Financial Department

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A Business Man's Investment

"BUSINESS man's investment" is a term which is employed with considerable frequency nowadays, and it may not be amiss to consider what it means.

There are many stocks and bonds which are considered to be on what may be described as the border line between sound investments and speculations. In the case of a stock it may be, and usually is, true that dividends are being paid, but payments have been inaugurated only recently perhaps, or the margin of earnings over dividend requirements is not sufficiently large to remove all doubts as to payments being maintained regularly. In the case of a bond it may be that the security is scarcely valuable enough to insure the owner against loss in case of foreclosure, or it may be that with ample security interest charges are not being fully earned, or are earned by only a narrow and doubtful margin. Bonds and stocks answering to these descriptions are known as business men's investments.

Business men are men actively engaged in the process of

earning money; their livelihood is gained from their daily operations, and they are therefore not dependent upon an income from invested funds. At least it is this kind of business men who are meant when the term we are discussing is employed. Further, a business man is supposed to be in touch with what is going on in the world of finance and trade, and consequently able to keep watch over his investments, which in the case of a bond or stock containing many elements of speculation is an exceedingly important thing to do.

Suppose he holds stock in a copper company. He knows that copper is a rather outstanding exception in the long list of commodities which have increased greatly in price since the war. He knows, too, that the copper companies' costs have gone up, and that the difference between costs and net earnings is not always so comfortably on the right side as it used to be. If he is wise, therefore, he is constantly posted as to conditions in the copper market, and holds himself in readiness to "get out from under" on extremely short notice. He studies his company's financial statements, keeps an eye on earnings, on surplus, on the cash on hand, on current obligations such as notes payable and bank loans, and on the amount of working capital available. It takes more time to stand watch over a doubtful investment than one of high grade, and there is no such thing as putting it away and forgetting about it.

Some one may ask what advantage there is in an investment which is not only speculative, but which requires more or less constant care and attention. The answer is, of course, high yield and the chance of possible profit. The fact that an investment is doubtful from the standpoint of safety makes it sell at a comparatively low price, and it follows naturally that its yield is correspondingly high. If conditions should change and the elements of uncertainty be removed, then the price would advance, and the owner realize a profit. It is these considerations which make business men's investments attractive to business men and to others. Not all business men, however, are in a position to own speculative investments, and a still smaller percentage of other people should consider them. High yield usually means high risk; low price, low value. Too often only the yield and price are thought of, and the risk and low value are completely ignored.

Since writing the preceding paragraph we have been running our eye over the list of quotations on the New York Stock Exchange as reported in a recent issue of one of the metropolitan papers. There

are a good many stocks, all paying $4 a year in dividends, and it is interesting to see how they vary in price. Here are some of them: 77, 68, 45, 100, 127, 51, 46, 72, 27, 64, 39, 44, 71, 78, 40. These are not all of the stocks paying $4, but a representative list chosen at random. Between the lowest and the highest quotation there is a difference of 100 points, or $100, and the yields range from about 14¾ per cent down to a little more than 3 per cent. Quite a difference, and, interestingly enough, on this particular day for which we have the records five times as many shares of the highest-priced stock were sold as of the lowest. This may be accounted for on the grounds that purchasers of the expensive shares are hopeful of additional dividend disbursements, but that is beside the point. Our idea is to show what a wide variation there is in the prices of shares, all of which pay exactly the same number of dollars a year in dividends. And if it is true that a thing is worth what it can be sold for, it is not the dividend rate and yield, but the prices quoted here which are an accurate indication of what investors think these different stocks are worth. Why will a man pay $100 a share for one 4 per cent stock, and only $40 a share for another? Presumably because he considers the one worth that much more than the other. And $4 dividend stocks varying one hundred points in price must include among their number almost every grade of investment, all the way from out-and-out speculations, in danger of having their dividend payments stopped, to high-grade issues whose dividend distributions are regarded as assured, with a prospect of an increase in rate perhaps. Somewhere in between come the business men's investments, neither one thing nor the other, border-line cases. Some of them undoubtedly will continue to pay dividends regularly and yield handsome returns to their owners; others just as surely are in danger of being obliged to curtail or discontinue dividends, and bring ugly losses upon their owners. Securities of this sort are considered suitable for business men in a position to assume the risks involved.

No doubt it is a good thing that there are people justified in buying stocks and bonds of this sort. Many companies would find it impossible to finance themselves if all purchasers of securities demanded high-grade investments, and high-grade investments only. Somebody has to "take a chance" and lend encouragement to new and struggling enterprises. The only point is that there are some people in a position to do this, and there are many who are not. Those who cannot afford the risk should not undertake it; those who can, can use their own judgment. For people in a position to face the possibility of loss, a business man's investment offers the inducement of high yield and the chance of gain; these they may consider ample compensation for the possibility of curtailment or abandonment of dividends and a decline in market value. These points they can decide for themselves, and no one can make the decision for them. On the other hand, it does seem to us extremely unwise for people who would be seriously embarrassed by the loss of any of their capital funds, or who are dependent for their living upon whatever dividends or interest they may receive, to take chances. It does not seem to us that the law of compensation operates in their case, which may seem a hardship, but is nevertheless a fact to be faced. Further it is possible to console one's self with the thought that those justified in trying for high yields and profits do not always get what they are after, by any means. It is never possible to obtain statistics and definite figures which will corroborate such a statement, and yet the belief is generally held among those who have given the matter their thought, that in the long run the conservative investor makes more money than the speculator. The business man may win with one doubtful investment, and he may lose with another, and over a period of, say, ten years he may be ahead, and he may not. Probably he couldn't tell for certain himself. And one bad loss may easily offset many a gain.

Suppose the whole matter be put on a mathematical basis. A business man's investment is on the border line between speculation and safety; in other words, the chances of its proving profitable or costly are exactly even. Now we are told that if a penny is flipped into the air a large number of times it will come down "heads" exactly as often as it will fall "tails." If it is "heads you win" and "tails you lose," you are going to come out just even if you keep on long enough. If the chances of loss or gain in the case of certain types of investments also are even, won't the same result obtain? Of course more elements enter into the matter when investments are being considered, and it is not possible to predict results with accuracy, but the major premise, at least, is that the man who buys this kind of securities is not going to do better than break even. Breaking even is not most people's idea of an ideal result. Perhaps out of ten business men's investments five will show a profit and five will show a loss. It may be the profits will be larger than the losses, or the opposite may be the result. No one can tell, and it seems to us it is not a bad idea for most people to restrain themselves from being too curious about finding out. Leave the answer to the "business men."