Investment-trust classification—Gross assets at market Dec. 31, 1939, of closed-management and open-end management companies—Continued

CLOSED-MANAGEMENT COMPANIES—continued

	Total assets
B. With senior capital—Continued.	
Affiliated Trading Corporation	
Allied International Investing Corporation	
American Investment Co. (Wisconsin)	
Argus Corporation	
Atlantic Securities Co. of Boston	
Betco Corporation	
British Type Investors, Inc	
Chain Store Investment Corporation	
Community State Corporation	
Empire American Securities Corporation	
Fairfield Securities Corporation	
Foundation Investment Co	
Guardian Bank Shares Investment Trust	
Guardian Investment Trust	[5] $10,000,000
Guardian Public Utilities Investment Trust	
Guardian Rail Shares Investment Trust	
Investors Corporation	
Mutual Investors Co. (Wisconsin)	
National Investment Shares, Inc	
Oils & Industrials, Inc	
Pennsylvania Shares Co	
Petroleum Industries, Inc	
Scottish Type Investors, Inc	
Securities Corporation General	
Southeastern Investment Trust, Inc	
Tonawanda Share Corporation	
Utilities Associates, Inc	
Total closed-management companies (B) with senior capital	517, 065, 000
Total, closed-management companies	696, 635, 000

[5] Estimated.

Senator WAGNER (chairman of the subcommittee). The next speaker will be Mr. Paul Cabot, president of the State Street Investment Corporation, of Boston.

Will you please come forward, Mr. Cabot?

STATEMENT OF PAUL C. CABOT, PRESIDENT, STATE STREET INVESTMENT CORPORATION, BOSTON, MASS.

Mr. CABOT. Yes, Mr. Chairman; thank you.

I am Paul C. Cabot, president of the State Street Investment Corporation, of Boston, which was founded by me and my associates in July 1924. We are generally classified as an open-end company, or one of those that will always buy back shareholders' stock at a price approximately equal to the asset value. At the present time our assets amount to approximately $40,000,000.

Most open-end companies are continually selling additional shares to the public. However, in our case, our stock has been withdrawn from public offering since 1935, except in connection with the sale of stock made as a result of subscription rights offered to our shareholders.

Although we naturally stand ready to buy back shareholders' stock at any time and feel that this right of redemption is essential to their best protection, I am glad to be able to state that ever since 1936 we have not been called upon to buy back any shares, because of the fact that our stock has continuously commanded a premium in the open market, substantially in excess of the asset value.

Mr. Bunker and other witnesses have already pointed out to you what must be self-evident, namely, that the S. E. C. witnesses in their testimony have paraded before you a group of the most shocking and sensational cases in this industry. It seems only fair, therefore, that I should be allowed under these circumstances briefly to mention the record of my company.

Upon organization in 1924, the shares of our company were worth $12.50. Today these same shares are worth approximately $72 a share, or a net appreciation of over 400 percent. In addition thereto, the annual return to the original shareholders in income and capital has aggregated $63.40 per share and has averaged in excess of 25 percent per annum.

I want to emphasize that the above figures apply to the original shareholders; but I am herewith submitting for the record a copy of our last annual report, which on page 5 shows how all shareholders have fared.

Would you like that, Senator, for the record?

Senator WAGNER. Yes. It will be placed in the record.

(Document entitled "Sixteenth Annual Report, State Street Investment Corporation, Boston, Massachusetts", is as follows:)

SIXTEENTH ANNUAL REPORT STATE STREET INVESTMENT CORPORATION, 140 FEDERAL ST., BOSTON, MASS., YEAR ENDED DECEMBER 31, 1939

Not to be considered an offer of sale or solicitation of an offer to buy unless a prospectus has been previously received and except in conjunction with prospectus

Directors.—Charles Francis Adams, Paul C. Cabot, David H. Howie, Richard C. Paine, Richard Saltonstall, R. Minturn Sedgwick, Henry L. Shattuck.

Officers.—Paul C. Cabot, *president;* Richard Saltonstall, *vice president;* Richard C. Paine, *Treasurer;* James G. Cronin, *Assistant Treasurer;* H. deF. Lockwood, Jr., *Clerk.*

Custodian and transfer agent.—The National Shawmut Bank of Boston.

Counsel.—Ropes, Gray, Boyden & Perkins.

Auditors.—Lybrand, Ross Bros. & Montgomery.

STATE STREET INVESTMENT CORPORATION,
Boston, Mass., January 30, 1940.

To Our Stockholders:

EXHIBITS

On pages 8 to 14 will be found statements of income and of surplus for the year ended December 31, 1939, a comparative balance sheet as of December 31, 1939, and December 31, 1938, and the list of securities owned as of December 31, 1939, all certified to by our auditors.

OPERATIONS IN 1939

At the beginning of the year 21 percent of the assets of your corporation was held in cash. During the first half of the year business activity declined somewhat and stock prices as measured by the Standard Statistics 90 stock average declined approximately 18 percent. During this period our common stock position was increased so that as of June 30, 1939, we showed a 15 percent cash position and as of September 30, 1939, a 9 percent cash position. During the third quarter business activity increased moderately and in the fourth quarter very sharply so that by December industrial production as measured by the Federal Reserve index was at its highest point in history. By far the greatest increase in business activity took place following the outbreak of hostilities in Europe. Stock prices, which reached a low point in April, were at their high point for the year by mid-September, and since that time common stocks as a group have tended to move sidewise to slightly downward. A considerable amount of our stock purchases in 1939 took place during the market weakness of the first quarter of the year and just prior to the outbreak of the war. Following the rapid rise in stock prices after the outbreak of hostilities we sold some securities with the result that your corporation ended the year with approximately 13 percent of its assets in cash. Since the end of the year this cash position has been increased somewhat further.

Under date of December 22, 1939, we informed you that "Your corporation registered 49,718 shares of its stock with the Securities and Exchange Commission. This action was taken in order that the corporation would be able to offer to you additional stock in the event that circumstances toward the end of the year should make advisable the realization of substantial security profits and hence necessitate the payment of a larger special dividend." As this course was not deemed advisable, and as your corporation did not offer these shares, the management company assumed all the expe ises in connection with this registration statement.

DIVIDENDS

During the year 1939 your corporation paid four regular dividends aggregating $2 per share and one special dividend of $1 per share, or total disbursements of $3 per share. Of this, approximately $2.85 represented dividends and interest received by the company, while approximately 15 cents represented gains from the sale of securities which are of a nonrecurrent nature. This compares with total dividends in 1938 of $6.75 per share, of which $1.75 represented dividends and interest received, and $5 was from nonrecurrent net gains from the sale of securities.

For the past several years your corporation has paid quarterly dividends in January, April, July, and October, and since 1936 has paid special dividends in December. Of recent years January dividends have been paid in anticipation of income inasmuch as substantially all of the income of a given year has been distributed in that year in order that the corporation might qualify as a "mutual investment company." Your directors have deemed it advisable to change the dates for the payments of the dividends of your corporation to April, July, October, and December. This action will result in four dividend payments in a year which will reduce the expense of dividend distribution and permit your corporation to pay dividends after the receipt of income rather than in anticipation thereof. Although this action caused the omission of the dividend that has heretofore been paid in January, it should not be construed as an indication of either an increase or a decrease in the total amount of the annual dividend distribution. We propose to continue as heretofore, and as required by the law pertaining to "mutual investment companies" to distribute substantially all of our income each year.

ORIGIN OF THE STATE STREET INVESTMENT CORPORATION

State Street Investment Corporation was formed under the laws of Massachusetts in June 1924. The original capital was entirely subscribed by the officers of the corporation and in the beginning the corporation was conducted as a private investment medium. The officers, directors and their families, as of December 15, 1939, owned approximately 19 percent of the outstanding shares, for which the corporation received full liquidating value at the date of purchase. No officer or director receives more than his pro rata share in the profits as a stockholder other than through his interest in the State Street Research & Management Co.

CAPITALIZATION

There is only one type of security outstanding—common stock without par value and with full voting power. There have never been nor are there outstanding now, any bonds, preferred stocks, or options, nor is it expected that any bonds, preferred stocks, or options will be created.

EXPENSES AND MANAGEMENT FEE

There exists a contract between your corporation and the State Street Research & Management Co., a partnership of which three of your officers, Messrs. Cabot, Paine, and Saltonstall are members, to provide management in consideration of a quarterly fee equal to one-eighth of 1 percent of the market value of the net assets plus $1 per share charged for shares repurchased by the corporation. This latter charge is borne by the retiring shareholders and not by the corporation. In consideration of this fee the partnership agrees to pay all expenses of management, research, bookkeeping, etc. Aside from taxes and a few miscellaneous items, as detailed in the income account on page 8, the quarterly fee noted above represents the total operating expense.

SECURITIES AND EXCHANGE COMMISSION

During the past year the Securities and Exchange Commission issued a number of reports resulting from its investigation and study of the investment trust industry. As long ago as 1928 we called the attention of our shareholders to some of the abuses prevalent at that time in the investment trust field. In its studies it is natural that the Commission has emphasized those incidents of an unfavorable and dishonest nature that have taken place in the industry. As a result the reports tend to emphasize these unfortunate occurrences and have on the whole failed to call attention to the good aspects of those investment companies which have been honestly and capably managed. In spite of this criticism, however, we feel that these reports are thorough and accurate and we suggest that our shareholders who are interested procure copies from the Securities and Exchange Commission in Washington.

We understand the Securities and Exchange Commission will probably introduce a bill in the present Congress calling for the regulation of the investment trust industry.

FINANCIAL HISTORY OF THE CORPORATION

The following table shows changes in the size of the fund and in the per share net worth or liquidating value and gives the per share cash dividends paid each year.

Adjusted for stock dividend of 100 pecent, paid Jan. 15, 1929

	Net worth [1]	Number of shares outstanding	Number of shareholders	Net worth [1] per share	Annual per share dividends
July 31, 1924	$100,000	8,000	3	$12.50	
Dec. 31, 1924	165,796	8,000	3	20.77	
June 30, 1925	574,907	18,600	4	30.90	
Dec. 31, 1925	814,161	23,208	5	35.08	$3.50
June 30, 1926	1,110,095	33,420	6	33.22	
Dec. 31, 1926	1,351,607	37,024	22	36.50	2.50
June 30, 1927	2,072,174	51,104	51	40.55	
Dec. 31, 1927	3,334,024	62,308	95	53.49	2.00
June 30, 1928	5,868,880	87,428	188	67.13	
Dec. 31, 1928	12,105,970	126,372	280	95.79	2.50
June 30, 1929	21,129,614	174,389	612	121.16	
Dec. 31, 1929	17,249,549	197,833	800	87.19	3.00
June 30, 1930	17,502,311	194,762	775	89.87	
Dec. 31, 1930	11,732,276	182,103	759	64.42	[2] 3.00
June 30, 1931	11,438,534	179,726	725	63.64	
Dec. 31, 1931	7,847,087	177,050	704	44.32	3.00
June 30, 1932	5,909,605	173,489	873	34.06	
Dec. 31, 1932	7,392,061	172,977	862	42.73	2.50
June 30, 1933	14,080,344	212,458	1,053	66.27	
Dec. 31, 1933	21,030,143	323,851	2,365	64.94	1.70
June 30, 1934	24,146,632	373,075	2,959	64.72	
Dec. 31, 1934	27,466,241	421,647	3,408	65.14	1.60
June 30, 1935	32,684,592	477,150	4,008	68.50	
Dec. 31, 1935	42,283,151	476,915	4,154	88.66	1.60
June 30, 1936	49,208,083	471,749	4,185	104.31	
Dec. 31, 1936	50,193,968	472,711	4,309	106.18	22.25
June 30, 1937	50,043,984	499,990	4,783	100.09	
Dec. 31, 1937	34,275,781	499,990	5,138	68.55	4.50
June 30, 1938	36,273,458	499,990	5,436	72.55	
Dec. 31, 1938	38,341,347	520,971	5,673	73.60	6.75
June 30, 1939	35,004,461	546,905	6,081	64.00	
Dec. 31, 1939	39,271,450,	546,905	6,136	71.81	3.00

[1] Net worth is computed after all taxes, expenses, and dividends.

[2] On p. 10 of the prospectus dated Dec. 20, 1938, there was a typographical error. The dividend paid in 1930 appeared there as $5 whereas it should have been $3 as above.

MARKET FOR SHARES

The stock of State Street Investment Corporation has never been, nor is it expected to be listed on any stock exchange. Subject to the provisions of the vote of stockholders passed January 31, 1933, and subject to the possibility of revocation or amendment of that vote by the stockholders, the State Street Investment

Corporation will continue the purchase of stock offered to it at its liquidating value (as determined by the directors) subject to a charge of $1 per share, which $1 is paid to the State Street Research & Management Co. pursuant to its contract discussed previously.

FEDERAL TAXES

Your corporation continued to qualify as a "mutual investment company" as defined in the Internal Revenue Code. It is our opinion that all distributions paid to stockholders in 1939 are subject to Federal taxes.

ACKNOWLEDGMENT

Suggestions from shareholders are very welcome and we wish to thank those who in the past year have aided us in this respect.

Respectfully submitted.

PAUL C. CABOT, *President.*

TO STATE STREET INVESTMENT CORPORATION,
Boston, Mass.

We have examined the accompanying comparative balance sheet of State Street Investment Corporation as at December 31, 1939 and 1938 and the related income statement and statement of surplus for the year 1939, have examined or tested accounting records of the corporation and other supporting evidence and have obtained confirmation from the depositary, The National Shawmut Bank of Boston, of investment securities held for the account of the corporation as at December 31, 1939 and 1938.

In our opinion, the accompanying financial statements present fairly the position of State Street Investment Corporation at December 31, 1939 and 1938 and the results of its operations for the year 1939, in conformity with generally accepted accounting principles.

LYBRAND, ROSS BROS. & MONTGOMERY.

BOSTON, MASS., *January 25, 1940.*

Income statement

(Exclusive of realized and unrealized profit or loss on securities)

FOR THE YEAR ENDED DEC. 31, 1939

Income:	
Cash dividends received	$1, 763, 715. 45
Securities received as dividends (none on stocks of the same class)	92, 942. 75
Interest on bonds	4, 775. 00
Total	1, 861, 433. 20
Expenses:	
Fees for management services	187, 606. 50
Directors' fees	580. 00
Fees paid to transfer agent and depositary	28, 460. 09
Auditing, legal, and other operating expenses	7, 616. 84
Canadian and other taxes on dividends	7, 676. 76
Original issue taxes	3, 420. 98
Estimated Federal capital stock and Massachusetts excise taxes (note B)	84, 588. 50
Total	319, 949. 67
Net income for the year	1, 541, 483. 53
Dividends receivable after Dec. 31, 1939 (note A)	80, 632. 25
Total carried to accompanying statement of surplus	1, 622, 115. 78

NOTES:
A—Prior to Dec. 31, 1939, it was the corporation's practice to enter dividends in the accounts as of the dates they were due to be received. As at Dec. 31, 1939, the corporation adopted the practice of recording dividends in the accounts on the dates when the respective stocks first sell exdividend.
B—No provision is believed necessary for Federal income taxes.

Statement of surplus

(On the basis of pricing securities at market quotations)

FOR THE YEAR ENDED DEC. 31, 1939

Surplus at beginning of period	$10, 437, 325. 20
Add:	
Total from accompanying income statement	1, 622, 115. 78
Net gain from sales of securities	80, 667. 58
Refunds and adjustments of prior year taxes (net)	12, 150. 10
Total	12, 152, 258. 66
Deduct:	
Net decrease from change between the beginning and end of the period in unrealized appreciation of investment securities	1, 286, 873. 21
Cash dividends declared	1, 367, 262. 50
	2, 654, 135. 71
Surplus at end of period	9, 498, 122. 95

Comparative balance sheet

(On the basis of pricing securities at market quotations)

AS AT DEC. 31, 1939, AND 1938

	1939	1938
ASSETS		
Cash in banks	$4, 865, 687. 08	$8, 123, 838. 25
Accounts receivable from sales of investment securities	452, 682. 60	5, 872. 88
Accounts receivable from sales of the corporation's capital stock		495, 680. 56
Dividends and interest receivable (note A)	83, 334. 75	
Securities (note B)	[1] 33, 980, 300. 00	30, 183, 150. 00
	39, 382, 004. 43	38, 808, 541. 69
LIABILITIES AND CAPITAL		
Management fee	49, 151. 00	47, 986. 50
Accounts payable	12, 641. 52	116, 983. 23
Dividends declared		250, 000. 00
Reserves for taxes	48, 761. 50	52, 225. 00
Total liabilities	110. 554. 02	467, 194. 73
Common stock without par value (note C)	29, 773, 327. 46	27, 904, 021. 76
Surplus (note D)	9, 498, 122. 95	10, 437, 325. 20
Net worth	39, 271, 450. 41	38, 341, 346. 96
	39, 382, 004. 43	38, 808, 541. 69

NOTES:

A—The foregoing statement does not include, at Dec. 31, 1938, $55,522.50 of dividends receivable after Dec. 31, 1938 on stocks selling ex-dividend at that date. See income statement note A.

B—Securities at cost amounted at Dec. 31, 1939, to $33,577,799.87 and at Dec. 31, 1938, to $28,493,776.66.

C—Authorized 600,000 shares. Outstanding at Dec. 31, 1939, 546,905 shares and at Dec. 31, 1938 (including 6,801 shares subscribed) 520,971 shares.

	Dec. 31, 1939	Dec. 31, 1938
D—Capital surplus	$7, 115, 915. 73	$7, 115, 915. 73
Earned surplus	1, 979, 707. 09	1, 632, 036. 13
Total surplus, as per books	9, 095, 622. 82	8, 747, 951. 86
Unrealized appreciation of investment securities not reflected on books	402, 500. 13	1, 689, 373. 34
Surplus, as above	9, 498, 122. 95	10, 437, 325. 20

[1] See accompanying list of securities owned.

List of securities owned, Dec. 31, 1939

Number of shares	Securities	Quoted market prices [1]
	COMMON STOCKS	
6,100	Allis-Chalmers Manufacturing Co.	$244,000
5,000	Aluminum, Ltd	480,000
3,000	Aluminum Co. of America	423,000
2,200	American Airlines, Inc	99,000
13,900	American Cyanamid Co. "B"	472,600
15,000	American Gas & Electric Co	570,000
26,000	American Metal Co., Ltd	624,000
3,000	Anaconda Copper Mining Co	90,000
6,400	Armstrong Cork Co	236,800
5,000	Atchison, Topeka & Santa Fe Ry. Co	120,000
9,500	Atlantic Refining Co	199,500
48,400	Borden Co	1,016,400
32,400	Burroughs Adding Machine Co	388,800
4,800	Caterpillar Tractor Co	259,200
18,000	Chrysler Corporation	1,602,000
11,800	Climax Molybdenum Co	460,200
37,500	Colgate-Palmolive-Peet Co	675,000
3,700	Colt's Patent Fire Arms Mfg. Co	303,400
15,000	Commercial Credit Co	705,000
4,000	Commercial Investment Trust Corporation	208,000
43,300	Continental Oil Co. (Del.)	995,900
9,700	Crane Co	223,100
24,000	Creole Petroleum Corporation	528,000
65,400	Deere & Co	1,504,200
31,900	Distillers Corporation-Seagrams, Ltd	606,100
22,000	Eastern Air Lines, Inc	660,000
6,900	Engineers Public Service Co	75,900
1,300	First National Stores, Inc	58,500
15,200	Flintkote Co	304,000
11,900	General Electric Co	476,000
10,500	General Motors Corporation	567,000
16,400	International Harvester Co	1,000,400
17,600	International Nickel Co. of Canada, Ltd	651,200
11,600	Kennecott Copper Corporation	429,200
8,500	S. S. Kresge Co	212,500
28,000	Kroger Grocery & Baking Co	812,000
7,700	Lone Star Cement Corporation	354,200
31,500	Marshall Field & Co	472,500
10,000	Glenn L. Martin Co	400,000
14,000	Montgomery Ward & Co., Inc	770,000
9,800	Mueller Brass Co	254,800
25,000	National Cash Register Co	375,000
50,000	National Dairy Products Corporation	850,000
17,600	National Distillers Products Corporation	422,400
2,900	National Steel Car Corporation, Ltd	147,900
25,000	North American Co	575,000
90,400	Niagara Hudson Power Corporation	542,400
3,000	Pennsylvania Railroad Co	69,000
43,500	Remington Rand, Inc	435,000
26,700	Safeway Stores, Inc	1,254,900
14,000	Schenley Distillers Corporation	168,000
9,900	Seaboard Oil Co. of Delaware	188,100
5,800	Sears, Roebuck & Co	493,000
40,900	Servel, Inc	613,500
117,600	Socony-Vacuum Oil Co., Inc	1,411,200
1,200	Sperry Corporation	54,000
33,000	Standard Oil Co. of California	825,000
22,800	Texas Corporation	1,003,200
6,600	Underwood Elliott Fisher Co	257,400
6,000	United Fruit Co	510,000
1,900	United States Gypsum Co	157,700
7,400	United States Smelting Refining & Mining Co	451,400
8,200	F. W. Woolworth Co	311,600
8,700	Youngstown Steel Door Co	234,900
	PREFERRED STOCKS	
10,000	Commonwealth & Southern Corporation $6	700,000
5,500	Electric Bond & Share Co. $5	324,500
5,900	Electric Bond & Share Co. $6	395,300
2,000	Radio Corporation of America $3.50 cumulative convertible	120,000
1,300	Worthington Pump & Machinery Corporation, 4½ percent, cumulative preferred	44,200

[1] The market value of securities is calculated at the price of the last quoted sale for the day, or in the case of no sale, the closing bid (such price or bid being adjusted to the nearest whole figure, fractions of one-half or less being marked down).

List of securities owned, Dec. 31, 1939—Continued

Number of shares	Securities	Quoted market prices
	BONDS	
Par value		
$117,000	Chicago, Milwaukee & St. Paul Ry. Co. series C 4½'s, 1989	$29,250
68,000	Chicago, Milwaukee & St. Paul Ry. Co. series E 4½'s, 1989	17,000
200,000	Erie R. R. Co., prior lien 4's, 1996	108,000
400,000	Erie R. R. Co., general lien 4's, 1996	96,000
100,000	Kansas City, Fort Scott & Memphis Ry. Co. 4's, 1936	30,000
405,000	Missouri Pacific R. R. Co. series F 5's, 1977	60,750
105,000	Missouri Pacific R. R. Co. series G 5's, 1978	14,700
143,000	Missouri Pacific R. R. Co. series H 5's, 1980	21,450
547,000	Missouri Pacific R. R. Co. series I 5's, 1981	82,050
45,000	Wabash R. R. Co. first mortgage 5's, 1939	17,100
100,000	Wabash R. R. Co. second mortgage 5's, 1939	19,000
200,000	Wabash Ry. Co. series B, 5's, 1976	18,000
	Total	33,980,300

Mr. CABOT. In his opening remarks to you, Judge Healy quoted from an article that I wrote in March 1929, for the Atlantic Montly, wherein I described at some length the many abuses and malpractices by a few members of the industry at that time. He did not, however, quote from that same article what I suggested should be done about these abuses. I think it only fair, therefore, that I should quote from the same article the following:

What can be done about these abuses? I should say that the remedies are publicity and education. Every industry has its abuses and dangers, and many industries present far more alarming hazards than the investment trust. Before touching on these rememdies I should like very briefly to say a word about what purports to be remedial legislation. There has been much discussion of this topic, and many States have already gone far in setting laws on their statute books. Just as in the case of charter restrictions, about all these laws can do is to hamper able management and fail to protect the public against inability and dishonesty. No law can replace the necessity for investors to think intelligently and to investigate a situation before investing their money. We have had many examples of the evils of overregulation in other fields, and it would indeed be unfortunate to hamper by laws that cannot accomplish their purpose so valuable an instrument of finance as the investment trust.

Remember that the above was written in 1929—11 years ago.

I hand you a copy of that article in full.

(Pamphlet entitled "The Investment Trust," by Paul C. Cabot, is as follows:)

THE INVESTMENT TRUST

(By Paul C. Cabot)

I

Although there have been investment trusts in operation in this country for over 40 years, they have not until recently enjoyed any prominence, nor have large amounts of capital been invested in them. The idea was really first developed in Great Britain and had already attained considerable proportions as early as 1880. The investment-trust plan as conceived by Mr. Robert Fleming, who is now possibly the most important English investment-trust manager, is more or less typical of the entire movement at that time. Coming from Dundee to New York as a mercantile clerk, Mr. Fleming was greatly impressed with the possibility of investing funds in this country, particularly in our then rapidly growing railroads. It was possible for him at that time to borrow money in England for as low as 3 percent and then turn around and lend it to the American railroad companies, taking their first-mortgage bonds for as high as 6, 7, and indeed 8 percent. Obviously the profits for the promoters and common-share holders were very large, and the movement expanded rapidly. By 1888, 18 of these trusts with a capital of over £23,000,000 were listed on the London Stock Exchange. By 1890 a trust "mania" was under way. For some years the British debt had been steadily reduced; capital had continued cheap and abundant; the investment trusts had been uniformly successful, paying large dividends, and there had been rapidly mounting quotations for their securities.

Referring to this "boom" in the investment-trust plan, the London Economist for April 6, 1889, remarks that "although successful with the public, the companies have not in some cases been able to make a very favorable start in business, for they have followed so fast upon each other's heels that they have experienced great difficulty in purchasing proper investments. The supply of really sound securities is in many directions so very limited that any decided increase in the demand at once causes a considerable advance in prices * * * indeed so rapid has been the advance that it is stated several of the new trusts have been unable to effect purchases and are rather doubtful as to the direction in which their money shall be invested."

These words have certain interesting applications to the present situation. As a result of the conditions described by the Economist a variety of abuses arose. The pryamiding process, or superimposing of one company on top of another, increased rapidly. For example, the Anglo-American Debenture Co. was responsible for the creation of 13 different but interconnected trusts at this time. This in itself might not have been objectionable had it not resulted in the manipulation of accounts, the creation of corners, and a great deal of general maneuvering in order to sustain and increase the market value of the securities of the various trusts. In my opinion there is today in this country a large and well-known investment trust whose shares are selling for far more than their intrinsic or liquidating value, which has continually managed its portfolio so that it can show the greatest possible profits and thereby obtain the greatest market value for its shares, regardless of their real worth. Generally speaking, in this trust during the past year the good securities that have appreciated in value have been sold and the poorer ones retained or increased, simply to show profits.

The Economist tells us that this is exactly the game they were playing in England almost 40 years ago. In 1890 the Baring crisis marked the beginning of a long period of difficulty for the investment trusts. It is interesting to note some of the expedients resorted to by the managers of the tottering trusts at this time. Mr. J. Edward Meeker, economist of the New York Stock Exchange, in an interesting paper on the subject, cites the following instance. "The 'Imperial and Foreign Investment and Agency Corporation,' with a 'strong board' of directors, saw fit to carry the valuations of their holdings at cost instead of at market prices, and on this basis to declare a dividend which absorbed £20,000 of their fictitious revenue balance of £32,409. The long-suffering auditor revolted and refused to shoulder further responsibility for the company's accounts." By April 1891 the ordinary and deferred shares of 10 of the more important trusts had declined in the market on an average of 34 percent. In February 1893 the Economist made the following commentary: "It may be said with truth that, having sown the wind, they (the trusts) are now reaping the whirlwind. Week after week evidence accumulates proving only too forcibly that those responsible for the management of these trusts have based no inconsiderable part of their operations upon false principles, with the inevitable result that, after a more or less brief period of apparent prosperity, losses and difficulties have arisen." Scandal followed close on the heels of financial difficulty. It turned out that the banking house of Mruietta & Co. "had agreed to subscribe for 12,000 shares of the "Imperial and Foreign Investment and Agency Corporation" provided the latter would purchase from it certain securities which it had been unable to sell elsewhere. These depreciated £114,358 while in the trust's possession. What stirred the ire of the shareholders was that despite their losses the trust, directors, and managers had made fortunes." [1]

It was not until 1896 that the Economist noted "the upward movement in prices of trust securities generally."

I have given at some length the history of the difficulties of the investment trusts in England because I strongly believe that unless we avoid these and other errors and false principles we shall inevitably go through a similar period of disaster and disgrace. If such a period should come, the well-run trusts will suffer with the bad as they did in England 40 years ago. Of course, the honest and ably managed companies would emergy from the difficulties eventually. Even during the worst period in England "proof was afforded of the innate soundness of the

[1] Some Notes on Investment Trusts, by J. Edward Meeker.