the valuation. Owing to the rapid depreciation of steamships, the mortgage should provide for some method of reducing the debt — either by a well-protected sinking fund or direct redemption of the bonds — at a rate of, say, one tenth of the total issue annually, beginning one or two years from its date. The trustee of the mortgage should be required to cause the property at all times, during the life of the bonds, to be properly insured in good companies, against all risks on vessel property ordinarily covered by such insurance, to the full insurable value of the ships; such insurance to be made with loss payable to the trustee, and the policies deposited with it. It should further provide that any money received by the trustee on account of destruction of the property mortgaged should either be used to replace the property destroyed, in proportion to the insured value of the same — the steamship company paying the difference — or if not so used or arranged to be used, at the end of a given time — say six months — to be divided in some equitable way among the bondholders; perhaps added to the sinking fund, if any.

It is a point in favour of "steamship company bonds" that the steamship line is not usually confined to any given territory or section. If a certain line of sailing or business proves unprofitable, the boats may be changed to another line of ports, or another class of business, or nearly always be sold at a fair valuation. You cannot economically remove railway, manu-

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facturing, or other similar properties from one section of the country to another, if they prove unprofitable where located, whereas, of course, the sailing of a line of boats may, usually, be changed at will.

Sterling Bond. Bonds, or other forms of indebtedness, payable in English money; *i. e.* pounds sterling.

Stock Exchange Collateral. (Read "Collateral.") Collateral security which is dealt in upon the particular stock exchange to which reference is had, as, for instance, any New York Stock Exchange collateral would mean securities dealt in upon the stock exchange of that city.

Stock Savings Banks. Explained under "Mutual Savings Banks."

Straight City Bond. The bondman's term for an issue for which the faith and credit of an entire city is pledged, as distinguished from "special assessment bonds," to which subject the reader is referred.

Street Improvement Bonds. As a rule, bonds of this class are paid by a special tax levy upon the property abutting upon the street or in the special district improved; the entire city not being responsible for their payment. The tendency of the Eastern States is to disallow such bonds as proper investments for savings banks, and it is good judgment for the investor to be guided likewise. In some States, the city is responsible for the payment in case of failure on the part of the improved section to meet the obligation, and, when so, the bonds are said to be the "direct obligation" of the municipality. Under such conditions the objections above raised disappear.

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Street Railway Securities. See "Electric Railway Securities."

Sub-Company. See "Subsidiary Company."

Subject to Call. See "Called Bonds."

Subject to Prior Sale. Same as "Subject to Sale."

Subject to Redemption. See "Called Bonds."

Subject to Sale. In order to protect himself, the banker usually offers securities "subject to sale." For example: Morgan & Co. offer Maria Jones $10,000 worth (all they have for sale at the time) of Baltimore & Ohio R. R. Co. bonds. In the meantime, before they hear from Maria Jones, they may have an order from another party, and, therefore, make the sale. The next day they receive a letter from Maria Jones ordering the bonds; they notify her that they have already been sold. If they had not made the offering to her upon the condition of "subject to sale" or "in case of previous sale," they might be obliged to deliver the bonds to Maria Jones; but, with the conditions of previous sale inserted, she has no valid claim against them. It will be seen that this method is necessary, because securities offered by bankers are liable to be sold at any moment, and, of course, they cannot lose opportunities to sell as they come along.

In telegraphing, cabling, etc., the word "subject" is often used, and has the same meaning as "subject to sale," or may mean, in the case of a bid, that the bid is made conditional upon the bidder not being able to buy elsewhere in the meantime.

Subscription Blank. A printed form, which often accompanies a prospectus or circular, whereby the intending investor may execute an agreement to purchase the security, or securities, named, but which blank provides for certain

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conditions regarding payment and delivery, with which the signer must comply.

Subsidiary Company. A company belonging to, or under the management of, another corporation. The various railway companies whose stocks are owned and controlled by the Boston & Maine R. R. Company, in such a manner that the corporate organization of such companies is still maintained, are known as its "subsidiary companies" or, to be more brief, "sub-companies."

Subsidy. It is the custom of many Governments to give financial assistance to public enterprises — railroads, steamships, and the like — especially at their inception, as without such help the proposition might not be attractive to promoters, and a matter of public need not developed. To encourage building railroads into unsettled regions, and pioneering work of that kind, the Government grants a "subsidy" — gives to — of so many thousands of dollars per mile of completed road, for example, and, with this assistance, the railroad goes on to completion. "Subsidies" vary greatly in their character and conditions. Some railway companies have been granted, in this country, large tracts of public land along their rights of way, which afterwards become valuable, as the country developed. Steamship companies are often allowed a very large annual sum for carrying the mails. In Canada and Mexico, many direct grants of money have been made; and so on. The selling of "railroad aid bonds" — to which refer — on the part of cities and counties is a means to this same end.

The investor is, from time to time, encouraged to buy securities of a company by the fact of a "Government subsidy" having been allowed it. This may be a very important factor, and enough

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so to make an otherwise insecure investment a good one.

Surety. A guaranty or security against loss, or for the carrying out of some agreed promise or act. A person (or company) who so guarantees another acts as "surety," and any paper or bond given as evidence of the fact bears the same title. A surety company is one, which, for proper compensation, acts as "surety."

Surety Company. See last subject.

Surplus. That proportion of the earnings of a business after paying all expenses for operating and making all provisions for interest on bonded indebtedness, dividends, insurance, taxes, rentals, etc., and is the amount of profits which can be carried forward into the next business period. When this amount of "surplus" is added to a similar previous accumulation, it is referred to as "total surplus."

The "surplus" of a corporation may be far greater than the capital. A good illustration is the case of the Chemical National Bank of New York, which, on Nov. 12, 1906, had a surplus of $7,200,000, and a capital of only $300,000.

Syndicate. A group of men, bankers, or any combination of the same, who combine their mutual interests for the purchase or control of certain properties or securities. The members of the syndicate are generally bound by what is called a "syndicate agreement;" in other words, a written instrument to carry out the terms of the agreement, signed by the parties. (See also "Underwriting.") Some person, firm bank, or trust company is usually selected as a "syndicate manager," whose duty it is to see that the terms of the "syndicate agreement" are fulfilled by all parties to it.

Before signing a "syndicate agreement," it is

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desirable to note carefully its provisions, it being especially important that it should not become operative until a sufficient amount of the issue in question has been subscribed to ensure its success.

Syndicate Agreement. See "Syndicate."

S. & M. September and March; interest payments semi-annually, beginning with September.

T

Take Up. A very common term used to denote that the purchaser of bonds, stocks, or whatever it may be, has paid for and obtained delivery of the same; *i. e.* "taken up;" got rightful possession of.

Tax Relief Bond. Bonds issued in anticipation of payment of taxes; that is, a municipality needs money for some purpose immediately, the expenses of which would ordinarily be taken care of by taxation, the taxes, however, are being paid slowly and not coming in fast enough to furnish funds for the purpose needed. Consequently, bonds are issued having a short time to run, but more frequently short time notes are sold for this purpose.

Telephone Securities. Bonds, stocks, and notes of the American Telephone & Telegraph Company and its licensee companies. For the sake of brevity, we will refer to the former as the parent company and the latter as the operating companies. The impression prevails that an extensive amount of securities is being issued, from time to time, by the parent company but. if the following facts are taken into consideration, it may not seem so excessive. A large percentage of the telephone business is under the control of the parent company through owner-

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ship of stock in the operating companies. The securities of the former are issued to pay its proportion (51% or more) of new stock as issued by the latter. Instead of this 51% being put upon the market, in each case, as the stock of different operating companies, it is represented by an issue of securities bearing one name, as it were. Of course the telephone investment is small compared to that of the railroads, but imagine, by way of illustration, that one parent railway company issued a uniform bond to pay for its subscription to a controlling interest in all the new stock issues of a large part of the operating railways of the country. The idea would prevail that there was an enormous over-issue. The bonds of the American Telephone & Telegraph Co. are virtually a stock issue without voting power on account of having for security the stocks of the operating companies. The soundness of these bonds as an investment rests largely upon the success of the telephone business of the country as a whole, and the success or non-success of one, or even a few, of the operating companies, stocks of which are behind the parent company's issues, are not to affect the payment of the interest or principal of the same.

One point deserves serious treatment, and much literature has resulted from its consideration, viz., the large amounts of money which seem to be required, from time to time, for the development and the equipment of the telephone business. Yet, such a demand for money must be the result of the enormous increase in the telephone industry itself. The rapid increase in the number of telephones in use during prosperous times is something enormous. There seems little expectation of an end of this in a growing country like ours so long as such times continue. How many telephones will be returned, and how great will be the falling off of

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users in bad times, is difficult to predict, but such times of depression will affect, to a greater or lesser degree, most classes of business, and it would seem that there is as much reason to anticipate unsettled conditions in relation to industries in general as to the telephone. The latter is becoming daily more and more a necessity of modern business and social life.

The ability of the parent company to maintain its present rate of dividends upon its capital stock is a question beyond discussion here.

The stocks and bonds of the operating companies as investments depend entirely upon their locality and the existence of competition. They have proved very satisfactory so far, and there seems to be no reason why, as a class, they will not continue to be. The investor, in each case, should select with care, as he would the securities of any other corporation.

The independent telephone companies have been very largely situated in the West, but are now becoming more generally distributed through the country, and have been a fruitful source of competition to the operating companies above mentioned. This competition has not resulted very seriously to the American Telephone & Telegraph Co. itself, on account of its large earnings as a whole. It could afford to operate a licensee company at a loss, here and there, in order to meet competition. This has, however, been somewhat hard on the company so operated. Many franchises granted in the Middle West to independent companies have been conditioned upon these companies not selling out to the American Telephone & Telegraph Co., or any of its licensee companies. Many of the independent companies have been successful and the number of exchanges is astonishing.

In newer sections of the United States, these companies have naturally met with greater

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success than in New England. This is partly due to the nature of the latter people not to change so rapidly to a new thing — from one company to another — partly, also, to the loyalty of the people to the old "Bell," and its many shareholders, both in the old and successor company. Local prejudice has also, in many instances, aided the independent companies.

The securities of the "Independents" are being quite extensively handled in some parts of the country. There must be many investors ready to take them, and, as a class, they may prove satisfactory. Very likely there is plenty of room in these progressive growing States for both the rival systems. Let us hope so. But give due thought to the fact that the independent companies, on the one side, are a lot of disunited corporations, with many different managements; on the other hand, the centralized management of the "licensee companies" through their parent company must give the Bell system a certain advantage.

One word more. It is, the writer believes, a noteworthy fact that, even in periods of widespread business depression, there has been a comparatively slight falling off of earnings in the telephone business. Naturally, there is more or less economizing in this direction, but it must be borne in mind that many of the telephones are in on yearly contracts, and subscribers, in any event, are likely to order out their instruments as one of the last means of economy.

Temporary Certificates. Same as "Temporary Receipts."

Temporary Receipts. Corporations issuing bonds or other securities may wish to obtain money from the sale of the same before the actual securities are ready for delivery. "Temporary receipts," so called, are frequently issued

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at such times to the purchasers, to be exchanged later for the securities themselves.

Ten-Twenties. Bonds due in twenty years, but subject to redemption after ten years from date of issue, at the pleasure of the issuer.

Terminal Company Bonds. Proper terminals — that is, passenger and freight stations, yard room and trackage — especially in the larger cities, has become a matter of vast importance to railway companies. In many instances, the very inability on the part of a railway to secure proper terminal facilities has prevented its entrance into a city. Frequently railroads are unable, on account of conditions in previous mortgages outstanding upon their property, to create an additional indebtedness to pay for terminal properties; or, again, several railways wish to share the same terminal facilities. For either of the above, or possibly for other reasons, a "terminal company" may be formed, upon which distinct issues of securities are created, the proper contracts being executed with the railroad or railroads using the same, to provide for all charges for maintenance, interest, etc. It is quite customary for the railroad or railroads to guarantee a bond issue of such a "terminal company."

Bonds of the above nature are generally considered very safe investments, as is evidenced in Massachusetts by the fact that the bonds covering what is known as the South Terminal Station, in Boston, have been made a legal investment for savings banks in that State.

An investor contemplating the purchase of a terminal bond must consider several things:

First, the strategic position occupied by the terminal itself; that is, whether or not satisfactory terminal facilities for the companies using the same could be found elsewhere.

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Second, the standing of the road or roads using the terminal and their earning capacity above interest upon their own bonded indebtedness, whether or no in good times or bad the excess of earnings will be sufficient to meet the terminal contracts.

Third, the character of the contracts drawn between the "terminal company" and the railway company or companies, whether or not such contract or contracts properly safeguard the interest payments during the full life of the bond and provide for the payment of the principal when it matures, unless the real estate value of the terminal property is so much greater than the bonded indebtedness that the payment of the principal need not be considered.

In brief, terminal bonds upon properties difficult to duplicate and in important railroad centres or shipping points should be good investments if proper care is taken to look into the securities along the lines suggested above.

Third Consolidated Mortgage. A very uncommon issue, but a reading of "Second Consolidated Mortgage" will naturally make this subject understood.

Third Mortgage. A mortgage placed upon property which already has two other mortgages existing upon it: for instance, a certain piece of real estate, supposed to be worth $15,000, has against it a first mortgage for $5,000 and a second mortgage for $3,000. The owner wishes to borrow $2,000 more, and finds some one who is willing to accept a "third mortgage," upon the same, for that amount, making the total mortgage indebtedness against the property $10,000. Imagine that the owner of the property is unable to pay the interest upon the "third mortgage;" in order for the holder of this mortgage to protect himself, he must foreclose

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the property under his own mortgage and pay the holders of the other two mortgages their due.

In taking a "third mortgage," one should have reason to believe that the property will, at any time during the life of his mortgage, bring at "forced sale" a price sufficient to pay off all three mortgages, because the first and second mortgages must be satisfied in full before the "third mortgage" holder receives anything.

Third Mortgage Bond. A bond secured by a mortgage upon a property which already has two other mortgages existing upon it and which mortgages would have prior claims upon the property and its earnings. (See "Third Mortgage.")

Three Sixty-Fives. Bonds bearing interest at the rate of 3.65% per annum. This peculiar rate results from the fact that it is the equivalent of one cent per day on each $100 invested. A good illustration is the District of Columbia, which has borrowed quite largely by the issuing of bonds bearing this rate.

Time Collateral Paper. See "Collateral."

Time Loan. A form of borrowing where the agreement between the borrower and the lender sets a definite time at which the loan shall be paid, and by which the right does not exist on the part of either for earlier payment than the date specified in the note.

Time Money. Loans for a definite time as opposed to "call" or "demand" loans; loans which neither the lender nor borrower has the right to demand or make payment of before the time specified in the note.

Time Paper. Notes, drafts, etc., payable at certain future dates. See "Time Loan."

Ton Mile. The movement of one ton of freight one mile. It is taken as the unit of cost and

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service in freight transportation. Transportation service consists of two factors, weight and distance. The weight alone is no indication of the amount of a railroad's business; that is to say, a railroad carrying a larger number of tons than another might actually be doing less business, because the number of tons carried was for a less distance.

The product of tons and miles is used by railroads to compare business done with that of other roads, or with their own business in other years.

Ton Mile Cost. The cost of carrying one ton of freight one mile. This cost cannot be accurately ascertained. It is merely a rough approximation used by railroads for comparative statistical purposes.

Traction Bonds. Issues of securities by street railway companies of all kinds, whether operating elevated roads, surface lines, or subways. It is to distinguish these securities from railroad companies, as commonly understood, that the word "traction" is used. (See "Electric Railway Securities.")

Traffic Density. May be either "freight density," or "passenger density." (See those subjects.)

Train Mile. The movement of a train one mile. It is taken as the unit of movement of trains between terminals.

Transit Bonds. Very much the same as "traction securities" (see "Traction Bonds"), but in common use being applied more to the large street railway corporations of greater New York, such as the Brooklyn Rapid Transit Co., etc.

Transmission Company Securities. See "Power Company Bonds."

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Treasury Stock. Stock which a corporation has the right, under certain conditions, to issue, but which, pending the fulfilling of the conditions or the desire on the part of a corporation to issue the same in compliance with conditions, is held in the treasury of the company as "treasury stock;" stock authorized but not yet issued.

Trolley Securities. See "Electric Railway Securities."

Trust Company Receipts. When a corporation is undergoing re-organization, or when, for any purpose, the deposit of outstanding securities is asked for, a trust company may act as custodian for the same, and issue its receipts which may be traded in upon the stock exchange, or used in the form of any other negotiable instrument, as, for all practical purposes, they represent the original securities.

Trust Deed. The written or printed instrument which conveys the title of property to some party to be held in trust for others; the instrument which provides for the duties of a trustee of a mortgage, and sets forth the rights of the borrower and the lender.

The law finds other uses for "trust deed" than the above, but in investment matters the definition here is what is understood.

Trustee. Used most commonly in reference to an individual, banking house, bank, trust company, etc., acting as "trustee" of a mortgage. When a corporation desires to borrow money by the issuing of bonds there must be some party to act in the common interest of both the lender and the borrower. Trust companies are becoming the most common class of "trustees," and buyers of bonds, nowadays, prefer to have some such institution act as "trustee" of the mortgage securing an issue. The majority of trust com-

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panies investigate quite carefully all legal documents in relation to the bonds to be issued; that is, they often investigate the legality of the franchises; ascertain that the mortgage covers the property which it purports to mortgage, and is properly drawn; and that all other legal requirements are duly complied with. But too much dependence must not be put upon this being done as making an investment safe. It is not the province of a "trustee" to pass upon the intrinsic merit. They then certify the regularity of the issue and each bond bears the trust company's certificate in some form, which indicates that the bond has been issued under its authority acting as "trustee."

Should a default in either interest or principal occur, or the promises of the corporation borrowing money not be fulfilled, then, under certain conditions, it is the "trustee's" duty to enforce these promises or take possession of the property and act for the benefit of the bondholders, in accordance with the terms of the trust deed.

One who has the legal custody of money or property (holds it in trust) for others is a "trustee."

U

Unassented. "Unassented" securities are those the owners of which have not agreed to some change in their status.

Underlie. "Underlying mortgage." This is almost self-explained by the literal dictionary definition of the word "underlie." An "underlying mortgage" takes precedence over some other mortgage covering the same property. It may be a first mortgage, and is usually so considered, but all mortgages on a property which have precedence over any other mortgage "underlie" the latter.

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Underlying Mortgage. See "Underlie."

Underwriter. See "Underwriting."

Underwriters' Agreement. An agreement by which members of an "underwriting syndicate" are bound. (See "Underwriting" and "Syndicate.")

Underwriting. A method of guaranteeing the sale of an issue of securities. Let us take this to illustrate:

A banking house proposes to offer at public sale bonds amounting in par value to $100,000,000. An "underwriting syndicate" is formed composed of certain individuals, firms or corporations — with some one among them selected as the "syndicate manager" — who agree that when the public offering of these bonds is made, that portion which is not sold, they — the "underwriters" — will buy at 95c. on the dollar; that is, the "underwriting syndicate" guarantees the sale of the bonds at 95. On all bonds which are sold, therefore, they make 5%, and, if the entire $100,000,000 are disposed of, the "underwriting syndicate" will make a profit of $5,000,000. In case part or none of the bonds are sold, then the "underwriting syndicate" must take such portion as is not sold, at the rate of 95. Of course an "underwriter" joins such a syndicate with the expectation that all the bonds will be sold, and that he will not be called upon to take any himself. The banker forming the syndicate protects himself by providing for the sale of the issue whether the public takes it or not; that is, he insures himself against a sudden unfavourable change in the market, and, for such insurance, is willing to give a proportion of his own profit, which is the "underwriter's" share.

These syndicates are sometimes formed so that each member takes and pays for his proportion of the securities in advance of the public

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sale, so that as the securities are sold he delivers his proportion, and, if all are sold, he profits accordingly; if not, he is left with his share to do with as he sees fit, but sometimes under conditions regulated in the "underwriters' agreement" (see that subject; also "Syndicate").

Underwriting Syndicate. See "Underwriting."

Undivided Profits. Earnings or profits which have not been divided among the partners in a firm or the stockholders in a corporation. The difference between "surplus" and "undivided profits" is merely a bookkeeping one; the latter account on the books of any business, if it does not seem probable that these profits will in the near future be divided, may all, or in part, be transferred to a "surplus account."

Unfunded. Indebtedness not funded; "floating debt."

Unification. At the time when the president of the New York Central & Hudson River R. R. Co. took the presidency of the "Big Four R. R.," so-called, and the Michigan Central R. R., both of which companies had previously been in control of the New York Central, the newspapers reported that the latter had "unified" its interests, meaning that by the presidency of the different roads being in the hands of one man there would be a more uniform system of management.

Of course, the meaning is to simplify, make alike. Sometimes a mortgage on a corporate property is called a "unified mortgage," meaning that where there had been several mortgages outstanding before, and of different kinds, that these various mortgages had been, or would be paid off, and one common mortgage issued to take their places, called a "unified mortgage." "Consolidated Mortgage" has the same meaning.

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Unified (or Unified Mortgage). See "Unification."

United States Bonds. See "Government Bonds."

United States Government Bonds. See "Government Bonds."

Upset Price. A fixed price less than which a security, property, or whatever it may be, will not be sold. For example: During the Cleveland administration, at the time when there was an issue of Government bonds offered for sale, a price was set less than which no bid would be received; it was permissible to bid as much above the fixed price as the bidder saw fit, but it would avail him nothing to bid at a less price than the "upset price," so-called.

V

Valuation. See "Assessed Valuation."

Value Received. The giving an equivalent in value to the obligation. Formerly there was considerable controversy whether or not, in a bill of exchange or promissory note, it was essential to its validity that "value received" should be expressed, and there were old cases which decided in the affirmative. In most States this is not the law at the present time, it being well settled today that the words are not necessary, for "value" is implied in every bill, note, acceptance, and indorsement. There is an exception in the case of Missouri, however, where the words "value received" are essential to the negotiability of a promissory note. In Pennsylvania, it has long been customary to use the words "without defalcation" in the place of "value received," but the words are non-essential.

The statutes of the State of Michigan declare

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that: "Every negotiable instrument is deemed prima facie to have been issued for valuable consideration; and every person whose signature appears thereon to have become a party thereto for value."[1]

Voting Trust. It is often desirable to place the voting control of the stock of a corporation in the hands of certain persons for a definite time. A "voting trust" is formed, the stockholders agreeing to delegate the voting power of their stock to certain named persons, called "voting trustees."

"These forms of control, as vested in a board of trustees, represent, not ownership of stock, but merely a unified voting power during a specified term of years."

Any dividends declared in the meantime go to the owners of the stock, or, more particularly, to the owners of the "Voting Trust Certificates." (See next subject.)

Voting Trust Certificates. (See "Voting Trust.") When a "voting trust" is formed, it may be so arranged that each stockholder deposits his stock certificate with the "voting trustees," the latter issuing a negotiable receipt for the same called a "voting trust certificate."

W

Warrant. State, county, city, or town. An order given by some authorized official of a municipality upon its treasurer, for payment to some person for services rendered, and which this person presents to the treasurer, who, for lack of funds on hand, is unable to meet it. The process is to take the order, or "warrant," as it is very familiarly called, and stamp on the

[1] Act 265, P. A. 1905.

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back of it: "Presented, but not paid from lack of funds. This warrant bears interest from this date until paid at the rate of —— %." Below this is affixed the treasurer's signature. He enters the description of this "warrant" in a book, and the stamping upon the back of the "warrant" is called the "date of registration." This "warrant," if made payable "to bearer," is negotiable, the same as any piece of money; if it is made payable "to order," it becomes negotiable only by indorsement, the same as a check. If the owner of the "warrant," after it has been stamped by the treasurer, prefers not to hold it as an investment, he will probably sell it to some local bank at some price less than its face value, and the bank, in turn, will hold it, or sell it to some investor, to be held until called for redemption. It is customary for a municipality which has "warrants" outstanding to call them for payment, from time to time, as money accumulates for that purpose, and a "call" is inserted in some local paper for "warrants" of certain numbers to be presented for payment, and a certain date is named upon which interest will cease. An investor in "warrants" must provide for some way to be notified of a "call" covering his "warrants," otherwise he may lose interest.

Also used at times in the same sense as "interim certificates," to which refer.

Warranty Deed. See "Deed."

Water Bonds. Of all the different purposes for which a municipality may borrow money, it is conceded that bonds issued for supplying the inhabitants with water are the most desirable for investment purposes. No public improvement is more necessary, besides which, the water plant is not only usually self-sustaining, but, frequently, earns enough to pay

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the interest on the "water bonds," and often something in addition.

Water Company Bonds. These must not be confused with municipal "water bonds," which are the obligation of the town or city issuing them. "Water company bonds" are the obligation of an incorporated company and secured by a mortgage on its property. Whether these are desirable or not depends upon such things as management, location, permanency of supply, amount of business, etc. The franchise should mature at a later date than the bonds; the net earnings should be, roughly, twice the interest charges; there should be a sinking fund large enough to retire, say, at the rate of one-half of the issue in forty years — this is a very movable quantity, though. And, lastly, a satisfactory contract with the municipality during the life of the bond issue itself, for supplying water for hydrant and other purposes, should exist. This contract should not be at rates so high as to be likely to encourage dissatisfaction and a desire to install other and competing plants, or to buy out the one already doing the business.

Where charters have included conditions which stipulate that the water supply shall be pure, trouble has sometimes resulted. This has occurred in cases where the municipalities have desired to purchase the water company property, a fight being waged upon the agreement for the supplying of pure water not being complied with.

Water-Power Company Bonds. See "Power Company Bonds."

When and as Issued. Sales of securities made prior to their being issued — especially when some doubt exists as to when and how they will be

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issued — are traded in with the condition attached " when and as issued."

When, as, and if Issued. The same as the preceding, with the additional condition of " if issued."

The first trading in this country in securities at the time unissued occurred in connection with a sale of United States 4% bonds in 1895.

When Issued. A sale made of a new security conditional upon an uncertain date as to its issuance. (See last two subjects.)

With Interest. See " Accrued Interest."

Without Interest. See " Flat," meaning the same.

Working Capital. The money which is actually needed and used in the conduct of a business.

Working Expenses. This is another term for " Operating Expenses."

Y

Yield. See " Net Return upon the Investment."

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