

INVESTMENT
AN EXACT SCIENCE

BY

HENRY LOWENFELD.
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CONTENTS.

	PAGE.
THE OBJECT OF THIS BOOK	v.
CHAPTER.	
I. ON INVESTMENT RISKS	1
II. WHAT INFLUENCES THE REALISABLE VALUE OF STOCKS?	18
III. THE GEOGRAPHICAL DISTRIBUTION OF CAPITAL	45
IV. WHY GEOGRAPHICAL DISTRIBUTION PRO- TECTS BOTH CAPITAL AND INCOME ...	59
V. THE PRACTICAL CONSTRUCTION OF INVEST- MENT SCHEMES	72
VI. THE TREATMENT OF EXISTING INVEST- MENT LISTS	99
VII. THE WORLD'S STOCK MARKETS	110
VIII. THE DEFECTS OF THE BRITISH TRUSTEE ACTS	129
APPENDIX. WORLD-TRADE AND THE GEOGRAPHICAL DISTRIBUTION OF CAPITAL. Reprint of <i>Popular Financial Booklet XXI.</i>	136

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THE OBJECT OF THIS BOOK.

Upwards of a quarter of a century of actual work among investors and their investments has proved to us that the only means for insuring permanent investment success consists in the adoption of a true and systematic method of averaging investment risks. However carefully any single investment may be investigated prior to its purchase, and however desirable from every point of view it may seem at that time, yet its future progress always remains an uncertain and unascertainable quantity. The history of stock market fluctuations proves that there is no stock in existence, the future realisable value of which is ascertainable with certainty; hence it is impossible to eliminate the individual risks attending the purchase of any single investment.

This fundamental principle having been established, it naturally follows that the only method by which investment success can be made permanent is to insure against this uncertainty in the realisable value of any single

security. It has been theoretically and practically proved that by splitting up invested capital in *equal proportions* among a number of investments *similar in quality*, yet whose price movements are *all governed by different influences*, a combination of investments is obtained in which a fall in the realisable value of a portion of them is simultaneously counter-balanced by a rise in the realisable value of another portion of them, and that in this way a true balance of values is established.

This system of investment poise and counterpoise is known as the system of *Geographical Distribution of Capital*. Just as a carefully studied system of averages eliminates all taint of gambling from a sound system of insurance business, so a sound system of averages, based upon the Geographical Distribution of Capital, reduces to a minimum the taint of speculation from the act of investment. From their very nature, insurance and investment are both highly speculative transactions, which can only be raised to the dignity of solid business by a carefully constructed system of averages.

By means of this system of Geographical Distribution of Capital every investor, who has quite made up his mind what his real investment object is, can, from the very outset

of his career as a capitalist, arrange his stocks in such a manner that the results obtainable therefrom become almost a certainty; whilst investors who have hitherto failed to attain their investment objects can so rearrange their holdings that they are likely to be more successful in the future.

In this book are set out and explained the fundamental principles of the *Geographical Distribution of Capital*; whilst the general principles, which should guide every investor in the selection of his individual holdings, are discussed in its companion volume, "How to MANAGE CAPITAL."

Having once systematically arranged his Investment List, it becomes essential for the investor to follow up and examine the progress of his holdings. For this purpose we publish the "INVESTOR'S YEAR BOOK," as well as a monthly publication entitled the "FINANCIAL REVIEW OF REVIEWS." Lastly, we publish an Account Book, known as "HARLEY'S INVESTOR'S ACCOUNT BOOK," by which a clear record of an investor's financial transactions may easily be kept in accordance with the principles of Geographical Distribution.

All that is now necessary to enable an investor to command success in his investments

is that he shall put into practice the lessons to be learnt from these publications.

For the reason that Trustees and others interested in the investment of Trust Funds are, by various Acts of Parliament, limited in their selection of securities, we have published for their special guidance another book entitled *The Investment of Trust Funds*. This book explains how testators and other founders of trusts may draw suitable instruments of trust for the guidance of their trustees, and also how trustees, when called upon to act, may best employ the capital committed to their care, so that it may yield both the largest obtainable income and also exhibit that stability of realisable value which is the very essence of Trustee investment.

Our Company was founded twenty-seven years ago for the purpose of assisting investors in the management of their capital, and our publications owe their existence to the success which we have attained in accomplishing this object.

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CHAPTER I.

ON INVESTMENT RISKS.

INVESTMENT is the act of laying out money with a view to keeping it safely, and at the same time securing an income from it. Two distinct objects being aimed at by the act of investment, there are naturally also two separate and distinct risks attached to it, namely, the risk attendant upon Capital and the risk attendant upon Income.

All investments fluctuate in value, and there is hardly an investment in existence which may be relied upon with mathematical certainty to realise without any diminution the exact sum originally laid out in its purchase. There is, however, a large number of investments which may be absolutely relied upon as regular and uniform income-producers, so that the main difficulty of investment lies in keeping the original capital sum intact.

Not only is the safety of capital attended by the greater risks, but, in addition, it constitutes the cardinal question in the consideration of the safety of an investment; because, so long as capital remains intact, any diminu-

tion in income is reparable, whilst to attempt to maintain the original standard of income with a reduced capital sum is a difficult and frequently a hazardous proceeding.

In recent years it has been quite easy to construct a very safe investment list to yield $4\frac{1}{2}$ per cent. per annum on an average, but it has never been easy very greatly to increase this yield with due regard to capital safety. Now, suppose £10,000 had been invested to produce £450 per annum, and this income had dropped 20 per cent. to £360, but the capital value had remained intact. In the following example, taken from actual experience, this condition of affairs is very nearly approximated, thus:—

BOUGHT IN 1892.		Price.	Annual Income.
£2,000 Barry Railway Ordinary			
at 203. Div. $9\frac{1}{2}$ per cent.	...	£4,060	... £190
£2,500 Queensland 4 per cent. Stock			
at 103 ... ..	...	2,595	... 92
60 shares Union Bank of Australia			
at £57 a share. Div. £3 a share		3,420	... 180
		<u>£10,075</u>	<u>... £462</u>
VALUE IN 1897.		Price.	Annual Income
£2,000 Barry Railway Ordinary			
at 291. Div. 10 per cent.	...	£5,820	... £200
£2,500 Queensland 4 per cent Stock.			
at 113 ... ..	...	2,825	... 92
60 shares Union Bank of Australia			
at £29 a share. Div. $£1\frac{1}{4}$ per share		1,740	... 75
		<u>£10,385</u>	<u>... £367</u>

In such a case as the above the investor would simply sell his holding of stocks and re-invest again on the same easy and safe basis from which he started. His position would have remained unchanged, and his unimpaired £10,000 can nearly always be made to yield $4\frac{1}{2}$ per cent., or £450, with safety. In fact, investment lists, whose income yield is less than $4\frac{1}{2}$ per cent., can, save under exceptional conditions, always be brought up to a $4\frac{1}{2}$ per cent. basis without disturbing their capital safety; indeed, in many cases the capital safety can be increased.

But, supposing that both capital and income had dropped 20 per cent., and the realisable value of the stocks held had fallen to £8,000 and the income to £360, then the case would be serious indeed. To produce £450 per annum on £8,000 necessitates an investment which yields over $5\frac{1}{2}$ per cent., and to make up the capital to its original amount means dispensing with income entirely for a period of four years; both of which are unsatisfactory contingencies.

The position which we have here illustrated has recently arisen in the case of some of the finest British investments, as many of our readers are unfortunately aware by their own actual experience; we will therefore not

enlarge on it further, but we will confine ourselves to the question of the two classes of Investment Risk which may be defined as follows:—

1.—*Diminished Capital*.—This disaster cannot be repaired out of income except with great difficulty, and in any event such a calamity must result in impaired capital safety, if the original rate of income is to be maintained.

2.—*Diminished Income*.—This minor investment inconvenience can always be rapidly remedied if capital still retains, or has improved upon, its original value.

In other words, Capital is the tree, Income is the fruit. The welfare of the tree must always be the first consideration. Investors will do well to permanently fix the above axioms in their minds, and to be guided by them in all investment questions.

Having fully grasped the all-pervading importance of capital, our readers might now jump to the hasty conclusion that successful investment simply resolves itself into being contented with a very moderate income and investing in nothing but the finest securities. Unfortunately, however, the quality of the investments held is not sufficient in itself to ensure capital safety.

Amongst Stock Exchange securities the British Trustee stocks are rightly considered to be the soundest type of investment. In this book we deal with stocks and shares only, and therefore we here leave all other forms of investment out of consideration. In spite, however, of their individual merits, an investment made in Trustee stocks in 1896 and realised in 1903 would have produced a result similar to the following:—

BOUGHT IN 1896.				
£1,500	Birmingham Corporation $3\frac{1}{2}$ per cent.			
	stock at 131	...	...	£1,965
£1,300	London & North Western Railway			
	4 per cent. Preference at 160		...	2,080
£1,600	Southern Mahratta Railway $3\frac{1}{2}$ per			
	cent. Guaranteed at 129	...	...	2,064
				<u>£6,109</u>
VALUE IN 1903.				
£1,500	Birmingham Corporation $3\frac{1}{2}$ per cent.			
	stock at 104	...	...	£1,560
£1,300	London & North Western Railway			
	4 per cent. Preference at 125		...	1,625
£1,600	Southern Mahratta Railway $3\frac{1}{2}$ per			
	cent. Guaranteed at 104	...	...	1,664
				<u>£4,849</u>
	<i>Loss</i>	...	...	<u>£1,260</u>

We should explain that the prices quoted in the above tables do not represent the full extremes of fluctuation during the period under review. Had we attempted to stretch

our illustration to its full possibility, we could have shown even a more calamitous loss than £1,260 upon £6,109, the original capital sum invested. So that, without in any way straining our illustration, we are able to depict a loss of rather more than 20 per cent. upon three Trustee stocks, each of which seemingly represents interests widely differing from those influencing the other two.

Now, if so deplorable a result as this is produced by the purchase of three stocks which are supposed to represent all that is most solid in English finance, it would seem that there is just as much fluctuation in a stock with a gilt edge as in a sound stock not so adorned. Briefly, the tabular results displayed above conclusively prove that capital safety is not arrived at by merely forming a combined Investment List of stocks of unquestionable individual soundness. It therefore follows that in order to achieve stability of capital an Investment List must be endowed with some other characteristic in addition to the intrinsic merit of individual stocks, if the investor is to ensure capital safety.

But before we begin the discussion of this further requisite quality, let us first establish the simple rudimentary principles which must be the foundation of all successful investment.

To begin with, the danger is obvious of an investor confining his purchases to one stock. In such a case he would be staking his accumulated wealth on the fortunes of a single security, and on any serious depreciation overtaking the stock of his choice his loss would be considerable. Further, he would be reduced to the vexatious position of having no other practical course open to him than to wearily nurse his crippled investment in the vague hope of its ultimate recovery. *A prudent investor will therefore split his capital up among a variety of investments.* The number of investments which would best suit his case depends entirely upon the amount of capital of which he is possessed. Thus, with a capital of £1,000 to invest, three stocks might suffice, whilst with £5,000 capital, ten stocks would be requisite. Later on in this book we shall lay down a very definite scheme for the scientific sub-division of capitals of all sizes.

The idea of investing capital in a variety of stocks is to prevent any financial disaster adversely influencing more than a small portion of the total capital. Therefore, to select two or more stocks whose price fluctuations depend on the same influences would be to defeat the whole scheme of distributing capital. So that not only must capital be sub-divided among a

number of stocks, but care must also be taken to select for the purpose stocks which are susceptible to as widely divergent influences as possible.

So far we are afraid that we must appear to be rather gloomy counsellors with a tendency to harp upon disaster. But if an investor will only first safeguard himself against serious loss, the rest of his investment career presents no very great difficulties. There is, for instance, a bright side to the distribution of capital, because an investor would require to be exceptionally unfortunate if among the variety of securities which he held he did not possess some stocks which improved in capital value or in income-producing power, or in both. In fact, the whole system of splitting up capital, in the manner in which we advocate in this book, is based upon the selection of stocks in such a way that the resultant influence affecting them as a whole must tend to be a beneficial one. In other words, not only will the losses be counterbalanced by profits, but the profits will so outweigh the losses that the investor will steadily increase the realisable value of his Capital as time goes on; and with the increase of Capital Account we have already shown that an improved Income follows as a matter of course.

As a general rule investors distribute their capital in a haphazard sort of way. They will buy £100 worth of one kind of stock and £1,000 worth of another. This is fatal to a successful counterbalancing of profits and losses, for :—*Capital must not only be split up amongst various investments, but these divisions of capital must all be of equal original cost.*

The idea of distributing capital amongst a variety of investments is that the movement of one division of capital may counterbalance the movement of another division. Clearly, then, if this system of counterpoise is to prove of practical value, the weight of the several adjusting divisions of capital must be identical. For instance, suppose that £1,000 had been unequally invested in two stocks, their costs being £800 and £200 respectively, and let us further assume that the investor judiciously selected two stocks which represented two widely differing investment risks, and that one stock was adversely affected whilst the other improved in value. Now, if the stock which represented £800 of his capital fell five points and the other, in which he was only interested to the extent of £200, experienced a precisely similar rise, the investor would lose £40 over the first and, as a set off to this, he would only have made a

profit of £10 over the second. He would thus be £30 out of pocket over the joint transactions, and his capital distribution would have failed in its object. Whereas, if he had invested £500 in each stock, then the loss on the first stock would have been counterbalanced by the profit on the second, and his capital distribution would have proved its practical utility.

Of course, the point might be raised that supposing the respective movements of the two stocks had been exactly reversed, and the £800 investment had risen and the £200 investment had fallen, in such a case the very irregularity of the distribution would have contributed to an increase of profit. But this result of an unsound investment policy in no way disproves the fact that unsound investment policies invariably result in a final catastrophe. Unequal investment of this nature, where the result is left to chance, is nothing more than speculation. In fact, a purchase of securities as in the illustration given above is not an investment at all; as far as £600 of it is concerned, it is a speculative risk against which no provision has been made.

The main object of sound investment is to safeguard capital against loss, and this object can only be attained by a refusal to jeopardise

capital for the sake of a possible profit. The purpose of this book is to supply our readers with a sound system of investment and not to encourage them to risk their capital in speculation.

In the above example it will be noticed that the movements of the two stocks were of similar extent, that is to say, they both fluctuated five points, so that their width of fluctuation was identical. Now, when comparing the characteristics of different stocks, it is important to remember that stocks resemble or differ from one another in soundness, in dividend-productiveness, and in width of fluctuation. Their limits of fluctuation constitute a very material difference between stocks; and of two stocks, both subject to precisely the same market influence, one may rise or fall five points as the consequence of a given event, whilst the other may move only two points in response to the same influence.

The safety of Capital is obtained by dividing it (1) equally among a number of sound stocks (2) of identical quality, but (3) every stock held must be subject to an entirely different market and trade influence.

In selecting stocks of identical quality, the average annual fluctuations over a period of at least three years should be compared. It

often happens that a stock either gradually improves or deteriorates in stability in direct ratio with an improvement or a deterioration in its desirability as an investment; for example, the average annual fluctuation of Grand Trunk Railway Second Preference Stock in 1901, based on the preceding three years, was about 30 per cent.; whereas the average annual fluctuation at the present time, based on the last three years, is under 10 per cent. In such case the stock must be treated as if it were a new stock which has not yet found its proper market position, and, to minimise the element of chance, it should be avoided until the permanence of the average annual fluctuation of the stock, at its altered level, can be appreciated at its true limits.

Again, in selecting stocks that are subject to different market influences, it must be remembered that the chief market for any particular security is liable to transposition. By market influence we mean the influence created by the general investment conditions obtaining on the Stock Exchange in which the stock is mainly dealt in. Thus, a few years ago a number of the bond issues of American Railways were chiefly held in this country, and the principal market for them was accordingly the London Stock Exchange. But, owing to

the growth of American wealth, nearly all these securities are now held by the Americans themselves, so that Wall Street is now the chief market, and the influences affecting Wall Street will control the prices of American Railway Securities.

Bearing these factors in mind, the above rule embraces all the knowledge which is requisite to enable anyone to invest safely and profitably in stocks and shares, and if it is closely observed, in scarcely any event can capital be exposed to danger.

But the investor must clearly understand that the observance of any part of the rule will avail him nothing if he is unwise enough to disregard the remaining portion. The efficacy of the rule lies in the mutual support which its component parts lend to each other, and, finally, it is their combined sustaining power which preserves the equilibrium of capital.

In the early part of this chapter we gave an illustration of the result produced from an investment in three British Trustee stocks, viz.: Birmingham Corporation Stock, London and North Western Railway Company Debenture, and Southern Mahratta Railway Company Guaranteed Stock. We there saw depicted a loss of rather more than 20 per cent. on the original cost within a few years from the time

of purchase. In that case only two out of the three cardinal points, contained in the rule we have just set out, were followed. The capital was evenly divided over three first-class stocks; the prices of these stocks were identical in width of fluctuation; but they were all subject to the same market and trade influence; in other words, they were all subject to the general investment conditions obtaining on the London Stock Exchange as well as to the general trade conditions ruling in Great Britain; for all Trustee stocks are alike in this respect, that they are almost solely held in this country. This one defect was sufficient to nullify the rest of the precautions which the investor had taken.

In this case the loss was due to the disregard of the same essential to sound investment as is neglected in all investments which consist exclusively of British stocks. And this same defect is responsible for all the losses which are made in investments of this type.

Now, having detailed the dangers which assail capital, we will next consider the risks attendant upon the safety and regularity of income. Income is paid out of revenue. In the case of Government and Corporation stocks, revenue is derived from rates and taxes raised

by the borrower ; *but, in the case of stocks and shares of other types, revenue consists of the nett income earned during a given period.

The safety of revenue derived from rates and taxes is estimated from officially published statistics which are accessible to all. The earnings of companies are published in their annual balance-sheets, copies of which are also obtainable in most cases. In *How to Manage Capital* we explain how investors, by means of the statistical information, can appraise the income safety of every investment almost at a glance, and we will, for this reason, here simply state the main rules for estimating income probabilities :—

1.—Income is safe from Railway and Industrial Debentures and Preferences when the Company has a large surplus income remaining after satisfying these obligations. The safety of income derived from Government and Corporation Loans mainly depends on the political and financial honesty of the individual Government or Corporation, and must, therefore, be gauged by past records, taken in conjunction with the budget and revenue returns. If a Government or a Corporation has met all its obligations without failure or delay for a period of ten years immediately preceding

the date of investment the income may be regarded as safe.

2.—The safety of income derived from Ordinary stocks and shares depends upon the amount of surplus revenue remaining after satisfying all prior charges and paying a dividend on the Ordinary stock. Such surplus is either carried forward to the next dividend period or credited to the company's reserve fund.

But when calculating the dividend probabilities of Ordinary and Deferred Ordinary capital, which rank for dividend after satisfying all prior charges, it must be remembered that such calculations are exceedingly hazardous and partake somewhat of the nature of prophecy. Some companies after paying regular dividends for many years have had their career of prosperity brought to a sudden end through some trade dislocation, through some change in the national habits of life, through an increase in competition, or through some other event which it was impossible to foresee. Then, again, other companies after a period of barren years, during which they have not distributed any dividend among their shareholders, have suddenly opened up a new avenue of trade, and consequently have developed into regular dividend payers. But

even in the case of the most prosperous concerns, dividends on Ordinary and Deferred capital are so wholly dependent upon the good or bad business done by the company that dividends derived from capital issues of this sort are never quite free from a taint of speculation.

So that investors who desire to receive a safe and regular income must eschew Ordinary and Deferred stocks entirely, and also every type of prior charge which does not show a large surplus of revenue beyond its own individual dividend requirements. There is a large number of stocks and shares known on the London Stock Exchange which are so well secured from an income point of view as to practically preclude the possibility of any irregularity or reduction in dividend payments. It is to securities of this class that every investor, who aims at stability of income, should confine himself.

It is, of course, possible to average income risks by splitting up the capital to be invested amongst a number of securities paying large dividends and by setting aside a part of this large income annually to cover possible future contingencies. This plan is followed by many careful investors, who thus manage to make a large and fairly stable income.

CHAPTER II.

WHAT INFLUENCES THE REALISABLE VALUE OF STOCKS?

IN writing this chapter we have assumed that the reader is already acquainted with the various types of stocks which are in existence, and that he knows how they respectively rank for dividends and how they compare with one another in soundness and desirability. These points we have fully explained in *How to Manage Capital*, which is the companion volume to the present book, and we need not repeat the explanation here. In the previous chapter we showed that in the selection of a stock for investment the chief characteristics to be considered are:—

- 1.—The capital security which it affords.
- 2.—Its income-producing power.

These two questions have at all times received attention from all cautious investors, but their investigations have rarely extended beyond these two points. We now intend to explain the existence of a third influence, which is even more potent than the other

two, particularly in the case of gilt-edged and other low-yield stocks, in the control which it exercises over the realisable value of securities.

That a third influence of some sort does exist is easily capable of demonstration. Let us take an irredeemable Trustee Debenture of an English Railway paying a fixed rate of interest. Here we have an investment which is so fully secured as to capital and income that its value would be incapable of fluctuation if there were no third influence to consider. For example, the perpetual $4\frac{1}{2}$ per cent. Debenture of the London, Brighton & South Coast Railway.

This Debenture stock can never be paid off without the consent of the Debenture holders; no new capital charge can ever be created to rank in front of this Debenture. The Debenture is fully secured by mortgage upon a railway the total value of which is seven times larger than the total of this Debenture issue. The Debenture interest is at the fixed rate of $4\frac{1}{2}$ per cent., and the nett earnings of the line are sufficient to pay this annual interest nearly seven times over.

It is obvious, then, that both capital safety and income productiveness admit of no question in the case of this Debenture, which can

neither be materially influenced nor its value altered by the variations which occur in the annual earnings of the Brighton Railway Company. Were these two points then the only influences upon the price of the Debenture, its quotation must remain permanently unaltered year after year; whilst, as a matter of fact, £100 nominal of the London, Brighton & South Coast Railway $4\frac{1}{2}$ per cent. Perpetual Debenture possessed a realisable value of £180 in the year 1896, and yet in the year 1904 the same quantity of the same stock was worth no more than £134. Here, therefore, we have a practical example of an investment of a seemingly unalterable quality depreciating 46 points, or one quarter of its total value within the period of a few years.

Neither is this example in any way an isolated one, for we publish a chart in *The Investment of Trust Funds* showing how a number of precisely similar securities depreciated to a like extent during the same period. Not only does this chart show that the depreciation in these stocks was identical during a period of years, but it also exhibits with startling clearness that the movement of each stock in the group, during each year, was reflected by the movements of all the other stocks, and finally, of course, of the whole group.

There is abundant and conclusive evidence, therefore, that there was some third force at work altering the values of these apparently unalterable securities, and that this force is universal and equable in the influence which it exercises. We have already called this third force the "Market Influence"; that is to say, the influence which is prevalent on the Stock Exchange where the securities are either solely, or mainly, dealt in. In fact, the force of any market influence on any stock may be said to be in direct proportion to the extent in which the particular Stock Exchange controls the stock. Thus, on Consols, British Trustee Stocks generally, and on the majority of British Industrial Securities, the influence for the time being prevalent on the London Stock Exchange has full force; whereas on Argentine and other South American issues it plays a much smaller part, the influences prevailing on the Stock Exchanges of the issuing countries themselves, as well as those on the Paris, Berlin and New York Exchanges, bearing their proportionate share in this third force of the Market Influence. We will now trace shortly the chief factors that cause variation in the nature of this all-powerful influence which a large number of investors have hitherto not sufficiently appreciated.

The dominating force which controls the realisable value of all stocks and shares principally held in any one country is the spending and saving power of the people of that country. The extent of this spending and saving power, again, depends upon the state of trade of the country.

The reason for this is that whenever trade is good the earnings of the money-saving classes exceed their immediate wants; they therefore hoard their surplus earnings. Precisely as these surplus earnings increase with good trade, so do they dwindle during periods of trade depression. Thus the saving power of any nation entirely depends upon the productiveness of its trade. While trade continues to be active, a large portion of these surplus earnings finds its way back into trade, the effect of which is to further augment the gross earnings and thus again add to the savings; and so on the whole time of the trade boom. As soon as trade begins to slacken, and requires less capital to keep it going, these accumulated savings are set free and an investment outlet has to be found for them.

In addition to the savings of traders there are the savings of a large number of professional people. The amount of money which

this class is able to put by is influenced, to a predominating extent, by the state of trade of the country; for the members of this large class are only in a position to invest part of their earnings when the latter exceed their daily wants. To the great majority this is only the case when trade is good; hence they seek an outlet for their savings at a time when the public at large can afford to be considerable spenders.

Nowadays the greater part of every nation's savings is invested in stocks. It therefore follows that towards the close of a trade boom there arises a constant and increasing demand for stocks to serve as receptacles for the nation's savings, whilst when trade is depressed for any length of time this demand for investments first slackens, then entirely ceases, and is finally succeeded by a small trickle of realisation, which increases in volume until the next trade boom is well in hand.

In this way the floating supply of stock promptly satisfies any few chance buyers who may be about in bad times, and then the surplus supply hangs over the market and seriously depresses prices. The whole question simply resolves itself into one of supply and demand; so that stocks are steady in

normal times, in active demand with rising prices after a spell of good trade, and in excessive supply with drooping prices after a spell of bad trade.

The country's course of trade is, therefore, the dominant factor causing the variation in the nature of the Market Influence. But there are one or two minor factors (though they are intimately associated with the course of trade) which temporarily enlarge the outlet for the savings of the nation, and so compete with the demand for existing stocks; for the demand for loans may rise to such a point that it is more profitable to deposit with the Banks or lend to traders than to receive interest from stocks. Thus the demand for stocks is temporarily delayed. Furthermore, there may be a sudden increase in the supply of stocks, caused by trade expansion, over-production, wars, and other similar conditions. If such securities are issued to more than the normal extent, the supply of stocks becomes greater than the demand, so that in order to compete successfully with older securities new securities are offered below their comparative value, and the prices of the existing stocks are thereby depreciated.

We have now outlined the main factors which influence the ratio of investment

supply to demand in any one country. It will be seen that they are all factors which exercise an influence that equably affects all the stocks of any one country, yet which must, of necessity, differ in different countries. The resultant force of these various factors we have called the "Market Influence," of which the dominant factor is the course of trade of the country in which the chief market for the stock is situated.

So strong is this influence upon the realisable value of stocks that it is capable of entirely nullifying the effect which the individual improvement in a security would otherwise have had upon its current market price.

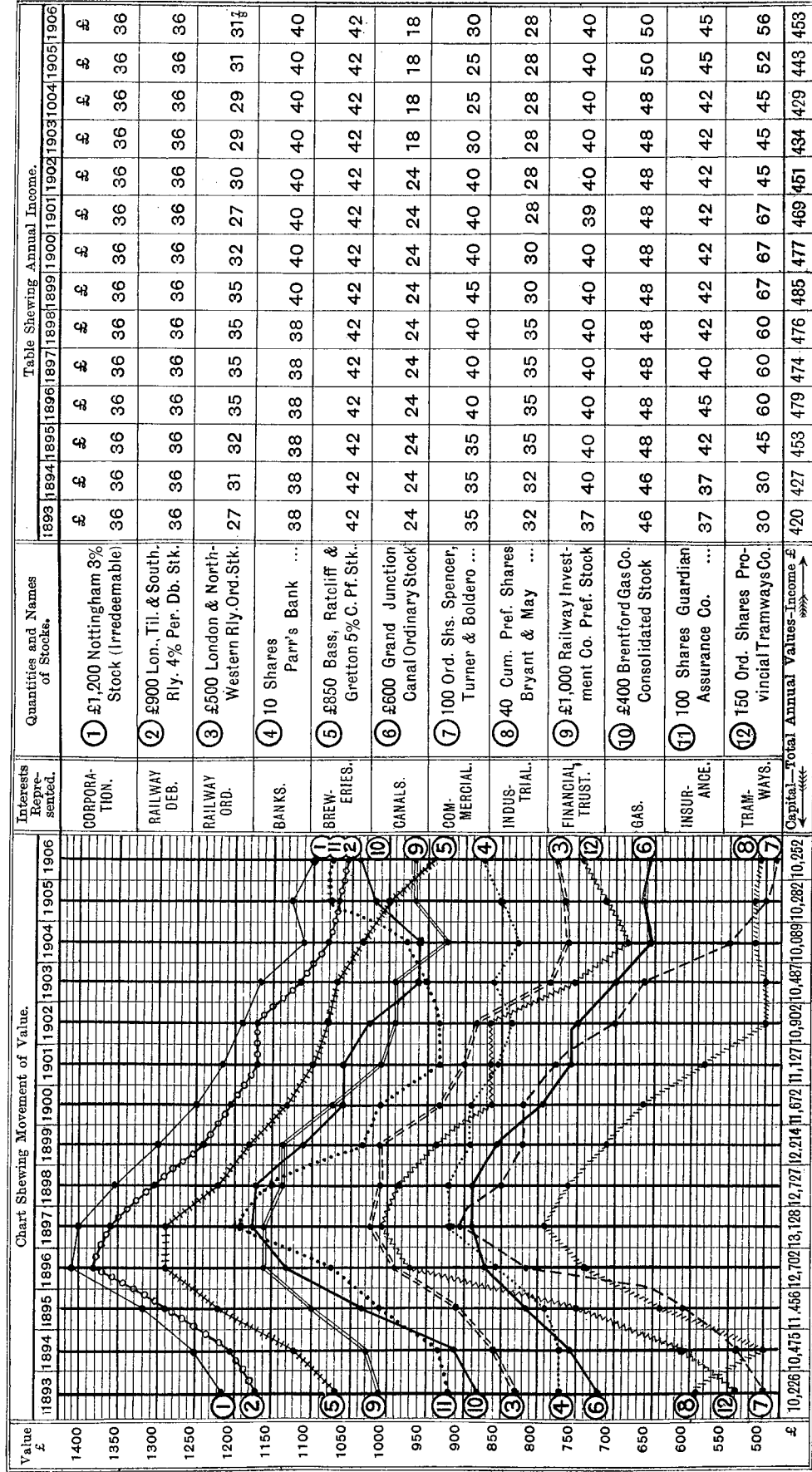
This fact is very strongly brought out in the case of the Taff Vale Railway Ordinary stock. In 1898 the average price of this stock was 79 and the dividend it paid was $1\frac{1}{8}$ per cent.; in the year 1901 the dividend had been increased to $3\frac{1}{4}$ per cent., but the stock had fallen to 71; again, by 1904, the dividend had further improved to $3\frac{7}{8}$ per cent., yet in this year the price of the stock touched 68. Briefly, as the Taff Vale Railway Ordinary dividend steadily increased, the price of the stock steadily diminished.

The reason of this seemingly contradictory movement was that the Taff Vale Railway Ordinary stock, being a British security whose market is entirely in this country, was more dependent for its price fluctuations on the trading and financial conditions of Great Britain, and their effect on the London Stock Exchange, than it was on its own merits. The price of Taff Vale stock did not therefore improve with its improving yield and its enhanced capital safety, but simply followed in the wake of the general investment conditions obtaining on the British Stock Exchanges.

This example is not an isolated one, and similar cases occur by no means infrequently. Thus, Lancashire & Yorkshire Railway Ordinary stock sold in 1904 as high as 111; early in 1907 its price was 101, yet the dividends paid on this stock were as follows: 1904, $3\frac{3}{8}$ per cent.; 1905, $3\frac{3}{4}$ per cent.; 1906, $4\frac{3}{8}$ per cent. Again, South Eastern Railway Preferred Ordinary stock received the following dividends: 1904, $4\frac{1}{2}$ per cent.; 1905, 5 per cent.; 1906, $5\frac{1}{2}$ per cent.; whilst in 1904 the stock sold at 135 and early in 1907 at 115. A large number of equally striking examples could be quoted.

So as to make it additionally clear that it is the Market Influence which mainly controls

TYPICAL PRICE MOVEMENT OF BRITISH SECURITIES.



the prices of all large and representative stocks, we append a chart showing the price-movements of twelve representative British stocks from the year 1893 down to the end of 1906, the last year for which completed annual figures are available at the time of writing.

In this chart the horizontal straight lines denote the £50 intervals in the price levels of stocks and the vertical straight lines mark off the yearly periods. The zigzag lines are a faithful pictorial presentment of the price-movements of the individual stocks.

In order to keep the zigzag price lines at reasonable intervals apart and within the limits of the chart, we have so arranged the quantities of the stocks that the range of prices commences at intervals between £500 and £1,200. It is, of course, obvious that the quantity of stock dealt with does not alter the relative movement of the lines. Beyond this, the chart has been left to tell its own story; and the reader who scans the names of the securities we have chosen before he addresses himself to the study of the respective price-movements, will admit that a more varied selection of stocks could not be found amongst all the British stocks habitually dealt in.

The reader can easily translate into figures the price-movements depicted on the chart, by means of the horizontal price lines. These annual average value figures have been added up, and their totals displayed at the foot of the chart. By this means the chart not only pictorially illustrates the various price-movements, but it also gives the several total annual values of all the stocks depicted, year by year, at their respective average prices.

The typical British stock, of course, is London & North Western Railway Ordinary. This starts at the price of 164—almost in the middle of the chart—gradually rises to 204 in the years 1896–1897, and then equally gradually declines, until it records 150½ as its lowest quotation in the year 1904. It will be noticed that the tendency of nearly all the stocks included in the chart is to slavishly follow the same direction as that marked out by North Western Railway Ordinary, both in their upward and their downward movements. Here and there in the chart an occasional short deviation occurs in a few of the zigzag price lines. These deviations are due to an exceptional individual increase or decrease in capital safety or dividend productiveness on the part of that particular stock. But it is curious to notice

how quickly these individual movements exhaust their force and how rapidly the deviating stock once more swings into line with the general movement which controls the whole chart.

For example, take the year 1904-1905. It is wonderful with what unanimity nearly all the stocks show an upward move in that year, following on the long monotony of falls in the preceding seven or eight years. The only substantial exceptions are Bass, Ratcliffe Preference, and Spencer, Turner & Boldero. If we consider these two stocks for a moment, we at once recognise the reason for their distinct price-movements. The former was subject to a special influence in the state of the legislative and temperance movement, which is putting all Brewery investments in Great Britain under a shadow. The reason for the movement in Spencer, Turner & Boldero is at once seen by a reference to the dividend table, wherein we discover that from 1903 to 1905 there is a drop of £15 in the dividend paid by that company.

In 1905-1906 there is a somewhat hesitating tendency; indeed, a very similar state of affairs exists to that indicated by the chart in the year 1896-1897, just prior to the continuous fall.

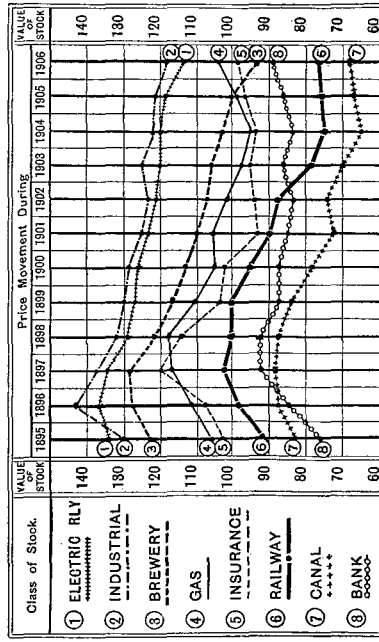
It will also be noticed that the increase in value does not correspond with the increase in income. At the commencement of the chart in 1893 the average yield was about 4 per cent. per annum. Between 1893 and 1897 there was an increase in value of £2,902, but the dividends had only increased by £54, which was at the rate of under 2 per cent. per annum on the increased value. In 1895 and 1906 the income was exactly the same, viz., £453, yet the capital value in the latter year was reduced by £1,204, or over 10 per cent. Again, in spite of an increase in dividend of £10 in 1906 as compared with 1905, yet the capital actually decreased in value.

Indeed, the more closely this chart is studied the more apparent becomes the overwhelming influence of British trade and finance on Home securities.

The great lesson to be learnt from the chart is the hopelessly mistaken belief of a great many investors who hold a mixed assortment of British stocks that the increased prosperity of a portion of their Investment List may be relied upon to counterbalance any dwindling of value and dividends amongst the other portion of their holdings. That any counterpoise of this sort is ever to be derived

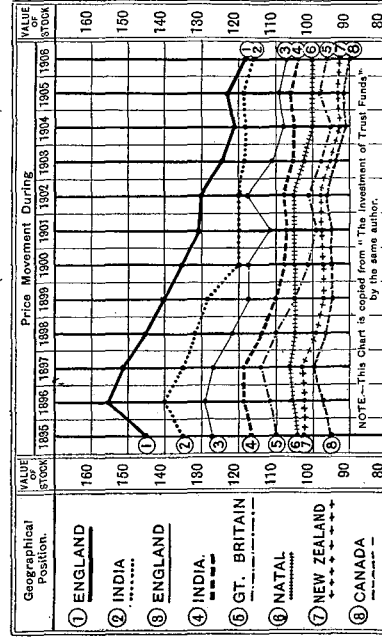
TYPICAL PRICE MOVEMENT OF THE REPRESENTATIVE STOCKS OF GREAT BRITAIN, FRANCE, UNITED STATES OF AMERICA, ARGENTINA

I.—GREAT BRITAIN (General Investments).



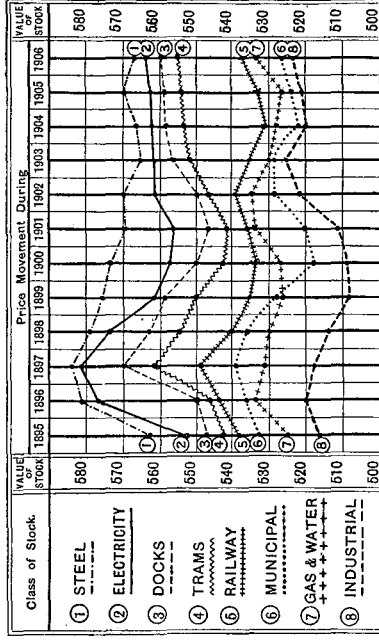
NAMES OF STOCKS.—(1) Liverpool Overhead Railway 4½% Deb.; (2) J. & P. Coats 6% Cum. Pref.; (3) Bass, Ratcliff & Gretton 5% Cum. Pref.; (4) Brentford Gas Consolidated Stock; (5) Guardian Assurance Company; (6) London & North Western Railway Company Consolidated Stock; (7) Grand Junction Canal Original Shares; (8) Parr's Bank Shares.

II.—GREAT BRITAIN (Trustee Stocks).



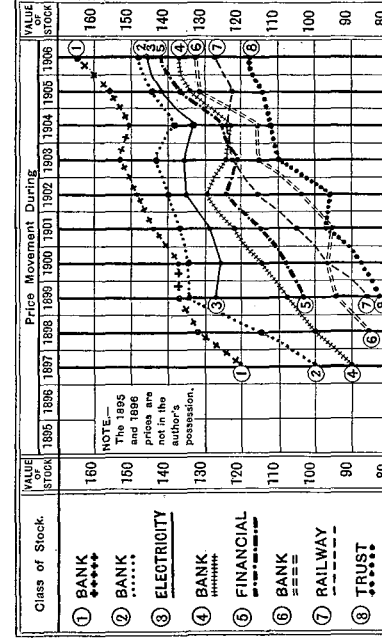
NAMES OF STOCKS.—(1) London & North Western Railway 4% Preference; (2) Southern Mahratta 4% Debenture; (3) Birmingham Corporation 3½%; (4) India 3½%; (5) British Local Loans 3%; (6) Natal 3½%; (7) New Zealand 3½%; (8) Canada 3%.

FRANCE.



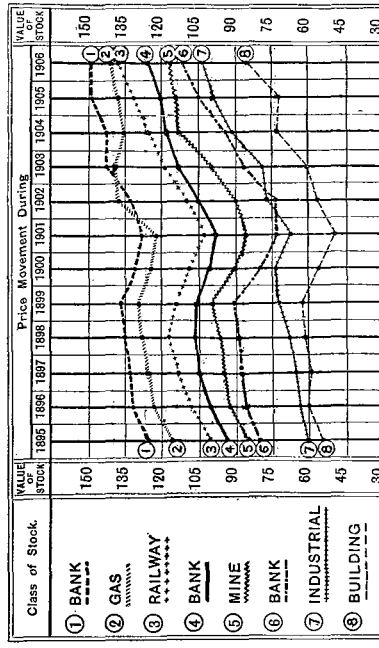
NAMES OF STOCKS.—(1) Acieries de France; (2) Thomson Houston (procédés); (3) Docks du Havre; (4) Lyon Omnibus & Tramway Company; (5) Lyon 5%; (6) Ville de Besançon; (7) Gaz et Eaux; (8) Soc. Lyonn. de Teinture Apprêt et Gantage.

CANADA.



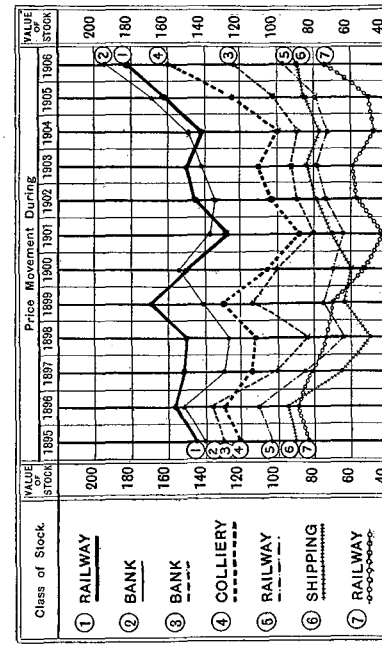
NAMES OF STOCKS.—The 1895 and 1896 prices were not obtainable.—(1) Canadian Bank of Commerce; (2) The Ontario Bank; (3) Toronto Electric Light Company; (4) The Standard Bank of Canada; (5) Toronto Mortgage Company; (6) The Traders' Bank of Canada; (7) Grand Trunk 1st Pref.; (8) Real Estate Loan Company.

GERMANY.



NAMES OF STOCKS.—(1) Frankfurt Mortgage Bank Shares; (2) General Gas Company of Magdeburg; (3) Lübeck-Hüben-Hamburg Railway; (4) Deutsche Bank; (5) Gelektischer Mine; (6) Schaafhausen Bankverein; (7) Westphalia Wireworks; (8) Passage Building Society of Berlin.

JAPAN.

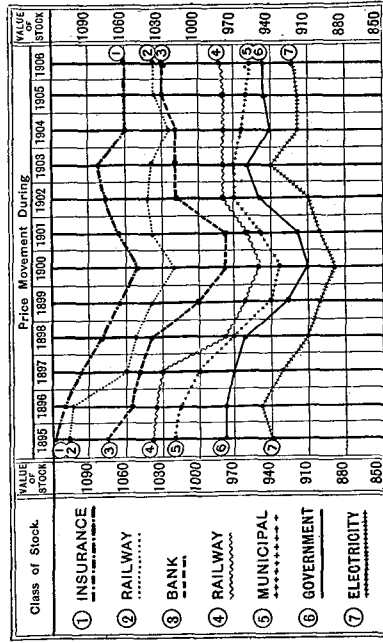


NAMES OF STOCKS.—(1) Sanyō Railway; (2) Bank of Japan; (3) Yokohama Specie Bank; (4) Hokkaido Colliery; (5) Japan Railway; (6) Japan Steamship Company; (7) Kwantai Railway.

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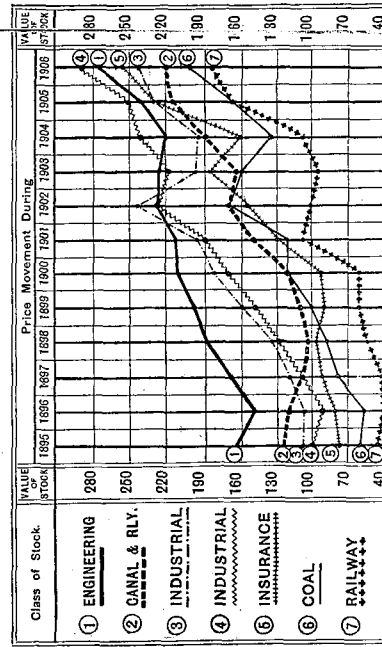
GERMANY, SWITZERLAND, BELGIUM, CANADA, JAPAN,

SWITZERLAND.



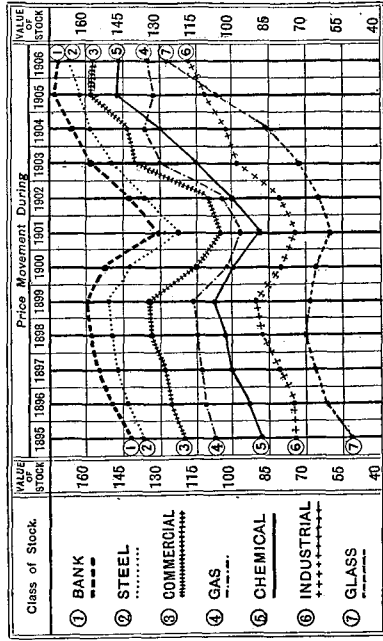
NAMES OF STOCKS.—(1) La Genevoise Assurance Company; (2) Jura Simphon; (3) Banque du Commerce; (4) Central Swiss Debenture, 1894; (5) Ville de Genève; (6) 3½ Rentes; (7) Industrie Electrique de Genève Debentures.

UNITED STATES OF AMERICA.



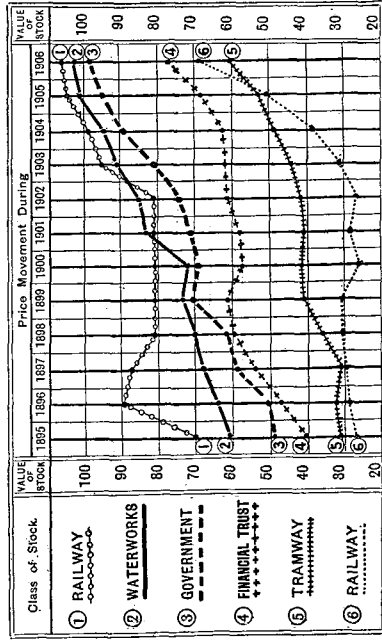
NAMES OF STOCKS.—(1) The Pullman Company; (2) Delaware & Hudson Company; (3) American Express Company; (4) Wells, Fargo & Company; (5) Home Fire Insurance Company; (6) Consolidation Coal Company; (7) New York, Chicago & St. Louis Railroad Company.

BELGIUM.



NAMES OF STOCKS.—(1) Banque d'Anvers; (2) Athus; (3) Société Immobilière de Belgique; (4) Société d'Éclairage du Bassin Houlier de Mons; (5) Produits Chimiques de Drogenbosch; (6) Frayon; (7) Glaces de Charleroi.

ARGENTINE REPUBLIC.



NAMES OF STOCKS.—(1) Buenos Ayres Western Railway Ord.; (2) Buenos Ayres 5% Water Works Loan; (3) 4½% Sterling Loan 1888; (4) River Plate Trust Loan & Agency Company; (5) Anglo-Argentine Trams; (6) Argentine North Eastern Railway Ord.

from an all-British Investment List is an absolutely vain hope. Yet this vain hope may be said to constitute the sheet-anchor upon which the British investor relies to enable him to ride out every financial gale that blows, and this is why the amount of investment-shipwreck all round the United Kingdom is so appalling.

Before he finally turns from the contemplation of this chart we would draw the reader's attention to the fact that on it is depicted every type of English investment, and that the individual history of each of these stocks during the period between 1893 and 1906 contained separate special events peculiar to that stock. But in spite of the variety of trades and interests represented in the chart, and in spite of the diverse individual histories of the several securities during the period, all the price-movements are clearly indicated by, and, in the main, follow the price-movement of London & North Western Ordinary, and, where some small individual deviation does take place, such deviation is purely temporary, and the whole list of British investments is, in fact, controlled by the course of British trade and finance.

And what is true of the securities of Great Britain is equally true of the securities of almost every other country. We demonstrate

this by the annexed charts of the typical price movements of the stocks of the following countries :—Great Britain (two charts), France, Germany, Switzerland, Belgium, Canada, Japan, U.S. of America, the Argentine Republic. In every instance a number of representative stocks have been taken, and their price-movement depicted upon the basis of annual average values. Although some of the charts appear slightly similar in movement, they are not so in reality, as in each instance, on account of the widths of fluctuation, a different scale has had to be adopted. Thus, for instance, the charts of the U.S. America and of Canada look somewhat alike, yet a close examination will show that in the years 1902–1903 there was a strong rise in Canadian stocks, whilst during the same period there was a considerable fall in American stocks. In the same way dissimilarities will be discovered in every one of the charts on comparing them with each other, when the difference in scale which unfortunately had to be adopted is taken into consideration.

These ten charts are ocular demonstrations of the fact that the prices of the principal stocks of every country move alike, under the dominant influence of the trading conditions of that country; so that the foundation of

profitable investment may be said to rest on the following law :—*The realisable values of all securities whose market lies chiefly in any one country are under the dominant influence of the trading conditions of that country.*

We commenced this explanation by quoting the price-movements of the London, Brighton & South Coast Railway 4½ per Cent. Perpetual Debentures, which fell from 180 in 1896 to 134 in 1904, although no alteration had taken place either in the capital safety or in the dividend productiveness of this security. The explanation of this apparently inexplicable price-movement is now simple, and this stock's serious depreciation was solely due to the external influences obtaining on the London Stock Exchange. These external influences dragged down the price of every English security, beginning with Consols and going down to the shares of industrial trading companies.

The annual totals of the average annual prices given at the foot of the chart of British securities give a very complete picture of how all investors who had invested their capital solely in British stocks have fared between 1893 and 1906. These figures teach the valuable lesson that :—*Every investor who places his money exclusively in the investments of*

any one country is speculating on the future trading profits of that country.

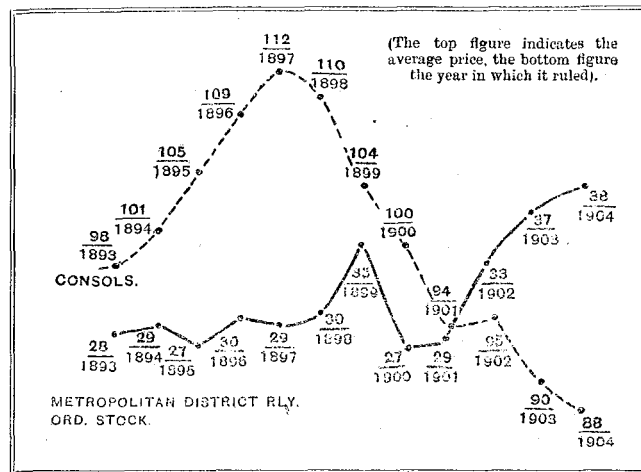
We also see, by comparing these annual totals with the price-movements of individual stocks on the chart, that the final result which an investor will achieve by investing in British stocks is practically unaffected by the number of stocks he may select.

Although the rule that the price of every stock is mainly controlled by the trading conditions of the country in which it is chiefly dealt in is universal in its application, there are, of course, many exceptions to this rule. But the exceptions, although by no means infrequent, are seldom to be met with amongst the representative stocks of any country.

There are stocks in existence which so seldom change hands that their quoted prices may be said to solidify to an extent which renders them insensible to the prevailing Trade Influence. Moreover, individuals or groups of individuals frequently create artificial exceptions to this rule.

We will illustrate our meaning by giving an example of an artificially solidified stock. We have already shown that British stocks started from a low level of prices in 1893, steadily rose until 1896-7, and then fell away again more or less rapidly. This was the

natural course of price-movements, but as will be seen from the following chart the Ordinary stock of the Metropolitan District Railway Company did not follow the prevailing movement :—



The reason for this quite exceptional course of prices in the case of the Metropolitan District Ordinary stock was that a certain well-known syndicate of financiers had determined, first to obtain control of the line by buying up a sufficient quantity of stock to secure the majority of voting-power, and then to electrify the railway. The syndicate, in fact, prevented the natural movement of the stock by locking up large blocks of it, and so temporarily removing it from the influence of

Supply and Demand.* Similarly, any stock can be solidified by anyone who is sufficiently strong financially to absorb the whole floating supply.

There are also some stocks which are permanently solidified in this way and which never respond to trade influence. Such are stocks of local trading companies and local gas and water companies, paying steady dividends, whose shares are in a few private hands and seldom if ever change hands outside the borders of their own immediate locality.

Under these conditions a stock naturally ceases to be liquid, and remains unaffected by the state of the national trade.

In selecting stocks for investment it is essential to remember that it is the geographical position of the country which controls the investment demand for the stock that has to be considered, and not only the geographical position of the security itself. For instance, the table which we have given in Chapter I. of this book includes the Southern Mahratta Railway amongst British Trustee stocks. The Southern Mahratta

* The late Mr. Yerkes was the chief moving spirit of this syndicate. He died in 1906, and soon after, the influence of the syndicate being removed, Metropolitan District Ordinary fell from 37½ to 16, to which price they would have fallen long before had the above-named influence not existed.

Railway is geographically Asiatic, but its guaranteed stock, being a British Trustee investment, moves solely in sympathy with British trading and financial conditions.

Where different countries are equally large holders of particular stocks, as, for example, in the case of certain South American issues, the geographical position of the security itself becomes of greater importance. The purchases of such stock caused by surplus profits derived from the good trade of one of the interested countries may be neutralised by the sales caused by the bad trade of another; so that the purchases or sales of the issuing country itself exercise a greater influence than might otherwise be the case. Moreover, as a country develops and increases in wealth, it is bound to exercise a greater control over its own stocks wherever they are held. For not only does the resultant increased security appeal to the foreign holder, but the investing public of that country is itself in a position to extend the purchases of its own stocks.

We have now explained how the course of trade dominates the values of investments and how this otherwise all-powerful influence can be nullified by the special conditions of a stock's ownership. The natural exceptions to the rule are rare, and so great is the financial

strength requisite to create artificial exceptions that an investor can afford practically to disregard them.

However, should it ever happen that one of our readers finds that some stock held by him is moving irrespective of the general trend of all other prices controlled by the same financial centre, he ought to bestir himself forthwith to make enquiries into the cause of this special movement, with a view to disposing of this particular security if the reason for the unusual price-movement does not meet with his approval.

Although the course of the country's trade dominates the value of stocks, it is an external influence which need not necessarily affect the individual working of the enterprises themselves. The internal influences which affect the actual prosperity of a particular investment have to be carefully considered by investors, as they are a considerable factor in improving or impairing the dividend-earning powers of the stock.

The dangers entailed by internal causes are to be dreaded because their effects are so peculiarly apt to be permanent. For instance, mismanagement may so completely cripple a company as to make its liquidation or its reconstruction inevitable. Or, again, the increase of trading competition may so reduce the profits

of any industry as permanently to extinguish a company's dividend-earning capacity.

But, on the other hand, although these internal influences are apt to be so permanently disastrous in their effects, it seldom, if ever, happens that the holders do not receive ample warning of the malady from which their stock is suffering. Whether trade is passing into the hands of competitors, or whether mismanagement is reducing the company's assets, or whether death or retirement has removed the chief organising brain upon which the company relied for its prosperity in times past, it is impossible for these events to occur without notice of them being given in the reports and balance-sheets issued to shareholders.

Public companies and nations do not suddenly drop down dead from financial heart disease; but, rather, a slow mortification sets in, and the investor who has the nerve and the courage to amputate promptly may generally escape with no more than the loss of a limb. Budgets and balance-sheets constantly convey warnings to investors, and if they do not disregard them, they may, by facing their first comparatively small loss, succeed in getting out of an undesirable investment without waiting for the final catastrophe.

For these reasons, no investment should be purchased without due consideration of the company's balance-sheets and position.

A close valuation of a company's affairs is much less complicated than many imagine, and whenever any difficulty is experienced in this respect it can always be easily cleared up by consulting a competent financial adviser.

We have now established the fact that external causes give the keynote to the price-movements of almost all solidly founded and well established investments, and that internal causes only modify this main controlling force in exceptional cases.

Another glance at the charts of price-movements, which we publish earlier in this chapter, will indicate that the relative strengths of external and internal causes in the case of sound investments may be respectively expressed by the ratio of 4 to 1. This ratio only applies to investments where intrinsic safety is capable of clear demonstration at the time of purchase, as it is, of course, patent that new and untried ventures have first of all to find their right price level.

During the period when a new concern is moving erratically in search of its proper orbit of fluctuation, it is obvious that internal influences, such as altering capital safety,

management and dividend-earning power, will mainly determine the course which it will take. So soon, however, as an investment has settled down in its proper sphere, external influences will prove to be its main controlling force.

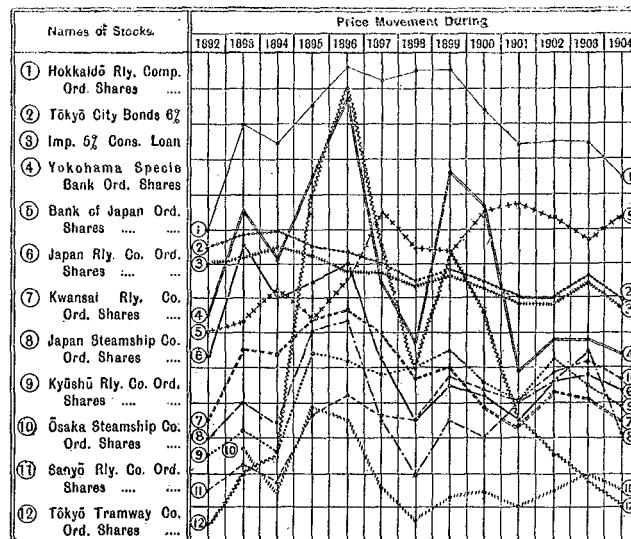
In the same manner as a new stock has thus to pass through a period of financial infancy, so have the stocks in a country which suddenly adopts the unfamiliar workings of the system of Joint Stock enterprise.

When Joint Stock Companies were introduced into England, the newly created stocks and shares developed the most extraordinary and erratic price-movements, which resulted in a final crash, historically known as the bursting of the South Sea Bubble; although the South Sea Company was only one of the hundreds of concerns which simultaneously collapsed at that time. A similarly baseless wave of inflation, though on a much more modest scale, was recently observable in Japan when the Joint Stock principle was introduced into that country in 1890. Indeed, it was only in the year 1899, after nine years' experience of Stock Exchange fluctuation, that a normal course of price-movement began to display itself in Japanese stocks.

A representative specimen of the indiscriminate fluctuations which were at first

displayed by Japanese stocks is furnished by the shares of the Tokyo Tramway Company. The face value of these shares is 50 yen apiece. They rose from 43½ yen to the enormous price of 405 yen between 1892 and 1896. From this point they steadily continued to shrink in value, until in 1904 they were quoted at 65 yen. The feat of a Tramway Ordinary share rising over 800 per cent. could only be possible in a country where the working of Joint Stock enterprise was but dimly understood. As the general movement of some of the principal Japanese stocks is rather curious, we here illustrate them in the form of a chart.

JAPANESE PRICE-MOVEMENTS.



This chart will serve the double purpose of showing that neither in new countries nor in untried issues is it possible to absolutely rely on any theory as to price-movements. It will also be seen from this chart that the solid fixed Income stocks like Tokyo City Bonds and Imperial 5 per Cent. Consolidated Loan indicate the movement, but that the speculative ventures, the scope of which is not fully understood by the public, do not follow it, but mark out price-movements of their own. In spite of the stocks following a speculative course of their own, irrespective of the course of national trade, there is an undeniable general tendency among all of them to move together.

We have now established the fact that it is impossible for any investor safely to invest his capital in any one country. It is true that by limiting his investment area to small local stocks an investor might succeed in purchasing a number of securities which were free from the fluctuations due to trade influence. But stocks of this stamp are attended by all the grave drawbacks of companies which are managed by a small clique. The shareholders are either friends or others with common business interests. For example, if a company be created to carry on

the business of a local hotel, you will find the grocer who supplies the bacon, the butcher who supplies the meat, the wine merchant who supplies the wine, and so on, are shareholders in the company. Owing to lack of competition for the contracts, the result naturally is that the hotel is carried on at great expense, and the shareholders suffer in consequence. This matters little or nothing to the interested shareholders who continue to make large profits by their contracts; but it hardly conduces to the satisfaction of the disinterested investor. Indeed, such a form of investment is scarcely less dangerous than confining the capital to be invested to one country, and so speculating on that country's future trading prosperity.

In the next chapter we shall discuss a practical scheme whereby an investor may so widely distribute his investments over the world's area as to endow his capital with the maximum stability of value.

CHAPTER III.

THE GEOGRAPHICAL DISTRIBUTION OF CAPITAL.

A STUDY of the published official trade reports of all civilised nations proves that the world's trade, if taken as a whole, is constantly expanding. Indeed, the mere fact that the world's population continues to increase steadily renders a corresponding expansion of the world's trade inevitable. Statistics also prove that two countries which are under different Governments and geographically distinct from each other will generally differ widely in their respective trade activity. Thus, locally, trade may suffer periodical depression, but the trade of the whole world is perpetually growing.

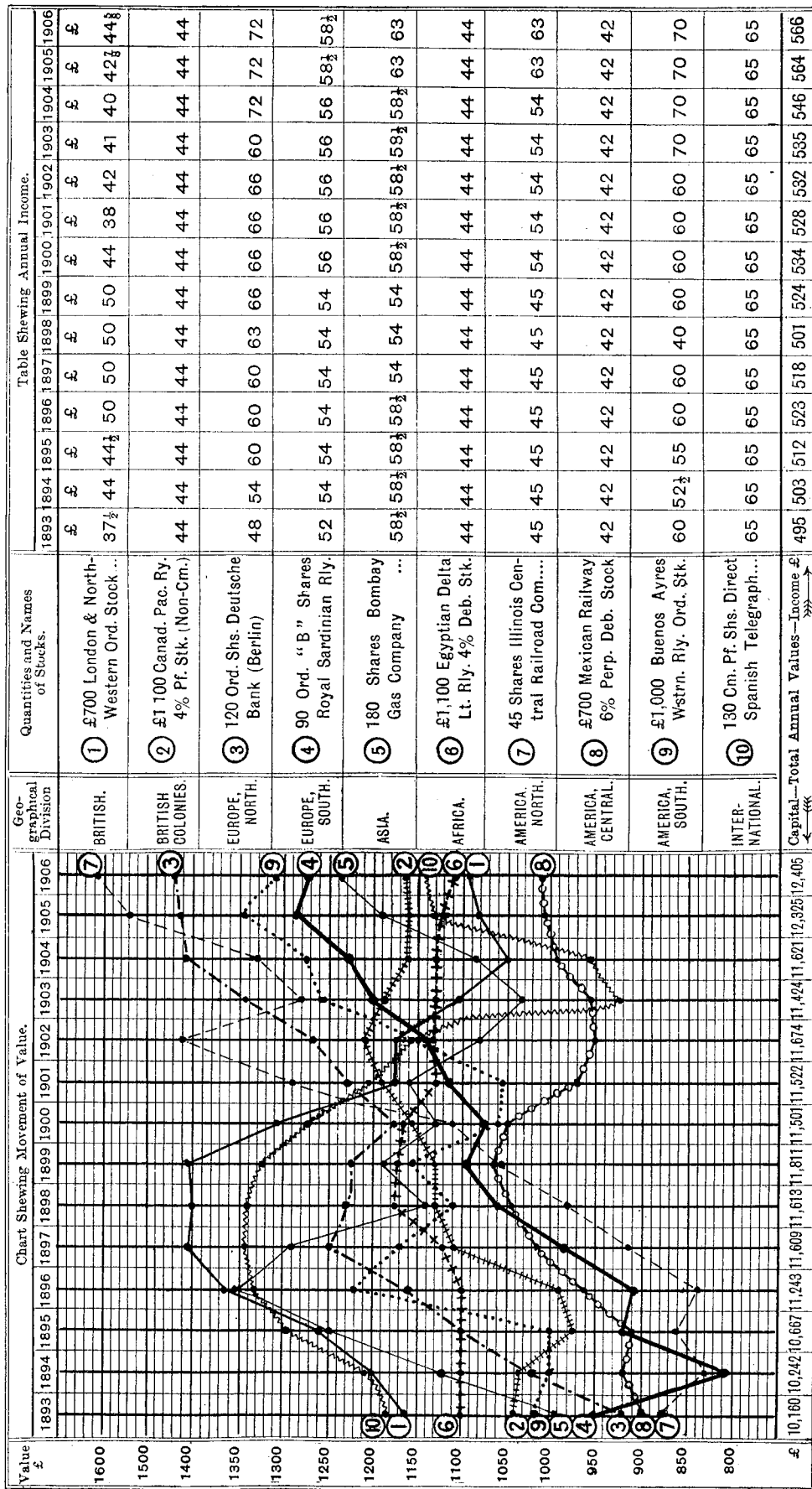
The fact that, whilst the world's trade is constantly expanding, the share of each separate nation in it is constantly altering is the fundamental principle of our *geographical method of equalising investment risks*. As the proof of this fact is of necessity the work of a statistician, Mr. Holt Schooling has been asked to independently investigate this subject.

His conclusions have appeared in the April, 1907, number of the *Financial Review of Reviews*; they have since then been published in the *Popular Financial Booklet XXI.*, which Booklet has been reprinted and appended to this book.

It follows that if an investor widely distributes his capital over the earth's surface, local depression in one quarter will be counter-balanced by the local trade activity in another quarter. Further, it also follows, if an investor's capital is sufficiently large to enable him to purchase investments representative of every trading centre in the world, that the world's perpetual trade expansion will automatically tend to increase the realisable capital value of his investments year by year. Moreover, as the tendency of the younger countries is to increase their proportion of the world's trade, so their credit necessarily tends to appreciate also; with the result that the representative stocks of those countries must show a special tendency to rise in value.

By way of giving an illustration, proving the practical value of the above conclusions, we have prepared a chart covering the same period, and in construction identical with the charts given in the last chapter, but depicting

INDIVIDUAL PRICE MOVEMENTS OF 10 STOCKS COVERING DIFFERENT GEOGRAPHICAL DIVISIONS.



the price-movements of a number of investments, every one of which belongs to a different country and is subject to a different trade influence. A very cursory glance at this chart will immediately establish the practical benefits which an investor derives from a wide geographical distribution of investment risks.

In this chart the horizontal straight lines denote the intervals in the price levels of stocks, and the vertical straight lines mark off the yearly periods; the zig-zag lines are a faithful pictorial presentment of the price movements of individual stocks.

For the sake of convenience the respective quantities of the stocks have been adjusted, where necessary, in such a manner as to keep the size of the chart within reasonable limits. This variation in the quantities of the stocks, however, does not alter the relative positions of the price lines to each other.

In order to make the picture as little tiring to the eye as possible and to keep the zigzag lines at reasonable intervals apart, we have also so arranged the quantities of the stocks that the price lines commence at fairly regular intervals between £875 and £1,190. Beyond this, the chart has been left to tell its own story; and the reader who scans the names of the geographical divisions represented and

the names of the securities depicted before he addresses himself to the study of the respective price-movements, will admit that the chart fairly embraces the investment areas of the whole world, as far as the limited number of stocks included permits of this.

The reader can easily translate into figures the price-movements depicted on the chart by means of the horizontal price lines. These represent the annual average values, and their totals are displayed at the foot of the chart. By this means the chart not only pictorially illustrates the various price-movements, but it also gives the several total annual values of all the stocks, depicted, year by year, at their respective average prices.

The chart comprises stocks situated in the following geographical divisions:—**Great Britain**, London and North Western Railway Ordinary Stock; **British Colonies**, Canadian Pacific Railway Four per Cent. Preference Stock; **Europe North**, Deutsche Bank (Berlin) Ordinary Shares; **Europe South**, Royal Sardinian Railway B Shares; **Asia**, Bombay Gas Company Shares; **Africa**, Egyptian Delta Railway Four per Cent. Debentures; **America North**, Illinois Central Railway Common; **America Central**, Mexican Railway Six per Cent. Debenture Stock; **America South**,

Buenos Ayres Western Railway Ordinary ;
General International Investments, Direct
 Spanish Telegraph Preference Shares. The
 price-movements of all the stocks on the
 chart show that no two of them display
 similar fluctuations throughout the whole
 period. Here and there, but during different
 years, there is a curious temporary parallel of
 movement between some of the stocks ; but the
 very fact that these seemingly sympathetic
 tendencies affected different stocks at different
 times only tends to preserve the Capital stability
 of the whole list during the various years which
 we have illustrated.

The representative British security in this
 chart is the London and North Western
 Railway Ordinary stock, and this stock, being
 influenced by British trade, is of course
 similar in price-movement to the stocks
 depicted on the chart of all-British stocks which
 we have already given in the preceding chapter.
 It is significant to see how entirely all the rest
 of the Geographically Distributed stocks differ
 in their price-movements from the British
 stock. It is this individuality of movement on
 the part of each security, included in a well-
 distributed Investment List, which ensures the
 first great essential of successful investment,
 namely, Capital Stability.

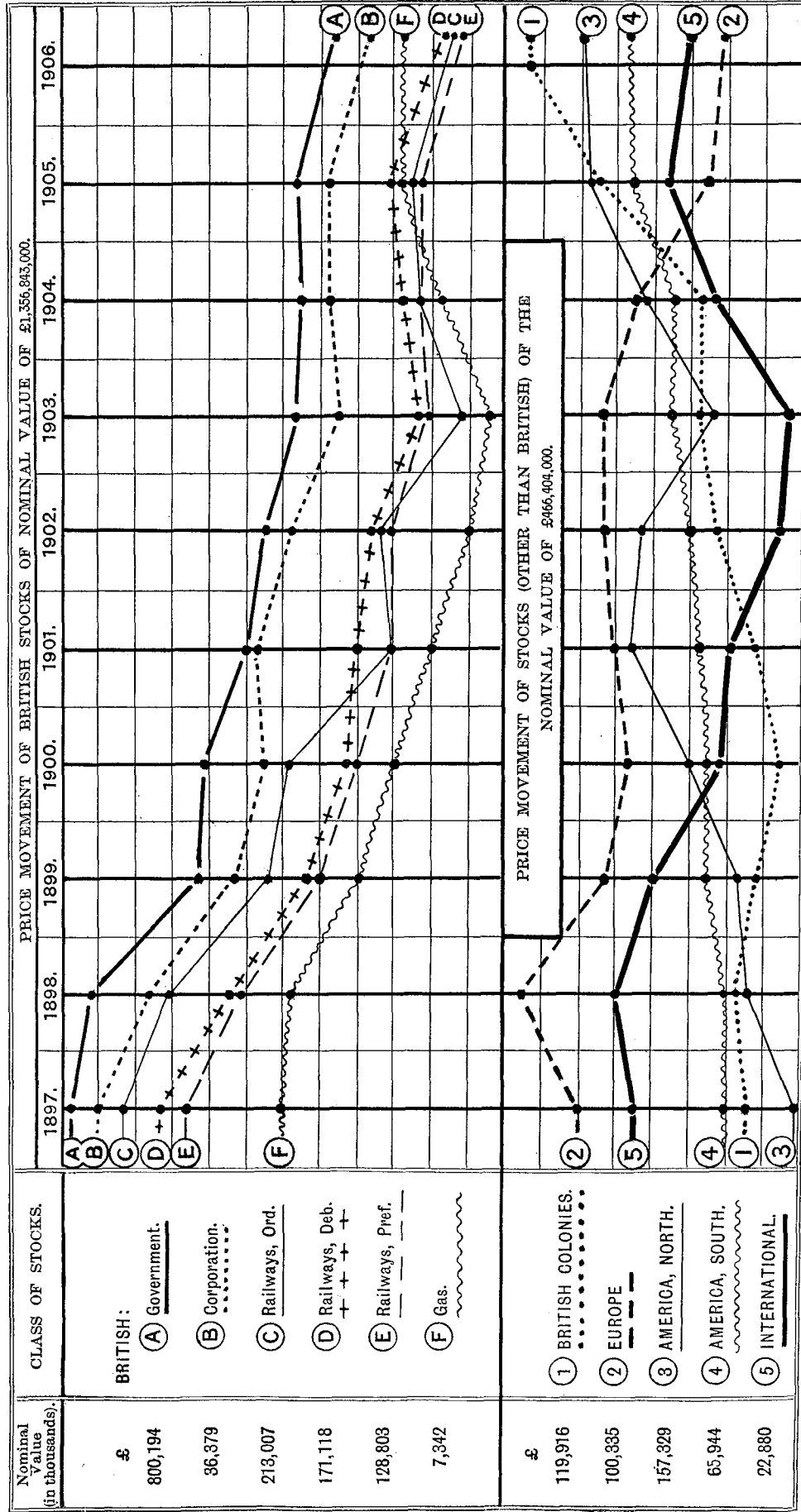
The whole appearance of the International Chart, in fact, clearly demonstrates that as the trade prosperity of each country differs from that of all other countries, so the price movements of the stocks in each country differ from those of all other countries.

The secondary point which at the outset of this chapter we proposed to establish was that in consequence of the perpetual growth of the world's population there was a correspondingly perpetual expansion of the world's trade. Now, we have already shown that Trade Prosperity has a very great influence on Stock Exchange values, so it follows that, if the world's trade does expand as we have maintained that it does, then the realisable value of an International Investment List will also, at reasonable intervals, show a tendency towards expansion. The expansion of realisable value in the list of securities given in our example is to be found in the several annual totals at the foot of the chart. In 1893 the realisable value was £10,160, and it gradually rose to £12,405 in 1906.

In Chapter II. we have shown that all the representative stocks of one country constitute the same investment risk, and that, therefore, an Investment List entirely composed of stocks of any one country is unsafe. We have now,

PRICE-MOVEMENTS OF THE STOCK EXCHANGE VALUES GIVEN BY THE BANKERS' MAGAZINE.

For the past ten years (1897-1906) the *Bankers' Magazine* has published the aggregate values of 387 representative securities, divided into groups. These groups are here arranged, as far as this was possible, on the principle of Geographical Distribution, into two sections, the top section representing the British Stocks, the bottom section the Stocks of other countries. The value at the end of each year has been taken as the means of determining the direction of the zig-zag price-movement lines of each group.



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in the International Chart, grouped together the price-movements of the stocks, each of which is subject to a different trade influence, and as a result it is seen that:—

If an investor divides his capital equally among a number of stocks, every one of which is under a different trade influence, then each of these divisions of his capital will constitute a distinct investment risk, and a true system of averaging investment risks is thereby established.

The charts depicting price movements, hitherto given in this book, have displayed in every instance the fluctuations of the individual stocks only. In order to show that, when groups of stocks are taken, and when charts are prepared depicting the price movements of these groups, the results obtained are similar to those from individual stocks, we here reproduce a chart which appeared in the *Financial Review of Reviews* for June, 1907. This chart was prepared from the aggregate-value figures of 387 representative securities published in the *Bankers' Magazine* month by month. The groups given by the *Bankers' Magazine* were divided into two sections. The upper section represents groups of purely British securities, and the lower section represents groups of stocks situated

outside of Great Britain, each group of which is subject to a different trade and market influence. The result shown is identical with the results obtained in the former charts given in this book. Although we are here dealing with groups of stocks representing hundreds of millions of capital value, the British groups move slavishly together, whilst every one of the non-British groups displays an individual movement of its own. So that the wholesale movements of a large bulk of securities and the individual movements of a single stock are identical in their results. In fact, the figures from the *Bankers' Magazine* show in the upper chart how unsafe from a capital point of view is an investment which is subject to the trade or market influence of a single country ; whilst in the lower chart an investment in which capital is geographically divided, displays a true balance between the rises and falls in value.

This exhausts the chief noteworthy points in the International Investment Chart, and we will now proceed to discuss the features of this chart in comparison with those of the all-British Chart which is to be found facing page 27. To begin with it should be noticed that the stocks comprising the International List are on average inferior in quality to those

contained in the all-British List. Their inferiority is attested by the fact that their average annual widths of fluctuation are greater than the widths of fluctuation in the all-British List. In a similar International List, but composed exclusively of higher grade securities which we publish in Chapter V. of this book, the maximum capital variation during a period of ten years is very slight. As the aim of that chart is to show how funds can be invested with the greatest safety both of Capital and Income, we naturally chose stocks of a higher grade than we have done here, where our object is to show how widely different are the price-movements of stocks of various nationalities. But by selecting stocks of great width of fluctuation for the International List exhibited in this chapter, we are now in a position to show by comparison with the all-British List that the Geographical Distribution of Capital collectively endows an Investment List, consisting of individually inferior stocks, with greater Capital Stability than is possessed by an Investment List composed of higher-grade stocks, all influenced by the same investment risk. So that:—

An investor who geographically distributes his capital can, with safety, afford to hold stocks

which yield a larger income than he can hope to receive from an Investment List which disregards the important point of Geographical Distribution.

Before proceeding further with the question of how far it is prudent to attempt to employ Geographical Distribution as a means of enhancing income, let us re-affirm our opinion that capital safety should always be an investor's first consideration. But, unfortunately, this life is prolific of circumstances under which counsels of perfection are of no practical utility.

For example, let us suppose the case of a professional man with rapidly increasing family responsibilities, and a slowly growing professional income which is supplemented by the interest yielded by his private fortune of £4,000. To a man so placed, who roundly asserts that £240 per annum is the minimum income from his private means upon which he can make both ends meet, it is useless to advance the perfect theory of investment. Circumstances compel him to seek a yield of 6 per cent., and, under the circumstances, his financial adviser can only put him in the way of securing this income with safety.

In cases of this description a most carefully prepared International Investment List will prove the greatest of boons ; for the stocks, displayed on a chart given in Chapter V.,

yield about 7 per cent. upon the capital invested, and yet offer collectively a very fair amount of capital safety.

Referring again to the all-British Chart given in Chapter II. and the International Chart given in this chapter, we show, at the foot of these two charts, the total annual values and annual income of the all-British and the International Investments which they respectively illustrate. We here reproduce them in tabular form, as a close study of these figures proves various important points.

Year.	Capital Value.		Annual Income.	
	All-British List.	International List.	All-British List.	International List.
	£	£	£	£
1893	10,226	10,161	420	495
1894	10,475	10,242	427	503
1895	11,456	10,667	453	512
1896	12,702	11,243	479	523
1897	13,128	11,609	474	518
1898	12,727	11,613	476	501
1899	12,214	11,811	485	524
1900	11,672	11,501	477	534
1901	11,127	11,522	470	528
1902	10,902	11,674	451	532
1903	10,487	11,424	434	535
1904	10,089	11,621	429	546
1905	10,282	12,325	443	564
1906	10,252	12,405	453	566

This table shows :—

1.—The capital value at starting is almost identical in both lists, but the International List produces 18 per cent.

more income than the all-British List from the very commencement.

2.—The all-British List improves in value during the first five years by £2,902, but this improvement gradually disappears again and in 1906 the value is substantially the same as it was in 1893. The International List rises in value but gradually; this rise, however, is maintained, and a final increase in value of £2,245 is recorded.

Another very important point in favour of the Geographical Distribution of Capital is that:

No set of circumstances could cause all the stocks in a Geographically Distributed Investment List to show a simultaneous depreciation below cost price.

This is an advantage which an all-British Investment List does not afford its owner. For an investor who stakes his Capital Stability on the trade prosperity of one country frequently finds that every stock in his possession is quoted below "cost." Now, nearly every investor desires at times to realise some part of his invested capital, and to be able to do so only at a loss is disastrous. It is, therefore, well to remember that an investor who confines himself to the stocks of one country may and must find himself at times in this

predicament; whilst with a Geographically Distributed Investment List an investor does not, and cannot, find himself so disadvantageously placed.

To the speculator, of course, as well as to the investor, the advantages of Geographical Distribution open a very wide vista; here, however, we are only concerned with the welfare of the investor. A properly distributed Geographical Investment List is the first and only practical investment scheme which has ever been placed before the public. With the aid of Geographical Distribution, safety of investment in stocks and shares is reduced to a mathematical problem, which is solved by means of a simple set formula, which never varies.

To carry out the construction of an Investment List, in accordance with the system of Geographical Distribution, is a matter in which the investor will be glad of some assistance. In order to meet his requirements, the publishers of this book also publish an *Investor's Year Book*, in which all the stocks included therein are classified geographically, their width of fluctuation is tabulated, and the past history of their respective dividend-earnings and yields is clearly set forth. When an investor has once got his

Investment List into order, they further assist him to keep in close touch with his actual investment position by means of Harley's *Investor's Account Book*, which is based upon the system of the Geographical Distribution of Capital, and is so arranged and ruled that the investor never loses sight of this great essential to profitable investment.

To many of our readers the whole idea of the Geographical Distribution of Capital is, of course, new, because this important financial discovery was only recently made by us. Having originated the idea, we have personally reduced to practical working shape a system which every prudent investor should, after satisfactory perusal, forthwith apply to his own Investment List.

CHAPTER IV.

WHY GEOGRAPHICAL DISTRIBUTION PROTECTS BOTH CAPITAL AND INCOME.

By means of the examples already given in this book we have clearly established the fact that every individual purchase of stock is strongly tinged with the element of speculation, and that this speculative element cannot be eliminated from any isolated purchase or from any individual holding, for it is impossible to predict the exact future of any individual stock.

It is true that a close investigation of the inherent safety and value of a particular security may serve as a most useful and, indeed, a very necessary guide to future probabilities. But probabilities are by no means certainties, and anyone who pronounces this or that investment to be a practical certainty should be regarded with distrust by all prudent investors.

It would, perhaps, be impossible to find a more convincing example of the slender foundation upon which all investment certainties rest than is furnished by Consols.

Who, for instance, would have believed, in 1897, when Consols were 114, that in seven years' time they would have fallen to 85? Or, again, who would have calculated on any statistical basis that Canadian Pacific Railway Common stock would rise from 35 to 182 within the space of ten years, or that Atchison, Topeka and Santa Fé Railway Ordinary would rise from \$9 to \$91 during the same period?

Whether in adversity or in prosperity, the future of any given investment must always remain a matter of considerable speculation.

No doubt there exists a large body of investors who, by shutting their eyes to obvious facts, endeavour to deny that the element of speculation enters in any way into the act of investment. Such wilful perversity, however, is only a fruitful cause of disastrous capital losses. Investors of this type will be heard to assert that, having bought none but the safest of stocks, their capital must be secure. Further, they argue that, so long as their income remains undiminished, they can afford to let the realisable value of their capital take care of itself. But although such specious arguments may seem indefinitely to postpone the day of reckoning, yet sooner or later the actual situation will have to be faced, and no investor can afford to delude himself with the idea that

capital safety and the realisable value of his investments are matters which can be disregarded with impunity.

But, it may well be asked, if every purchase of stock is a speculation, what should the investor do who desires entirely to eschew speculation? The answer to this question is that precisely as a carefully-studied system of averages eliminates all taint of gambling from a sound system of insurance business, so a sound system of averages, based upon the Geographical Distribution of Capital, should reduce to a minimum the taint of speculation from the act of investment.

From their very nature, insurance and investment are both highly speculative transactions, which can only be raised to the dignity of solid business by a carefully studied system of averages.

We have already shown that the realisable value of all important and intrinsically sound stocks is dominantly influenced by the trading conditions of the particular country in which they are principally held and dealt in, and that the trade of every country moves in cycles of prosperity, followed by cycles of adversity.

Further, we have shown that the course of trade of countries which are under different

governments, and are geographically situated widely apart, will nearly always differ in activity at any given moment.

Lastly, we have shown that the trade of the world, considered as a whole, is constantly increasing, and that a decline in the trade of any one country simply means the transfer of it to another country, and not a loss of trade.

These three facts taken conjointly and utilised as the basis upon which the fluctuations of investment values should be averaged, constitute the practical means of freeing the act of investment from the taint of speculation. Their application resolves itself into the Geographical Distribution of Capital. Let us take the important points of this system of investment seriatim, and explain their individual importance:—

1.—The Speculative Element Reduced to a Minimum.—Although it is impossible to predict the future of any single investment, it is possible to predict the result of distributing invested capital amongst a number of different investments which embrace the world's area. We have already seen that the value of all sound investments is dominated by the trade of the country to which they belong, and similarly the total value of a number of

investments which cover the world's area depends largely upon the world's trade. The trade of the world, considered as a whole, however, is not subject to alternating cycles of boom and depression, but is constantly expanding.

Similarly, the total value of an Investment List comprising stocks which practically cover the world's area in their geographical distribution must have a tendency to appreciate in value. It is the constant growth of the world's trade which reduces to a minimum the element of speculation from the future of a well-distributed Investment List.

2.—A proper system of Investment Averages established. In order to maintain the average realisable total value of an Investment List, it is necessary that the depreciation in value of some of the stocks comprised therein should be counter-balanced by an appreciation in the value of others. A sound investment scheme is the result of an accurately balanced system of poise and counterpoise. But the central idea of counterpoise is altogether lost sight of when the choice of stocks is made indiscriminately, without due regard to the probable extent of their future movements,

or, worse still, when the area of investment is largely or wholly restricted to the stocks of one country. For this latter method of investment absolutely precludes the possibility of any sort of counterpoise. On the other hand, by adopting a world-wide scheme of Geographically Distributing Capital, the system of poise and counterpoise is assured, because no two stocks controlled by the course of trade of two different countries ever move absolutely alike. Furthermore, the resulting average of such a system must be in favour of the investor who adopts it, because the total average value of his holding depends to a very great extent upon the trade of the whole world, which is constantly growing. So that, if taken over a reasonably long period, the rise in the value of the appreciating stocks comprised in an Investment List so constituted must inevitably exceed the fall in the value of those stocks which have depreciated.

3.—**Income and Capital Safety increased.** The yield obtainable from representative investments depends entirely upon the value of credit in the countries in which they are principally held. The richer the country the smaller is the yield upon its stocks.

For instance, Consols yield under 3 per cent., and British Railway Debentures about $3\frac{1}{2}$ per cent.; whereas, the yield from French Stocks of similar class is slightly higher in both cases. Again, in other parts of Europe, and the United States, Railway Debentures yield yearly 4 per cent.; whilst South American, African, Japanese and Chinese investments of this type yield considerably more than that rate. In similar proportion in each country the yield from all other classes of stocks moves in a progressive ratio, which is in inverse proportion to the country's accumulated wealth. Therefore, an investor who confines his investments to the stocks of one country, thereby limits the yield from his invested capital to the ratio of yield of that particular country. But if he geographically distributes his invested capital, he receives the average rate of yield which rules the world over. It is almost unnecessary to say that this average rate is considerably larger than the rate obtainable from British stocks of the same class. Thus, at the time of writing, whilst a list of British investments of good medium class would yield, say about $4\frac{1}{2}$ per cent., a list of in every

way equally safe investments of wide geographical distribution would yield about 5 per cent. In fact, without in any way diminishing the individual safety of the investments held, the yield from a Geographically Distributed Investment List must always be materially larger than the yield from an all-British Investment List.

A glance at the all-British Chart of price-movements and income yield, and at the Geographically Distributed Chart and income yield given in this book, will confirm the three contentions which we have advanced above.

In addition to the points which we have already enumerated, there is another important contingency which can only be guarded against by adopting the principles of a world-wide Geographical Distribution of Capital. This contingency is the permanent depreciation which may possibly overtake some portion of any capital sum invested. For, no matter how carefully investments may be chosen at the outset, it is quite impossible to guard against a certain percentage of the stocks selected failing to realise the reasonable expectations formed concerning their future. Truly this percentage of the

unsatisfactory may, by careful selection and attention, be reduced to a minimum, but so long as the world continues it will be necessary to reckon upon a certain amount of disappointment in every effort made to precisely calculate the future. This being the case, it is clear that if an investor is to preserve his Capital intact, he must form a Reserve Fund to provide for the contingency of disappointment.

On examining any of the Geographically Distributed Charts given in this book, it will be seen that many handsome profits which are at one time displayed by individual investments are swept away again later on by the inexorable tidal movement of Stock Exchange values.

The constant recurrence of this phenomenon will naturally lead the investor to enquire whether it is absolutely essential to the scheme of Geographical Distribution that a handsome accrued profit should never be converted into cash, but should be thus left at the mercy of the backward movement, which the charts will have convinced him is certain to ensue.

The answer to this enquiry is that the rises which occur should be utilised for forming a Reserve Fund ; and, with a Geographically Distributed Investment List, it is always possible to realise accrued profits without disturbing

the counterpoise of the Investment List; for, however numerous are the countries over which an investor has geographically distributed his capital, there are always other countries available whose trade interests stand contrasted with those of the countries in which he has already invested. As it is the differences in trade which are the main cause for the rise and fall in the value of the individual stocks, the system of poise and counterpoise will still be maintained if the proceeds of the stock realised be invested in a country which has not already been selected, but whose stocks stand at a temporary depreciation. If, therefore, a stock which shows a considerable profit is realised, and the proceeds invested in a stock of another country yielding a higher rate of interest, but whose price is below its normal value, the advantageously acquired new purchase should, in its turn, at no distant date, display a similar profit to that already secured.

When a geographically distributed Investment List is judiciously managed in this fashion, it becomes practically certain that the realisation of one profit will tend to the future accumulation of another profit.

The investor will now begin to perceive that one of the main advantages offered by a

world-wide distribution of capital consists of the opportunities which this system presents:—

1. Of realising an accrued profit in one or more geographical divisions.
2. Of purchasing or of averaging depreciated investments in another geographical division with the capital so realised, and with the accrued profit so secured.
3. Of materially increasing the capital value of the whole Investment List by thus making a profit, which has already been secured, act as a stepping-stone to another future profit on an unduly depreciated security, which is purchased with the proceeds of the stock sold.

It may occur to a thoughtful investor that the system of securing accrued profits, advocated above, would necessitate his investing his capital in more or less speculative stocks of great width of fluctuation. But a glance at any one of our charts will satisfy the reader that extensive upward and downward movements are by no means confined to speculative securities, for we find that a Trustee investment like Nottingham Corporation Stock in the all-British Chart has fluctuated to the extent of 31 points, whilst a more speculative stock like Illinois Central Railway Common Stock in the International Chart has only fluctuated

to a similar extent. These facts show that the system of securing accrued profits and of re-investing the proceeds of the stock thus sold in some other temporarily depreciated security, can be followed alike by investors holding the choicest securities and by those who select the more speculative stocks.

How large are the profits to be made by an investor who follows this plan may be gathered from the price-movements given on the Geographically Distributed Chart. It will be noticed that the stocks therein depicted frequently rise 15 points in two years, and that on an average quite a third of them do this during the period. To speculators, of course, the above briefly sketched plan offers a wealth of possibilities, but we are not here interested in any speculative questions.

By this time we trust that we have clearly established the advantages of Geographical Distribution. But it is important to remember that in order to secure the benefits of this system it is necessary to apply to it a thorough grasp of Stock Exchange markets, combined with an intimate knowledge of Political Geography. There are many intricacies attached to the fact that so many stocks are situated in one country but have to be treated as belonging to another country, because

it happens that the bulk of the capital is held in that other ; for example : the Debentures of the Russian Petroleum & Liquid Fuel Company move in sympathy with Consols and the rest of the London Market, rather than with the Government Loans of Russia, and so does the Frank Jones Brewing Company, although the brewery is situated in the United States.

Difficulties of this type tend to render a competent financial guide almost an essential to the satisfactory working of the system of Geographical Distribution, and to the production of the material advantages which result from the proper application of its principles.

CHAPTER V.

THE PRACTICAL CONSTRUCTION OF INVESTMENT SCHEMES.

To most investors it will prove quite a novel idea that any necessity exists for an *Investment Scheme*, and that such a scheme requires *construction*.

With the exception of the managers of Banks, Insurance and Finance companies, and perhaps a few isolated large private investors, the investing public have always looked upon investment as a haphazard business, in which luck was the main factor. Whenever money was to be invested the *pros* and *cons* of this and that security were considered mostly without any reference to the investments already held, and without weighing anything except the safety and yield of the proposed purchase. This is the one and only reason why so few investors are permanently successful in their operations.

In the preceding chapters we have explained the necessity of considering all investments held as **one harmonious whole**,

of which all the component parts must properly balance each other, and that both in quantity and quality all the various stocks held must be on a near approach to equality. We have further endeavoured to show, unless a contemplated new purchase proves on investigation to blend satisfactorily with the stocks already held, it is dangerous to combine it with them in the same Investment Scheme.

Here we will describe the fundamental principles which should guide investors in the construction of Investment Schemes. In pursuance of this idea, we will first assume that the investor starts without any stocks in hand. Then, when we have exhaustively treated of the construction of an Investment Scheme, we will in the succeeding chapter deal separately with the treatment of stocks in hand, and show how an existing Investment List should be placed on a sound foundation.

First of all the investor should make up his mind what results he desires to obtain. Almost any **reasonable** result is procurable, provided that the means most likely to produce the desired end are employed. To illustrate clearly what we mean we will outline and discuss a few of the typical and most frequently recurring objects of investment.

I. Maximum Capital and Income Safety
coupled with the minimum amount of personal
trouble to the investor.

An investor who desires a moderate income, coupled with great capital security, and who does not wish to attend to his investments more than is absolutely necessary, should minimise the number of stocks in which he invests as far as is compatible with a proper geographical distribution of external investment risks. He should confine himself to investments whose inherent safety is capable of the clearest demonstration, which are as far as possible removed from political influences, and from whose internal capital and income safety the speculative element is completely removed. Such a list should consist exclusively of Government or Municipal Loans which show the least fluctuations in price-movement, and Debenture or Bond issues of undoubted security. Debenture and Bond issues are the more preferable class of investment, as they are more removed from political and monetary influences than are Government and Municipal Loans. There is a general idea abroad among investors that the Government issues of the principal European States are most suitable for such

an investment; we, however, are not of this opinion, and infinitely prefer absolutely safe stocks which have a limited market and for this reason fluctuate little in value. The age of these investments need not necessarily be considered, provided that their inherent capital and income safety are unquestionable. A list constructed on these principles will give no cause for anxiety, one hour in every year spent on it will be sufficient to keep it in perfect order; the capital value and income will be stable, and risks of all kinds reduced to a minimum. A specimen of this type will be found in the 4 per cent. Chart given in this chapter. From this chart it will also be seen which class of stocks of this kind are subject to wide fluctuation.

II. Maximum Capital Safety coupled with a larger yield, but requiring more careful supervision.

An investor who desires a larger yield than he would obtain under Example I. must be prepared to take a certain amount of trouble over his investments, and have them re-valued and examined at least four times in each year. He must cover as many geographical divisions as his capital will satisfactorily permit, and he

must adhere closely to the three cardinal rules for obtaining capital safety, as defined on page 11 of this book. In return for this additional trouble he will obtain an increased yield of up to $1\frac{1}{2}$ per cent., and he will experience no difficulty in making his capital produce about five per cent. He should confine himself exclusively to sound Debentures, Bonds, and first-class Preference shares, and he should avoid all stocks which are easily swayed by political and monetary influences, or financial cliques or combinations, taking in preference issues which are less liable to these influences. By these means his capital safety will be quite as secure as if he had invested in accordance with Example I.

III. Reduced Capital Safety compensated by a comparatively high yield.

An investor who is forced by circumstances to make his capital return him a larger yield than five per cent. can achieve this object by taking additional trouble over his investments. The stocks which he selects should in the main be of the same nature as those described in Example II., yet giving a higher yield. Ordinary stocks and shares situated in old-established industrial centres may be blended

with Debentures, Preference and Government stocks of more recently developed countries. The individual stocks selected will be of a lower grade, and therefore individually less safe from a capital point of view. This loss in individual safety must be counter-balanced by additional sub-division of the main divisions of geographical distribution. In this way the smaller inherent safety of such stocks will be compensated for by the more perfect distribution of external risks. Lists properly constructed on this principle afford quite satisfactory capital safety.

IV. High Income the main object.

An investor to whom a still higher yield than that described in Example III. is of paramount importance can obtain this result by investing in Ordinary or Deferred shares and low-grade Debentures or Preference shares. An example of this class of investment scheme is shown facing page 87. There are a number of experienced investors who consider a list of this nature quite as safe as lists made in accordance with Examples II. and III.; but great discrimination is necessary, both in the selection of the geographical divisions and of the individual stocks, in order to make a high yielding list of this description safe.

**V. Chance of fair increase in Capital Value
with some regard for Income.**

An investor who is not solely dependent on the income derived from his invested capital, and who is in a position to accumulate fresh capital from time to time out of earned income, should pay the greatest attention to a possible increase in the capital value of his stocks, making the income-yield a subordinate consideration. There are quite a number of stocks which, like Ground Rents, automatically increase in capital value, such as Loans and Debentures, redeemable at a fixed date and at a certain fixed price, which can be bought below their redemption value. There also appear on the market, from time to time, new Debentures and Bond issues which are thoroughly well secured and are offered below the value which they are likely to command when the undertaking becomes established. There are many Geographical Divisions in which industrial development is fast expanding, and in which the current rate of interest paid on loans displays a constant tendency to diminish. These conditions cause a gradual appreciation in the rise of all sound Stocks in such divisions. We have a very good example of this in the recent development of Mexico,

and the corresponding rise in value of its representative stocks. From time to time opportunities are also afforded of purchasing first-class low-yielding stocks at comparatively low prices, on account of the adverse trade and financial conditions temporarily prevailing in certain Geographical centres.

The above are the main opportunities of increasing capital value in a sound and efficacious manner, the question of income-yield being regarded as a subordinate matter. The main principles of Geographical Distribution of Capital should be closely adhered to when lists are constructed for the purpose of accomplishing this object. Every stock which shows a fair increase of capital value should be sold as opportunity arises and re-invested on the same favourable terms as in the original purchase, care being taken that the poise and counterpoise obtained by a proper geographical distribution is not thereby disturbed.

VI. The Maximum Chance of increase in Capital Value, with entire disregard for Income.

An investor who disregards Income and simply desires to increase his Capital should select the reasonably largest number of comparatively younger stocks standing at low prices (whether they yield a dividend or no

is immaterial), all of which show a great capital variation year by year, and are spread over the largest possible geographical area. A list of this description, worked on the principles explained in the previous chapter, should be non-speculative as a whole and yet give the maximum chance of a large increase in capital, for the largest imaginable falls in some directions will be counterbalanced by corresponding rises in value in others; whilst the intermittent purchase of cheap stocks by the realisation of other stocks which have materially improved in value as described in the foregoing chapter, will lead to the investor securing the large profits which will accrue to him. Only investors who consider themselves to possess financial skill and who are fair judges of the probabilities of new investments should undertake the construction and the subsequent management of an investment list of this description. They must be prepared to see some of their investments result in total failure, and they must rely upon the very large profits made on others to produce a constantly appreciating total.

The above suggestions are made with the double object of showing, in the first place, that every individual Investment Aim is to be achieved in a fashion peculiar to itself,

and, in the second place, of explaining how various types of securities should be employed in order to obtain certain desired results.

Stocks should be used by investors in the same way as an architect uses building material. Just as there are various kinds of timber, every one of which possesses different qualities, so there are different classes of stocks with varying advantages or drawbacks. The lowest class of timber can be utilised in its proper place, and in the same way even the lowest grade of stocks can under certain circumstances be advantageously employed.

It would be a pity to employ fine oak beams for supporting the roof of an outhouse, and it is equally unwise to invest in a British Trustee Security when a fair Ordinary share would do. In a virgin Oak forest, far removed from civilised centres, oak logs might be so employed, for the timber does not command a fair comparative price in such a region; and similarly a first-class 6 per cent. yielding Debenture emanating from a country where money is dear, might be used for ordinary Investment purposes.

For, as with timber, whose price is regulated by its proximity to markets, so is it with stocks, whose yields are regulated by their geographical position.

Thus a good British Debenture Stock will command a price at which it will yield only about $4\frac{1}{2}$ per cent., whilst an equally well secured local African or Japanese Debenture can be bought to yield 6 per cent. ; or in other words £75 invested in the latter, will go as far as £100 invested in the former.

A builder of an investment scheme requires materials (Stocks) which are situated in different parts of the globe. For some of those which emanate from the centre of civilisation, he will be forced to pay high prices ; these should be offset by the compensating low prices at which others, situated in remote countries, are purchased. The less civilised a country, the more its stocks should yield, and in this way a fair average return can be secured from capital judiciously distributed over the earth's surface.

If a Trustee is forced to invest exclusively in British Trustee Stocks he will obtain an average yield of under $3\frac{1}{2}$ per cent., whilst a Trustee whose hands are not equally tied can obtain over 4 per cent., and every security which he holds can be quite as sound as the British Trustee Securities are. Private investors are not in any way restricted in their selection ; hence they are wasting their substance when they neglect to provide a sufficiently wide area

of investment for their capital, which consequently remains comparatively unproductive—to say nothing of the additional and indispensable capital security which Geographical Distribution carries with it.

There are as many varieties of Investment aims as there are forms of leaves on the trees, and the examples which we have given are only a few average specimens. If the personal aims of any one of our readers are fairly described in one of the given specimens, then no difficulty arises in constructing his investment scheme; but should his case not fall under one of these general and most frequent heads, then we should advise him to take special advice.

The foregoing examples will also serve to illustrate how our mode of constructing Investment Schemes reduces to a minimum the element of speculation. Further, they will enable an investor who follows our principles to decide at the outset by what means he can best attain the investment object desired by him.

Investors have been so frequently misled by rosy pictures of future possibilities, that a great many of our readers may possibly consider our outline of obtainable results overdrawn, and may feel inclined to doubt

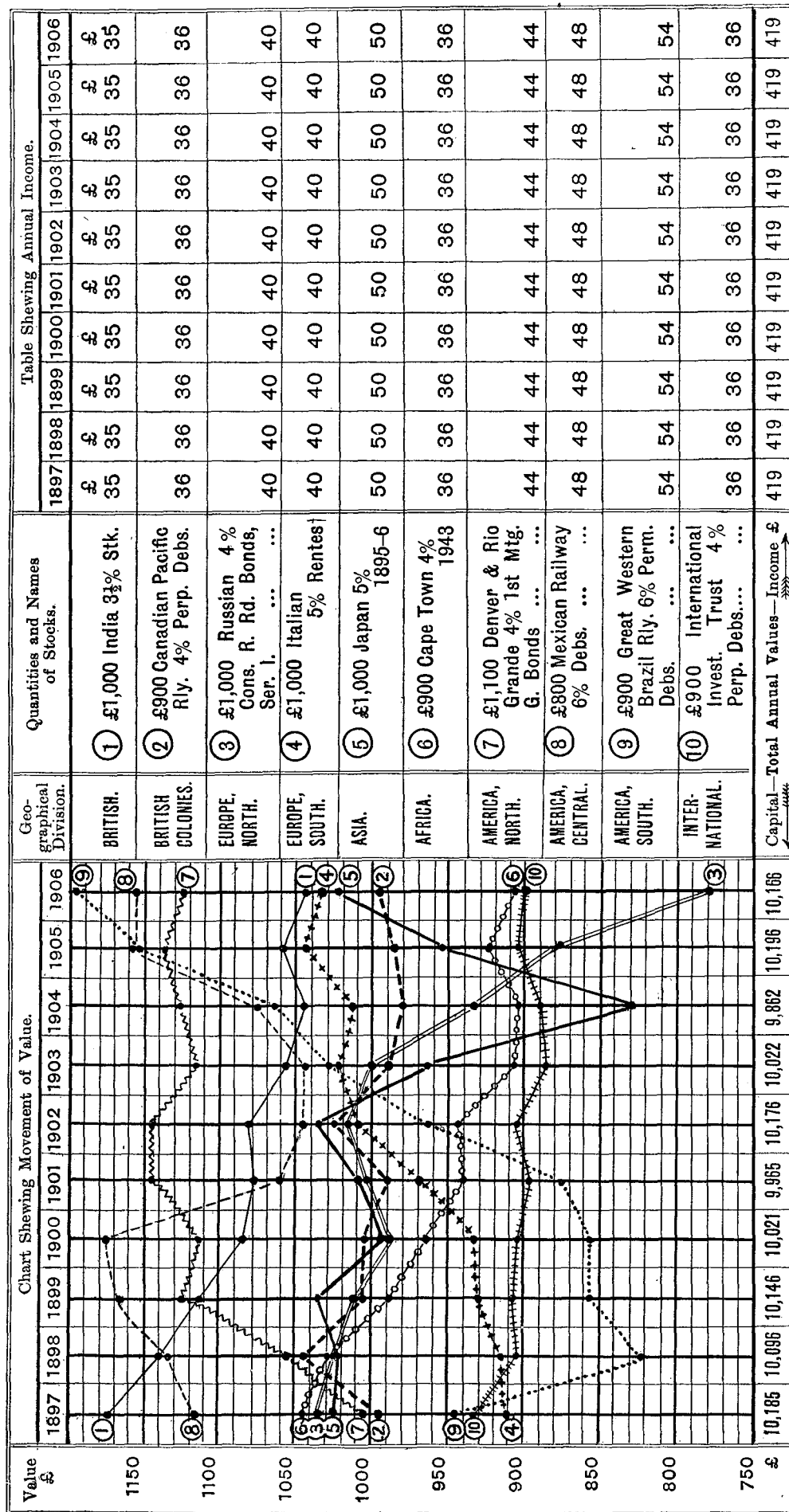
the possibility of so reducing chances as to make satisfactory investment results a practical certainty from the outset.

This dubious frame of mind we consider rather advantageous than otherwise, because it should tend to egg the doubter on to a close study of the subject of averaging investment risks. All investigations which he will make will lead to a better understanding of the subject, and to the ultimate conviction that we have in no way overstated the accuracy with which an investor can pre-arrange a given result.

Having once determined what results he desires, and having discovered what classes of stocks he should include in his investment list, an investor should be guided by the following main points of a safe Investment Scheme, which are applicable to all investment schemes whatever the desired object may be.

1.—The Division of Capital. The amount invested in every separate stock must be alike ; therefore the number of stocks which the investor decides to hold settles the amount of capital to be placed in each. In our opinion the evolution of invested savings should be somewhat as follows :—When annual earnings first begin to exceed the annual expenditure, the Post Office Savings Bank should be the

GEOGRAPHICALLY DISTRIBUTED INVESTMENTS* PRODUCING 4 PER CENT. PER ANN.



* NOTE.—Geographical Division of Capital necessitates an equal division over similar stocks, every one of which is subject to a different trade influence. In the above Chart the conditions of similarity in quality and difference in trade influence only have been complied with, the Capital division is quite uneven. If an even Capital division had been adopted all zig-zag price lines would of necessity have started from the same point, and this would have made the Chart quite undecipherable. For this reason the above is not a perfect investment list from a practical point of view.

† Italian Tax of 20% deducted.

repository for anything up to the first £100. As soon as the deposits reach that figure they should be taken out and invested in one stock. This process should be repeated with the next hundred, only the second stock chosen must be under a different market and trade influence from the first. We deal with the best selection of countries for this purpose in the third of these sub-divisions, of which this is the first. With the third hundred a third stock should be bought, and so on up to £500. (Until the invested capital is protected by at least three different market influences, capital safety has not been arrived at. For this reason we would recommend that the first stocks bought be most carefully examined as to capital stability). After £500, the number of stocks to be invested in will largely depend upon the objects desired by the investor, as outlined in the early part of this chapter. For ordinary purposes, where a substantial income with good capital stability is desired, we have found, in our experience, that capital is best divided up in the following proportions :—

From £500 up to £1,000 capital, 5-6 stocks of equal value.

„	£1,000	„	£2,000	„	5-7	„	„	„
„	£2,000	„	£5,000	„	6-8	„	„	„
„	£5,000	„	£20,000	„	8-10	„	„	„

For larger sums 10-30 stocks of equal value.

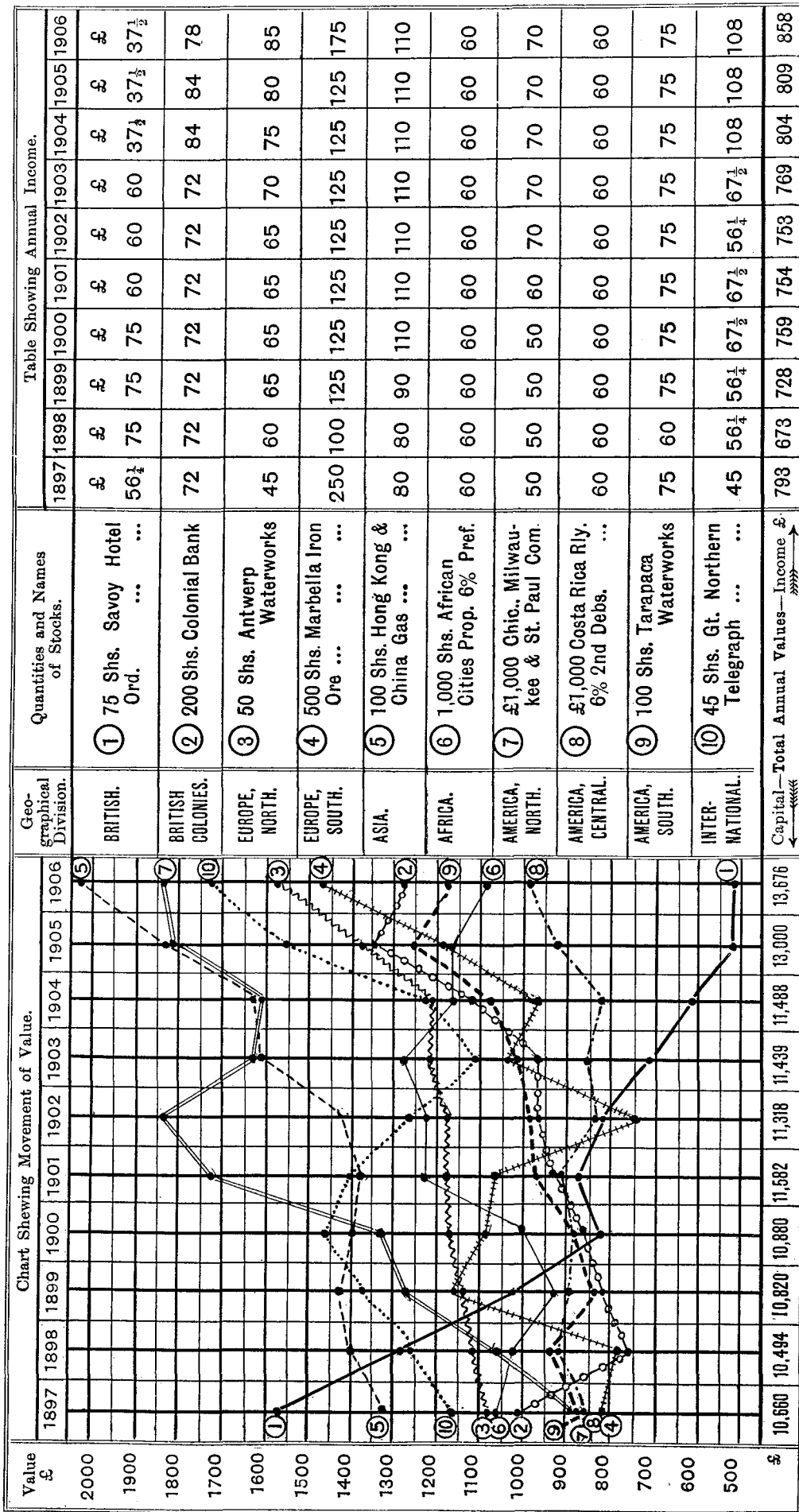
Many investors indulge in some small speculative transactions, or hold, for personal reasons, small interests in some particular enterprises. These minor holdings form no part of the real Investment Scheme; they should be treated like a petty cash account; otherwise these extraneous holdings will obscure the results which the Investment List is producing, and impede its proper working.

Investors derive no benefit from holding two or more stocks which are subject to the same Trade Influences. Every additional stock held entails additional labour in supervising its progress, and as it is futile to create additional work which can be productive of no beneficial results, the number of stocks held should be reduced to as low a point as is compatible with adequate Geographical Distribution.

2.—The Quality of the Stocks held. As to the quality of the stocks, which an investor elects to buy, he must be guided by his own Income Requirements.

Investors who are content with a yield of 4 per cent. or under should make their selection among high-grade securities, similar to those which in British stocks rank immediately behind the gilt-edged group. Those who desire a yield of from 4 to 5 per

GEOGRAPHICALLY DISTRIBUTED INVESTMENTS* PRODUCING 7 PER CENT. PER ANN.



* NOTE.—Geographical Division of Capital necessitates an equal division over similar stocks, every one of which is subject to a different trade influence. In the above Chart the conditions of similarity in quality and difference in trade influence only have been complied with, the Capital division is quite uneven. If an even capital division had been adopted all zig-zag price lines would of necessity have started from the same point, and this would have made the Chart quite undecipherable. For this reason the above is not a perfect investment list from a practical point of view.

cent. can satisfy their requirements amongst the Debentures and Preferences of old-established Home Industrial Companies, whilst in other geographical divisions they will find that they have a wide choice amongst Foreign Railway Mortgages and Preference Stocks. Investors requiring from 5 to 6 per cent. upon their invested capital will find a fair selection amongst Ordinary stocks and Foreign and Colonial Industrial Debentures and Preferences; but in the British division such a return is only obtainable from Industrial Issues of lesser repute.

In *How to Manage Capital* we give a detailed explanation as to how the comparative class, value and safety of individual securities is determined, and in the *Investor's Year Book* and the *Financial Review of Reviews* is set forth the statistical information necessary to ascertain the dividend safety and the widths of fluctuations of all the securities contained therein. With a very little practice the investor will find himself thoroughly competent to arrive at a correct opinion on these two points.

As we have already indicated in the examples given earlier in this chapter, it is in the selection of the quality of the investments to be held that the investor must

decide whether he chiefly aims at permanent stability of capital value or at the enhancement of the realisable value of his capital. In the previous chapter we have explained how Geographical Distribution will assist in the enhancement of the value of capital invested, and if this is the object chiefly desired, then stocks of great width of fluctuation should be chosen. If, however, Capital Stability is all that the investor aims at, then stocks with the minimum width of fluctuation, in fact, stocks which but rarely change hands and do not possess a free market, are preferable.

Any yield up to 6 per cent. is usually obtainable, and, as will be seen from the two specimen charts here interleaved, it is possible, with the aid of Geographical Distribution, to select stocks which scarcely fluctuate in their combined realisable value. The lower the yield of income obtainable from an investment scheme, the smaller will be its variations in total realisable value. Thus, the 4 per cent. scheme illustrated in the chart starts with a capital value of £10,185, and during ten years its extreme variation was a fall of £323 in the year 1904, whilst the 7 per cent. chart starts with a capital value of £10,660, and displayed its extreme

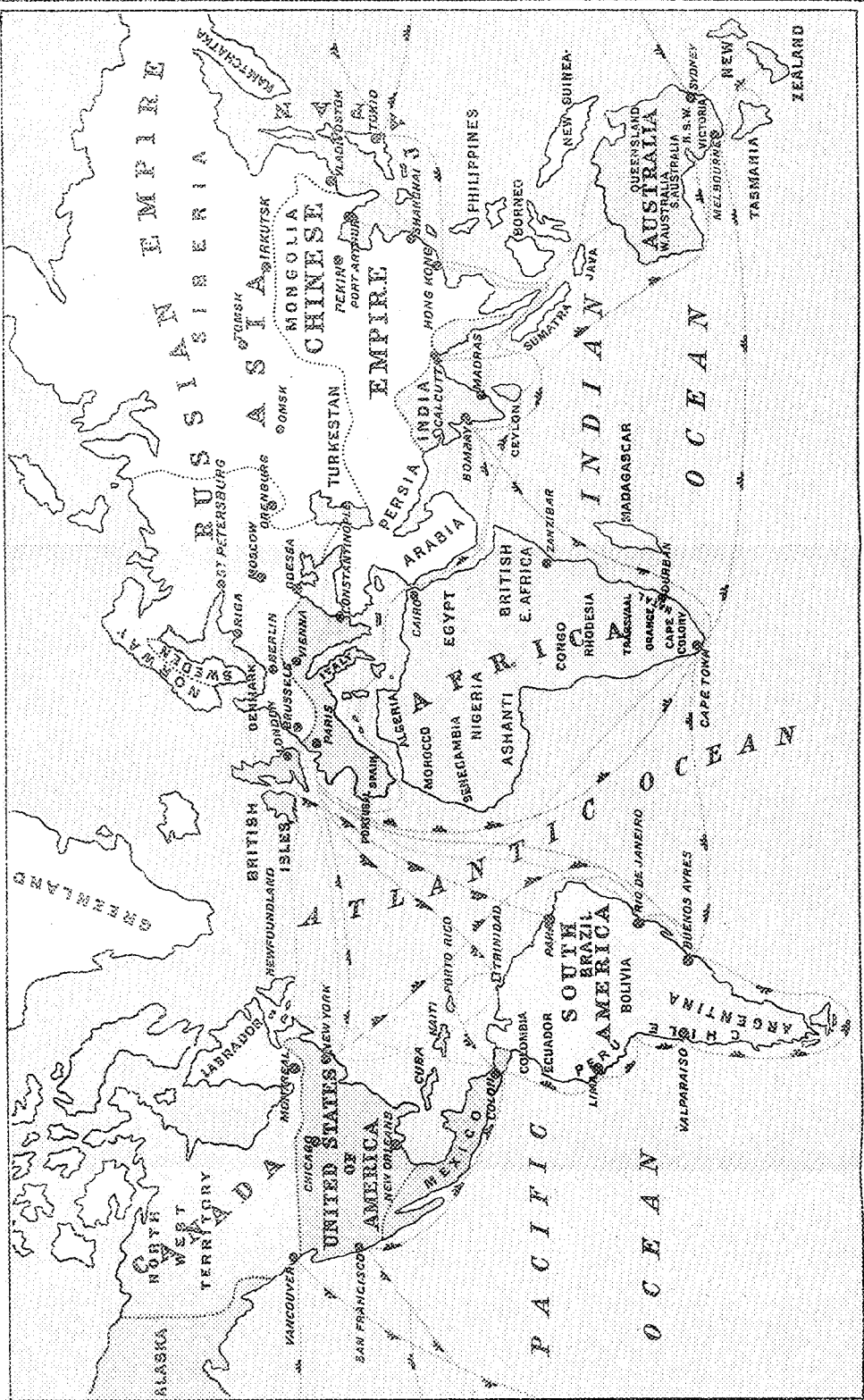
DISTRIBUTION OF CAPITAL.

The safety of capital is obtained by dividing it (1) evenly among a number of sound Stocks (2) of identical quality, but (3) every Stock held being subject to an entirely different market and trade influence.

NOTE.—For the reasons why all British Trustee Securities belong to the British Division, although they are geographically situated in various parts of the globe, see "The Investment of Trust Funds."

I. BRITISH DIVISION	II. BRITISH COLONIES.	III. EUROPE North.	IV. EUROPE South.	V. ASIA.
England. Scotland. Ireland. Wales. <i>All British Trustee Securities irrespective of their geographical situation.</i>	Australia. British Columbia. Canada. Ceylon. India. Labrador. Newfoundland New Zealand.	Belgium. Denmark. Germany. Holland. Norway. Russia. Sweden. Switzerland.	Austria. Hungary. Bulgaria. France. Greece. Italy. Montenegro. Portugal. Roumania. Serbia. Spain. Turkey.	Arabia. China. Japan. Korea. Persia. Siam. Turkestan. Turkey in Asia. Malay. Philippines. East Indies.
VI. AFRICA.	VII. AMERICA North.	VIII. AMERICA Central.	IX. AMERICA South.	X. INTERNATIONAL STOCKS
Algeria. Abyssinia. Bechuanaland. Cape Colony. Congo F. State. Egypt. Gold Coast. Lagos. Morocco. Natal. Orange Riv. Col. Rhodesia. Sierra Leone. Transvaal.	United States of America. Alaska.	British Honduras. Costa Rica. Guatemala. Honduras. Mexico. Nicaragua. Panama. Salvador. West Indies.	Argentina. Brazil. Bolivia. British Guiana. Colombia. Chili. Dutch Guiana. Ecuador. French Guiana. Paraguay. Uruguay. Venezuela.	Representing International trading interests, such as International Trusts, Shipping, Telegraph, and Marine Insurance Companies, Shipping Cables.

CHART OF THE WORLD.



variation in the year 1906, when it had risen to £13,676.

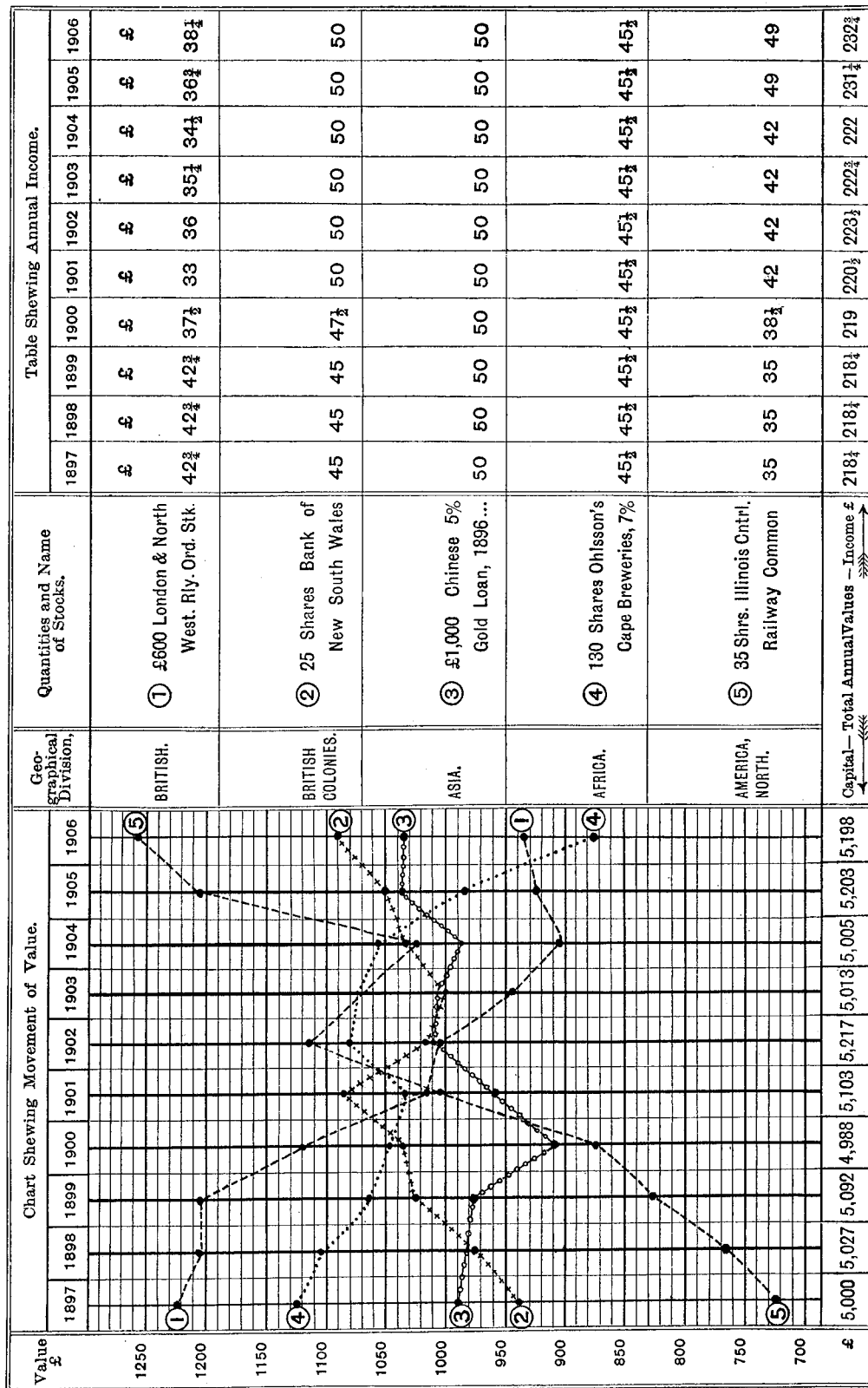
A study of the 4 and 7 per cent. chart discloses the fact that Government Stocks fluctuate most violently, whilst all stocks which are, as far as this is possible, removed from political influences, fluctuate to a much lesser degree. Investors who seek for tranquility of mind should invariably give their preference to stocks which, although they are saleable, have a rather congested market. These classes of stocks but rarely change hands, never attract the attention of speculators, and therefore only follow the general wake of price-movements in a sluggish manner. Investors who desire to increase their capital value should select widely-moving stocks.

3.—The Geographical Divisions. If we take a map of the world and look at the different countries thereon depicted we shall find some forty countries in which at present it is possible to select representative stocks that are subject to different trade influences. As more countries develop their resources, there will naturally, in the future, be even more countries from which the investor may make his selection. Now the object that an investor should invariably keep before him when he decides upon a Geographical Distribution of his capital is to

so select his countries in which he desires to invest, as to obtain as great a contrast as is possible in the trade influences which govern each one of his holdings. If the reader will look at the accompanying map of the world we will attempt to outline the method he should adopt, not only in his initial selection of such stocks, but also in the management and manipulation of his holdings as recommended in the preceding portions of this book. For the sake of clearness we shall develop the method of distributing savings over a geographical area from its incipient stages.

We have already mentioned, in dealing with the division of capital, that the first savings should be placed in the Post Office Savings Bank. As soon as the deposits have reached the sum of £100 this amount should be taken out and invested in one stock. The first stock chosen should be of a general international character. We will explain more fully hereafter the nature of such stock. When the next £100 has been saved this sum should be invested in a British stock. The next £100 should be invested in a stock whose trade influence is the most likely to be in diametrical contrast to that of Great Britain. The stock chosen should therefore be an American stock. The succeeding fourth sum of £100 should be

GEOGRAPHICALLY DISTRIBUTED INVESTMENT LIST COVERING FIVE DIVISIONS ONLY.



invested in a different Continent to those in which stocks are already held; for this reason we will select the Continent of Asia. Africa will afford the investment centre for the fifth £100 and Australasia for the sixth £100. As there is very often great difficulty in securing the required class of stock in the latter division, an alternative division may be necessary, and either Canada, India, or South America be selected as a substitute.

We have now covered the five continents of the world, and have supplemented these by a General International stock so that the safety of our capital should be assured. If sound stocks in each continent are selected for the purpose of investment, it is not absolutely necessary to carry the division of the earth's surface any farther, whatever the amount of capital to be invested may be, so long as such capital be evenly distributed. Indeed, so long as there are four or five well-contrasted countries in which the investor selects his stocks, the necessary poise and counterpoise incidental to a sound geographical distribution of capital will always be secured. In illustration of this we append a chart covering five geographical divisions only. But where the investment objects necessitate a wide distribution of capital in accordance

with the directions given in the examples set out in the early part of this chapter, then more divisions become necessary.

The number of geographical divisions amongst which an investor decides to distribute his Capital should always increase in direct ratio with the Income-Yield worked for. In an Investment List constructed to yield an income of 4 per cent. the minimum number of stocks and of geographical divisions will suffice. But, when the investor requires a yield of 5 or 6 per cent. from his capital, and consequently purchases stocks of a more speculative type, Capital Distribution should be made as wide as the amount of capital will permit. This, of course, applies also where the selected stocks are desired to show large fluctuations.

If the reader will again refer to the map of the world we will lead him on to further countries in their natural succession. In order to show clearly the motive for our selection, and to aid the reader when we come to the question of realising investments, we would ask him to provide himself with a few pins to represent stocks and to fix first of all five of them into the divisions already selected, thus :—One in the spot denoting London, one in the spot denoting San Francisco, one in Tokio, one in Cape Town, and one in Melbourne, and a

sixth pin should be inserted in the middle of the Atlantic Ocean to denote the General International stock. After these we take Europe as a division distinct from that of Great Britain, and we will place a pin, say in Italy. The next step is to divide America into two divisions, North and South. As we have already one pin (representing a stock) in North America, our next selection must be a stock in South America. Let us place a pin in the spot denoting Buenos Ayres. The next division will be Europe into North and South, placing a pin, say in Berlin. Lastly, we again divide America, forming a distinct division of Central America, and we will place a pin in the centre of Mexico.

This limit of ten divisions, which we have chosen as our method of covering the earth's surface for the purpose of the Geographical Distribution of Capital, will be found a very convenient one for all ordinary purposes. Being a decimal unit the division of capital is rendered extremely simple, and it is also admirably adapted for the purposes of poise and counterpoise. A glance at the pin-covered map will, of course, show a large number of uncovered countries, some of which are governed by still different trade influences ; for example, in the British Colonies,

Canada and India are both unlike Australia in their trade movements; while in North Europe, Belgium and Switzerland, although near neighbours, show similar differences in their respective trading conditions (see chart of price-movements in different countries). Indeed, by consulting a financial expert who thoroughly understands the Geographical Distribution of Capital, new divisions can be arranged in any quarter of the globe where it seems to be expedient. This is a very important point to bear in mind when it is desired to realise any particular stock which has shown a substantial appreciation. We will proceed to illustrate on the map how these realisations and re-purchases should be carried out in practice.

Let us suppose that the stock which is represented by the pin. in Italy shows a realisable value considerably above cost price. That is to say, suppose that after a period of trading prosperity the increased purchasing power of the Italian investor has carried the price of Italian stocks up to a point where on their realisable value they return but a low rate of interest. Then this stock should be realised at a considerable profit, and the proceeds should be invested in a stock of the same width of fluctuation in a country in the

same main division, but whose credit is below its normal point. Let us suppose these conditions obtain in Austria, so that our purchase will consist of an Austrian stock of kindred quality to the Italian stock which has just been sold. Our capital will then have been enhanced by the profit realised on the Italian stock and will now stand a further chance of enhancement in the future. Moreover, the balance of our investment scheme will not be imperilled, for if we transpose the pin from Italy to the spot denoting Vienna we still find our pin-covered map shows a similarly wide distribution of capital over the whole surface of the globe as it did originally.

Again, if the appreciated stock is the one denoted say by the pin fixed in Buenos Ayres, we then purchase another similar stock in some other part of South America, and wherever we place the pin—whether in Para, or Valparaiso, or Rio de Janeiro—we still find an equally wide distribution of our capital evidenced by the symbolic pins on our coloured map.

If it should happen that no country in the same division affords a suitable investment, then we must look at the pin-covered map, and choose a favourable stock in some other division which is as far removed from any

of our upstanding pins as possible. In this way, also, the equipoise of our investment risks will remain undisturbed.

For very large amounts of capital, more than the ten suggested Geographical Divisions may be made by means of further subdivisions, care being taken always to secure a well-balanced distribution. At the end of Chapter VII. of this book will be found an extended list of all the principal Stock Exchanges of the world, showing the main divisions under which they fall, and in each of which it is possible to find stocks that are mainly or wholly controlled by its own market dealings.

In addition to the division of the earth's surface into contrasted trading centres, it will be seen from the coloured map that we have included a tenth division, which bears an international aspect. In this division we include all the undertakings or concerns which trade between nations, like Shipping Companies, Marine Insurance Companies and Cable Companies. This is an extremely important division and it should be represented in every Investment List where the smallness of the capital sum precludes the investor from achieving a world-wide distribution. The reasons for always investing a

portion of capital in this division briefly are that the business of Shipping, Insurance, and Cable Companies always benefits during war times or during political complications which threaten war. Therefore, when other securities are flat, stocks of this type are enjoying a period of abnormally large earnings. Further, the whole freight market always benefits in every trade route by an exceptional demand for tonnage in any quarter of the globe, because any exceptionally prosperous part of the world attracts to it the surplus tonnage from other routes, and so improves the prosperity of shipping all the world over. Lastly, it will be found that the dividend yields obtainable from General International Investments compare favourably with the yields obtainable in the other geographical divisions.

When finally deciding upon the purchase of stocks, the adjustment of the equality of invested capital in the various divisions should not, if it can be avoided, be pushed to the point where the nominal amounts of stocks purchased are broken up into smaller quantities than multiples of £100 nominal stock. Otherwise the investor will find himself possessed of a number of oddments of stock which he will only be able to realise in the future at some concession below the

current market price ruling for even amounts of the same stock.

The above explanation furnishes all the items of detail which are involved in the construction of Investment Schemes to meet every conceivable requirement. In every instance the ultimate success of a scheme constructed on these lines will merely depend upon whether the scheme decided upon does actually embrace all the objects the investor is aiming at, and whether, in any modifications of the original scheme which he may make in the future, he imports no new factor into his Investment List which upsets the harmony of the original arrangement.

An Investment Scheme, when once adopted, must be consistent in character to the smallest detail, and the very consistency of his investment policy will be found an immense assistance to an investor in enabling him to form a right judgment in every financial contingency which may arise. No longer will the investor, with money in hand for investment, hesitate between the comparative merits of an endless variety of securities. His Investment Scheme will solve the problem for him, and clearly indicate to him in which geographical division and in what quality of security he must seek the stock he requires.

CHAPTER VI.

THE TREATMENT OF EXISTING INVESTMENT LISTS.

BUT few of those who read the pages of this book will find that their own investments are distributed in the manner suggested by us as the safest; because stocks and shares are usually acquired gradually, and added to from time to time without any definite *Investment Scheme* being followed.

Whenever the investor's banking account discloses an unnecessarily large cash surplus, a stockbroker is consulted, and this or that stock is bought without any regard to previous purchases, and without considering the fitness of the new stock to assist in the development of a wide distribution of risks. As the sums of money so freed for the purpose of investment naturally vary, at one time a large purchase is made, whilst on another occasion only a small amount of stock is required.

As a natural result the most curious combinations of investments are strung together, in which the quantities of the various stocks held bear no symmetrical proportion to each

other ; so that the depreciation of a large block of stock cannot possibly be counterbalanced by an equal appreciation in a small holding ; and, in addition to this, the external risks which dominate these indiscriminate purchases are entirely disregarded.

Besides this, some investors buy thirty different securities where six well-selected stocks would have sufficed ; whilst others purchase five stocks where at least ten would have been necessary for a proper distribution of risks.

The commonest and most disastrous idea which seems to prevail among investors is that it is only necessary to consider the *pros* and *cons* of every stock separately, and that if each stock held is internally safe the total result must be satisfactory.

We have now fully explained to our readers the fallacy of this argument, and have, we hope, made clear to them the disastrous consequences which these popular mistakes entail. So that by this time our readers should be in a position to lay their fingers upon the precise cause of every financial loss which they may have sustained in the past.

To reconstruct to the best advantage existing ill-assorted Investment Lists is by no means an easy task. We give in *How to*

Manage Capital a detailed description of the way in which this can best be carried out, and will, therefore, here state briefly that the investor should commence this task by first of all ascertaining his real investment position. There is nothing which will make this easier for him than a tabular statement showing, firstly, how his own investments are split up over the ten main Geographical Divisions which we have explained in the last chapter, and, secondly, in what proportion his capital is divided among the various securities held.

We have demonstrated in the previous chapters that a proper distribution of risks is the only way in which successful investment can be arrived at. This distribution of risks entirely depends upon the number of different Trade Influences which are represented in a list of investments. We have also demonstrated that capital, to be safe, must be equally divided amongst a number of stocks of similar quality.

It is only by means of such a tabular statement that the true existing investment position can be revealed. In this way alone can it be shown how many separate trade influences are covered by existing investments, how much capital is placed in each one of them, and how far an equal division of capital among all stocks held has been effected.

Investors who are unfamiliar with work of this kind will be well advised to have such a table prepared for them by an expert, as it is of indispensable importance that this table should be correctly made out in every detail.

As soon as the Table is complete, the investor should examine the examples of investment objects given in the preceding chapter, ascertain which of these examples represent his own case the most accurately, and then compare his own list of holdings (as shown by the Table of his own investments) with the recommendations given in such example.

The investor will now have two pictures before him, the one showing how his money is actually invested, the other how it ought to be invested so that his capital may be safe and his investment objects obtainable. Whenever it is found that an investor's own list differs widely from our example, then prompt and drastic action should be taken, and the list rectified without delay. Our examples are based on a life-long experience, and have proved themselves in practice to be correct. On the other hand, we have hardly ever known a case in which a badly-constituted list has produced the results which the investor himself has desired.

In all cases where none of the examples of Investment Aims given in the previous chapter really fit in with the actual object desired by the investor, he should either endeavour to make up a combination, fitting his case for himself, or he should consult a competent adviser.

It is just as useless to expect a toy terrier to grow three feet in height as it would be to expect a dearly purchased fixed charge stock to show a considerable increase in capital value. There are certain future possibilities in every stock, and unless these possibilities carry out the investment aims of its holder, disappointment is bound to be the ultimate result.

Before any alterations in the existing investment list are made, a DEFINITE INVESTMENT SCHEME, setting forth *the number* of stocks to be bought, the *class of security* selected and the *Geographical Divisions* to be covered, should be made out, and then such existing investments as do not fit into this scheme should be sold and the proceeds invested in stocks which answer every requirement of the scheme.

In some cases it is wise to carry out an entire reconstruction forthwith; in others, it is preferable to do so gradually. It is quite impossible to give any rigid directions in this

respect ; but investors should always remember that the sooner they get into a really sound investment position the better it naturally is for them.

It frequently happens that investors delay the re-arranging of their investments because their own investments have fallen in value and they prefer to wait for a recovery in prices. It is, of course, most unsatisfactory to sell at a loss ; yet, in many cases, the first loss is the best.

Waiting for a recovery in prices means speculating on a future event. There is really no difference between a man waiting for a stock to recover and another buying this same stock in a speculative way with a view to its rising in price. It is from this standpoint that all investors who are reluctant to face a loss should consider the matter, and if they are content to speculate as to the future, they can then delay their reconstruction of investment.

There is, however, another way in which the contingency of selling at a loss may be met. In almost every Geographical Division there are some stocks to be found which at some time or another have commanded higher prices than those at which they can be bought when a reconstruction is contemplated. By exchanging the investments which show a loss

for stocks of this kind, the investor may secure quite as good a chance of a future rise in value as he may have in respect of his existing holdings. Such a procedure might hinder the immediate investment in stocks which are likely to carry out the investor's real investment aim ; but it would tend to forthwith improve the Geographical Distribution of his capital, and this is, after all, a very great step in the right direction. To wait for a future rise in any security is speculation and not investment, and whether the anticipated rise is to take place in a security which is actually held or in one which has just been purchased does not alter the fact. To make investment and speculation go hand in hand is not an easy matter, and it is from this point of view that every delay in the sale of unsuitable stocks should be considered.

In all cases where a stock broker is consulted, his *ipse dixit* on investment questions should not be accepted as final, but he should rather be asked to furnish good reasons for the suggestions which he may make, and to explain at the outset his Investment Scheme as a comprehensive whole. This not only makes for the greater enlightenment of the client, but it also gives the latter an opportunity of testing his adviser's ability to handle the delicate question of investment.

The publishers of this book will both prepare Tables of existing investments as heretofore explained, and also construct complete Investment Schemes for every investor's individual case. Furthermore, they analyse the stocks held as to soundness, and suggest which of them could be most advantageously retained. They also keep up a permanent Register in which the *safest*, *best*, and *most remunerative* stocks for the time being in every Geographical Division are recorded. By means of this Register they can indicate instantly stocks most suitable to every kind of Investment Scheme.

There are some investors who have a rooted prejudice against all Foreign Investments. This attitude is highly patriotic, no doubt, but, like every other fancy, it has to be paid for.

To such investors as these the theory of this book will not prove palatable, in spite of the obvious wisdom of a wide distribution of investment risks. It is, in our opinion, impossible to construct a really safe Investment List consisting of British stocks only, for the simple reason that these stocks are bound all to move together. The best practical substitute which we can suggest for world-wide distribution of investment capital is the careful choice of

varied local enterprises to make up an investment combination, great attention being paid to the point that no two companies selected shall be identical in their objects or in their trade interests and that all stocks held should be as far removed from general trade influences as possible. Further, care must be taken that the selected enterprise is being carried on as a sound business concern and not for the benefit of a few chosen individuals with whom the company does business. These points we have fully explained in a previous chapter.

After all, when the sun shines the milliner is jubilant, whilst in rainy weather the umbrella-maker rejoices. In this way it is possible to arrive at something approaching a distribution of risk without going outside the United Kingdom, provided that the stocks selected are unimportant, and for this reason as far removed from the influence of British trade as they possibly can be.

Conservative investors are naturally disinclined to change their holdings, and rich people are especially dilatory in their financial affairs. But our twenty-seven years of experience have proved to us that every holder of a badly distributed Investment List is in the true sense of the word constantly on the verge of a precipice, and we have known the finest

fortunes disappear through a bad distribution of risks.

As long as matters prosper all is serene, but the first financial disaster makes a breach in the stronghold ; the endeavours to repair the breach lead to dabbling in more speculative investments, and these again are followed by speculation pure and simple, with the final result of a complete catastrophe.

It is too late to lock the stable door after the steed has been stolen ; it is much wiser to see to the lock whilst the animal is still on the premises. Therefore every holder of a questionably distributed list should at least consider his position in its true light. After all, this can be done without much trouble or expense, and it is no great matter, even if ultimately no change is made. It will clear the air at all events, and serve to illuminate the investor's real position. An exact knowledge of his true position is the first essential of a business-like investor.

Sometimes the reconstruction of an Investment List is delayed on account of the expense which it involves. This objection rests on a most shallow foundation, for in most cases reconstructions can be so carried out that while the new list offers greater capital safety and a safer and larger future annual income than the

existing list, yet all attendant expenses are paid out of the reconstruction, the investor not being asked to find any additional money.

We hope that this book will tend to reduce materially the number of badly distributed investment lists which at present exist, and thereby prevent further large loss of capital. Quite as much money is lost from want of adequate distribution of capital as is swallowed up by losses made in speculation and gambling, although it may surprise many people to hear that this is so.

CHAPTER VII.

THE WORLD'S STOCK MARKETS.

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

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

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

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

In fact, while every important transaction in Consols sends its reflex to London, Turks are dealt in locally, and these dealings only affect indirectly the other places they are quoted. For this reason London alone determines and controls the price of Consols, whilst the price of Turks is determined by international arbitrage dealings.

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

In these international securities, of course, the most powerful centre determines the quotation. Thus, if the Paris public is more interested in Turks than Berlin, Paris is able to absorb or supply larger quantities of stock, and it is then the Paris market which controls

the price and fixes the level of value to which Berlin is compelled to conform. If, in the course of time, the interest in Turks in Paris gradually diminishes, and the people of Berlin or any other centre should become the largest holders of Turks, then the position would be reversed, and the Berlin or some other Stock Exchange would commence to dominate the market in Turks.

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

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

market, though the control is generally in the hands of Paris.

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

Not only do wars, political troubles, trade stagnation or prosperity influence the prosperity of the enterprises and the prices of stocks which are held in a country, but such events as these also affect the stocks in which that individual country is the dominant market. This is a point which should be most carefully considered by all those who desire to obtain a real international distribution of risks.

Many investors object to hold stocks which they do not see daily quoted in the particular newspaper they regularly read, and this fact alone prevents them from obtaining a proper capital distribution. No newspaper is able to quote all the really important stocks of the world, as this item of intelligence alone would suffice to fill the most voluminous newspaper. The largest number of stocks which are at present quoted in any newspaper or periodical of any country are contained in the *Financial Review of Reviews*. But

although this periodical gives (in 320 pages) the last four years' prices, dividends and yields at present prices of upwards of 5,000 individual securities, yet this number of stocks is only a tithe of all the investments of the world.

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

When the choice of an investment is being considered, it is better to select a comparatively unknown security, because in such a stock the probability of securing a real bargain is far greater than amongst stocks that are in everybody's mouth. And just as consumers should always give a wide berth to all largely advertised articles, which have not already positively proved themselves to be the best of their kind, so investors should shun every stock which is much written and talked about at the moment, unless the past records of that stock prove it to be safe, sound and cheap at the ruling quotation.*

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

It is true that some stocks can be bought and sold at a difference of 5s. in every £100, whilst in other stocks this difference amounts

* The present author has dealt exhaustively with this subject in the Popular Financial Booklet No. 17 (*The Money Market Article and the Private Investor*), published by the same publishers.

to £2 for the same quantity. But stocks of both types are subject to market fluctuations, and an increasing or decreasing demand for a particular stock will rapidly alter the facility with which it can be dealt in; so that the free market of to-day becomes the laborious negotiation of to-morrow.

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

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

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

We wish it to be quite understood that in the above example Cordoba Central Second Preference and Buenos Ayres & Pacific Common have only been used to prove the argument and not because we consider that they will retain their respective positions, both as to price or marketability. It is always dangerous to give in a financial handbook an example of this kind, as a book of this sort is frequently read many years after its date of publication, and both stocks used in the example might then have ceased to exist. For this reason we hope that our readers will understand that the future of the stocks quoted in the example is an unforeseeable quantity, and that the argument only is of value.

The speculator who intends to realise again promptly must, of course, consider the temporarily existing marketability of a stock. The investor should, as a matter of fact, turn his attention to stocks which are unfashionable and rather difficult to deal in. Every good investment is always saleable at a price, and the margin of difference between purchase and sale prices is a matter of small moment in comparison with the ultimate destination of a market movement. It is therefore the present and future prospects, and the suitability of a stock to a specific Investment

Scheme only, which ought to weigh with an investor, and not the margin of difference between its sale and purchase prices.

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

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

To the investor who realises the truth contained in the foregoing paragraph, the world, so to speak, is open, and he can buy the safest and most remunerative securities in existence, and thereby free himself from the confined limits of any one financial centre. An international firm of stock dealers is in a position to supply him with the best selection out of all markets, together with the necessary material for forming a capable opinion of the stocks he

is inclined to purchase. Such a firm will also inform him as necessity arises how all his stocks are valued on those Stock Exchanges on which they are principally dealt in.

If the question of what people think of stocks and what they consider safe is analysed, we come again to a point of geography pure and simple. A Swede will consider Swedish the safest National Loans, and an American will entertain a preference for those of the United States. The Scotchman will prefer the British Linen Company Bank to the London & Westminster, the Londoner *vice versâ*. If an Englishman were told to buy the Austrian North Railway Debentures he would hesitate, while an Austrian might consider London & North Western Debentures to be highly speculative. As a matter of fact, both these debentures are equally safe, as can be proved by statistics; therefore, why should an investor allow local feeling to interfere with his obtaining investment safety?

When the various Stock Exchanges of the world are reviewed, and when we consider that each Stock Exchange deals in quite a number of stocks which have only a very limited, if any, market in other countries, yet which stand high in the estimation of local investors, we see more clearly how wide may become the area of

an investor's choice, and how, in this way, it becomes possible to find stocks which are able to realise any reasonable investment aim, whatever its nature.

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

I. British Division.

PRINCIPAL STOCK EXCHANGES :—

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

II. British Colonies

PRINCIPAL STOCK EXCHANGES :—

India : Calcutta, Madras, Bombay,
Rangoon.

Canada : Montreal, Toronto.

Australia : Adelaide, Melbourne, Sydney.

Tasmania : Hobart.

New Zealand : Wellington, Christchurch,
Dunedin.

Straits Settlements : Singapore.

III. Europe, North.

PRINCIPAL STOCK EXCHANGES :—

Belgium : Brussels, Antwerp.**Denmark :** Copenhagen.**Germany :** Berlin, Hamburg, Frankfort,
Bremen, Breslau, Munich.**Holland :** Amsterdam, Rotterdam.**Norway :** Christiania.**Russia :** St. Petersburg, Warsaw, Moscow,
Odessa.**Sweden :** Stockholm.**Switzerland :** Geneva, Basle, Berne.**IV. Europe, South.**

PRINCIPAL STOCK EXCHANGES :—

Austria : Vienna, Prague, Trieste.**Bulgaria :** Sofia.**France :** Paris, Marseilles, Bordeaux,
Lyons, Lille.**Greece :** Athens.**Italy :** Milan, Genoa, Turin, Rome.**Hungary :** Buda-Pesth.**Portugal :** Lisbon.**Roumania :** Bucharest.**Spain :** Madrid, Barcelona.**Servia :** Belgrade.**Turkey :** Constantinople.

V. Asia.

PRINCIPAL STOCK EXCHANGES :—

Japan : Tokio, Yokohama.**China :** Shanghai, Hong-Kong.**VI. Africa.**

PRINCIPAL STOCK EXCHANGES :—

Cape Colony : Cape Town, Port Elizabeth.**Egypt :** Cairo, Alexandria.**Natal :** Durban.**Transvaal :** Johannesburg, Pretoria.**VII. America, North.**

PRINCIPAL STOCK EXCHANGES :—

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

VIII. America, Central.

PRINCIPAL STOCK EXCHANGE :—

Mexico City.

IX. America, South.

PRINCIPAL STOCK EXCHANGES :—

Argentine : Buenos Ayres.**Brazil :** Rio de Janeiro.**Chili :** Santiago.**Peru :** Lima.**Uruguay :** Monte Video.

We have, in the above list, named some 80 different Stock Exchanges, among which it should not be a difficult matter to find just the stock necessary to fit in with any kind of investment scheme.

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

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

In former times this was not quite the case; but during recent years the position in this

respect has improved to the advantage of the individual investor, though perhaps to the detriment of London's financial supremacy.

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

This gave to London the undisputed supremacy of the finances of the world, and this position continued until the end of the Franco-German War. This war resulted in the payment of a large indemnity by France to Germany, and the subsequent consolidation of all German interests, which struck the first blow to London's financial supremacy.

Then—and particularly during the last decades of the past century—trade, commerce

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

A very striking example of this happened recently in the case of Argentine securities. These were formerly wholly in the hands of English investors, and British trade depression spelt inevitable reduction in Argentine values. Now it is different; and whilst during 1904 financial stagnation prevailed in England, Argentine stocks were on the boom, and every ship which left English shores for South American harbours, conveyed parcels of Argentine stocks to a new domicile; and this has continued to the present day.

This loss of financial control is a sad fact for the British nation as a whole, but it is advantageous to every individual British investor, as the number of stocks well known to him and to his London stockbroker,

which are free from British trade influences, is gradually increasing. In this way, as time passes, it daily becomes easier to obtain a fine distribution of capital risks by means of an internationally distributed list of stocks, without going beyond the securities which are known on the British Stock Exchanges.

CHAPTER VIII.

THE DEFECTS OF THE BRITISH
TRUSTEE ACTS.

ONE very curious result at which the investor arrives from the study of the question of Investment Distribution is the conviction that the British Trustee Acts are framed in such a way as to fail signally to accomplish the very object that they had in view.

The main object of the Trustee Acts is to provide that Trust Funds be so invested as to protect the beneficiaries under Trust deeds from the risk of diminution in the Trust's capital. That there should also be a stability of income from such investments was another point which engaged the attention of the framers of the Trustee Acts. But the protection of the capital sum was their chief anxiety, as is proved by the fact that stocks returning the minimum of income were selected as fulfilling Trustees' requirements. Income was a minor matter; safety of the trust's capital was the great point. When the possibility of obtaining a more substantial income appeared to

clash with affording the maximum of protection to the Trust's Funds, income was unhesitatingly sacrificed to capital security. Capital security is the keynote of the Trustee Acts.

Money is invested in trust with the intention that the capital sum invested shall be preserved intact, so that it either may be handed on without diminution from one beneficiary to another succeeding beneficiary, or else that the whole of the original fund shall be available for distribution at the expiration of the term of the trust. Unfortunately, however, this primary intention of affording the maximum of protection to the capital of Trust Funds has been entirely defeated by the fact that the fluctuations in British Trading Prosperity control the fluctuations in capital value of the British Trustee stocks.

How uniform is the movement of all Trustee stocks and how absolutely identical are their fluctuations over a lengthy period of years may be readily seen from the following chart, which is reprinted in reduced size from our new Investment handbook *The Investment of Trust Funds*.*

* *The Investment of Trust Funds*, by Henry Lowenfeld. Revised as to statements of Law by A. E. Scratchley, of Lincoln's Inn, Barrister-at-Law. Price 2s. 6d. Published at 2, Waterloo Place, London, S.W.

of the capital of trusts, it was possible to obtain absolute Capital Stability by investing money in the Government stocks of a variety of nationalities distributed over a world-wide area. It is almost unnecessary to remark that these Government stocks are, of course, Trustee stocks in each of their respective countries of issue. So that what we have already shown to be true of internationally selected stocks generally is, as might be expected, equally true of internationally selected Trustee stocks; that is to say, when a group of international Trustee stocks is so chosen that the bulk of each stock is held in the country of original issue, then each of the stocks which form the group will be controlled by a separate trade influence, and each will fluctuate as an independent item. In brief, such a group of investments would display that very stability of realisable value which is so conspicuously lacking in a group of all-British Trustee stocks.

In *The Investment of Trust Funds*, we publish a chart showing the price-movements of fifteen Government loans which may fairly be said to embrace every investment quarter of the globe. In this group we have not failed to include United States 4 per Cent., Spanish 4 per Cent., Russian 4 per Cent., Japanese 5 per Cent., and Chinese 5 per Cent. Gold Loan, although all

these stocks, with the exception of the last, were the national issues of belligerent Powers during a war period, and Chinese Fives were adversely influenced by the Boxer rebellion and the invasion of the country by an international force engaged in the armed suppression of the Boxer rising.

Yet, in spite of these adverse historical events, it will be seen that this cosmopolitan collection of stocks displayed as a group a far finer Capital Stability than did the purely British Trustee stocks whose fluctuations are illustrated in the chart given in this chapter.

Whether the obvious shortcomings of the British Trustee Acts, as evidenced by these charts, will ever be legislatively remedied by the British Parliament extending the scope of the Acts to include certain selected Foreign Government securities it is impossible to predict. But in the meantime one fact is clearly established, and that is that the British Trustee stocks, owing to their absolute identity of movement, do not furnish the essential Capital Stability which Trust Funds should possess.

Our researches into the question of the Geographical Distribution of Capital and of the protection thus afforded to investors have so firmly convinced us of the danger of

Trustees investing solely in British Trustee stocks that we have applied ourselves to the question of how trustees may best avoid the dangers by which the interests confided to their care are confronted owing to the uniform movement of Trustee stocks.

These investigations are set forth at length in the recently published handbook above referred to.

APPENDIX.

POPULAR FINANCIAL BOOKLET XXI.

(The subjoined Article was written for the issue of the
Financial Review of Reviews of April, 1907).

WORLD-TRADE AND THE GEOGRAPHICAL DISTRIBUTION OF CAPITAL.

Geographical Distribution of Capital has been put forward by the author of "Investment, an Exact Science," as the only known means for ensuring capital safety and stability. The principle of Geographical Distribution of Capital is based upon the fact that whilst the trade of any one country is subject to trade cycles, the trade of the world is immune from such trade cycles: and that, therefore, whilst the investments of any one particular country suffer from bad trade in that country, the investment trade over the surface of the world cannot on average so suffer. In this article Mr. John Holt Schooling, F.S.S., author of the "British Trade Year Book," etc., makes an independent investigation of this subject. His analysis is, of course, authoritative, and his results confirm the accuracy of the argument put forth in "Investment, an Exact Science." The subject of capital safety and stability is one of such vast importance that Mr. Schooling's article should be read by all investors who have not yet adopted the system of Geographical Distribution of Capital, and have therefore, so far, failed to achieve capital safety and stability.

THE idea of the Geographical Distribution of Capital is based upon the main principle that safe and profitable investment of capital, as distinct from speculative finance, depends upon the sagacious distribution of the investment of capital in different parts of the world. It has already been ably shown that the investment of capital in various securities of one country exposes the capital invested to considerable and unsuspected speculative risk. That speculative risk arises because the state of trade in this or in that country is the predominant factor that

appreciates or depreciates the capital value of securities of many different kinds. In other words, the idea of the Geographical Distribution of Capital is broadly based upon a wide application of the old adage—"Don't put all your eggs into one basket." And "basket" here means "country."

The enormous loss suffered by investors in the capital securities of the United Kingdom during recent years, and the large depreciation of our National credit, are most serious matters. And the present subject is well worthy of careful examination.

I have been asked by the Editor of the *Financial Review of Reviews* to examine the fluctuations of the trade of the world, with special reference to this matter of the Geographical Distribution of Capital. The main points put to me are these:—

Does the trade of the world constantly increase, despite falls or rises in the trade of various parts of the world? And, is falling trade in one part of the world more or less counterbalanced by rising trade in another part of the world?

These are interesting questions, and the investigation of the facts necessary to reply to them ought to bring out some widely-based results of much value, apart from the results

especially appertaining to this present matter of Geographical Distribution of Capital. So far as I know, no examination of world-trade fluctuations has hitherto been made.

Now as to the data to be examined. The world's trade consists of the home or internal trade of each country and of the foreign commerce of each country. Records of the home trade of the countries of the world do not exist to an extent sufficient for a broadly based inquiry of this sort. Thus we have to turn to the records of the foreign commerce of each country, and perhaps the best available test is to examine the exports of each country.

Let it be clearly understood that while export trade is one important part of a nation's trade, it is by no means an exclusive or an exhaustive test of a country's progress or regress in trade generally. I will use this part of trade because it seems to me to supply the best data that are available for my present purpose.

The countries whose export trade has been examined during each year 1890-1904 are as follows :—

EUROPE.—United Kingdom, Germany, France, Holland, Russia, Austria-Hungary, Belgium, Italy, Spain, Switzerland, Sweden, Denmark, Roumania, Norway, Finland, Portugal, Greece, Bulgaria, Eighteen countries, stated in the order of their importance.

AMERICA.—United States, Canada, Argentine Republic, Chile, Mexico, Uruguay, British West

Indies, British Guiana, Newfoundland, Costa Rica. Ten countries, stated in the order of their importance.

ASIA.—British India, China, Straits Settlements, Japan, Ceylon, Aden, Mauritius. Seven countries, stated in the order of their importance.

AUSTRALASIA.—Australian Commonwealth, New Zealand. Two countries, stated in the order of their importance.

AFRICA.—Egypt, British South Africa (Cape of Good Hope, Natal, &c.), British West Africa (Gold Coast, Nigeria, Sierra Leone, &c.). Three countries, stated in the order of their importance.

Thus, the facts for forty different parts of the world have been examined during fifteen years. In some countries, such as Brazil and Turkey, the necessary records do not exist. And some countries where the trade is trivial or where the facts are wanting, such as British Honduras and Cyprus, have not been included.

The first thing that had to be done was to summarise the export trade for each of these forty parts of the world for each of the fifteen years 1890-1904. This has been done, and the net result of these 600 tabulations may be condensed as follows.

Taking the world's exports (from my working sheets) and summing them up in successive periods of five years and of ten years, so as to show the course of trade, I find that the world's export trade is not *absolutely* immune from fluctuation. It is nearly constantly increasing, but not quite, as the following statement shows :—

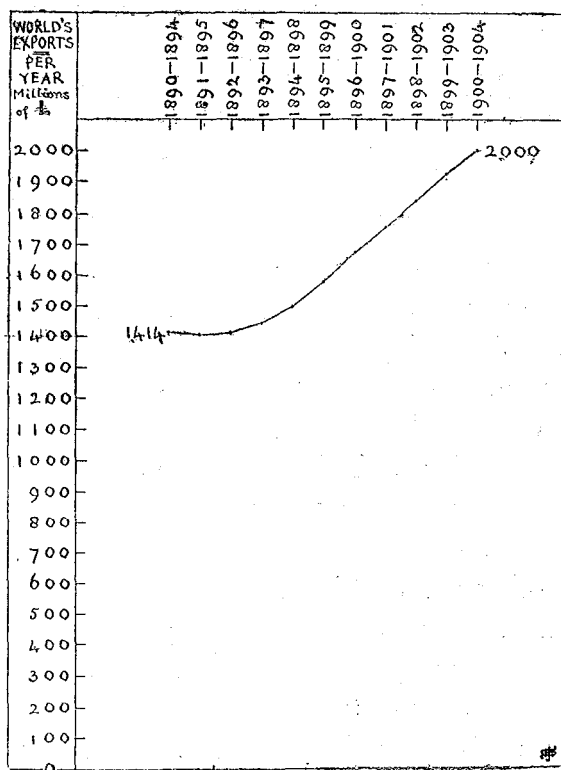
A.—THE WORLD'S EXPORTS.

Yearly Average during each quinquennium and during each decennium.
Period, 1890-1904. See Diagram I.

Quin- quennium.	Million £	Quin- quennium.	Million £	De- cennium.	Million £
1890-1894 ...	1,414	1896-1900 ...	1,674	1890-1899 ...	1,496
1891-1895 ...	1,403	1897-1901 ...	1,758	1891-1900 ...	1,538
1892-1896 ...	1,408	1898-1902 ...	1,837	1892-1901 ...	1,583
1893-1897 ...	1,439	1899-1903 ...	1,924	1893-1902 ...	1,638
1894-1898 ...	1,494	1900-1904 ...	2,000	1894-1903 ...	1,709
1895-1899 ...	1,579			1895-1904 ...	1,790

DIAGRAM I.

The World's Exports. Yearly Average during each quinquennium.
Period, 1890-1904. See Statement A.



The years at the top and the long curve show the average yearly exports of the World during each quinquennium.

EXAMPLE:—During the five years 1890-1894, the World's Exports averaged 1,414 million £ yearly.

It will be seen that there was one fall—in the period 1891–1895. But beginning with that period the advance was continuous. A glance at Diagram I. will show the upward course of the world's export trade.

When we look at the decennial averages in Statement A we see a steady increase in the world's export trade. And this method is probably the best that can be used to make the course of trade disclose itself. It has been extensively applied by me in my "British Trade Year Book" (John Murray), and I may point out that when the trade of single countries is thus treated by the method of decennial averages many up or down gradients of trade are seen to exist, which, as the latter part of Statement A shows, are wholly absent from the trade of the world.

It is, I think, to be expected that the trade of the world should constantly increase, apart from the evidence of fact given in Statement A, which relates to one important part of the world's trade. I say this because we have the fact that the world's population is constantly increasing. This means that the material needs of that population also constantly increase. Therefore, the world's activity in producing merchandise of all sorts, for consumption by the world's increasing population,

must also increase constantly—in the world. There is not necessarily an increase in each part of the world.

Thus, for all practical purposes, such, for example, as this matter of the Geographical Distribution of Capital, the first question put to me may be answered in the affirmative by Statement A. And if it were possible to include the results for the home trade of each part of the world, with the large section of foreign commerce here dealt with, it is probable that even the trivial fluctuation seen in the first part of Statement A would vanish.

I come now to the consideration of the second question. This relates to the yearly trade fluctuations in different parts of the world. And it will be interesting to observe the many instances where a fall in one part of the world's trade is accompanied by a rise in another part of the world's trade.

First, let me summarise the facts :—

B.—THE WORLD'S EXPORTS DURING 1890-1904.

		Million £.		Per Cent. of Total.
Europe ...	...	16,786	...	67·3
America ...	...	4,952	...	19·8
Asia ...	...	2,220	...	8·9
Australasia ...	...	583	...	2·3
Africa ...	...	424	...	1·7
Total	...	<u>24,965</u>	...	<u>100·0</u>

This is 24,965 million £, or an average of exports equal to 1,664 million £ per year. These exports are nearly all "special exports" of each of the forty countries. That is to say, they are the exports of home produce and manufactures of each country, thus excluding re-exports. In a few small trading countries, such as Spain, Roumania, Finland, &c., I have had to use the general exports (special exports plus re-exports) because the special exports are not recorded. And also in some of the smaller trading countries the exports include some bullion and specie which cannot be separated from the exports of merchandise. But these points are of trivial importance relatively to the large volume of data that have been examined and condensed for the purpose of this article.

The first main result which comes out is that Europe's exports vastly predominate. They form more than two-thirds of the exports of the world. This fact at once tells us that when we look at the yearly fluctuations of trade we must separate Europe from the Rest of the World. Because as Europe predominates so greatly in the world's export trade, it follows that any fluctuation taking place in Europe must give a corresponding tone to the total exports of the world. Thus we must first look at Europe as compared with the Rest of the World.

C.—EXPORTS DURING 1890-1904.

	£	Per Cent. of Total.
Europe	16,786,000,000	67·3
The Rest of the World	8,179,000,000	32·7
Total	<u>£24,969,000,000</u>	<u>100·0</u>

Having made this necessary distinction, we will look at the fluctuations in Europe's exports side by side with the fluctuations in the exports of the Rest of the World. (See Table I.)

TABLE I.—Comparing the fluctuations in Europe's Exports with the fluctuations in the exports of the Rest of the World.

Year.	Europe's Exports.	The Rest of the World's Exports.
	Million £.	Million £.
From 1890 to 1891 ...	<i>Fell</i> by 20	Rose by 19
„ 1891 „ 1892 ...	<i>Fell</i> „ 77	Rose „ 19
„ 1892 „ 1893 ...	Rose „ 11	<i>Fell</i> „ 41
„ 1893 „ 1894 ...	<i>Fell</i> „ 14	<i>Fell</i> „ 4
„ 1894 „ 1895 ...	Rose „ 54	No change.
„ 1895 „ 1896 ...	Rose „ 61	Rose by 16
„ 1896 „ 1897 ...	Rose „ 36	Rose „ 37
„ 1897 „ 1898 ...	Rose „ 17	Rose „ 70
„ 1898 „ 1899 ...	Rose „ 96	Rose „ 39
„ 1899 „ 1900 ...	Rose „ 74	Rose „ 27
„ 1900 „ 1901 ...	<i>Fell</i> „ 22	Rose „ 45
„ 1901 „ 1902 ...	Rose „ 62	<i>Fell</i> „ 9
„ 1902 „ 1903 ...	Rose „ 77	Rose „ 45
„ 1903 „ 1904 ...	Rose „ 35	Rose „ 45

Table I. illustrates the tendency of trade to fall in one part of the world, and simultaneously to rise in another part of the world. In three years Europe's exports fell and in the same years the exports of the Rest of the World rose. In two years the process was reversed. In one year Europe's exports rose and the other exports did not move. And in the other eight years Europe's exports fell or rose disproportionately to the simultaneous rise or fall in the exports of the Rest of the World.

Observe that there was only one instance (1893 to 1894) when a fall in Europe's exports was accompanied by a fall in the exports of the Rest of the World, and note that the latter fall was trivial.

Here we have repeated instances of what I may call compensating trade fluctuations, despite the general rising tendency (which we expect) both in Europe's exports and in the exports of the Rest of the World. The first instance of this compensating trade movement occurs in the first year of the table, when Europe's exports fell by £20,000,000 and the exports of the Rest of the World rose by £19,000,000.

It is, of course, not to be expected that there should occur an exact degree of compensating trade fluctuation over the vast areas

now compared. And we have to bear in mind that we are now comparing the two trade areas as regards one section of trade only.

The results in Table I. certainly substantiate the theory of compensating trade fluctuation, and they also evidence the general tendency of the trade of the world constantly to increase.

An important point here crops up. Is Europe decreasing or increasing its share of the world's export trade? Although this question has not been put to me for examination, it bears upon this matter of the Geographical Distribution of Capital, and it is worth looking into. Here are the results:—

D.—EUROPE'S SHARE OF THE WORLD'S EXPORTS.

Per Cent.				Per Cent.			
1890	...	...	69·7	1898	...	...	66·1
1891	...	...	68·3	1899	...	...	66·8
1892	...	...	65·9	1900	...	...	66·9
1893	...	...	68·2	1901	...	...	65·0
1894	...	...	68·0	1902	...	...	66·3
1895	...	...	69·2	1903	...	...	66·2
1896	...	...	69·9	1904	...	...	65·1
1897	...	...	69·1				

This means that in the year 1890 Europe's exports were equal to 69·7 per cent. of the world's exports, and that in 1904 Europe's share had fallen to 65·1 per cent. The falling tendency is well marked. And the deduction

is that, although Europe remains greatly predominant as a world trader, yet Europe's predominance is smaller now than in earlier years. And, necessarily, the Rest of the World is now of more importance, relatively to Europe, as a trader, than was the case in former years. Incidentally, these results give force to the policy of the Geographical Distribution of Capital.

Let me now show the fluctuations in export trade, as regards Europe and America. (Table II.)

TABLE II.—Comparing the fluctuations in Europe's Exports with the fluctuations in the Exports of All America.

Year.	Europe's Exports.	All America's Exports.
	Million £.	Million £.
From 1890 to 1891 ...	<i>Fell</i> by 20	Rose by 6
„ 1891 „ 1892 ...	<i>Fell</i> „ 77	Rose „ 34
„ 1892 „ 1893 ...	Rose „ 11	<i>Fell</i> „ 38
„ 1893 „ 1894 ...	<i>Fell</i> „ 14	Rose „ 8
„ 1894 „ 1895 ...	Rose „ 54	<i>Fell</i> „ 14
„ 1895 „ 1896 ...	Rose „ 61	Rose „ 18
„ 1896 „ 1897 ...	Rose „ 36	Rose „ 34
„ 1897 „ 1898 ...	Rose „ 17	Rose „ 52
„ 1898 „ 1899 ...	Rose „ 96	Rose „ 11
„ 1899 „ 1900 ...	Rose „ 74	Rose „ 36
„ 1900 „ 1901 ...	<i>Fell</i> „ 22	Rose „ 23
„ 1901 „ 1902 ...	Rose „ 62	<i>Fell</i> „ 15
„ 1902 „ 1903 ...	Rose „ 77	Rose „ 22
„ 1903 „ 1904 ...	Rose „ 35	Rose „ 19

The above summary illustrates the tendency of trade to fall in one part of the world and simultaneously to rise in another part of the world.

In four years Europe's exports fell, and in the same years All America's exports rose. In three years the process was reversed. In the other seven years Europe's exports rose disproportionately to the simultaneous rise in the exports of All America.

Here, again, we get striking confirmation of the compensating tendency in trade fluctuations, with also further evidence of the tendency for world trade to increase. In no fewer than seven of the years in Table II. a fall or a rise in Europe's exports was accompanied by the opposite movement in America's exports. And the rises in both areas show plainly the tendency for world trade to increase.

We will now ascertain the progress or regress in America's share of the world's export trade.

E.—AMERICA'S SHARE OF THE WORLD'S EXPORTS.

Per Cent.			Per Cent.		
1890 ...	...	17.2	1898 ...	...	21.3
1891 ...	...	17.6	1899 ...	...	20.4
1892 ...	...	20.8	1900 ...	...	21.2
1893 ...	...	18.5	1901 ...	...	22.1
1894 ...	...	19.3	1902 ...	...	20.8
1895 ...	...	17.6	1903 ...	...	20.6
1896 ...	...	17.9	1904 ...	...	20.7
1897 ...	...	19.2			

We see that in 1890 the export trade of America was 17·2 per cent. of the export trade of the world, and that in 1904 America's share was 20·7 per cent. The rise is well marked, despite the fluctuations of certain years.

Thus, accepting export trade as one indication of trade progress, we see that America has been gaining position relatively to Europe (see Statement D) as a world-trader.

So far whole continents and vast areas of the world have been compared as regards trade fluctuation.

We may now narrow the base and come to the matter of the United Kingdom's share in Europe's exports.

F.—THE UNITED KINGDOM'S SHARE OF EUROPE'S EXPORTS.

	Per Cent.		Per Cent.
1890 ...	25·8	1898 ...	21·3
1891 ...	24·6	†1899 ...	22·2
1892 ...	24·5	†1900 ...	23·0
1893 ...	23·3	†1901 ...	22·6
1894 ...	23·3	†1902 ...	21·7
1895 ...	23·1	†1903 ...	21·1
1896 ...	23·1	†1904 ...	21·3
1897 ...	21·8		

† In these years the above figures are slightly too high, because exported ships were included in the United Kingdom's exports during 1899-1904.

In 1890 the United Kingdom's exports were 25·8 per cent. of Europe's exports. In 1904 the United Kingdom's share had fallen to 21·3 per cent.

Here the trade movement is well marked. The United Kingdom has lost position and the Rest of Europe has gained position. Further, Europe as a whole has largely increased its export trade. (See the rises in Table II.)

We will now compare the export trade fluctuations of two countries under wholly diverse conditions, for the purpose of further testing this matter of compensating trade fluctuation. Table III. relates to the export trade of the United Kingdom and of the United States.

TABLE III.—Comparing the fluctuations in the United Kingdom's Exports with the fluctuations in the Exports of the United States.—See *Diagram II.*

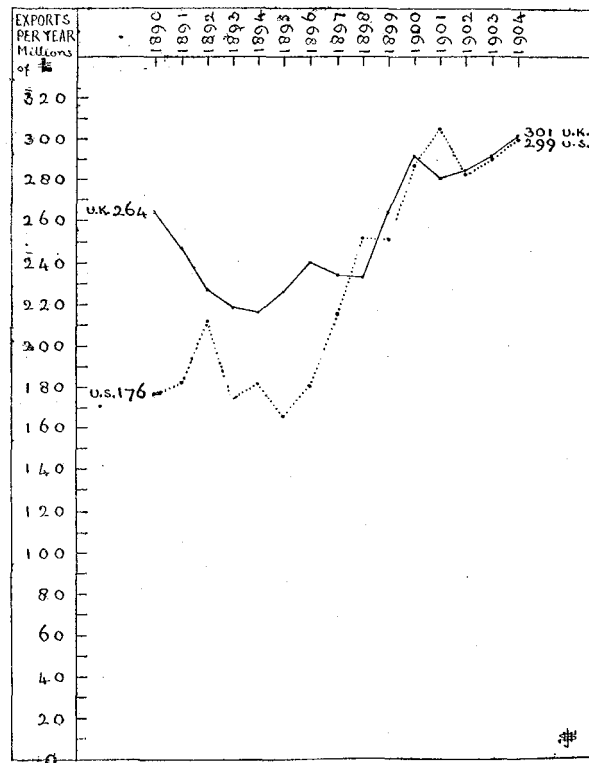
Year.				United Kingdom's Exports.*	United States' Exports.†
				Million £	Million £
From	1890	to	1891 ...	<i>Fell</i> by 17	Rose by 6
"	1891	"	1892 ...	<i>Fell</i> " 20	Rose " 30
"	1892	"	1893 ...	<i>Fell</i> " 9	<i>Fell</i> " 39
"	1893	"	1894 ...	<i>Fell</i> " 2	Rose " 8
"	1894	"	1895 ...	Rose " 10	<i>Fell</i> " 16
"	1895	"	1896 ...	Rose " 14	Rose " 15
"	1896	"	1897 ...	<i>Fell</i> " 6	Rose " 35
"	1897	"	1898 ...	<i>Fell</i> " 1	Rose " 37
"	1898	"	1899 ...	Rose " 31	<i>Fell</i> " 1
"	1899	"	1900 ...	Rose " 27	Rose " 35
"	1900	"	1901 ...	<i>Fell</i> " 11	Rose " 18
"	1901	"	1902 ...	Rose " 3	<i>Fell</i> " 22
"	1902	"	1903 ...	Rose " 8	Rose " 8
"	1903	"	1904 ...	Rose " 10	Rose " 9

* These are "British" exports (special exports), and they include ships from 1899.

† These are the "special exports" of the United States.

DIAGRAM II.

Showing the Special Exports of the United Kingdom and of the United States for each year, 1890-1904.—
See Table III.



The solid black line shows the special exports of the United Kingdom (including ships during 1899-1904. Ships were not recorded during 1890-1898).

The dotted black line shows the special exports of the United States.

In this instance the principle of compensating trade fluctuation is most clearly

evidenced. In six years the United Kingdom's exports fell, and in the same years the United States' exports rose. In three years the process was reversed. In the other five years the United Kingdom's exports fell or rose more or less disproportionately to the simultaneous rise or fall in the exports of the United States. When our trade has fallen, the trade of the United States has risen, and *vice versa*. And the predominant rises are further evidence, if any be needed, of the advancing trade of the world.

The next thing to look at is the share of the United Kingdom and the share of the United States in the exports of the world.

G.—Comparing the United Kingdom's Share of the World's Exports with the United States' Share of the World's Exports.

		United Kingdom. Per cent.	United States. Per cent.			United Kingdom. Per cent.	United States. Per cent.
1890	...	18.0	12.0	1898	...	14.1	15.3
1891	...	16.9	12.4	1899	...	14.8	14.1
1892	...	16.1	15.1	1900	...	15.4	15.2
1893	...	15.8	12.6	1901	...	14.7	15.9
1894	...	15.9	13.3	1902	...	14.4	14.4
1895	...	16.0	11.7	1903	...	13.9	13.9
1896	...	16.1	12.1	1904	...	13.9	13.8
1897	...	15.0	13.8				

Statement G is exceedingly interesting. It means that in the year 1890 the United Kingdom supplied 18·0 per cent. of the world's exports, and that the United States supplied 12 per cent. of the world's exports. In 1904 the United Kingdom's share had fallen to 13·9 per cent., and the United States' share had risen to 13·8 per cent. The change of position of the two countries, as world-traders, is most marked, and we could scarcely have a clearer illustration of this principle of compensating trade movement which is so closely connected with the validity of the Geographical Distribution of Capital. Our loss of position as a seller to the world has been closely accompanied by the United States' gain of position as a seller to the world. The neck-and-neck race in the latter years of Statement G is a striking feature of this most interesting comparison.

The United Kingdom's share in Statement G is slightly exaggerated in the years 1899-1904, because in those years our exports include ships which were not included in the years 1890-1898.

My investigation contains many more results in addition to the leading features

I have shown. But it is scarcely necessary to give further evidence as regards the general truth of the statements that the world's trade constantly increases, that there are numerous fluctuations in the trade of different parts of the world, and that, broadly, these fluctuations are compensating. That is to say, a fall in the trade of one part of the world is accompanied by a rise in the trade of another part of the world, the demand for the production of commodities of all kinds being necessarily an increasing demand, owing to the constant increase in the world's population, and in the activity of that population.

But it may be useful to examine one or two of the raw products of nations, and to see whether in this most important direction also there is to be found the working of compensating trade fluctuation accompanied by an increase of trade.

Take, for instance, the production of Iron Ore. A most important raw product, because it enters so largely into processes of manufacture of many kinds, which, moreover, are not confined to a country's export trade, but which relate also to a country's home trade and manufactures generally.

TABLE IV.—The Production of Iron Ore in the Three Principal Producing Countries.

Year	Tons (of 2,240 lbs.*) of Iron Ore Produced in			
	United States.	Germany.	United Kingdom.	Total.
	Million Tons.	Million Tons.	Million Tons.	Million Tons.
1890	16·0	11·2	13·8	41·0
1891	14·6	10·5	12·8	37·9
1892	16·3	11·3	11·3	38·9
1893	11·6	11·3	11·2	34·1
1894	11·9	12·2	12·4	36·5
1895	16·0	12·2	12·6	40·8
1896	16·0	14·0	13·7	43·7
1897	17·5	15·3	13·8	46·6
1898	19·4	15·6	14·2	49·2
1899	24·7	17·7	14·5	56·9
1900	27·6	18·7	14·0	60·3
1901	28·9	16·3	12·3	57·5
1902	35·6	17·7	13·4	66·7
1903	35·0	20·9	13·7	69·6
1904	27·6	21·6	13·8	63·0
1905	44·1	23·0	14·6	81·7
Total	362·8	249·5	212·1	824·4

NOTE.—In the year 1880 the production was :

	Million Tons.			
United Kingdom	18·0
Germany	7·1
United States	7·1

* Germany's production is recorded in metric tons of 2,204 lbs., here converted into English tons of about 2,240 lbs.

Table IV. shows the production of iron ore in the three principal producing countries. First, we see plainly the large increase in production. From 41 million tons in 1890 to 81.7 million tons in 1905. That means a large increase in world products and in world trade.

Now look at the fluctuations for each country in Table IV. The United Kingdom remained nearly stationary during 1890-1905. But Germany and the United States (especially latter) made great advances. The total product of iron ore greatly increased, and our absence of increase was more than compensated by the increases in Germany and in the United States. This is a notable instance of compensating fluctuation as between country and country, accompanied by increase in world production.

TABLE V.—The Production of Iron Ore in the Three Principal Producing Countries, showing each country's share of the total produce in the three countries.

Year.	The facts in TABLE IV, shown as percentages of the total for each year.			
	United States.	Germany.	United Kingdom.	Total.
	Per Cent.	Per Cent.	Per Cent.	Per Cent.
1890	39.0	27.3	33.7	100
1891	38.5	27.7	33.8	100
1892	42.0	29.0	29.0	100
1893	34.0	33.2	32.8	100

Year.	The facts in TABLE IV. shown as percentages of the total for each year.			
	United States.	Germany.	United Kingdom.	Total.
	Per Cent.	Per Cent.	Per Cent.	Per Cent.
1894	32·6	33·4	34·0	100
1895	39·2	29·9	30·9	100
1896	36·6	32·1	31·3	100
1897	37·6	32·8	29·6	100
1898	39·4	31·7	28·9	100
1899	43·4	31·1	25·5	100
1900	45·8	31·0	23·2	100
1901	50·2	28·4	21·4	100
1902	53·4	26·5	20·1	100
1903	50·3	30·0	19·7	100
1904	43·8	34·3	21·9	100
1905	53·9	28·2	17·9	100

EXAMPLE.—In 1890 the United Kingdom produced 33·7% of all the iron ore produced in the three countries. In 1905 the United Kingdom's share had fallen to 17·9%.

Table V., which converts the facts in Table IV. into percentages, shows even more clearly than Table IV. the working of this principle of compensating fluctuation. The results are exceedingly interesting, not only as regards the matter with which I am now specially concerned, but also from the higher plane of international production and commerce.

Similarly, I might show coal production and coal consumption, but that I do not want to overburden this article with tables.

The whole subject is full of interest and of important results when the records are looked at upon a broad-fact base, and without any of the narrow and superficial picking-out of this or that year for the purpose of supporting a pre-conceived opinion. The latter method has, unfortunately, become so common in this country during the last four years of discussion upon matters of trade, that one welcomes any opportunity that comes to enable any section of trade to be dealt with in a full and sound way. And as regards the special purpose of this present investigation, I am pleased to be able to say that the large mass of facts which have been examined and condensed do support the sound principle of the Geographical Distribution of Capital. If it be admitted, as I think it must, that the trade condition of a country has a predominant and widespread influence upon the value of the capital securities of that country, then it seems to me that the principle of the distribution of capital-investment in various parts of the world must tend towards the safe and profitable investment of capital, and must go a long way to remove from capital-investment the unsuspected element of speculation that comes in when capital is invested

in various securities of *one* country. For the net result of this investigation is to show that whereas frequent and important trade fluctuations occur in various parts of the world, the world itself is practically immune from such fluctuations.

JOHN HOLT SCHOOLING.

(Author of *The British Trade Year Book*.)

NOTE.—Table VI., Appendix (see next page), gives the facts for each year, 1890-1904, that will enable any reader to check the accuracy of the results shown in Statements A to G, and in Tables I. to III. Tables IV. and V. contain the original facts to which they relate. And Table VI. is a much condensed summary of the World's Export Trade.

APPENDIX TO BOOKLET.

TABLE VI.—The exports of some of the principal parts of the world. 1890-1904. Stated in millions of £.

YEAR.	THE WORLD.					THE WORLD.		EUROPE.		UNITED STATES.
	EUROPE.	AMERICA.	ASIA.	AUSTRALIA.	AFRICA.	THE WORLD.	EUROPE.	UNITED KINGDOM.	REST OF EUROPE.	
1890	1,024	252	133	33	23	1,465	1,024	264	760	176
1891	1,004	253	139	38	25	1,464	1,004	247	757	182
1892	927	292	125	37	25	1,406	927	227	700	212
1893	938	254	124	35	25	1,376	938	218	720	173
1894	924	262	115	34	23	1,358	924	216	708	181
1895	978	248	126	34	26	1,412	978	226	752	165
1896	1,039	266	124	34	26	1,439	1,039	240	799	180
1897	1,075	300	129	33	25	1,562	1,075	234	841	215
1898	1,092	352	144	35	26	1,649	1,092	233	859	252
1899	1,188	363	157	46	30	1,784	1,188	264	924	251
1900	1,262	399	152	43	29	1,885	1,262	291	971	286
1901	1,240	422	169	46	31	1,908	1,240	280	960	304
1902	1,302	407	177	41	34	1,961	1,302	283	1,019	282
1903	1,379	429	197	42	36	2,033	1,379	291	1,088	290
1904	1,414	448	209	52	40	2,163	1,414	301	1,113	299
TOTAL	16,786	4,952	2,220	583	424	24,965	16,786	3,815	12,971	3,448

The above are predominantly the "Special Exports" of each part of the world. Namely, the exports of home produce or manufacture. The United Kingdom includes ships during 1895-1904, which were not recorded during 1890-1894.

ESTABLISHED 1880.

The Investment Registry, Ltd.

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TWENTY-SIXTH ANNUAL REPORT,

For the year ending 27th September, 1906.

The Directors have pleasure in reporting as follows:—

There are at present 311 shareholders on the Company's Register. The Company's gross Profits on Dealings and Sale of Publications have amounted to £46,326 5s. 3d., and after paying for all outgoings, and making provision for depreciation, &c., there is a net profit of £19,635 4s. 11d. New Investment Lists, representing a cash value of £2,913,017 have been entered on the Company's Register during the year for the purpose of being re-constructed by the Company on the principle of Geographical Distribution of Capital. The refusal to undertake speculative transactions for customers has produced a highly beneficial effect; this policy will be continued.

In April last the following half-yearly interim dividends were paid, viz.:—at the rate of 5½ per cent. on the 1st Preference Shares, 10 per cent. on the Preference Shares, and £1 per share on the Ordinary Shares of the Company. The Directors now propose to pay the following final dividends for the Company's past financial year:—5½ per cent. on the 1st Preference Shares, 10 per cent. on the Preference Shares, and a further dividend of £3 per share on the Ordinary Shares of the Company.

The Dividend now recommended will absorb £5,998, and leave a balance of £10,434 19s. 1d. to be carried forward.

By order of the Board,

W. W. SMITH, *Secretary.*

BALANCE SHEET, 27th September, 1906.

CR.	ASSETS.	£	s.	d.	£	s.	d.
CASH AT BANKERS—							
London and Westminster		28,443	10	1			
Lloyds		10,461	10	10			
In Hand		170	15	4	39,075	16	3
STOCKS, &c., ON HAND for Delivery on September 27th Settlement at Cost							
or Market Price					41,858	3	4
SUNDRY DEBTORS					15,709	14	0
LEASEHOLD PROPERTY, Copyrights, Furniture, Fittings, Goodwill, and							
Securities on hand, &c.					76,429	0	1
					<u>£173,072</u>	<u>13</u>	<u>8</u>
DR.	LIABILITIES.	£	s.	d.	£	s.	d.
SUBSCRIBED CAPITAL—							
36,290 5½ per Cent. First Preference Shares of £1 each		36,290	0	0			
DEDUCT—Amount unpaid		115	0	0	36,165	0	0
40,007 10 per Cent. Preference Shares of £1 each					40,007	0	0
1,000 Ordinary Shares of 10s. each					500	0	0
SUNDRY CREDITORS—Clients					46,351	9	5
Brokers					31,289	15	7
Sundries					2,336	9	7
PROFIT AND LOSS ACCOUNT—							
Balance at 28th September, 1905					6,837	3	11
ADD—Net Profit as per Profit and Loss Account					19,635	4	11
					<u>26,472</u>	<u>8</u>	<u>10</u>
DEDUCT—Dividends paid thereout					10,049	9	0
					<u>£173,072</u>	<u>13</u>	<u>8</u>

In accordance with the provisions of the Companies Act, 1900, we certify that all our requirements as Auditors have been complied with. We report to the Shareholders that we have audited the above Balance Sheet, and in our opinion it is full and fair and correctly exhibits the state of the Company's affairs on the 27th day of September, 1906, as shown by the books of the Company.

6, OLD JEWRY, E.C.
8th October, 1906

BLAKEMORE & CO., Chartered Accountants,
Auditors.

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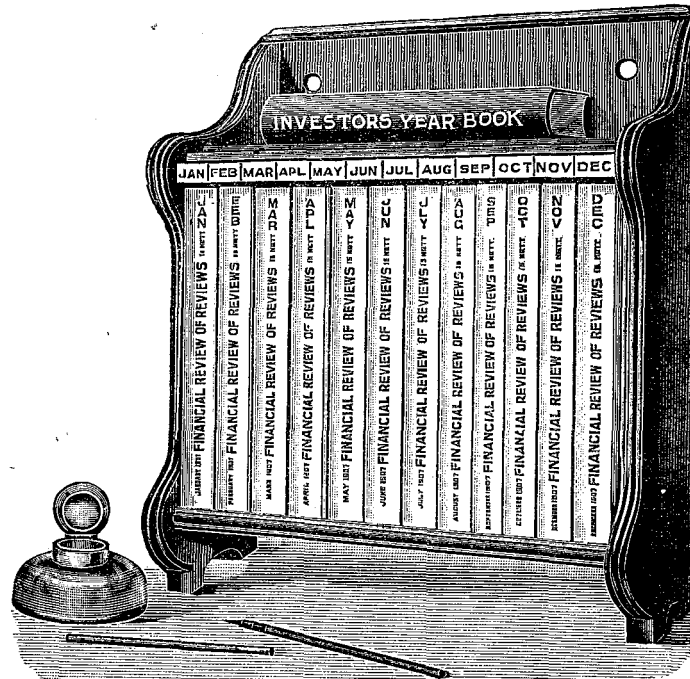
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