Financial Department

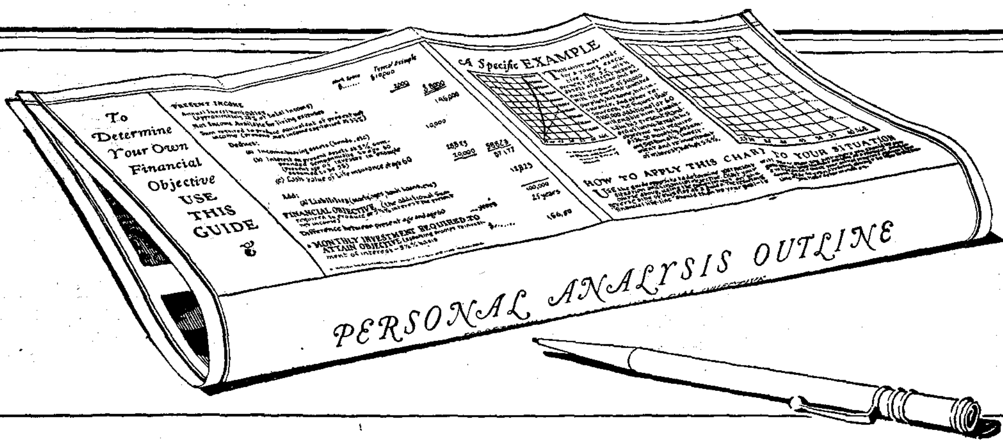
Conducted by WILLIAM LEAVITT STODDARD

The Financial Department is prepared to furnish information regarding standard investment securities, but cannot undertake to *advise* the purchase of any specific security. It will give to inquirers facts of record or information resulting from expert investigation, and a nominal charge of one dollar per inquiry will be made for this special service. The Financial Editor regrets that he cannot undertake the discussion of more than five issues of stocks or bonds in reply to any one inquirer. All letters should be addressed to THE OUTLOOK FINANCIAL DEPARTMENT, 120 East 16th Street, New York, N. Y.

Bank Stocks

THE stock of a certain large bank is quoted today around $400 per share. Its dividend rate is 12 per cent on the par value of $100, or $12 a year. Today's investment in a share of this stock buys a security yielding 3 per cent, which is not particularly "attractive." The holder of this stock who bought or inherited it some time ago is getting only 3 per cent on the present value of the stock. Should he hold it?

This question is of interest to a great many people at this time. During the last few months bank stocks in various parts of the country have been rising in price rather spectacularly. Fifty to one hundred point rises have not been uncom-



Where do *You* stand financially?

MOST men go along with an approximate and often an erroneous idea of their net worth. And they have no definite plan for building a sufficient surplus eventually to provide an adequate income independent of their personal earning power.

If a few minutes spent in filling out a prepared form would give you a statement of your personal financial standing—wouldn't you think it worth the time? And if the working out of this statement showed you just how much you need to invest in bonds each year, at various rates of interest, to accumulate a desired surplus at a certain time of life, wouldn't that be worth knowing?

The blank form, chart and tables for defining your present financial situation and your required financial objective is contained in a folder with full instructions, which we would like to send you, without obligation. *Write for folder* OL-X7

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mon. The interesting thing about this upward movement is that it has not been considered even in the most conservative circles as a speculative movement. Although the prices have gone to such heights that some bank stocks are now yielding as little as 2 per cent on present market value, the general feeling is that the future of the institution fully warrants these figures. There has been trading and prices have been bid up in response to it, but the trading is in very real values and is in no sense based on wild rumors, tips, or prospects of getting rich quick.

The reason for the confidence in bank stocks is not far to seek. Before going into it, let us, however, avoid confusion by saying that we do not refer to all bank stocks, but primarily to the stocks of well-established National banks and trust companies in the larger cities.

Returning now to the case of the bank cited in the first paragraph of this article, let us look beneath the surface and see what we can find.

This particular bank is a trust company. It began business about thirty-five years ago. Its management has always been alert and progressive. In addition to its regular commercial banking departments, it has developed a large trust department and a bond department, now a separately organized corporation, owned by the bank, which underwrites securities and sells them both wholesale and retail.

The capital of this trust company is $15,000,000; its surplus is $11,000,000; its deposits are about $180,000,000. It is transfer agent for some 250 corporations, dividend-paying agent for 100, and as trustee manages properties worth some $160,000,000.

When this bank started, its capital was $1,000,000. The increase to $15,000,000 in a period of thirty-seven years was accomplished by the issuance of new stock. This meant that the stockholders were from time to time given the right to buy shares of new stock. For example, in 1919 there was a 16⅔ per cent increase in the stock of the company, or from $6,000,000 to $7,000,000. Because of the then market value of the stock, each "right" was valued at $23, and the holder of each such right was allowed to buy a new share at $100.

In this particular year the stock was paying $12 a share. Obviously, it was to the advantage of a stockholder to exercise his right to make so advantageous an investment of $100 as to put it into a bank stock yielding $12 on the investment. Those who could not afford to do this sold the rights for cash.

Over a period of ten years the average

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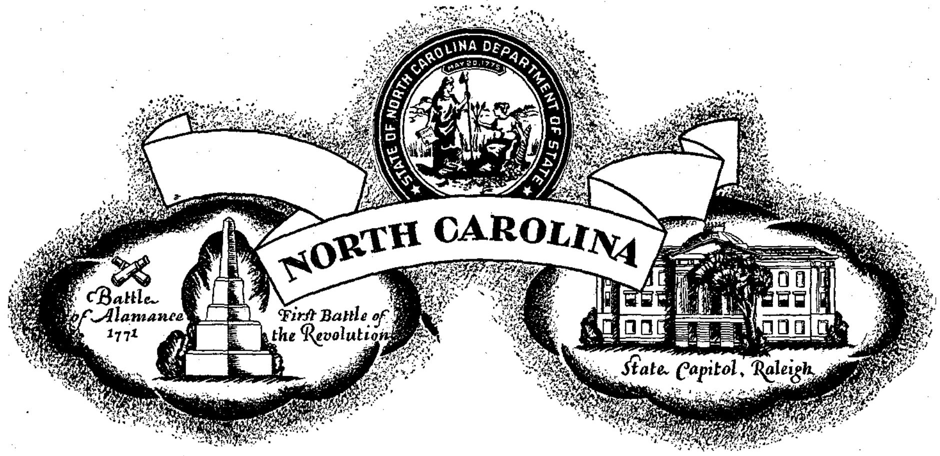

... the fourth State in productive wealth

HERBERT HOOVER recently said, "North Carolina has made more economic progress in the last few years than any state in the Nation."

To be specific: North Carolina is now paying the fourth largest amount of Federal Taxes among the states of the Union. It manufactured products worth more than one billion dollars in 1926. It now generates the fifth largest amount of hydro-electric power of all the states. It distributes this power over the most extensive transmission system in the world.

In this state is the largest towel factory, the largest underwear plant, the largest hosiery mills, the second largest aluminum plant in existence. Here 28% of America's furniture industry is located. Its tobacco industry is the largest. It has silk mills, tire factories and hundreds of others ... well diversified.

The progress of North Carolina is but an example of the progress of the whole South. Each step forward adds lasting values to the securities issued by Southern states, cities, railroads, utilities and corporations. Sound Southern securities offer today investment opportunities which will seldom recur in this country.

Caldwell & Company have been closely associated with Southern financing for many years. We have helped supply the means for a number of prospering Southern enterprises and have helped many investors to add attractive investment securities to their holdings. We will gladly make recommendations to you.

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value of the rights to buy stock in this trust company was $13.20 a year. During the same period the dividends averaged $12 a year, so that, calling the rights income, the return was $25.20 per year. The value of this stock as an investment may easily be seen when it is realized that ten years ago a share could be bought for $250.

But this does not tell the whole story. Assume that in 1918 you bought twelve shares at $250, or $3,000. In 1919 you got two rights which called for subscription to two shares of stock at $100 a share. You invested, let us say, the $200. In 1925 there was a 42 6/7 per cent stock increase. You got six rights at $150 a share, and you invested $900. Again in 1926 came the opportunity to invest in four shares for $600, and in 1927 in six shares at $175 a share. The sum total of these opportunities and operations was that today you would be holding thirty shares of stock at a cost of $ 5,750, or $191.66 per share! The market value to-day is about $400 per share, so that your thirty shares (if you had them) would be worth $12,000, or over twice your investment during this ten-year period. In the meantime you would have received dividends of $12 per year on each share, or a return of over 6 per cent on each dollar invested. Present market value of $400 a share shows an increase of 108 per cent on total investment.

How many stocks that are advertised in screaming circulars by high-pressure sale campaigns can promise anything like this?

Why bank stocks tend to act in this way is a long story. To those who are interested we commend Mr. Walter H. Woodward's recent study called "Profits in Bank Stocks" (Macmillan). To summarize part of what he has to say on this point, bank stocks are attractive, first, because they measure up to the requirements of an investment—that is to say, principal is safe, income steady, and marketability ready. In addition there is appreciation in value over a period of time. But this is not all. A bank stock is a capital stock of a corporation that has no bonds or preferred stock calling for a share in the earnings. Banks are almost public utilities, are subject to rigid Government supervision, and keep on a fairly even keel in good times and in bad alike. The modern bank is virtually a "department store of finance," offering a variety of services, and thus profiting from diversification of output. The stockholder's double liability feature Mr. Woodward considers, in the case of a well-established metropolitan bank, to be negligible.

"As for bank stocks being a rich man's investment," says the writer, "it would seem, rather, from the points already covered, and particularly because of the almost certain appreciation in value which they will show if held for a reasonable period, that they lend themselves very readily indeed to the requirements of the small man and fit neatly into his modest investment program. The investor who chooses to refer to himself as poor certainly does not expect to live on his investment income. He cannot; that's what makes him poor. He can afford, above all other men, to buy bank stocks because over a period of time they will make him, not poorer, but richer. An examination of a carefully prepared chart of twenty-five representative New York bank stocks, showing their price ranges through a period of twenty-odd years, reveals a very decided upward trend, and wherever recessions in price have occurred it is of great interest to note that *each low point is higher than any preceding low point.*" W. L. S.

To An Inquiring Reader

Canadian National Railways—

"The Canadian National Railways 4½s, Equipment Trust Certificates, to which you refer are a high-grade investment. In fact, it is hard to find a more secure bond than one of this type.

"While it is a rule that one should diversify one's investments, yet in a case like this I do not see that you would be taking an undue risk in placing a large part of your funds in this issue. If, however, you have other things in mind of equal security, it would be better policy to spread your investments."

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