

portfolio. *Based upon these erroneous presuppositions, the S. E. C. concludes that investment trusts of the management type have done slightly worse than an unmanaged fund.*

The impropriety of comparing the market behavior of an investment fund with the fluctuations of the Standard Statistics indices becomes quite evident if one considers that the Standard Statistics Company never intended to trace or record the investment performance of any given fund but that it endeavored to construct a mathematical shortcut to duplicate the percentage fluctuations in the market values of the most representative security issues within their respective industries and that at the same time it aimed to maintain a continuity by properly correcting for changes within the capital structures of the constituents in connection with the issuance of rights, split-ups, stock dividends, etc.

In their present form of construction, the Standard indices cannot be duplicated in actual investment practice (see page 5, paragraph 3). There are only two alternative methods by which it is possible to follow the underlying concept employed by the Standard Statistics Company in the construction of their index, namely, those listed on page 6 of this study under Test I (b) and Test II.

The application of Test I (b), which carries forward a fund invested in 1926 in proportion to the Standard weights with subsequent rights being exercised by selling sufficient amounts of such rights to net the necessary cash to exercise the remainder, proves that by the end of 1935 such a fund would show a decline of 13.8 percent as compared with the percentage fluctuation of the Standard Statistics index of 90 stocks and that the loss by the end of 1937 and 1939 would have amounted to 18.1 and 18.4 percent respectively.

The second test would have preserved the initial liquidating value of the fund but, in doing so, would have involved 29,970 individual investment operations for the period from 1926-1939. This is in contradistinction to the statement made by the S. E. C. that in the period from 1930-1935 the total index registered only 9 eliminations or substitutions. In actual practice it would have been necessary to go through 16,740 separate market operations for this period.² According to the Standard Statistics Company Base Book, subdivision C, page C-72, there were only 17 substitutions and eliminations in the combined index of 90 stocks from 1926 to 1939—10 in the industrial stocks, 7 in the utilities, and none in the rails.

TABLE III.—Number of corrections and changes in the Standard Statistics index of 90 combined common stocks

Year	Number of changes ¹	Resultant number of market operations, 1930-35 ²	Year	Number of changes ¹	Resultant number of market operations, 1930-35 ²
1926	9	810	1934	17	1,530
1927	17	1,530	1935	17	1,530
1928	19	1,710	1936	15	1,350
1929	48	4,320	1937	18	1,620
1930	54	4,860	1938	10	900
1931	30	2,700	1939	11	990
1932	42	3,780			
1933	25	2,340	Total	333	29,970
					16,740

¹ Actual count.

² Market operations refer to sales of fractions in individual holdings but are not identical with market transactions which can be much larger in number.

In other words the S. E. C. overlooks the changes necessary in exercising rights to subscribe to additional common stock, preferred stock, or bonds and also the changes in connection with the increases in common-stock capitalization incidental to the acquisition of additional properties by the individual constituent companies.

We may thus conclude that the Standard Statistics averages constitute mathematical shortcuts to measure percentage fluctuations in the market value of the

² Inasmuch as this method necessitates the liquidation of fractions in the totality of the individual holdings, each correction in connection with issuance of rights or the increase in common stocks outstanding of any one of the constituents coincidental to the acquisition of additional property through the exchange of common stock results in 90 individual market operations. In order to avoid any controversy as to the actual amount of changes and corrections made by the Standard Statistics Company, we went through a physical count employing the records of the Standard Statistics Company in order to determine accurately the number of financial operations required by any fund in duplicating the Standard Statistics performance. (See Table III.)

most representative security issues, which cannot be duplicated in actual investment practice.

Actual investment experience from the beginning of 1927 to the end of 1939 proves that it is possible to approximate the Standard Statistics index by the application of 333 market operations with a final loss of 18.4 percent in the initial fund. A complete duplication would require 29,970 market operations in order to keep the initial fund intact.

It should be understood that the market operations represent changes in individual portfolio holdings and thus constitute the theoretical minimum of the sum total of perfect market transactions. The fact that the latter assumption is untenable in actual investment practice and that large expenditures have to be incurred through odd-lot and multiple-selling operations was disregarded.

APPENDIX. CONSTITUENTS OF STANDARD STATISTICS 90 STOCK AVERAGE

50 INDUSTRIAL STOCKS

- | | |
|---|--|
| *Allied Chemical & Dye (12-31-'25). | *Kennecott Copper (12-31-'25). |
| *Allis Chalmers (12-31-'25). | *Kresge (S. S.) (12-31-'25). |
| *American Can (12-31-'25). | *Loew's, Inc. (3-29-'33). |
| *American Locomotive (12-31-'25). | *National Biscuit (12-31-'25). |
| *American Radiator & Standard Sanitary (5-2-'29). | *National Cash Register (4-4-'33). |
| American Radiator Co. (12-31-'25 to 5-1-'29). | *Punman, Inc. (12-31-'25). |
| *American Smelting & Refin. (12-31-'25). | *Radio Corp. (12-31-'25). |
| *American Sugar Refining (12-31-'25). | *Reynolds Tobacco "B" (12-31-'25). |
| *American Tobacco "B" (12-31-'25). | *St. Joseph Lead (12-31-'25). |
| *American Woolen (12-31-'25). | *Sears, Roebuck (12-31-'25). |
| *Anaconda Copper (12-31-'25). | *Standard Brands (9-13-'29). |
| *Armour of Illinois (7-11-'34). | Fleischmann Co. (12-13-'25 to 9-12-'29). |
| Armour of Ill. "A" (12-31-'25 to 7-10-'34). | *Standard Oil of Cal. (12-31-'25). |
| *Bethlehem Steel (12-31-'25). | *Standard Oil of N. J. (12-31-'25). |
| *Briggs Mfg. (12-31-'25). | *Stewart-Warner (12-31-'25). |
| *Burroughs Adding Machine (12-31-'25). | *Texas Corp. (12-31-'25). |
| *Chrysler Corp. (12-31-'35). | *Timken Roller Bearing (12-31-'25). |
| Dodge Bros. "A" (12-31-'25 to 11-26-'28). | *Twentieth Century-Fox Film Corp. (8-29-'35). |
| *Crown Zellerbach (10-3-'32). | Fox Film "A" (12-31-'25 to 8-28-'35). |
| *Cuban American Sugar (12-31-'25). | *Union Carbide & Carbon (12-31-'25). |
| *Eastman Kodak (12-31-'25). | *United Fruit (12-31-'25). |
| *Endicott Johnson (12-31-'25). | *U. S. Rubber (12-31-'25). |
| *General Electric (12-31-'25). | *U. S. Steel (12-31-'25). |
| *General Foods (8-29-'29). | *Westinghouse Air Brake (12-31-'25). |
| Postum Corp. (12-31-'25 to 8-28-'29). | *Woolworth (F. W.) (12-31-'25). |
| *General Motors (12-31-'25). | Abitibi Paper (12-31-'25 to 10-2-'32). |
| *Goodyear Tire & Rubber (12-31-'25). | International Mer. Mar. Pfd. (12-31-'25 to 7-22-'29). |
| *International Harvester (12-31-'25). | National Cash Register "A" (12-31-'25 to 4-3-'33). |
| *International Mercantile Marine (7-23-'29). | Paramount Publix (12-31-'25 to 3-28-'33). |
| *International Nickel (12-31-'25). | International Paper "A," "B," and "C" (12-31-'25 to 1939). |
| *International Common (1939). | |

20 RAILROAD STOCKS

- | | |
|--|---------------------------------------|
| *Atchison, Top. & S. F. (1-'26). | *Louisville & Nashville (1-'26). |
| *Atlantic Coast Line (1-'26). | *New York Central (1-'26). |
| *Baltimore & Ohio (1-'26). | *New York, Chic. & St. Louis (1-'26). |
| *Canadian Pacific (1-'26). | *Norfolk & Western (1-'26). |
| *Chesapeake & Ohio (1-'26). | *Northern Pacific (1-'26). |
| *Chicago & North West. (1-'26). | *Pennsylvania R. R. (1-'26). |
| *Delaware, Lackawanna & Western (1-'26). | *Reading Co. (1-'26). |
| *Great Northern "Pfd." (1-'26). | *Southern Pacific (1-'26). |
| *Illinois Central (1-'26). | *Southern Railway (1-'26). |
| *Lehigh Valley (1-'26). | *Union Pacific (1-'26). |

*Present constituents.

20 PUBLIC UTILITY STOCKS

*American Pwr. & Lt. (1-'26).	*Pacific Gas & Electric (1-'26).
*American Water Works & Electric (1-'26).	*Pacific Telephone & Telegraph (1-'26).
*Brooklyn-Manhattan Transit (1-'26).	*Public Service of New Jersey (1-'26).
*Brooklyn Union Gas (8-24-'28).	*Southern California Edison (1-'26).
*Columbia Gas & Electric (1-'26).	*Standard Gas & Electric (11-16-'31).
*Consolidated Edison of New York (9-22-'28). (Formerly Cons. Gas. of N. Y.)	*Twin City Rapid Transit (1-'26).
Bklyn. Edison Co. (1-'26).	*United Gas Improvement (8-2-'29).
*Detroit Edison (1-'26).	*Western Union Telegraph (1-'26).
*Electric Pwr. & Lt. (11-16-'31).	Commonwealth Power (1-'26 to 8-1-'29).
*Interborough Rapid Transit (1-'26).	Consolidated Gas of Baltimore (1-6-'30 to 11-16-'31).
*International Telephone & Telegraph (8-25-'28).	Peoples Gas of Chicago (1-'26 to 1-5-'30).
Mackay Cable Cos. (1-'26).	Standard Gas & Electric (1-'26 to 2-6-'30).
*National Pwr. & Lt. (1-'26).	Standard Power & Light "B" (2-7-'30 to 11-16-'31).
*North American Co. (1-'26).	

• Present constituents.

COMPARISON OF INVESTMENT TRUST PERFORMANCE WITH THAT OF 1929 NEW ISSUES

(Issued in support of statements made by Mr. Arthur H. Bunker, before a subcommittee of the Committee on Banking and Currency of the United States Senate in connection with bill S. 3580)

I—RESULTS

The S. E. C. has claimed that the record of investment trusts has been no better than that of an unmanaged fund of 90 common stocks. Certain errors have been discovered which tend to invalidate the assumption that the 90-stock index constitutes an unmanaged fund, but this line of argument is outside the scope of this report. Our purpose is to make another comparison which is just as appropriate as that of the S. E. C., i. e., investment trust assets compared with the behavior of new issues floated in 1929.

The year 1929 is chosen as particularly suitable for the comparison, because 65 percent of all the investment trust securities which were offered in the years 1927 to 1935 came out in that single year. (See Table, page 195, Part II of the S. E. C. report, House Document No. 70.)

In the accompanying Table I we show the percentage of value left at the end of 1935 of the issues of corporate securities offered in 1929. Issues of financial and real estate corporations are excluded.

The percentages in Table I are comparable with the 56 percent¹ which is the portion of investment-trust assets which was conserved during the same period. From the table we see that the new issues of common stocks fared worse in all categories than the assets of investment companies. As for preferred stocks, the new issues of industrial companies did better than the trusts, but the issues of utility and railroad companies did worse. The corporate bond issues of all categories showed a better performance than the investment trusts.

To interpret the significance of the table it is necessary to decide with which type of security it is proper to compare the investment-trust assets. The decision can be made only after considering the purpose of an investor in buying into an investment trust in 1929, and what alternate choices were open to such an investor.

¹ This figure is estimated by correcting the 69 percent given by the S. E. C. (Part Two, page 476) for the conservation of assets between December 31, 1929, and December 31, 1935. The proportional difference between the end of 1929 and the average for the year is assumed the same as that difference in Standard Statistics average of 90 industrials. This adjustment is explained more adequately in Part II of this study.

TABLE I.—Results of study on the performance of corporate issues floated in 1929

[Only traceable issues included; distributions not credited]

	Amount in 1929	Value in 1935	Percent of 1929
COMMON STOCKS			
C1 Industrials.....	\$1,622,000,000	\$654,000,000	40
C2 Utilities.....	923,000,000	206,000,000	22
C3 Rails.....	343,000,000	111,000,000	32
C4 Total common stocks.....	2,888,000,000	971,000,000	33
PREFERRED STOCKS			
P1 Industrials.....	390,000,000	271,000,000	69
P2 Utilities.....	463,000,000	147,000,000	32
P3 Rails.....	55,000,000	10,000,000	18
P4 Total preferred stocks.....	908,000,000	428,000,000	47
BONDS ¹			
B1 Industrials.....	610,000,000	409,000,000	67
B2 Utilities.....	829,000,000	684,000,000	82
B3 Rails.....	362,000,000	230,000,000	64
B4 Total bonds.....	1,801,000,000	1,323,000,000	74
All securities.....	5,597,000,000	2,722,000,000	49
I. T. Investment trust assets (S. E. C. study—adjusted).....			56

¹ Excludes issues maturing serially.

The following facts emerge from such a consideration:

(1) Investment trust securities were presented as speculative opportunities and must be compared with other securities of the same nature.

(2) Assets of investment trusts had a better performance record than did such of the new issues offered in 1929.

The contention that the investment trusts satisfied a demand for speculative opportunity rather than for investment in the purest sense is confirmed by data and arguments found in the S. E. C. report itself. Thus on page 195 of Part Two we find that during the years 1927-35, the new funds of management-investment companies proper² were derived from the following types of securities:

	Percent
Common stocks.....	46.1
Preferred stocks.....	10.2
Units of common and preferred stocks.....	34.2
Bonds and units of bonds and stocks.....	9.5
Total.....	100.0

The SEC comments as follows on the table from which these data are derived (pages 193-4):

"The greater part of the funds of this group of closed-end management investment companies proper and investment holding companies was raised by the sale of their common stock—about \$2,354,000,000 or 58 percent of the total proceeds of security sales. In addition, substantial sums were collected through the sale of units consisting of common and preferred stocks³. . . . Such units were offered by distributors as a means of combining the semi fixed income of preferred stocks with the possibility of capital appreciation through the ownership of common stock. In 1928 and 1929 when the popularity of common stock was used to stimulate the sale of the more 'conservative' preferred stock, units were extremely popular"

The S. E. C. says further (page 196):

"Many of these preferred stocks and bond issues were sold by the sponsors with warrants or other forms of 'trimming' to provide the desired common stock 'kick' for investors."

² Excluding Atlas and Equity Groups which were also excluded in the S. E. C.'s comparison of investment trusts with Standard's 90.

³ " * * * Units offered by some companies were split into their component parts as soon as their sale was consummated. In other instances the units were traded as such for some months or years after their original sale, and the component securities could not be separated from one another."

From these considerations it is obvious that the investment trusts served primarily those investors who were interested in speculative opportunities. Again to quote the S. E. C. (page 470):

"Furthermore, it is recognized that any determination of the quality of the performance of a particular company must include a consideration of the 'purposes or objects' for which the company was organized."

Since the investment trusts were offered as opportunities to participate in speculative appreciation it is appropriate to compare their performance with that of the other speculative opportunities which were presented at the same time, for it was among these that the investor who had decided to speculate had to choose.

Certainly, one of the alternatives was the purchase of the 90 seasoned high-grade common stocks which constituted the Standard Statistics average. But this was not the only possibility open to the investor, as is admitted by the S. E. C. on page 470:

"This comparison between the performance of investment companies and that of the common-stock index does not imply that the index is set up as a standard of performance, nor that no other approach is possible in the evaluation of the contribution of management. Thus one largely hypothetical problem that might be investigated is what the investors in these companies would have done had they not bought investment company securities."

Such an investor might well have bought the speculative issues of nonfinancial companies which appeared in 1929. If he had bought indiscriminately into all the issues of common stocks which fall into the categories we have considered, he would have had only 33 percent of his investment left on December 31, 1935. If he had bought into all the preferreds he would have retained only 47 percent. In either case he would have fared worse than if he had bought into the assets of the investment trusts.

A list of the most prominent companies included in the study appears as a special appendix.

II—STATISTICAL PROCEDURE EMPLOYED IN EVALUATING 1929 NEW ISSUES

General Remarks.—The object of the inquiry was to measure the decline to December 31, 1935, in the value of the new investment opportunities offered to the public in the form of corporate securities in 1929. The security issues included were taken from the compilations which appeared monthly in the "Commercial & Financial Chronicle." Only issues floated by industrial, utility, and railroad corporations, and securities issued by companies organized to effect control of companies in these three categories were included. Securities representing flotations of financial corporations such as investment trusts, insurance companies, etc., have been excluded, as have securities issued to finance real estate activities. Short-term bonds and notes have been omitted, as well as serial bonds.

With the exception of the categories noted above, the study includes every issue which was recorded in the Chronicle. The total value of the flotations examined was \$5.9 billion (see Table II, page 10). The Chronicle, in its own summary of the capital flotations for the year 1929 (January 18, 1930, page 366), gives \$10.0 billion as the total of all corporate issues. The break-down of this total permits us to explain the discrepancy. The deficiency of \$4.1 billion is made up as follows:

Investment trusts, trading, holding, etc.....	\$2.2 billion
Land, buildings, etc.....	0.5 "
Miscellaneous.....	1.5 "
Short Term Bonds and Notes.....	0.1 "
Total.....	\$4.3 "

(In the classification "Miscellaneous" the Chronicle includes mainly insurance companies, banks, etc. However, some issues of mercantile companies appeared under this head and were included in our study.)

In comparing the totals for the various types of securities with those of the Chronicle, it must be noted that we have used a slightly different system of classification. For instance, some companies listed under "Public Utilities" by this source have been omitted as they actually are investment trusts.

The procedure of the study was to compare the value contributed by the purchasers of the new issues with what they had left on December 31, 1935, on the assumption that they paid no brokerage charges at the time of purchase,

engaged in no market operations in the interval, and received neither dividends nor interest.

The 1929 value of flotations was taken at the price to the public rather than at the par value of the bonds or preferreds issued. A rough examination indicated that the few issues which were sold at a premium were outweighed by the issues sold at a discount.

Issues which consisted of packages of preferred and common stocks were included under the classification of preferreds, the common stocks being considered as merely a bonus. In some cases, however, it was possible to infer from the terms of the offer a proper price to apply to each separate component of the package. In such cases the two types of stock included in the issue were segregated and placed in the appropriate classes.

The value of the issues on December 31, 1935, was computed at the market price which obtained at that time. Where no sales occurred on that date, the market price was taken as midway between the bid and asked. In cases where quotations had to be obtained from the "National Quotation Summaries" (as published by the National Quotation Bureau) a different procedure had to be used. In this source the bids and offers are listed separately as of the dates when they were entered. The market price at the end of 1935 was taken as an average of the most recent bid and offer. These compromises were necessary only in the case of certain inactive securities.

Wherever new common issues were offered by means of rights to existing stockholders at a discount from market price, an adjustment was necessary. In evaluating the issue at subsequent dates, the issue price could not be compared with later market prices. It therefore was assumed that the issue was sold at the market price at the date of issue (the ex-rights day) and altered the number of shares making the total contribution equal the actual amount of new cash received by the company. From this point of view, the stockholder bought in at the market price and at the same time received a stock dividend on his previous holdings which increased the number of his shares. The value of the issue at a subsequent date was determined by multiplying the adjusted number of shares by the market price at the later date.⁴

Cash dividends and interest received by the investor during the interval 1929 to 1935 were not included in the value of his holdings at the end of the period.

In cases where changes in the capitalization of a company occurred, such as stock dividends, stock splits, or recombinations, the value of the investment at the end of 1935 was taken as the market value of the new securities which the stockholder had received.

Similarly, where a company was reorganized, went into receivership, or was acquired by another corporation, the value was reckoned as the subsequent value of whatever consideration the old stockholders received.

Where rights were offered to stockholders subsequent to their acquisition of the issue, we assumed that they were sold at their average market price during the period when they were outstanding. The cash thus obtained was carried along as such to December 31, 1935. (The amount contributed by such rights to the 1935 value of the new issues was only a fraction of 1 percent of the total.)

A number of the issues which we examined were untraceable for various reasons. The proportion of untraceable issues in each category is shown in Table II. Among the common stocks, the reason for classifying issues as untraceable was in most cases that no quotation or other basis of valuation could be found. Among preferred stocks some issues were placed among the untraceables for other reasons. A preferred stock bought up and retired by the issuing company was considered untraceable; most such retirements occurred at the low of the market, and it would not be fair to assume that the investor got into cash at this time. Issues which had been called were also put into the untraceable class, unless the call was for the purpose of forcing conversion and succeeded in doing so, in which case we assumed that the stockholder converted. Bond issues which were called before 1935 were also classed as untraceable.⁵

⁴ The necessity for making the adjustment is obvious, for instance in the case of the offer to stockholders of 1,358,888 shares of J. C. Penney common at \$7 per share when the market price (ex-rights) was \$121. At the end of 1935 the same stock was selling at \$78. If we made no adjustment for the fact that the issue came out at a discount, we should conclude that the value which the stockholders received appreciated over 1,000 percent. But the \$9.5 million which the company obtained from the operation was not represented by the number of new shares issued to the stockholders, which were partly in the nature of a stock dividend. The actual number of shares which covered the \$9.5 million of new equity was only 79,000 $\left[= \frac{9,500,000}{121} \right]$. We therefore evaluated the issue on December 31, 1935, at \$6.1 million ($= 79,000 \text{ shares} \times \78), and compared this with the \$9.5 million in 1929.

⁵ An indication that this treatment of called issues made little difference in the final results will be found in the later discussion under B4.

TABLE II.—Coverage of study on the performance of corporate issues floated in 1929

	All issues in 1929		Untraceable issues in 1929				Traceable issues in 1929			
	Number	Amount	Number	Per- cent of total	Amount	Per- cent of total	Number	Per- cent of total	Amount	Per- cent of total
COMMON STOCKS										
C1 Industrials.....	395	\$1,671,000,000	70	18	\$49,000,000	3	325	82	\$1,622,000,000	97
C2 Utilities.....	69	925,000,000	4	6	2,000,000	.2	65	94	923,000,000	99.8
C3 Rails.....	11	343,000,000					11	100	343,000,000	100
C4 Total Common Stocks.....	475	2,939,000,000	74	16	51,000,000	2	401	84	2,888,000,000	98
PREFERRED STOCKS										
P1 Industrials.....	176	444,000,000	47	27	54,000,000	12	129	73	390,000,000	88
P2 Utilities.....	71	466,000,000	3	4	3,000,000	.3	68	96	463,000,000	99.7
P3 Rails.....	4	55,000,000					4	100	55,000,000	100
P4 Total Preferred Stocks.....	251	965,000,000	50	20	57,000,000	6	201	80	908,000,000	94
BONDS ¹										
B1 Industrials.....	150	690,000,000	40	27	80,000,000	12	110	73	610,000,000	88
B2 Utilities.....	125	910,000,000	16	13	81,000,000	9	109	87	829,000,000	91
B3 Rails.....	18	362,000,000	1	6			17	94	362,000,000	100
B4 Total Bonds.....	293	1,962,000,000	57	19	161,000,000	8	236	81	1,801,000,000	92
All securities.....	1,019	5,866,000,000	181	18	269,000,000	5	838	82	5,597,000,000	95

¹ Serial issues omitted.

The sources used included Poor's and Moody's Industrial and Public Utility Manuals, Moody's Bank Manuals, Standard Statistics Corporation Records, Poor's Cumulative Service, The Commercial and Financial Chronicle, The Bank and Quotation Record, The National Quotation Service, The Analyst, and the Fisher Manual of Valuable and Worthless Securities.

(C 1) Industrial Common Stocks.

The industrial common issues included many put out by small companies whose subsequent fate was difficult to trace. In many instances the sources mentioned that the company had gone out of existence, but did not reveal the results of the liquidation. In such cases it was often obvious from an inspection of balance sheets that the common-stock holders received nothing for their equity, and where this seemed very certain the 1935 value was taken as nil.

In the event of mergers, the value of the new securities exchanged for the old was traced through to the end of 1935. If, as was the case in many instances, stockholders of a bankrupt company merely received the right to subscribe to stock of the new company, the immediate value of these rights was ascertained relative to the market price of the issue which could have been subscribed for. If we found that no immediate value accrued to the subscription right, we gave the old stock no value whatsoever.

(C 2) Utility Common Stocks.

We have here included 69 domestic and foreign issues of the 74 reported in The Commercial and Financial Chronicle during the year 1929. The five omissions were made up of two issues wholly or almost wholly purchased by parent companies (Illinois Bell Telephone, Louisville Gas and Electric "B"), and three investment trust issues mistakenly listed by the Chronicle as utilities (International Superpower, which later became Bullock Fund, Ltd., Electric Power Associates, and Utility and Industrial Corporation). Four issues, 0.2 percent of the total volume of utility commons, were untraceable: (1) American Service Corp., (2) Associated Telephone Utilities, Inc., (3) Charlestown, (Mass.) Gas and Electric, (4) Portland Electric Power.

Number 3 above was absorbed by the Massachusetts Gas Company, and the fourth issue, after a change of name to Pacific Northwest Public Service, was 99 percent held in a voting trust.

In those cases in which companies whose issues we were examining lost their identity only by change of name, no adjustment was required. In recapitalizations and receivership reorganizations, the new certificates or fractions of certificates were assumed to have been accepted by the holder of the original common shares.

(C3) Railroad Common Stocks.

Only eleven railroads or railroad holding companies offered new stock in 1929; seven of these issues came out through rights to stockholders.

(P1) Industrial Preferred Stocks.

Some of the preferreds were convertible into common stock and in the event that some portion of the issue was converted we used one of the following two methods in ascertaining the 1935 value of the shares:

1. If any quotation on the preferred was available we accepted it.
2. If no quotation was available we assumed that a practically complete conversion had been effected and used the 1935 price of the common multiplied by the number of shares into which the total issue of preferred was convertible.

(P2) Utility Preferred Stocks.

In this category we found the Chronicle listing 74 issues, of which we concerned ourselves with only 71. The three issues omitted were investment trusts: (1) American Utility General Corp., (2) Utility and Industrial Corp., (3) Central States Electric Corp.

Of three nontraceable issues, two were in receivership (Northern Indiana Telephone and South States Utilities) and no quotes were available. The third (Southern Gas Company) was called in 1930. It was thought that the most reasonable treatment of this called preferred was omission from the aggregate, as opposed to carrying forward the cash received at call (See P4).

(P3) Railroad Preferred Stocks.

No comments.

(P4) Total Preferred Stocks.

In case any objection is made to the exclusion of called preferred stocks as untraceable, it may be mentioned that there were only three such issues. At the date of issue their value totaled \$13 million. If we assumed that the investor carried through the cash he received at call to the end of 1935, he would have had only \$11 million of value. The inclusion of these values in the totals would not have sensibly affected the result of 47 percent.

(B1) Industrial Bonds.

No comments.

(B2) Utility Bonds.

125 issues were reported by the Chronicle. We traced 109 issues, and of the remaining 16, 7 were considered untraceable because the issues were not quoted, or because insufficient information was available, or because the company was liquidated. Eight issues were called before the end of 1935 and one matured during 1935.

(B3) Railroad Bonds.

Equipment trust certificates were excluded for the following reasons:

(1) The special nature of equipment trusts is such that they are in the main influenced by money markets rather than by the credit of the railroads.

(2) These are not considered to be investment opportunities for the average investor but rather for the large investor, such as insurance companies, trust funds, etc.

(3) It is difficult to obtain quotations on these issues as they are quoted on the basis of the average yields to maturity of the various maturities.

During 1929 there were 18 issues of railroad bonds (excluding two issues guaranteed by the Dominion of Canada).⁶ Only one of these bonds (valued at \$120,000) was untraceable, so that for all intents and purposes the 1935 total value of these bonds was complete. The 1935 value represents a preservation of 64 percent from the date of issue in 1929.

(B4) Total Bonds.

The 1935 value of all bonds issued in 1929 was 74 percent of their value at date of issue.

The treatment accorded the called and matured bonds (i. e. their exclusion as untraceable) had very little effect on this result. Had the assumption been made that the investor carried along the cash received at call as such, and the 20 called issues included on this basis, the 74 percent would have become 76 percent, with only a fraction of 1 percent change in the total.

(I. T.) Investment Trust Performance, 1929 to End of 1935.

Investment trust assets at the end of 1935 were 69 percent of the value at the end of 1929. (S. E. C. report, Part Two, page 476.) In order to make this figure comparable with the percentages which we had obtained for the new issues of 1929, it was necessary to correct it for the fact that investment trust assets were lower at the end of 1929 than during the months when the major portion of new issues appeared. We have adjusted the 69 percent by assuming that, at the dates when the common stock issues were floated, the investment company assets were greater than at the end of 1929 in the same proportion as the Standard Statistics average of 90 industrials. An average of Standard's 12 monthly price indexes for 1929, weighted by the value of the new issues appearing each month, was 211. On December 31, 1929, the Standard index was 170. We therefore decrease the 69 percent in the ratio of 170 to 211 to obtain the figure of 56 percent which appears in the table. The second percentage measures the conservation of investment trust assets between the months in 1929 when the new issues were floated and the end of 1935.

⁶ These are in the nature of government rather than corporate bonds.