
INVESTMENT ANALYSIS

BY

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PREFACE

This book is designed both for the student of investments and for the investor himself, to each of whom the fundamental principles underlying the theory and practice of investing are important. The investor has a claim against or an interest in the issuer as evidenced, respectively, by the ownership of a bond or shares of stock. He is interested in the nature and the value of his claim or interest.

This book is divided into two parts: the nature of investments, and the analysis of corporate financial statements. The first part of the book discusses bonds, stocks, securities markets, and security market operations with which the investor should be familiar. Since the return on an investment represents the relation between the capital invested and the income received, attention is given to prices and yields of securities by a discussion of investment mathematics. Federal legislation of recent years has made especially necessary a description of the methods by which new security issues are offered to the public. Since the investor is faced with the practical problem of formulating and following an investment policy and program adapted to his individual needs, investment policies are discussed in a separate chapter. The securities available for him may be classed as those of public issuers and those of private corporate issuers. The nature of the public issues is described in chapters on the obligations of the federal government, state governments, and municipal governments.

The presentation of private corporate securities is somewhat different from the usual practice of discussing railroad, public utility, and industrial securities separately. The basic source of information available to the investor is the official report of the company. The presentation of railroad, public utility, and industrial securities followed in this book is based on the belief (a) that the financial statement of the company presents a picture of the nature of the operations of the company and can be made more understandable

if interpreted in terms of those operations, (b) that the investor is seeking essentially the same kind of information in the analysis of a company whether it is a railroad, public utility, or industrial company, and (c) that there are probably more elements of similarity than of dissimilarity in the methods of applying accepted tests of investment quality.

For these reasons the presentation first seeks to establish an understanding of the basic significance of the financial statements and of the operations of the company by a discussion of the income statement, the balance sheet, the statement of surplus, and the reserves which the company has established. On the basis of the financial statements, as interpreted, the presentation seeks to determine the company's working capital position, its maintenance and depreciation policy, the relation of its fixed capital investment and its capital structure, and the earning power as evidenced by an analysis of the income statement.

In order that the reader might find continuity in the analysis, the same companies are used in each discussion, with variations illustrated by data from other companies. Such presentation should permit him to follow each computation back to its original source in the financial statement. The practice sometimes followed of illustrating each calculation with a new example limits the reader to the data presented in the illustration and does not afford him an opportunity to determine the source of the data. The analyses of a bank statement and of a fire insurance company statement are treated in separate chapters.

The frequent changes in security market procedure add to the difficulties of keeping a book on the subject up to date in every respect. The attention of the reader is directed to two important changes recently made by the New York Stock Exchange. Effective July 1, 1946, the Exchange revised the schedule of listing fees. The new fee is \$50 for each 10,000 shares listed up to 2,000,000 shares and \$25 for each 10,000 shares in excess of 2,000,000 shares. Effective August 29, 1946, the Exchange changed the delivery date for all securities, except those of the United States Government, sold "regular way." Under the new plan, securities are deliverable by 12:30 P.M. instead of by 1:45 P.M., and on the third instead of the second full business day following the sale. Under the three-day delivery plan, stocks sell *ex-dividend* on the second instead of the first full business day preceding the record date.

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