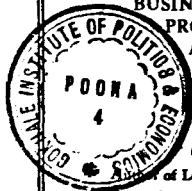


# AMERICAN FINANCIAL METHODS

A WORK OF REFERENCE FOR  
BUSINESS MEN, INVESTORS  
PROFESSIONAL MEN  
AND STUDENTS



EDITED BY  
GUSTAV NORD

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Editor-in-Chief "The Little Financial Library"

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## TABLE OF CONTENTS.

### CHAPTER I.

	Page
HISTORY OF BANKING.....	13
NATIONAL BANKS.....	19
SYSTEM OF THE BANK CLEARING HOUSE.....	22
GENERAL BUSINESS METHODS OF BANKS.....	27
CHECKS AND DRAFTS.....	29
PROTESTING CHECKS AND DRAFTS.....	32
FOREIGN EXCHANGE.....	33
LETTERS OF CREDIT.....	35
AMERICAN AND FOREIGN CURRENCY.....	37
LOANS AND DISCOUNTS.....	40
THE CREDIT STATEMENT.....	41
NOTES.....	42
PHRASEOLOGY AND ENDORSEMENT.....	43
INTEREST, TIME AND PLACE OF PAYMENT.....	44
NOTICE OF NOTE DUE AND DAYS OF GRACE.....	44
PROTESTING NOTES.....	45
CALL LOANS.....	45
SAVINGS BANKS AND THEIR METHODS.....	46

### CHAPTER II.

STOCKS AND STOCKHOLDERS.....	53
TREASURY STOCK.....	53
COMMON AND PREFERRED STOCK.....	54
WATERED AND DEFERRED STOCK.....	55
WHAT IS FULLY PAID AND NON-ASSESSABLE STOCK?...	55
THE STOCKHOLDER AND HIS RIGHTS.....	57
NEGOTIABILITY OF STOCKS.....	59
DIVIDENDS.....	60

### CHAPTER III.

	Page
CORPORATION BONDS.....	67
HOW FIRST MORTGAGE BONDS MAY BE WIPED OUT....	71
REDEMPTION FOR THE SINKING FUND.....	74
SAFEGUARDS FOR THE BONDBOLDER.....	75
MUNICIPAL BONDS.....	77
LEGAL INVESTMENTS FOR SAVINGS BANKS.....	82

### CHAPTER IV.

PROMOTION AND FINANCING OF ENTERPRISES.....	87	✓
HOW TO DETERMINE THE VALUE OF STOCK.....	89	
FLUCTUATION OF STOCK AND ITS EFFECT UPON THE BUSINESS .....	90	
WHAT TO PROMOTE.....	91	✓
HOW TO SELL STOCKS AND BONDS.....	93	✓
INVESTORS VS. SPECULATORS.....	97	
HOW TO REACH INVESTORS.....	98	✓
THE PROSPECTUS AND HOW IT SHOULD BE WRITTEN..	100	

### CHAPTER V.

HOW TO INCORPORATE A COMPANY.....	107
WHERE TO INCORPORATE.....	110
CHARTER FEES OF VARIOUS STATES.....	114
ANNUAL TAXES.....	115
THE CHARTER AND BY-LAWS.....	118
ARTICLES OF ASSOCIATION.....	122
MINUTES OF MEETINGS.....	130
WAIVER OF NOTICE OF FIRST MEETING OF INCOR- PORATORS .....	133

	Page
MINUTES OF FIRST MEETING.....	134
FORM OF BY-LAWS.....	137
MINUTES OF FIRST MEETING CONTINUED.....	154
MINUTES OF SECOND MEETING, SHOWING HOW TO TRANSFER PROPERTY TO THE COMPANY AND HOW TO ISSUE STOCK.....	158
THE BOOKS OF A CORPORATION .....	161

#### CHAPTER VI.

TRUSTS AND COMBINATIONS OF CAPITAL.....	167
CLASSIFIED STATISTICS OF TRUSTS.....	171
THE CHARTER OF THE UNITED STATES STEEL COR- PORATION .....	183

#### CHAPTER VII.

VOLUNTARY ASSOCIATIONS UNDER THE DECLARATION OF TRUST AND HOW THEY ARE ORGANIZED.....	195
FORM OF AGREEMENT AND DECLARATION OF TRUST..	197

#### CHAPTER VIII.

STOCK EXCHANGES, THEIR HISTORY AND METHODS OF BUSINESS.....	212
✓ REQUIREMENTS FOR LISTING SECURITIES ON THE NEW YORK STOCK EXCHANGE.....	219
RULES FOR THE DELIVERY OF SECURITIES ON THE NEW YORK STOCK EXCHANGE.....	230
THE SYSTEM OF THE STOCK EXCHANGE CLEARING HOUSE .....	235
THE CURB EXCHANGES .....	236
GLOSSARY OF STOCK EXCHANGE TERMS.....	244

CHAPTER IX.

	Page
DUTIES AND LIABILITIES OF BROKERS.....	249
THE BOARD ROOM AND TICKER.....	259
HOW TO READ THE TAPE.....	260
THE SYSTEM OF BUCKET SHOPS.....	262
TICKER ABBREVIATIONS INTERPRETED.....	271

CHAPTER X.

TRADING ON EXCHANGES AND HISTORY OF SPECULATION .....	281
MARGIN TRADING.....	282
MARKET MANIPULATION.....	284
SHORT SELLING.....	291
STOP ORDERS.....	293
HOW MARKET MOVEMENTS ARE CAUSED.....	295
THE BANK STATEMENT AND ITS BELATION TO THE STOCK MARKET.....	296
PUTS AND CALLS.....	299
STRADDLES AND PRIVILEGES.....	301
✓ TRADING IN GRAIN AND PROVISIONS.....	305
✓ TRADING IN COTTON.....	308

CHAPTER XI.

HOW TO SELECT AND JUDGE INVESTMENTS.....	313 ✓
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## FOREWORD.

**W**E are rapidly nearing an epoch when all men will be compelled to study the science of finance in order to survive in the fierce business struggle.

Out of this progress has risen a new literature—the literature of finance.

Much excellent material with special phases of financial activity has been prepared, but this is so scattered that the student desiring a comprehensive financial work has found himself confronted by serious difficulties. He has been obliged, to a great extent, to make his selections blindly, resulting in many duplications of material without securing needed information on important phases of the subject.

Believing that a demand exists for a work which embraces the principal knowledge in all branches of finance—a work that can be comprehended by the mind with no previous academic training—we have prepared this volume.

THE PUBLISHERS.

50958

**CHAPTER I**

**BANKS AND BANKING.**

## HISTORY OF BANKING.

---

**I**N the 12th century almost the whole trade of Europe was in the hands of the Italian cities, and in these the need of bankers was first felt. The earliest public bank, that of Venice, established in 1171, and existing down to the dissolution of the republic in 1797, was for some time a bank of deposit only, the government being responsible for the deposits, and the whole capital being in effect a public loan. In the early periods of the operations of this bank deposits could not be withdrawn, but the depositor had a credit at the bank, to the amount deposited, this credit being transferable to another person in place of money payment. Subsequently deposits were allowed to be withdrawn, the original system proving inconvenient outside the Venetian boundaries. It was, however, less from the bank of Venice than from the Florentine bankers of the 13th and 14th centuries that modern banking especially dates, the magnitude of their operations being indicated by the fact that between 1430 and 1433, 76 bankers of Florence issued on loan nearly 5,000,000 gold florins. The Bank of St. George at Genoa also furnished a striking chapter in financial history. The important bank of Amsterdam, taken by Adam Smith as a type of the older banks, was established in 1609, and owed its origin to the fluctuation and uncertainty induced by the clipped and worn currency. The object of the institution (established under guarantee of the city) was to give a certain and unquestionable value

to a bill on Amsterdam; and for this purpose the various coins were received in deposits at the bank at their real value in standard coin, less a small charge for recoinage and expense of management. For the amount deposited a credit was opened on the books of the bank, by the transfer of which payments could be made, this so-called bank money being of uniform value as representing money at the mint standard. It bore, therefore, an agio or premium above the worn coin currency, and it was legally compulsory to make all payments of 600 guilders and upward in bank money. The depositors were supposed to remain in the coffers of the bank, but were secretly traded with in the 18th century, till the collapse of the bank in 1790. Banks of similar character were established in Nuremberg and other towns, the most important being the Bank of Hamburg, founded in 1619. In England there was no corresponding institution, the London merchants being in the habit of lodging their money at the Mint in the Tower, until Charles I. appointed the whole of it (£200,000) in 1640. Thenceforth they lodged it with the goldsmiths, who began to do banking business in a small way, encouraging deposits by allowing interest (4d. a day) for their use, lending money for short periods, discounting bills, etc. The bank-note was first invented and issued in 1690 by the Bank of Sweden, founded by Palmstruck in 1688, and one of the most successful of banking establishments. About the same time the banks of England and Scotland began to take shape, opening up a new era in the financing of commerce and industry.

In the banking system of England, the central figure is the great Bank of England. This bank, the

AUTHORIZED SIGNATURES OF

For the FEDERAL TRUST CO., Boston, Mass.

Signature and by whom made

*Thomas Cotton*  
signature made by himself

Date: *Jan. 1. 1910*  
Address: *96 Emerson St.*

Face of Signature Card.

Name (or Account)	Mr. <i>Thomas Cotton</i>
Address (or Residence)	<i>96 Emerson St</i>
Telephone	<i>359 Oxford</i>
Business	<i>Real Estate</i>
Reference	<i>Summer Spring &amp; Sec.</i>
Identifier	
Remarks	
Deposited	<i>500<sup>00</sup></i>
Date Opened	<i>Feb 10. 1909</i> Closed

Back of Signature Card.

20M-6-10

DEPOSITED IN

**Federal Trust Company**

By John Jones  
Boston, Mass., Jan. 20th 1910

Depositors are requested to place hand around bills, mark name and amount thereon; endorse all checks; specify the bank on which Boston checks are drawn, all others, name of place only.  
Payment is guaranteed by the Depositor of the Items comprising this credit.  
NOTICE: Deposits will only be received by this Company subject to the Rules and Regulations of the Clearing House Association of the Banks of this City.  
This Company will observe due diligence in its selection of responsible agents for the collection of items outside of Boston, but will not be liable in case of failure, default or negligence of any agent, or for the loss of items in the mail.

	DOLLARS	CENTS
Bills, (In a Strap)	100	
Gold . . . . .	20	
Silver, . . . . .	10	
Checks,		
<u>1st Natl. Bank</u>	180	40
<u>Merchants "</u>	40	00
<u>Fourth Natl. "</u>	39	
	<u>389</u>	<u>40</u>

Deposit Ticket.

most important in the world, was projected by William Paterson, and was incorporated July 27, 1694. It was constituted as a joint-stock association, with a capital of £1,200,000. In return for the loan of its entire capital to the government, it received the right to issue notes and maintained a monopoly of corporate banking in England. It was not until early in the 19th century that this monopoly was broken down. At its very outset, the Bank of England was a servant of the government; and in a lesser or greater degree, it has enjoyed this character through all the stages of its subsequent history. At first the charter of the bank was for eleven years only; but in consequence of the great service of the institution to the Government, its charter has been at various times renewed. The last renewal was in 1844, and the charter of that year still subsists, its terms being subject to modification or revocation by the legislation at pleasure.

In 1797, the bank being on the verge of bankruptcy, was ordered by the Government to suspend the redemption of its notes in coin, and the notes became the main currency of the nation, until the resumption of specie payments in 1821.

Viewed in its banking department, the bank differs from other banks in having the management of the public debt, and paying the dividends on it; in holding the deposits belonging to the Government, and making advances to it when necessary; in aiding in the collection of the public revenue, and in being the bank of other banks.

The Bank of France stands second in repute only to the Bank of England. It was founded in 1800, and in 1806 was placed upon an enduring basis. Its orig-



inal capital was 45,000,000 francs, which was increased in 1806 to 90,000,000 francs, with a reserve of 12,980,759 francs. It has the sole right to issue paper money in France, and enjoys a high degree of public confidence, which it is so anxious to retain that, in 1888, when dangerous counterfeits of its 1000 franc notes were put into circulation, it preferred to redeem them rather than to refuse payment, to impair the general readiness to receive its own genuine paper. The Bank of France has often rendered important service to the French Government in furnishing large and promptly given loans. In November, 1890, during the crisis in the London money market owing to the embarrassment of the firm of Baring Bros., the Bank of France was able to relieve the pressure on the Bank of England by a large advance of gold.

The power to print and circulate notes, as money, began, in the United States, with the issue by the Colony of Massachusetts, 1690, of bills of credit payable on demand. This was followed during the next half century by similar action on the part of other colonies. In 1712, South Carolina had a bank; 1723, Pennsylvania, and Massachusetts one in 1739. The issue of the "Continental Currency" during the Revolution resulted in such a depreciation of that money that by 1781 it was worthless, though it was redeemed later at an enormous discount. The beginning of 1782 found the Bank of North America in Philadelphia under a charter from Congress; and two years later it was in operation, with charters also from New York and Pennsylvania. Then the Bank of New York was chartered, and then the Bank of Massachusetts, 1784, and soon all the states had banks. The Constitution going into operation, 1789, forbade the

issue of money by the states. In 1791 the Bank of the United States was established, with a 20-year charter. Its capital was fixed at \$10,000,000, and it was further authorized to hold property of all kinds to an amount not exceeding \$15,000,000, inclusive of its capital stock. It was made the depository of all public moneys, was permitted to issue notes payable in specie, and could establish branches in various cities. At the time of the expiration of the bank's charter there were nearly 90 state banks in existence, opposed to its renewal, and, in 1814, there were 150 of these, with a combined circulation of \$62,000,000. But the War of 1812 brought disaster to many of these institutions, and depreciated the paper of others, and in 1816 it was found necessary to charter a second United States Bank. This second charter was also for 20 years; it fixed the capital at \$35,000,000, divided into 350,000 shares of \$100 each. Of this amount, \$7,000,000 was held by the United States Government, while the remainder of the stock was easily disposed of. The bank issued its notes, in amount not less than \$5, payable in specie on demand, and transacted a general banking business so successfully that its stock was quoted at 50 per cent. above par; and it soon established branch banks in all the important cities throughout the country. In 1830 there were 27 of these branches all engaged in doing a thriving business. With such a reliable institution at their command it is not surprising that the people should have looked with no little mistrust upon the unsatisfactory methods pursued by the state banks. As the result many of them closed their doors, so many, in fact, that of the 446 state banks then in operation, only 165 remained. At the same time the

aggregate state banking capital of the whole country for the year 1814, \$90,000,000, showed a withdrawal of only \$30,000,000 by reason of these suspensions. At the same time such institutions continued in existence and precautionary laws to govern their operation were enacted by the legislatures of many states.

During the many years of its existence the Bank of the United States continued to increase in prosperity and influence; but its great power had made it enemies, and a demand arose, upon Gen. Jackson's election to the presidency, that it should not be re-chartered. The President himself favored this demand, though many of the officers of the party opposed him, and consequently, in 1832, he vetoed a bill renewing the charter of the United States Bank, and removed therefrom the Government deposits, when the institution speedily collapsed, leaving the bank system to banks chartered by the several states. These at once made the most of their opportunities, and helped, as they were, by receiving on deposit large sums of the distributed public moneys, they increased rapidly; in 1837 they were 634 of them in the country, having an aggregate capital of \$291,000,000. The temporary prosperity which followed the new issue of state bank-notes assumed the form of the wildest kind of speculation. In 1837 the banks suspended specie payments, and again in 1839; but despite all the trouble in which they were involved, the number of state banks increased rapidly.

In 1857 there was another period of financial stress, during which many of the banks closed; but, though this period was short, and the return of prosperity rapid, there was a growing dissatisfaction with the system of state banks, and a constant doubt as to the

security of these institutions. This had brought about the establishment by the state of New York of the "safety-fund system," by which a banking department of the state was formed, with which every bank kept on deposit federal or state stocks, or bonds and mortgages, for the purpose of liquidation in case of failure. One great difficulty involved in the state banking system was the prevalence of counterfeiting; another was the different estimation in which the issues of banks of different states were held at the financial centres. These troubles culminated at the period of the Rebellion, so that the business community was ripe for the important experiment of the National Banking System.

#### NATIONAL BANKS.

During the progress of the Rebellion the United States Government found it difficult to negotiate its bonds in sufficient values to maintain its armies in the field. To meet this emergency, Congress passed an act authorizing five or more persons to incorporate a National Bank, and permitted such bank when authorized to issue paper currency; before such paper currency could be issued, however, such bank was required to purchase government bonds of the par value of \$1,000 against every \$900 of paper currency issued, and to deposit such bonds with the Treasurer of the United States to secure the redemption of such paper currency. The bank by this arrangement gets the interest on the bonds so deposited with the Government and also gets interest on the loan of its paper currency issued in accordance with the provisions of the Act of Congress referred to.

This right to issue paper currency backed by the United States Government, under a provision whereby the bank can draw interest from two sources from one investment, has always made the demand for Government Bonds so great that the United States Government can borrow money cheaper than any other nation in the world.

National Banks are incorporated under the authority of the National Bank Act by the association of five or more persons. The articles of association specifying the objects and an organization certificate must be filed with the Comptroller of Currency. Within two years of the expiration of its corporate existence any National Bank may, with the approval of the Comptroller of the amended articles of association, consented to by two-thirds of the stockholders of the bank, extend its period of succession for a further term of twenty years. Provision is also made for converting State Banks into National Banks. The capital of a National Bank in a city of over 50,000 inhabitants must not be less than \$200,000. Elsewhere the capital must not be less than \$100,000, except with the sanction of the Secretary of the Treasury. Banks may be organized in places of not more than 6,000 inhabitants, with capital of not less than \$50,000, and in places having less than 3,000 inhabitants, with capital not less than \$25,000.

Stockholders of a National Bank are individually responsible, equally and ratably, for all debts of the bank to the extent of the amount of their stock at the par value thereof, in addition to the amount invested in such stock.

Directors of a National Bank who participate in or consent to a loan to an individual at any time of an

amount exceeding one-tenth of the capital stock actually paid in are liable to the bank for all losses caused thereby, but not criminally liable.

In 1906, September 4, there were in operation 6,137 National Banks, with paid-in capital stock of \$835,066,706, and surplus and other profits of \$670,814,981. The surplus proper was \$490,245,124, which is nearly three times the amount required to be accumulated and maintained under the law. The surplus and "other undivided profits" amount to over 60 per cent. of the paid-in capital.

Of the total liabilities of the banks, namely, \$8,016,021,066, over one-half, or \$4,199,938,310, is represented by individual deposits. The deposit to the credit of banks amounted to \$1,589,991,462, and to the credit of the United States and disbursing officers of the Government \$107,831,814.

The principal items of resources of the banks were as follows: Loans and discounts, \$4,298,983,316; United States Bonds, \$628,796,710; other bonds and securities, \$701,240,755; specie, \$464,437,291 (of which \$363,840,256 represents gold and gold certificates), and legal tenders, \$161,575,120.

On the same date the number of banks other than National Banks was reported to be 11,582, being 1,110 more than in 1905. The aggregate resources of these banks amount to \$10,263,350,846, being an increase of approximately \$773,000,000 over the previous year. The returns include 8,862 commercial banks, 742 loan and trust companies, and 1,319 savings banks (of which 678 were of the mutual class; that is, without capital stock), and 929 private banks and bankers.

The capital stock of the state banks is \$421,845,705; individual deposits, \$2,741,464,129; surplus and un-

divided profits, \$251,114,808. The loans aggregate \$2,272,959,644; investments in stocks, bonds and other securities, \$412,966,794, and total resources, \$3,677,050,317. The resources of state banks reporting in 1905 aggregate \$3,190,911,378, thus showing a gain in 1906 of \$486,138,939.

#### SYSTEM OF THE BANK CLEARING HOUSE.

The large amount of money transactions without the intervention of coin or bank-notes is inconceivable to those not in business. The manner in which these transactions may be effected without money would be at once apprehended if all persons in the same locality dealt with the same bank, and if all the banks scattered throughout the country were only branches of the same establishment. But in practice, matters are so managed as if this were the case. The checks, bills, or other drafts which come into the hands of a banker, drawn on (that is, payable by) other bankers, are set off and liquidated by drafts, which they have received, drawn on him. The balance, or difference, only is paid in money.

In London, New York and other centres, there is an establishment, called the "Clearing House," which is a central office where the representatives of the banks associated for that purpose meet every day and settle their accounts with each other, and make settlement of debit and credit gross balance. Before the Clearing House was established it was customary for banks to settle with each other directly by sending their messengers to every bank in the city against whom it had checks or drafts, and col-

lecting the money from each individual institution. This required a great deal of time and expense, and where in those days it required several messengers the entire day to settle accounts, it now requires but one hour and two messengers through the Clearing House.

The method of exchanging clearing checks is as follows: Each bank member of the association has a small desk at the Clearing House; these desks are numerically arranged. There are fifty-four members, i. e., fifty-three National and State banks, and the Assistant Treasurer of the United States at New York, who also has a desk and clears through the institution.

At each desk every business morning two bank clerks are stationed: one, the outside or delivery clerk, and the other seated inside, the settling clerk, who receives the checks drawn on the bank. The delivery clerks carry in boxes the items of exchange. These are made up in fifty-three envelopes, each one bearing the name of the bank on which the checks are drawn and that of the delivering bank, as follows:

No. 61—Fourth National Bank.

From No. 75—U. S. Ass't Treasurer.

then follows a list of the items enclosed, and the total charge against the Fourth National Bank. Each settling clerk brings with him to the Clearing House a sheet containing the total of his charges against the various banks, the aggregate of these totals being the amount of his credit exchange, or his "amount brought," as it is technically known. This amount is reported to the manager at the opening of busi-



ness, and it is entered to his bank's credit upon the Clearing House proof-sheet.

At one minute of ten o'clock the manager or his assistant calls the assemblage to order and notes if all the banks are represented. A late bank is fined. After making any necessary announcement pertaining to the business of the banks, the signal is given for the delivery clerks to begin the exchange. These clerks move simultaneously to the left to the desk adjoining their own respectively, deliver the packages of checks, drafts, etc., drawn on these banks and deposited in their own, and after receipting for the packages from the settling clerks, move forward to the next desk, and so on around the room until their own desks are again reached. The delivery clerk of each bank having delivered fifty-three packages of checks, and each settling clerk consequently having received the same number, nearly 3,000 packages have thus been delivered in eight minutes, the usual time of effecting the work. After the delivery clerks have departed, the settling clerks foot up the amounts they have received, and report the result of their transactions to the Clearing House proof clerk. On the sheet of the proof clerk are entered the amounts brought by the banks, the amounts received, and the resulting debit and credit balances.

The balances are the differences between the amounts of checks brought to the Clearing House by the banks and the amounts received. For instance, if the National City Bank brings checks amounting to \$50,000,000 against the other members, and after the exchanges are finished, finds that the checks drawn on it amount to \$55,000,000, the differ-

CERTIFICATE



OF DEPOSIT

# Mechanics Trust Company

No. \_\_\_\_\_

Boston, Mass. Jan. 1<sup>st</sup>. 1909 \$ 300<sup>00</sup>

James Sumner has deposited in this Company  
Three hundred ————— 100 Dollars

Payable to the order of Smith & Brown  
on return of this Certificate properly endorsed.  
*(Counter signed)*

Frank Sattle

TELLER

A. K. Hauptstead

TREASURER

Certificate of Deposit

**Mechanics Trust Company** No. \_\_\_\_\_  
BOSTON, MASS. Jan. 20<sup>th</sup> 1907  
pay to the order of Frost & Johnson \$ 350<sup>00</sup>  
Three hundred and fifty Dollars  
TO FIRST NATIONAL BANK, NEW YORK, N. Y. G. O. Summer Treas.  
G. O. Summer Treas.

Cashier's Check

*\$100*      *No 3*  
*Jan 20th 1909*  
*Pay to the order of*  
*John Jones*  
*One hundred and no/100 Dollars*  
*in full of account of*  
*E. J. Brown*  
*Smith Bros*

Demand Draft

JAMES E. FARRELL  
NOTARY PUBLIC  
LAWRENCE BUILDING  
COR. WATER AND DEVENISHIRE STS  
BOSTON

Boston, Mass., Jan. 30<sup>th</sup> 1909

of John Brown

You are hereby notified that a check for  
One hundred Dollars <sup>00</sup>/<sub>100</sub> dated  
Jan. 15<sup>th</sup> signed by John Brown Smith  
and endorsed by you

had been protested by me for non-payment after due demand  
made at 97 North Street Boston, Mass., this day, and  
that you are held answerable for the Amount, with all legal Costs, Interests and  
Damages in consequence of the non-payment thereof.

James E. Farrell Notary Public.

Notice of Protest.

ence would be the debit balance which it must pay into the Clearing House.

When the amounts brought and received foot alike on the proof-sheet and the balance agrees, a proof is arrived at, and the fact announced by the manager to the settling clerks, who are then relieved from further duty at the Clearing House, until the next morning, and return to their banks.

The entire session averages about forty minutes. Forty-five minutes is the period allowed for a correct return by the settling clerks. Any correction of their amounts after 10.45 A. M. entails a fine ranging from one to three dollars, if single. At 11.50 A. M. fines are doubled, and if the proof should be delayed until 12 o'clock, the clerk responsible for the delay is liable for a quadruple fine. An absolute proof is arrived at every day, no forcing being permitted to save time, even of the most trivial amount. One of the longest sessions was caused by a difference of ten cents.

The debit balances resulting from the morning exchanges must be paid by 1.30 P. M., the creditor banks then receiving their dues until 3 o'clock P. M. Lawful money or its representative is employed in settling the balance, i. e., gold coin, and the gold certificates of the Clearing House. The latter represent coin deposited by the banks in its safe deposit vaults, and are the chief medium for the settlement of balances, about 90 per cent. of the total payments being made in these certificates. They are in denomination of \$5,000 and \$10,000, and are negotiable only between the banks constituting the Clearing House Association. They are specifically recognized as legal reserve required by the National Banking Act to be

held against deposits. The balances usually amount to about 5 per cent. of the exchanges.

The largest day's business in the history of the New York Clearing House was on January 3, 1906, when clearings amounted to \$636,884,891. The New York Clearing House was established October 4, 1853.

Clearing Houses are composed mainly of State and National Banks, and in all cities outside of New York their membership is restricted to National Banks and the United States Sub-Treasurer of the various cities wherein Clearing Houses are established.

Only three Trust Companies in New York effect their clearings through the New York Clearing House, the others clear "over the counter," i. e., persons having checks against these companies deposit them in their banks; these banks have their messengers who make the rounds of the Trust Companies once a day, receiving from each Trust Company a draft on a Clearing House Bank for the amount called for. Each bank lists separately the items against each Trust Company, so that the accounts are easily adjusted.

Bank clearings approximately represent the amount of cash payments made in the United States. The clearings are divided into two equal parts. One part, comprising three-fifths of the whole, consists of the clearings in the city of New York. The other part comprising two-fifths of the whole, consists of the clearings everywhere outside of New York. It is hardly too much to say that whenever a dollar moves anywhere in the United States outside of New York a corresponding dollar moves in New York.

About 30 per cent. of all individual deposits held

by banks of all sorts in the United States are found in the state of New York. Total assets of all banks in the country amount to twenty-one billion dollars, of which six billion dollars belong to banks of that one state; and in this connection the city is nearly tantamount to the state. About the third of the cash held by all National Banks in the country is in New York. The city's Clearing House Banks receive from and ship to country banks three hundred and fifty to four hundred million dollars of currency yearly.

#### GENERAL BUSINESS METHODS OF BANKS.

The principal business of a bank is receiving and lending money. The money received by a bank is termed a "deposit." A bank is not required to keep the deposits of every person who offers money for this purpose, but may decline to do business with those whom it does not wish to serve, and may also close an account at any time by returning to the depositor the amount due him and refusing to receive more.

When money is deposited in a bank, a list of the items in the deposit is made on a blank known as a deposit ticket or deposit slip. The deposit tickets are furnished by the bank for the convenience of the customers.

Deposits are entered by the Receiving Teller in a pass-book furnished by the bank, and the entry at the time is original and binding on the bank; but if the entry was copied later from a ledger or other bank books it can be questioned. A pass-book is,



at first view, evidence of the matters therein, but not conclusive, and is not negotiable.

We urge the reader at this time to remember the following instructions as to "how to deposit money." Time and again it happens through negligence of the depositor by either depositing money without a pass-book or neglecting to fill in the deposit slip that errors occur, and at the end of the month, when receiving the statement, he finds himself short.

When going to the bank always fill in the deposit slip as per illustration, count the cash or amounts of checks before depositing, and then place the deposit slip, together with the money or checks, in the pass-book, give it to the Receiving Teller, who will give you credit for the amount deposited; after your book is returned to you, see that the amount deposited has been entered correctly.

When money is deposited in a bank it is said to be the "debtor," and the depositor is the "creditor." Yet, in another sense, the depositor is the owner and can demand repayment at any time. In the event of the depositor overdrawing his account, a subsequent deposit is needed at once to repay the bank.

When a deposit is put in a bank for a special purpose, or a check is deposited for collection, the bank serves as an agent in keeping the money or the check, and also in collecting the check. A bank is absolutely liable for the loss of a deposit, although such loss occur by events wholly beyond its control; but if the bank should fail, the depositor would be a preferred creditor.

Money deposited in a bank can be withdrawn only by presenting a written order or check signed by the one in whose name the money is deposited. For the

security of the bank that money is not paid on checks where the signature of the depositor may have been forged, the bank requires the depositor to leave with them the signature or signatures which are to be honored. These signatures are written on a card, known as the "signature card," which the bank keeps for reference.

It is a good plan to deposit all cash received and to pay all bills by check, excepting the small amounts that are used daily for petty expenses. By depositing all cash the transactions pass through the bank providing you with a receipt in the form of a cancelled check, bearing the indorsement of the payee.

#### CHECKS AND DRAFTS.

Upon opening an account with a bank the depositor, in addition to his bank book, is given a book of blank checks for his use in drawing against his account.

These checks are drafts or orders upon the bank or banking house, purporting to be drawn upon a deposit of funds for the payment, at all events, of a certain sum of money to a certain person instantly on demand. If the written sum in the body of a check does not correspond with the marginal figures, the former will be regarded as correct. A check given in the ordinary course of business for a debt is not payment until paid.

If a check contains a later date than that of delivery it is called a "Post dated" check. The presumption is that the maker has an inadequate fund in that bank at the time of giving it, but will have enough at the

date of presentation. It is not valid until the date it bears and will not be paid if presented earlier at the bank than the date mentioned.

Another form of a check is the "Memorandum Check," which is in the ordinary form of a bank check with the word "memorandum" written across its face, and is not intended for immediate presentation, but simply as evidence of indebtedness by the drawer to the holder. In other respects, and as to other parties, it is an ordinary check.

It is frequently the case that the customer can use his own check or draft for remittance to better advantage, in case it is certified by the bank carrying his deposit.

Certification of a check is an act by the proper officer of a bank recognizing it as a valid appropriation of the amount of money therein specified to the person therein named. The certification implies that the check is drawn on sufficient funds in the drawee's possession, that they have been set apart for its payment, and that they will be thus applied when the check is presented for that purpose. When certified before delivery, the legal effect is to assure the party afterward receiving it that it is genuine and will be paid. The bank is bound as well as the drawer. By certifying afterward, on the holder's presentation, the bank becomes his absolute debtor and the drawer is released. To have a check certified, you present it to the bank on which it is drawn, where they will affix a stamp with the signature of the authorized officer across the face of the check.

The Cashier's check is drawn by the cashier or his assistant on his own bank and is an absolute promise to pay. This form of check is sometimes issued to

public officers in place of a certificate of deposit, for money deposited by them temporarily; sometimes to parties who desire to deposit a certain amount of money as a guarantee of good faith in the fulfillment of a contract; they are also issued in payment of the bank's own bills.

A cashier's check differs from a certified check in that it becomes the direct obligation of the bank, whereas the maker of a certified check can stop payment the same as he can on an ordinary check.

A Certificate of Deposit, as issued by a bank is practically a receipt for money deposited, with a promise to hold it or pay it, to the party in whose name it is issued or to some designated person, on presentation. They are usually issued to those who do not wish to open an account for checking purposes, but merely desire to place the money in the bank for safe keeping.

When made negotiable in form, such certificate is negotiable and subject in general to the rules of negotiable paper, being in effect a promissory note within the meaning of the banking act and statutes as to pleading, but where it lacks the ordinary form of a negotiable certificate or note, it will not be regarded as such.

They may be made payable on demand, or at a definite future date, in which latter case interest is allowed, and the certificate cannot be redeemed until the date of maturity.

The Draft is an order for money drawn by a person in one city through a bank in another city for the collection of money on it by a third party. Illustration: A man in Boston owes a man in New York, say \$500; the New York man fills out a draft for

\$500, and deposits it in his bank. The New York bank sends the draft through the mail to a Boston bank, which sends the draft by its messenger to the party drawn upon, who pays the draft.

A draft when accepted—that is, when it becomes an acceptance—has the same value as a promissory note, for it is a definite promise to pay on a specified date. The common form of acceptance is by writing the word “accepted” on the face of the draft, followed by the signature of the acceptor.

Drafts are principally used for the collection of accounts. A draft may call for payment a certain number of days “after date,” or it may call for payment “at sight.” The former is known as a “Time Draft,” and the latter as a “Sight Draft.”

When a draft is collected through a bank, a small “collection fee” is charged. This fee is also charged by some banks for the collection of out-of-town checks, especially if they are drawn on banks in small towns and cities.

#### PROTESTING CHECKS AND DRAFTS.

If a check or draft at its maturity is not paid it would be “protested”; that is a formal notice given by the bank, acknowledged before a Notary Public, that the check or draft was not paid to the bank who presented it, and that the maker will be held responsible for the payment. Drafts are usually made with a perforated slip at the end, having upon it “No Protest—tear this off before presenting.” In presenting drafts in the city that are marked “No Protest,”

United States of America,

Commonwealth of Massachusetts,

County of Suffolk, }  
City of Boston, } D. C.

On the twentieth day of January in the year of our Lord, one thousand nine hundred and twelve, James E. Farrell, Notary Public by lawful authority commissioned and duly qualified for said County, at the request of the Attorney of the Federal Trust Company, Boston, went with the original check which is hereinafter referred to, the same being duly presented to the Bank of Boston, Mass., and payment was refused by John Brown Smith cashier

The check remaining unpaid, I have officially notified the cashier of the said default, by written notice and by mail prepaid addressed under cover to John Brown

*Sample*  
in such writing payment. Wherefore, I, the said Notary, by request as aforesaid, have Protested and by these Presents do solemnly Protest, against the Drawee of said check, Endorsement, and all others concerned therein, for Exchange, Re-Exchange, and all Costs, Charges, Damages, and Interest suffered and sustained, or to be suffered and sustained, by reason or in consequence of the non-payment thereof.


Witness my hand and printed in Boston aforesaid, and my Notarial Seal affixed, the day and year first above written.

Notary Public.

James E. Farrell, Notary Public,  
Leavenworth Building, Cor. Devonshire and Water Sts., Boston, Mass.

Certificate of Protest

Fees }  
Postage } 1.00  
Expense } 00  
Charges } 00

	Exchange for <u>500<sup>00</sup></u> Boston, <u>June 20<sup>th</sup> 1910</u>
	<u>Twenty</u> days after sight of this First of Exchange, (Second unpaid) pay to the order of
	<u>John Doe</u>
	<u>Five hundred Dollars</u>
	Value received and charge the same to account of To <u>Rothschild &amp; Co.</u> <u>London</u> } <u>Smith &amp; Brown</u>

Foreign Exchange Draft.

the slip should be torn from the draft before it is presented for payment.

Checks that do not clear on account of "Not Sufficient Funds," or for any other reason, are returned to the bank from which they came. If one of these checks is drawn to be protested in case of non-payment, or if a protest is considered necessary by the holding bank, the check must be presented at the window of the bank upon which it is drawn before the closing hours. Non-clearing checks are collected by messengers at the banks upon which they are drawn unless the bank clears through some other bank.

#### FOREIGN EXCHANGE.

Foreign Exchange is the payment of an obligation in a city in one country by the transfer of a credit from a city in another country by means of a bank draft, as a bill of exchange drawn in New York and payable in London. It is practically the system of paying obligations in a foreign country without shipping the actual money (gold). Should a person in New York desire to pay a person in London a certain sum of money and does not care to ship the actual cash, he buys a foreign bill of exchange (bank draft) on London in New York for the amount of the money in English money, and sends the draft by mail to London. The drawee presents the draft to the banker drawn upon it in London and receives the money.

A cotton dealer in the South ships cotton to a customer in Europe and does not care to wait until



the cotton crosses the ocean; he, therefore, attaches the bill of lading (receipt that the steamship or railroad company gave him for his cotton) and sells it (through his local bank) to any bank or bankers who deal in foreign exchange in New York, and at once receives credit for it. The foreign exchange dealer in New York sends the draft, bill of lading, insurance papers, etc., to its correspondent banker in Europe, who presents it to the party on whom it is drawn, who pays the draft. The party then presents the bill of lading to the steamship company in Europe, and receives the cotton. In this manner the Southern cotton dealer receives his money as soon as he ships the cotton. The bill of lading acts as security for the money throughout the transaction. These bills are cotton bills. If grain was shipped they would be grain bills.

When there are a great many of these bills being sold to the foreign exchange bankers in New York, as just described, it causes a fall in the market price of them (in the same manner that the heavy selling of any security causes a fall in the market price), which indicates that the United States has a large credit balance in Europe, and is drawing on Europe for the money (gold). If the market price of the bills falls to or below 4.84—\$4.84 in New York—gold is imported, for the reason that the New York foreign exchange dealers can then buy gold in Europe for the bill's full value, while they are buying the bills in New York at a depreciated value. This is an instance where exchange is sold.

A merchant in London ships to a merchant in New York a lot of goods, and draws on him for the amount (in English money). The New York mer-

chant, in order to meet the draft, buys a bill of exchange on London in New York for the amount (in English money) of the draft. When there is an excessive buying of bills of exchange in New York it means that Europe then has a large credit balance with us and is drawing on us for the money (gold). This buying causes an advance in the market price of exchange. If the price of exchange advances to or above 4.89—\$4.89 in New York—gold is exported for the reason that the foreign exchange brokers are then selling bills at a premium to the New York merchants (owing to the large demand) and buy gold at its face value to ship to Europe to meet the drafts. This is an instance where exchange is bought. \$4.8665 U. S. Currency equals £1. Sterling, English money. Bills drawn by banks or bankers against their credits abroad are called bankers' bills. Cables are orders for money to be paid in the foreign country by cable.

#### FOREIGN EXCHANGE RATES.

"Actual Rate" is the rate at which exchange is sold in large amounts by a dealer, "Posted Rate" is the preliminary asking rate of the day before an actual rate is made, and this is the rate usually exacted for a small amount of exchange by a dealer.

#### LETTERS OF CREDIT.

A COMMERCIAL LETTER OF CREDIT is a draft issued by a bank, which authorizes the holder to draw upon the issuing bank at sight to an amount not exceeding that named in the letter. They are pur-

chased by tourists, payable to themselves, and payable by foreign banks upon presentation. A Circular Letter of Credit is a draft issued by a dealer in foreign exchange, and payable on demand in installments by correspondents of the bank or banker in foreign countries. The letter is called a Circular Letter for the reason that it is addressed to any and all the correspondents of the issuing bank or banker. When a Letter of Credit is purchased in New York by a person going to Europe, he may present it to the correspondent in London and draw against it in pound sterling. When he reaches Paris, he may draw against it in francs, and so on until the credit is exhausted.

A very convenient method for travelers in foreign countries, and one which is handled by many banks, is the "Express Traveler's Checks," issued by the express companies. The checks are in the following denominations: \$10, \$20, \$50, \$100, \$200. A traveler may purchase any amount of these checks that he desires. At the time of purchase he signs, in the presence of the bank official, in the upper part of the check, each check that he receives. These checks are payable in any part of the world where the company has an express office. The only identification necessary is the signing of the check in the lower left-hand corner by the recipient at any office. It goes without saying that no one can collect these checks except the person who purchased them. A legitimate exchange charge is made for Letters of Credit or Express Traveler's Checks.

## AMERICAN CURRENCY.

THE VALUE OF FOREIGN MONEY IN UNITED STATES  
CURRENCY.

CURRENCY is both coined and paper money—that which may be tendered and must be accepted in the discharge of debts or other obligations. It includes all bank-notes of law, that are in actual and general circulation at par with coin, as a substitute for or interchangeable with it; that is, such bank-notes as actually represent dollars and cents and are paid and received for dollars and cents at their legal standard value. It does not include all coins. Foreign coins and trade dollars are not Currency. Whatever represents less than the standard value of coined dollars and cents at par does not properly represent dollars and cents, and is not money, and is not properly included in the word Currency. By the Act of March 14, 1900, Congress enacted the law by which the dollar consisting of 25.8 grains of gold nine-tenths fine (and one-tenth alloy) shall be the standard unit of value, and that all forms of money issued by the United States shall be maintained at a purity of value with this standard. The value of foreign money in United States money, according to the valuation of the United States Treasury in 1900, not including "rates of exchange," is as follows:

38 AMERICAN FINANCIAL METHODS

AUSTRIA-HUNGARY.		Value in U. S. Money
10 kreutzers	1 Florin	\$0.48
11-2 florins	1 Union Thaler	0.72
3 florins	1 Double Thaler	1.44
	1 Ducat	2.28
9 2/9 Union Thalers	1 Union Crown	6.64
<b>BELGIUM.</b>		
100 centimes	1 franc	\$0.198
<b>BRAZIL.</b>		
1,000 reis	1 milreis	\$0.51
2,000 reis	2 milreis	1.02
10,000 reis	10 milreis	5.45
<b>CHINA.</b>		
10 cash	1 candareen	\$0.01
10 candareens	1 mace	0.10
10 mace	1 tael	1.00
<b>FRANCE.</b>		
100 centimes	1 franc	\$0.19 8/10
5 francs	1 5 franc-piece	0.97
20 francs	1 napoleon	3.95
The money of Switzerland is the same as that of France.		
<b>GERMANY.</b>		
100 pfennige	1 mark or reichsmark	\$0.238
10 marks	1 crown	2.382
20 marks	1 double crown	4.764
<b>GREAT BRITAIN.</b>		
4 farthings	1 penny	\$0.02
12 pence	1 shilling	0.24 1/3
5 shillings	1 crown	1.21 13/20
20 shillings	1 pound or sovereign	4.853
21 shillings	1 guinea	5.11
<b>HOLLAND.</b>		
100 cents	1 guilder	\$0.402
	1 floren	0.502

AMERICAN FINANCIAL METHODS 39

		Value in U. S. Money
<b>IRELAND.</b>		
100 centimes	1 lire	\$0.33 2/3
5 lire	1 scudo	6.67
<b>JAPAN.</b>		
1 Rube (old)		\$0.37
1 Rube (new)		0.33
100 coppers	1 yen (gold)	1.00
	(silver)	0.60
12 Rube (old)	1 old cobang	4.44
10 1/2 Rube (new)	1 new cobang	3.57
<b>NORWAY, SWEDEN AND DENMARK.</b>		
100 ore	1 krone	\$0.200
<b>PRUSSIA.</b>		
12 pfennigs	1 silver groschen	\$0.02 4/10
20 silver groschen	1 union thaler	0.72
92 2/3 union thalers	1 union crown	6.64
<b>RUSSIA.</b>		
100 copecks	1 rouble	\$0.515
5 roubles	1 half Imperial	2.575
<b>SPAIN.</b>		
24 maravedis	1 real	\$0.05
100 centimes	1 peseta	0.193
20 reales	1 duro	1.00
5 duros	1 doubloon	6.00
<b>TURKEY.</b>		
3 aspers	1 para	
40 paras	1 piastre	\$0.04 2/10
100 piastres	1 medjidie	4.37

## LOANS AND DISCOUNTS.

Banks make their loans chiefly in the form of discounts; that is, upon bills of exchange. Commodities in the wholesale market are generally sold on credit. The buyer promises to pay the amount at a certain date to the seller, and his promise is contained in a bill of exchange. The seller transfers it to a bank, which, on the faith of it, advances the amount in loan to him, less "discount," that is, the charge made by the bank for paying a note or other obligation before it is due. This charge is the interest on the amount of the obligation from the time it is discontinued until its maturity. This interest is subtracted from the face of the obligation, and its holder receives for it the remainder.

But banks lend on other securities. A holder of government stock, for example, will obtain a loan on the security of his stock; the banker being entitled to sell it, and repay the loan from the price, if the borrower fails to make punctual payment. So also the holder of stock or shares in any public company, as a railway company, or of a bond due by such, can, where the company is believed to be in sound condition, or the security is salable, obtain a loan from a bank. The owners of commodities lying in a public warehouse may obtain a loan on depositing with the bank the warehouse receipt. Loans, too, are occasionally made for short periods on the mere note of the borrower to repay the money. Where a banker finds that the security which he has received to be insufficient, and repayment of the loan is not forthcoming, he will, of course, like any other trader, to avoid making a bad debt, take any other security the debtor can give him—such as manufactory or a mine.

FD-11-10

FEDERAL TRUST COMPANY  
CORNER DEVONSHIRE AND WATER STREETS

BOSTON, *Jan. 20<sup>th</sup> 1910*

DISCOUNTED FOR *Jonathan Ingham*

NAME	AMT.	DUE	TIME	RATE	DIS.	PROCEEDS
<i>Thomas Smith</i>	<i>300</i>	<i>- Apr. 20</i>	<i>3 Mos.</i>	<i>6</i>	<i>4 50</i>	<i>295 50.</i>

Notice of Discount.



To the Honorable, the Senate and House of Representatives, in  
General Court assembled;

Recently represented the subscribers, citizens of the Town of Boston, that in their opinion an Institution, by which all classes of the community may be encouraged to the practice of frugality, and especially industrious mechanics, either journeymen or masters, seamen, laborers, and all men of mean capitals, widows, and others, may receive from their savings of wages or profits, regularly deposited and systematically invested in public stocks, or otherwise, a profit, proportional to the success of the institution and prosperity of the country, is highly desirable. That similar benevolent institutions have been eminently successful in other countries, and are now contemplated in Philadelphia and New York; that they do not expect or desire any benefit, or profit to themselves, other than what is enjoyed by every individual in the community from the success of such a design; that they are willing to devote a portion of their time, without reward, to the management of such a society, and give the profits of the establishment in due proportion to the depositors, that they desire not to have the authority to issue bills, but only, as above supposed, to receive deposits, in sums as small as one dollar, and to divide among the depositors the profits arising from these funds invested in the most secure stocks, or funds to be, and to ensure more effectually these useful ends, they pray, that they may be incorporated into a company by the name of

"The Provident Institution for Savings in the Town of Boston," with such liberties, restrictions, rights, privileges, and duties, as to your Honours may seem meet, and as in duty bound, we ever pray

for  
John Phillips  
John Lowell  
Elisha Dicknor.  
J. Putnam

W. Phillips  
William Cochran  
James Savage  
Thomas Dawes  
Josiah Quincy  
H. M. S.  
William E. Channing  
S. H. Leonard

In Senate Dec. 6 1822  
Read and committed to the Hon. Mr. Sturges with  
John & Hooper to examine and report.  
John Phillips Presd<sup>t</sup>

The above is the Application for Charter of The Provident Institution  
for Savings in the Town of Boston, the first Savings Bank in the United  
States. This reproduction was made from a photograph taken from the  
original document on file in the State House at Boston.

(This statement will be treated in the strictest CONFIDENCE)

To the Federal Trust Co. of Boston

For the purpose of procuring and establishing credit from time to time with the above Company, the undersigned submit the following as being a true and correct statement of his or their financial condition on the First day of January 1909

ASSETS				LIABILITIES			
Cash on hand	14	98	75	Notes Payable for borrowed money	1	40	00
Cash on deposit in <u>Bank</u>	2	57	40	Notes Payable for merchandise	1	50	00
Notes Receivable (paid, but not due)	1	00	00	Accounts Payable	7	50	00
Accounts Receivable (paid)	1	00	00	Money on deposit with us	2	00	00
Merchandise on hand, consigned	6	00	00	Mortgages on real estate, as follows:			
(1 used value <u>1000000</u> )							
Warehouses and fixtures (see <u>Schedule</u> )	1	00	00				
Real estate (see <u>Schedule</u> )				<u>Insurance</u>			
Stocks and bonds (see <u>Schedule</u> )				<u>Insurance</u>			
Patent rights (see <u>Schedule</u> )				<u>75</u>			
<u>10</u>				Other liabilities, and of what kind			
Stocks and bonds (see <u>Schedule</u> )							
<u>see above of the</u>				Total Liabilities			
<u>Insurance Account</u>				See <u>Schedule</u>			
<u>1000000</u>				Total			
Total	4	35	27	75	4	35	27

Accommodations, endorsements, guarantees, etc., do not exceed \$ 1000000  
 Notes Receivable, endorsed, outstanding, do not exceed \$ 700000

Are any of the above assets pledged? No  
 Are any of the above liabilities secured by collateral or otherwise? No

Amount of notes last year 1000000 (less by bad debts) 25000 Amount of the insurance 1000000

Names in full of all general partners: John Henry Don  
C. A. Smith, Jr.

Names in full of special partners (amount contributed by each, and kind of stock): None

Statement (names of those so trading on credit): Call & Sons, New York  
J. R. Russell & Co., Boston  
The Insurance Co. of Hartford

Date signed Jan. 1st 1909 (Signature) Samuel Ladd & Co.

The Credit Statement

Banks have in this way frequently become involved in manufacturing transactions, in their attempts to make more money than they would have done by an immediate sale of them and have often suffered great losses in consequence. And it is not to be supposed that banks always abstain from making loans when the security is known to be doubtful. Far from it. Banks, like other commercial establishments, are, on many occasions, recklessly managed. In trying, to push business, they sometimes make loans on insufficient security, and banks are under strong temptation, to which they frequently yield, when a customer largely indebted to them is approaching bankruptcy, to sustain his credit by additional advances, in the hope that he may retrieve his affairs, and pay in full both the old and the new advances. The result is often the loss of both.

#### THE CREDIT STATEMENT.

Banks or bankers in receiving an application for a loan, either a discount or endorsed commercial paper, usually require a credit statement, showing the full condition of the firm or individual asking the accommodation.

The credit form now in general use gives the borrower an opportunity to pass upon the value of his accounts and bills receivable and enables the banker to judge whether the so-called asset is really an asset that can be depended upon.

No banker can be too particular in his regards for a statement from a borrower, as he is using the public's money entrusted to the bank for safe keeping and investment.

Whether a banker loans much or little; whether in sums large or small, he cannot afford to be without the protection that a careful businesslike statement assures him. He can never have too full or too accurate a statement upon which to base a loan. In using a form which is not sufficiently explicit he is actually tempting a man to tell him that his business condition is excellent, when it is really precarious; at least he is encouraging him, perhaps unwillingly, to place a higher valuation upon his assets than is justified by facts.

The simple form allows the honest man to unconsciously over-estimate the value of his resources, while it gives the man who is inclined to be dishonest an opportunity to blind the banker to his true condition.

#### NOTES.

The various forms and notes used are the ordinary commercial note or promissory note, the judgment note, payable to the order of the endorser, the collateral note, giving the holder the authority to dispose of the collateral in case the note is not paid at maturity.

A commercial note or promissory note is an unconditional promise by one person to pay to another, or to his order, or to bearer, a certain sum of money at a specified time. The person who signs the note is called the maker, and the person to whom it is made payable, the payee. To be negotiable the note must be payable to order or to bearer.

A collateral note is used in a loan of money made on a promissory note secured by collateral. Banks will loan money on good collateral up to 80 per cent. of

its market value. If the loan is not paid at the time specified, the holder has the privilege of selling the collateral in the open market, returning to the borrower all moneys over and above the amount of the loan. (See illustration of collateral note.)

#### PHRASEOLOGY.

Among the more usual of the phrases which are employed to designate money in commercial paper are such expressions as "currency" and "current funds," and to make it payable "in gold" is to make it payable in money, not bullion. The words "dollars" and "sterling" means "dollars" and "sterling" where the paper is to be paid. The amount may be expressed either in figures or words or both, and it is usual to express it in words in the body of the note and in figures in the margin. Should the words and figures disagree, the words will control. (See illustration of note.)

#### ENDORSEMENT.

Paper payable to order is transferrable by indorsement; if payable to bearer, by delivery merely. The indorsement is the writing of the name of the payee on the back of the paper, who thereby becomes the indorser. The indorsement may direct the payment of the paper to another or to his order, or to bearer, or it may be in blank, that is, without the name of the payee or indorsee. The indorsement is an independent contract, and in order to be negotiable it must be in blank or it must direct payment to the order of another, or to bearer.

INTEREST.

A provision for interest does not in general deprive the paper of its negotiable character. It may reserve interest after maturity, and may even bear interest from date in case of non-payment at maturity.

TIME AND PLACE OF PAYMENT.

In many cases it is desirable to name a place of payment in a negotiable note, and usually they are made payable at a bank, and with no place of payment expressed, the place of payment is the banker's residence or place of business. The parties may also by agreement fix upon a place of payment, but the place of payment cannot be assumed to be the place where a note is dated or where it is made negotiable.

To constitute a negotiable instrument it must be for the payment of a certain amount and must be payable at a certain time, "on demand" or at a fixed determinable future time.

NOTICE OF NOTE DUE.

Generally a few days before a note comes due, a notice is sent to the maker. In case the note is not paid promptly upon the day it is due, a second notice is sometimes sent, in cases where notes are not to be protested.

DAYS OF GRACE.

Certain days are allowed for the payment of a draft or note in addition to the time contracted for in the draft or note itself. This extension of time, usually three days, which is allowed by law, is called "days

of grace." These days are called "days of Grace" because they were formerly allowed as a matter of favor but as this custom of merchants was sanctioned by the courts and grew into law, they came to be regarded and treated by the courts as a matter of right, and are so regarded now, except in so far as they have been abolished by statute.

#### THE PROTESTING OF NOTES.

The law requires that in order to hold an endorser, a note which was not paid at maturity shall be protested by a notary public or other authorized public officer for non-payment. Payment of the note is, as formerly, demanded by the bank, and after refusal is demanded, by notice, of the maker and each of the endorsers. A protest of notes must be in regular legal form, and the certificate of protest is attached to the protested note. A copy of the notice is sent to the maker of the paper and to each endorser thereon. (See illustration.)

#### CALL LOAN.

A "call loan" is a sum of money loaned subject to immediate call or withdrawal at the option of the lender. The banks are the chief lenders of "call money" and Stock Exchange brokers the chief borrowers.

"Call loans" are used principally for speculative purposes, where profits are made or lost within a day or two. A merchant or builder could not use "call loans." They would, in fact, be highly dangerous contracts for them. The merchants, desirous of borrowing funds, require them for certain periods of



time, usually for a term sufficient to enable him to purchase materials to fill an order, deliver the goods and receive his money back.

"Call loans" are usually secured by stocks and bonds of known value with the bank making the loan, and if the broker has his loan "called" and cannot for any reason pay it on demand, the bank simply sells those securities in the open market. This, in a "panicky" market, is one cause for rapid declines, as numbers of brokers get "pinched" for ready money, and cannot respond to their bank's demand to call and pay. The stocks and bonds pledged are "dumped" on the market for what they will bring, and if a real panic is on, which has extended to the banks, the bank getting its collateral securities on the market first gets a higher price than the bank coming after, and a condition of fear and demoralization issues in which fortunes crumble away in five-minute periods.

"Time loans" cannot of course be thus sacrificed, as the bank must wait until the period for which the loan was contracted has expired, hence, the more substantial brokers and speculators frequently ignore low "call" rates, and pay higher rates for "time" money—particularly when they have reason to believe that a wildly fluctuating market is ahead.

#### SAVINGS BANKS.

Savings Banks, in their inception, were primarily benevolent institutions, organized for the benefit of the working thrifty citizen, who, desirous of safeguarding the future of himself, and of those dependent upon him, saved small sums from his daily or weekly


earnings. Commercial and financial banks could not and would not attend to these small accounts, and therefore the lawmakers, urged by public-spirited citizens, incorporated institutions, wherein the savings of the frugal-minded, industrious and thrifty, whose savings were too small to invest in public securities, or whose ignorance of business prevented a proper use of their capital. (See illustration of charter of first Savings Bank.)

Savings banks are of comparatively modern origin, and it is only towards the end of the 18th century that we find any mention of them.

We may trace the first savings bank in the United States to the organization in 1816 of the Philadelphia Savings Fund Society, in Philadelphia, Pa., a private association which was afterwards incorporated by the legislature of Pennsylvania in 1819. The Provident Institution for Savings in the town of Boston, Mass., was incorporated in 1816, and the Savings Bank of Baltimore, Md., in 1818. In New York the first organized savings bank was the Bank for Savings. Efforts had been made for several years by public-spirited citizens of that city, to get a charter from the legislature for such bank, acting on a suggestion received from Patrick Colquhoun, a magistrate in London, by his correspondent in New York, Thomas Eddy; but the then existing hostility to banks rendered this very difficult, and it was not without much work and considerable delay that at last, in 1819, a bill incorporating the Bank for Savings was passed by the legislature and approved by the council of revision.

The primary savings bank being wholly philanthropic, the services of the trustees are usually grat-

uitous, and on this basis there have been built, in the eastern states of the United States, a large number of flourishing institutions, answering perfectly to the demands that gave them birth. Criticisms have been made at times, and were echoed in the legislature, disapproving of the requirements of the gratuity of the trustees' services, and arguing that men are sure to become careless in their supervision when not paid for their services. Partly because of this contention, the plan of mutual savings banks has not been adopted in the western and southern states, where the savings bank business is done by financial institutions furnishing their capital and surplus as a guarantee for the repayment of deposits, and where the directors and stockholders are directly and financially interested in the success of the bank. Another reason to be considered, also, was that conditions in these states differ vastly from those existing in the eastern states. It was generally believed that purely mutual savings would not receive sufficient support, and could not succeed in the more sparsely settled parts of the country, and therefore they were instituted as adjuncts, or departments, of regular commercial banks of deposit. A few large and successful mutual savings banks, based on the eastern idea, and flourishing in the western and far western states, seem, however, to prove that this reason does not always apply. There is no doubt that mutual savings institutions, protected by wise legislation, strictly restricted as to first-class investments and practically freed from taxation, are as safe depositories of the savings of the nation as may well be devised; and no institutions created with that object in view can possibly be made too safe.

\$ 5000 X  
  
Jan. 20<sup>th</sup> 1909  
Three months after date I promise to pay to  
the order of John Jones  
Five hundred — Dollars  
at South National Bank  
Value received  
Duo Apr. 20<sup>th</sup> Smith Brown

Promissory Note.

BOSTON, MASS. Jan 20<sup>th</sup> 1911

\$ 500<sup>00</sup>  
Three months after date, for value received, Jm

promise to pay to the order of the **FEDERAL TRUST COMPANY**, at its place of business in Boston,  
Five Hundred Dollars,  
 with interest at the rate of 5 per cent. per annum, having deposited with said Trust Company, as collateral security for  
 payment of this or any other liability or liabilities of ours to said Trust Company, due or to become due, or that may be here-  
 after contracted, the following property, viz:

10 Shares Union Pacific R.R. Stock  
10 Shares U.S. Steel Stock

The market value of which is now \$ 2000<sup>00</sup> with the right to call for additional security should the same decline;  
 and on failure to respond this obligation shall be deemed to be due and payable on demand, with full power and authority to sell  
 and assign and deliver the whole of said property, or any part thereof, or any substitute therefor, or any additions thereto, at any  
 Broker's Board, or at public or private sale, at the option of said Trust Company, or its President or Secretary, or its or their or either  
 of their assigns, and with the right to be purchasers themselves at such Broker's Board, or public sale, on the non-performance of this  
 promise, or the non-payment of any of the liabilities above mentioned, or at any time or times thereafter, without advertisement of  
 notice. And after deducting all legal or other costs and expenses for Collection, sale and delivery, to apply the residue of the proceeds  
 of such sale or sales so to be made, to pay any, either or all of said liabilities, as said Trust Company, or its President or Secretary,  
 shall deem proper, returning the surplus, if any, to the undersigned

Due April 20<sup>th</sup> 1911 Smith, Brown & Jones

NO. 98 MILK STREET, BOSTON

The average rate of interest paid to savings bank depositors in the United States is about 3 1-2 per cent. per annum.

In England the savings banks are both governmental and trustee banks. The trustee banks are based on a plan somewhat similar to our mutual banks in the United States. The government banks are called postal savings banks. Deposits and withdrawals are made through the numerous post offices in Great Britain, and the deposits, as is mainly the case with trustee banks, are invested in government securities through the commissioners of the public debt. These post-office savings banks have about 8,800,000 depositors, with aggregate deposits of about \$700,000,000. The interest paid is about 2 3-4 per cent. per annum.

In several states of the Union, associations of savings banks have been formed for mutual benefit, and for the purpose of watching over proposed legislation in regard to savings banks so as to protect the interests of their depositors. In 1901 a national union of savings banks was organized as the savings bank section of the American Bankers' Association. This section includes in its membership a majority of the savings banks in the United States, and conventions are held yearly where members from all parts of the United States meet to discuss the many subjects of particular interest to savings banks and to their depositors.

CHAPTER II.  
STOCKS AND BONDS.

## STOCKS AND STOCKHOLDERS.

**S**TOCK is, in corporation law, the rights or interest which the organizers of a corporation, or persons who contribute to its capital, have in assets, franchises, managements, and profits.

The amount fixed by the charter of a corporation as the sum which is to be paid into its treasury for use in its operations is called the "capital stock." The latter term is sometimes inaccurately applied to the actual property owned by a corporation, as the capital stock of the corporation may not represent its actual assets, even at the time of its organization.

The total capital stock of a corporation is divided into shares, which are represented by certificates, and the latter are distributed to subscribers according to the amounts of their respective subscriptions. Shares of stocks may be made of any value, the par value being fixed by dividing the number of shares issued into the total amount of capital stock. The usual par value is \$100, but shares representing other sums, even as low as \$1.00 each, are often issued, especially in industrial and mining enterprises. Many states require stock to be issued at its par value.

Stock may be divided into several classes:

**TREASURY STOCK** is that which is not allotted to subscribers, but retained by the corporation for the purpose of selling it from time to time to raise funds for the development of the business or for improvements.

**COMMON STOCK.** By common stock is simply meant the stock which entitles the holder to a pro rata division of the profits of the business or assets upon dissolution, if there be any, and entitles the



shareholder to no preference whatever in any manner over any other shareholder.

**PREFERRED STOCK.** By preferred stock is meant that the preferred stockholder has a preference in regard to the dividends out of the net profits, before or in preference to the common stockholder. It may be that the preferred stockholder is to receive a certain per cent. upon the amount of his shares. This will have to be paid to him regardless of whether the common stock receives any profit or not out of the business of the concern, or there must be an advantage in some regard in favor of the preferred stock as its name implies.

Preferred stock is of two kinds, cumulative and non-cumulative. If the former, any deficiencies in dividends in one year must be made up later, before a dividend can be declared on the common stock. For example, if 7 per cent. cumulative preferred stock is issued, and the earnings are only sufficient to pay 5 per cent. on it in a given year, the deficiency of 2 per cent. must be made up later. If such stock were non-cumulative, the preferred stock would only receive 5 per cent. that year, even though the earnings the next year were sufficient to pay 15 per cent. on the amount of the capital stock, and an 8 per cent. dividend were declared on the common stock.

**WATERED STOCK** means stock which has been paid for in property which is not worth the par value of the stock. For example, if a manufacturing plant actually worth \$5,000 in cash is conveyed to a corporation for \$100,000 of its capital stock, this stock is said to be "watered," the amount of water being represented by the difference between \$100,000 and \$5,000. Under the laws of the leading corporation

states these issues are lawful if the directors certify that the property so conveyed to the corporation is worth the amount of capital stock issued for it; provided that the directors in so certifying act in good faith. It is seldom that real estate or other tangible property, the value of which can be easily determined, is transferred to corporations in excess of its real value; but the "watering" is usually done by transferring of good will in manufacturing corporations or in mining companies by the transfer of an undeveloped property, the value of which is prospective rather than actual. Most of the common stock of the large Trusts which have been formed in this country during the last 15 years is represented by "good will," while the actual tangible property is represented by preferred stock or first Mortgage Bonds. In some instances, notably the United States Steel Corporation, the property has so advanced in value by accumulation of profits and rise in value of mines as they became more and more developed and it is said that their actual visible property is now worth more than the total stock issued.

**DEFERRED STOCK.** By deferred stock is meant stock, the payment of interest on which is expressly postponed until some other stock has received a dividend, or until some contract of the corporation has been paid out of the net profits of the company's business.

#### **WHAT IS FULLY-PAID AND NON-ASSESSABLE STOCK?**

In purchasing stock in a new company the purchaser inquires whether the stock is "fully paid and non-assessable." This is such a common inquiry that

almost invariably this statement is printed on the face of the stock certificate.

The reason of this apprehension on the part of investors is traditional, and dates back to the time when the laws of all the states required that stock should be paid for in cash—and this is the law now in many of the states, which is the principal reason why promoters resort to the states and territories mentioned in another chapter for incorporation.

In the development of the corporation as applied to mining and commercial pursuits, it soon became evident that, in most cases, the basis of the corporation was not the cash paid for its capital stock but a mine, patent, a factory and good will of the business as well as services rendered in organizing and promoting the corporation; and to meet this difficulty several of the states and territories have from time to time passed laws providing that in lieu of cash, stock may be paid for with any property or for services rendered, the usual requirements being that the Directors shall certify that the property or services should be turned in at a fair valuation in exchange for the capital stock; and provided the directors act in good faith such property and services shall operate as full payment so that thereafter the stock can not be assessed, for the reason that it had not been fully paid for.

It is obvious that opinions will differ very widely in regard to an undeveloped mine, an unexploited patent, or the good will of a manufacturing business which may or may not depend upon the personality of those who have conducted it. And for this reason it has become a common practise for promoters to organize corporations of large capitalization and to

issue the entire capital stock for a mine, a patent, or good will upon the certification of the Directors that such property is worth the amount of capital stock issued for it. This makes the capital stock "fully paid and non-assessable" without the payment of any cash; so that the owner of the property who conveys it to the company for its capital stock may immediately after its conveyance contribute any portion of it to the treasury to be sold for such prices as the Board of Directors may from time to time determine.

In this way, stock may be sold for the benefit of the Treasury for less than its par value—and yet it is "fully paid and non-assessable" because it has previously been issued for the mine, the patent, good will, or services rendered as before mentioned.

The courts have quite uniformly sustained the action of Directors in this method of procedure—the only exception being fraud or bad faith on their part.

It is in this way that stock is "watered;" and also the way in which promoters get large blocks of stock without paying cash for them.

#### THE STOCKHOLDER AND HIS RIGHTS.

The name of each person to whom a share of stock is issued is entered upon the books of the corporations. Shares of stock are transferable by assignment, and the transferee obtains a right to have his name entered upon the books of the company as a stockholder in the place of his transferrer.

However, shares of stock are not negotiable instruments in the strict sense of the term, but they

are commonly endorsed in blank and transferred from one person to another as if such transfer were protected by the same rules of law. For this reason the courts of this country generally protect an innocent purchaser for value on the ground of estoppel. The English courts do not go so far in this respect and the only safe course there is for a purchaser of stock to have his name entered immediately upon the books of the corporation. Dividends are paid to the record owner of stock irrespective of who holds the certificates. A record owner of stock is called a stockholder.

A Stockholder, in the strict sense of the word, is a person who owns one or more shares of stock in a corporation, and who has been recognized by the latter as having the rights commonly incidental to such ownership.

Entry of a person's name upon the books of the corporation as owner of stock is the best evidence of his standing as a stockholder, and as long as his name remains he may generally exercise all of a stockholder's privileges. However, a person to whom shares of stock have been transferred, but whose name has not yet been entered on the books, is sometimes treated as if he were a stockholder and spoken of as such. A corporation is protected in paying dividends to a person whose name remained on its books as a stockholder, even if he has transferred his shares of stock, provided the person has not given notice of that fact. A stockholder of record has the right to vote in certain meetings, the most important of which, perhaps, is the election of officers. Each stockholder may vote the number of shares he owns and thus one person owning the majority of the stock

of a corporation may control its elections and policy against the wishes of a great number of holders of a small number of shares aggregating less than the majority. Among the rights of a stockholder are: The right to protest and invoke the aid of the courts against a misuse of the funds of the corporation, or against fraud by the majority stockholders or the officers, to object to a change in the kind of business which the charter authorizes it to carry on, the right to inspect all of the books of the corporation at reasonable times and places, and to receive dividends out of the earnings, when a surplus has accumulated, which is not needed for running the business, or for improvements.

**NEGOTIABILITY OF STOCKS.** An assignment of stock may be made by simple delivery. If a corporation transfers a certificate without the old certificate being signed, the company is liable to the owner of the old certificate. Transfers may be made by an assignment of the certificate on the back or separate paper; by a blank power of attorney on the back of the certificate authorizing some person, left in blank, to sign the transfer book of the company.

The transfer of stock does not require a seal, such transfer is like the transfer of any other chose in action. The seal is superfluous. Commercial necessity has established the rule which the courts have recognized, "that a transfer in blank is sufficient to pass the stock." The seller simply has to sign his name to the power of attorney on the back of a certificate of such and nothing more. Even in the absence of such usage, a blank transfer on the back of a certificate to which the holder has affixed his name, is good assignment, and a party to whom it is deliv-

ered is authorized to fill it in, by writing a transfer or power of attorney over the signature.

DIVIDENDS represent the profits of a company paid to its stockholders in amount proportionate to the number of shares held. No corporation can legally pay a dividend out of its capital. The directors of a stock corporation cannot declare dividends except from the surplus profits arising from the business of such corporation. In case of any violation of this law, the directors under whose administration the same may have happened, except those who may have caused their dissent therefrom to be entered at large upon the minutes of such directors at the time, or were not present when the same happened, shall jointly and severally be liable to such corporation and to the creditors thereof to the full amount of any loss sustained by such corporation or its creditors, respectively, by reason of such withdrawal, division, or reduction.

There are four ways in which a dividend may be paid: In cash, in stock, in bonds or scrip or property.

CASH DIVIDENDS. The dividends of a corporation are declared by the directors, and not by the stockholders. The directors of a corporation and they alone, have the power to declare a dividend out of the earnings of a corporation and to determine its amount.

A "SCRIP DIVIDEND" is a dividend of certificate giving the holder certain rights which are specified in the certificate itself. These dividends are usually declared when the company has property that it wishes to anticipate the time when the property may be sold for cash, and the cash distributed by a money dividend, and the certificates usually or sometimes draw

interest until the company shall have accumulated sufficient surplus to pay the certificates in full.

A "PROPERTY DIVIDEND" is where property is divided instead of that property being sold for cash and the cash then used to pay a dividend. A property dividend accrues where a corporation sells all its property to another corporation and takes in payment thereof stock, and the bonds of the purchasing corporation, and then makes a distribution of the same among its stockholders. However, any stockholder desiring his part of the dividend in cash, is entitled to the same and may have an injunction until it is secured.

A "CUMULATIVE DIVIDEND" is a dividend on preferred stock, which, if not paid regularly, accumulates and remains a debt against the company, and must be paid sometime in the future before dividends can be paid on the common stock.

A "STOCK DIVIDEND" is a dividend payable in the stock of a company instead of in cash. Stock dividends are created by an increase of capital stock, when authorized by the charter or general law, or by the issue of reserve stock, such dividends being legal only when the corporation has accumulated net earnings in excess of receipts over expenditures. An important difference between a cash dividend and a stock dividend is that a cash dividend entitles the stockholder to so much money. A stock dividend does not add to the stockholder's ready cash, but it increases his number of shares. Stock dividends are frequently made by corporations when its property has been or is being improved, and when the plant has increased in value, it being considered better to issue new stock to represent the excess of value than to

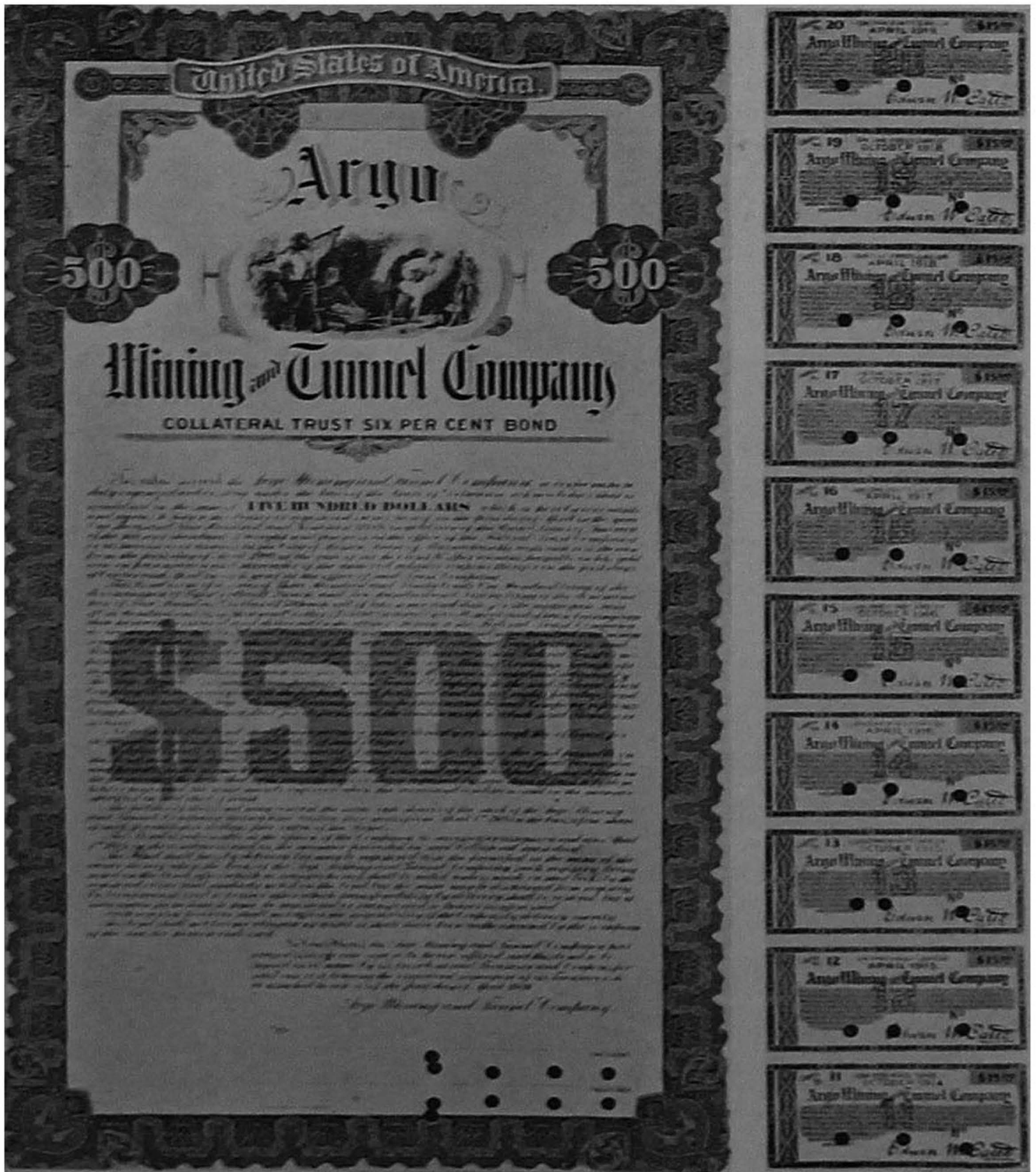


sell the increase and declare a cash dividend. The value of a stock dividend depends entirely upon the financial condition of the corporation using it.

If a company that is not earning dividends, and for whose stock there is no market, disburses a stock dividend, the additional stock so received is of no immediate value. It is purely a speculation. On the other hand, the stock dividend of 100 per cent. disbursed by the Adams Express Company some few years back was equally as good as cash, for the reason that not only was the company paying dividends, but there was a prevailing high market price for the stock. Under the laws of most states, stock of a corporation can be increased by a two-thirds vote of the stockholders. The increase is voted by the directors and ratified by the stockholders. When a corporation increases its stock the purpose of the increase must be stated.

EX-DIVIDEND means without dividend. A stock sells ex-dividend on the day the books of a corporation close. On that day and until the books open no certificates of stock can be transferred into a new name. Consequently the name that the stock stands in on the day of the closing of the books will receive the dividend. Stocks usually sell lower by the amount of a dividend on the day the books close (ex-dividend day), for the reason that the stock is then of proportionately less value than it was the day before on account of carrying no dividend the day after. An instance: St. Paul sold at 195 on August 25. On August 26 it sold at 191 1-2. On that day the books closed and St. Paul stock was not entitled to the dividend the day before. The dividend amounted to 3 1-2

per cent., and the stock sold at 191 1-2 on the day the books closed, for the reason that it was of less value by the amount of the dividend (3 1-2 per cent.) on that day (the day it sold ex-dividend) than it was on the previous day when it carried a dividend.



United States of America

Argo

500



500

**Argo Mining and Tunnel Company**  
 COLLATERAL TRUST SIX PER CENT BOND

The value of this bond is five hundred dollars and is subject to the same conditions as the bonds of the Argo Mining and Tunnel Company, which are recorded in the office of the Secretary of the Treasury at Washington, D. C.

**FIVE HUNDRED DOLLARS**

Pay to the order of the Argo Mining and Tunnel Company, or to the order of the Secretary of the Treasury at Washington, D. C., the sum of five hundred dollars, with interest at the rate of six per cent per annum, payable semi-annually on the first day of April and the first day of October of each year, until the principal amount hereof shall have been paid.

This bond is subject to the same conditions as the bonds of the Argo Mining and Tunnel Company, which are recorded in the office of the Secretary of the Treasury at Washington, D. C.

**ARGO MINING AND TUNNEL COMPANY**

Witness my hand and seal this 1st day of April, 1917.

Argo Mining and Tunnel Company

By the Secretary of the Treasury at Washington, D. C.

- 20 APRIL 1917 \$500 Argo Mining and Tunnel Company
- 19 APRIL 1917 \$500 Argo Mining and Tunnel Company
- 18 APRIL 1917 \$500 Argo Mining and Tunnel Company
- 17 APRIL 1917 \$500 Argo Mining and Tunnel Company
- 16 APRIL 1917 \$500 Argo Mining and Tunnel Company
- 15 APRIL 1917 \$500 Argo Mining and Tunnel Company
- 14 APRIL 1917 \$500 Argo Mining and Tunnel Company
- 13 APRIL 1917 \$500 Argo Mining and Tunnel Company
- 12 APRIL 1917 \$500 Argo Mining and Tunnel Company
- 11 APRIL 1917 \$500 Argo Mining and Tunnel Company

Corporation Bond and Coupon

*Resolves of the Board of Directors of the  
Mining & Tunnel Company  
and Tunnel Company in the undersigned's name  
Federal Trust Company*

**And**  
**Mining & Tunnel Company**  
**COLLATERAL TRUST**  
**SIX PER CENT BOND**

**500**

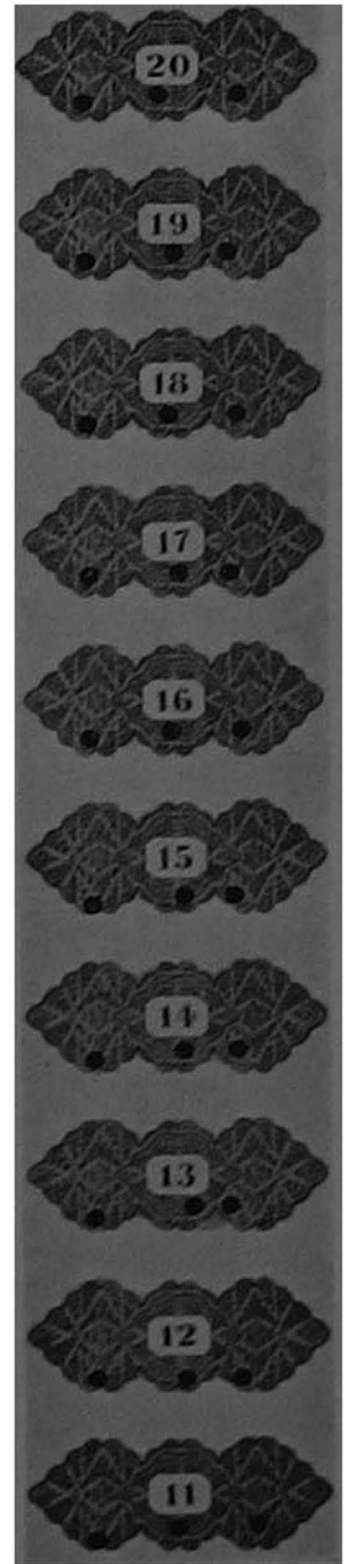
**PRINCIPAL DUE**  
**APRIL 1<sup>ST</sup> 1919**  
Interest  
**Payable Semi-Annually**  
**APRIL 1<sup>ST</sup> & OCT 1<sup>ST</sup>**  
**At the office of the**  
**FEDERAL TRUST CO.**  
**in the city of**  
**BOSTON, MASS.**

NOTES

THIS BOND IS TO BE PAID IN FULL ON THE Maturity

*Date of Maturity*      *To whom Interest is payable*      *Amount of Interest*

•   •   •   •



**Back of Corporation Bond**

**CHAPTER III.**

**CORPORATION AND MUNICIPAL  
BONDS.**

## WHAT ARE BONDS?

**A** BOND is a promise to pay, usually secured by a lien or mortgage on property or bonds and stocks representing property. Mortgage bonds represent the mortgage divided into a number of parts, usually of \$1,000 each, but sometimes less; the mortgage is held in such cases by a trustee, usually a Trust company or some other financial institution—for the benefits of the bondholders as their several interests may appear.

When an enterprise, whether a national, state or city government or a private corporation, wants to make some improvements that will benefit the public, or increase its own revenue, a certain amount of money is needed immediately, above and beyond its working capital, and in order to raise the whole sum at one time, the corporation votes to issue bonds covering the amount needed upon which it pays interest, usually semi-annually, at a rate agreed upon. The bonds may run for a term of years, ten, twenty, fifty, as the case may be. Thus a corporation may have the immediate benefits of extensive improvements and, through the medium of bonds, be able to put off the payment for them until a time when they will have earned enough from the improvements to pay for them without straining their resources. Very often a certain part of the earnings of the corporation is set aside each year to meet the final payment of the bonds. This is called a sinking fund.

There are two forms of bonds: Bonds payable to bearer and Registered Bonds, both of which usually bear coupons.

Coupons are little certificates attached to the bonds showing the date on which the interest is due, and the

amount of interest due. The coupon may be clipped and presented to a bank or banker who will collect the amount due. Bonds payable to bearer may be transferred from one party to another without formality, just as money is exchanged.

REGISTERED BONDS are issued to a specified holder, either an individual or an institution whose name is recorded on the bond by the registrar, usually a Trust Company, appointed by the company issuing the bond. This form of bond is negotiable only by the written assignment of the party in whose name the bond is registered. Interest on registered bonds is paid by check to the owner of the bond only. Sometimes a bond is "registered as to principal only." Then the coupons are paid just as in the case of a bond payable to bearer. And the principal sum is only negotiable by written assignment.

Investors should be very particular not to write their names, nor make notations, upon bonds. When this is done it is necessary to sell them as "endorsed bonds," which, of course, effects their market value.

Bonds registered as to both principal and interest are a direct obligation of the issuing company to the registered owners. They are usually issued in certified form, assignable in writing, and sometimes have no coupons attached, checks for the interest being mailed direct to the registered owners. Practically all of the modern mortgages provide for the conversion of such bonds into bonds payable to bearer. When mortgages do not provide, such bonds usually sell at slightly lower prices than coupon bonds of the same issuing company, owing to the limited demand, and, in the event of sale, it is necessary to assign them in

blank, disposing of them specifically as registered bonds.

Bonds may be classified in a general way as follows:

1. Government, State, County and Municipal Bonds.
2. Railroad Bonds.
3. Public Service Corporation Bonds.
4. Industrial Bonds.

**GOVERNMENT BONDS.** "Safe as the government," is an expression which indicates the stability of Government Bonds. No one questions the integrity of "Uncle Sam" or his ability to fulfill all his obligations. So United States Government Bonds which are thus secured are "as good as gold." They can be used by National Banks as a basis of circulation, so they are in great demand and sell at high prices. State bonds are likewise secured by the good faith of the Commonwealth issuing them, while Municipal Bonds may be enforced against any property found within its borders. This class of bonds is known as "gilt edge" investment. Because of the security afforded by the great credit of the average state, county or municipality the rate of interest is usually low.

**RAILROAD BONDS** are generally secured by property actually owned by the Railroad Company. In general, they are divided into the following classes: First Mortgage Bonds, Consolidated or Second Mortgage Bonds, General Mortgage Bonds, Debenture Bonds, Car Trust or Equipment Bonds.

First Mortgage Bonds are the cream of railroad securities, and almost always sell at a good price. They



are secured by a first mortgage on some particular mileage of the road issuing them, and almost always come ahead of all other charges. These, also, as a rule, are "Gilt edge" bonds.

Consolidated or second mortgage bonds are a lien on the company's property after the first mortgage bonds. It sometimes happens that an authorized first mortgage is too small to meet the requirements of a rapidly developing country. It is then necessary to create a second mortgage bond.

General Mortgage Bonds are secured by a general or "blanket" mortgage on all the assets of the railroad company. When first mortgage bonds are paid off, both general and consolidated mortgage bonds frequently become first mortgage bonds, when they run for a longer period of time than the first mortgage.

Collateral Trust Bonds are a lien or mortgage on certain stock and bonds pledged by the company as security.

A Debenture Bond is secured by the good faith of the company issuing it. Nothing specific is pledged.

One of the best forms of railroad bonds are Equipment, or "Car Trust" Bonds. These are secured by a first mortgage upon cars and engines, or what is known as "rolling stock." The history of these bonds is especially favorable. When a railroad goes into the hands of a receiver and is reorganized, the courts almost always recognize the fact that the road cannot get along without its cars and engines any more than a mechanic can get along without his tools, consequently its Car Trust bonds are the first to be taken care of.

Public Service Corporation Bonds are issued by corporations engaged in an enterprise for furnishing

the public with some convenience, such as street railways, gas, electric lights and water. The security of this class of bonds depends largely, of course, on the business." The bonds of street railway companies operating in large cities, offer one of the most attractive forms of security to the careful investor. In first-class cities people must have transportation whether business is prosperous or depressed, and as population increases, and land values rise, the people are forced to the suburbs, which still further increase the necessity for and growth of, the street railway. The bonds of these companies offer not only security, but yield a good rate of interest as well.

Bonds of well-established gas, electric lighting, or water companies in large towns where the franchises are favorable, also furnish good security for the investor's money.

Industrial Bonds are issued by private corporations, such as manufacturing companies, coal companies and various business enterprises. While bonds of this character offer good investments, they need to be selected with care, and by those who can get at the facts regarding the management and operations of such companies.

#### HOW FIRST MORTGAGE BONDS ARE WIPED OUT.

A frequent interrogation is, "How do first mortgage bonds become worthless, when they are secured ahead of the stock and everything else by a lien on the property?" There are a great many ways in which first mortgage bonds can become utterly worthless. Many bonds which state they are a mortgage, are really secured by a second or third mortgage, or a first conver-

tible mortgage, or a first consolidated mortgage, or a divisional mortgage, or a blanket mortgage or some other new and improved variety of mortgage which may be described as a qualified or contingent first mortgage. A so-called first mortgage bond may be only a first mortgage on a small part of the railroad or other property, and a general mortgage on the balance.

When the bond, however, is an actual first mortgage, there are numerous claims which may come before it in case of foreclosure. The largest recognized claim before the first mortgage is generally that of the Receivers' certificates issued by the authority of the court and bearing interest. These are often engraved like bonds, and bear coupons, and coming ahead of the first mortgage, should be an absolutely safe investment, but ahead of them come the fees of the counsel for the trustees, and other legal charges; also taxes, mechanics' liens and labor bills. These additional claims occasionally wipe out completely the receivers' certificates; and sometimes even the legal talent employed is compelled to sacrifice a part of its reward. Fortunately, however, this is a rare occurrence.

The cost of foreclosure in the case of a small railroad may be as low as two or three thousand dollars; but for roads of consequence it is vastly more than this, and sometimes runs to very high figures, the entire sum being charged up ahead of the mortgage bonds.

It is to be remembered in this connection that genuine first mortgage bonds are very tenacious of life. Even when the greatest care has been taken in foreclosure proceedings, the foreclosure cannot be pronounced absolutely safe until it has been tested by subsequent legal attack. In one case of a road whose

bonds often come to hand as worthless, the cost of foreclosure was fixed by the counsel for the trustee, a well known Trust Company, at \$5,000. The bondholders got a cut rate foreclosure for \$3,000, and the trustee offers to foreclose the property at any time for the original fee of \$5,000. Should his offer be accepted, the proceeds of the property would go to the bonds which are now considered completely wiped out. This is given as an instance of a flaw in the title which does not appear in the records, and which gives these old bonds a speculative value.

It may be asked, "Why is this not taken advantage of?" It may be so at some time, but at the present moment, in this case, as in many others, not enough of the bonds can be collected in one hand or made ready for co-operation, to make the proceeding worth the cost. Besides this, the value of this road would be very doubtful in the hands of a new management without the aid of the system with which it is considered, and which, in the event of the new foreclosure suggested, might not feel friendly, and might even build a competing line which would extinguish all value of the foreclosed section.

It naturally occurs to bondholders that the value of railroads depends so much on their exchange of business with greater connecting systems that a small road is liable to be made completely useless by antagonizing the management of the controlling system of its locality. On the other hand, such a road may be built up from bankruptcy by the favor of the larger management, generally after they have relieved the distressed bondholders of the greater part of their load at nominal prices—nominal prices in this case frequently meaning the lowest limit which makes it worth while

to pay for the trouble of getting the bonds out of the safe deposit box or trunk where they have been left to mildew. Many first mortgage railroad bonds are in default on their interest for years, and are quite worthless, although never foreclosed, because a search has revealed nothing worth foreclosing on.

A statement of this fact by an experienced attorney can always be relied upon.

#### REDEMPTION OF THE SINKING FUND.

Some mortgages provide that a certain amount of cash, or a percentage of gross earnings, or so many cents for each ton of coal mined, etc., shall be paid by the issuing company to the trustee at stated periods, and applied as a sinking fund for the purchase of outstanding bonds, at not exceeding a specific price. It is customary to provide in such mortgages that the issuing company shall advertise, semi-annually, or annually, as the case may be, the amount of money in the hand of the trustee available for the purchase of bonds for the sinking fund. The holders of the outstanding bonds who may so elect, offer them to the trustee at a price at which they would be willing to sell, not exceeding, however, the figure specified in the mortgage. When the bids are opened the bonds offered at the lowest prices are, of course, accepted. If no offerings are received, the mortgage usually specifies that the trustee may draw by lot a sufficient amount of the outstanding bonds to absorb the sinking-fund money, paying the holders the sinking-fund price, no more, no less. The issuing company then advertises the numbers of the bonds so drawn, and, as far as the holders are concerned, the principal and interest of such bonds have matured.

The holders of the drawn bonds, upon presenting them at the office of the trustee, receive in payment therefore the price specified in the mortgage. In some cases, in lieu of drawing bonds by lot, the trustee may invest and accumulate the sinking-fund money. Bonds purchased for the account of the sinking-fund must be either cancelled and destroyed, or they must be kept alive and held by the trustee. In the latter case, the bonds continue to draw interest, the same as other outstanding bonds, the interest being applied by the trustee toward the future purchase of bonds for the sinking-fund. Generally speaking, the mortgages of coal companies, should provide for a sinking-fund, making it certain that as the amount of coal, or whatever product it may be, is diminished the bonded debt of the company will be proportionately decreased.

This "Sinking-fund" clause naturally has an effect upon the market for such bonds, and explains why they often sell at lower prices than bonds which are not redeemable, although the redeemable bonds may bear the same rate of interest and possess even a greater intrinsic value. To illustrate: If a \$1,000 bond were redeemable at the option of the issuing company at say, 105 (\$1,050), it would be exceptional for a buyer to be willing to pay in excess of this figure for the same.

#### SAFEGUARDS FOR BONDHOLDERS.

It is obvious that coupon bonds shall be placed in a safe deposit vault, or lodged in some secure quarter. It is a matter of fact a stolen bond payable to bearer, when purchased by an innocent third party, cannot be recovered by the original owner. Further

than this the issuing company, or its fiscal agents, would have to pay the coupons as they became due, and also the par value of the bond at its maturity. This will explain why many investors prefer to leave bonds in trust with their bankers or in some safe deposit vault. It also explains why experienced and reputable bankers will not buy or sell from or for a stranger, until satisfied that he is all he represents himself to be. When a bond payable to bearer is lost, the fiscal agents of the issuing company should be notified promptly, and, if possible, the number of the bond furnished. In the case of a lost bond, the issuing company might, in its discretion, arrange to issue a new bond, but only upon the filing of a satisfactory bond of indemnity.

In view of these facts, it seems to be advisable for persons of moderate means, buying bonds solely for investments, to have the same registered as to principal, notwithstanding that the coupons attached to such bonds are payable to bearer, the same as in the case of bonds payable to bearer. The registration of bonds as to principal is, however, a safeguard to the owners, so far as the principal is concerned, and such bonds when released to bearer in the manner as heretofore stated, become readily negotiable.

#### PAYMENT AND DELIVERY OF BONDS.

When purchasing investment securities, so far as the initial transaction is concerned, it is customary for buyers to give satisfactory references, preferably a bank reference. It is also the custom, when bonds are purchased by persons residing in other sections of the country, for the bankers to receive payment

therefor, and make delivery thereof, one of the three following methods:

1. The bonds may be forwarded to the buyer either by registered mail or express, after the investment house has received payment therefor. This is the prevailing method when executing orders for the purchase of bonds through New York Stock Exchange firms. In such cases, the buyer should make remittance in funds payable in New York City, the day following the purchase, excepting on Friday, when payment should be made the following Monday. The reason for this is, that the broker, who acts merely as an agent in the transaction, is required to make payments in this same way and manner.

2. The bonds may be forwarded to the buyer, accompanied by a draft for the amount of their cost, delivery being made upon payment of the draft.

3. The bonds may be forwarded to any bank designated by the buyer, delivery being made upon payment of the amount due.

In all three cases, it is customary for investment bankers to receive remittance at some bank in the city where they transact their business; otherwise it is custom for the buyer to pay the collection charges.

#### MUNICIPAL BONDS.

Municipal Bonds are issued under constitutional or statutory authority by counties, cities, towns and school districts. They are purchased in the open market by Bond houses. Every detail in every respect is carefully looked into, as to the general character of the community, and the highest legal talent is employed to pass upon the legality of the bonds. And then what is known as an estoppel clause is put



into the bond, so as to make assurance doubly sure, and safeguard the interests of the innocent investor in case there should be any minor detail overlooked in connection with issuing the bonds. A tax is levied on all the taxable property in the community to pay the principal and interest of the bonds, as they become due, and in addition to that the full faith, credit and resources of the entire community are pledged to pay the principal and interest of the bonds. The principal and interest of a properly issued bond have absolutely got to be paid, and if any condition should arise under which there should be any trouble, the United States Courts will surely see in the future, as they have done in the past, that the communities issuing the bonds meet their obligations, dollar for dollar, as to both principal and interest.

A community is ordinarily not permitted, under the law, to issue bonds for more than 10 per cent. of the assessed valuation of all the taxable property in the community. In many cases this debt limit, as it is called, cannot go over 7 per cent., and in some cases it cannot go over 5 per cent. This relatively small amount for which bonds may be issued is fixed, not so that the bonds may be amply secured, but to prevent what might be excessive taxation of the people. So that when a debt limit of 10 per cent. is fixed in a community you see the security is ten to one, and if the debt limit is 5 per cent., it's twenty to one, so that the security is more than ample under any and all conditions that could even be imagined.

Perhaps the best illustration of the absolute safety and integrity of Municipal Bonds is in the case of San Francisco, which, of course, already had a bonded indebtedness at the time of the earthquake and sold

three million dollars of new bonds, there being 101 bidders for all or part of them, and it is reported that they were all taken up by investors within twenty-four hours after they were offered for sale, thus showing the faith of financial men, not only in the ability of San Francisco to make good its old bonds, but also to incur new indebtedness.

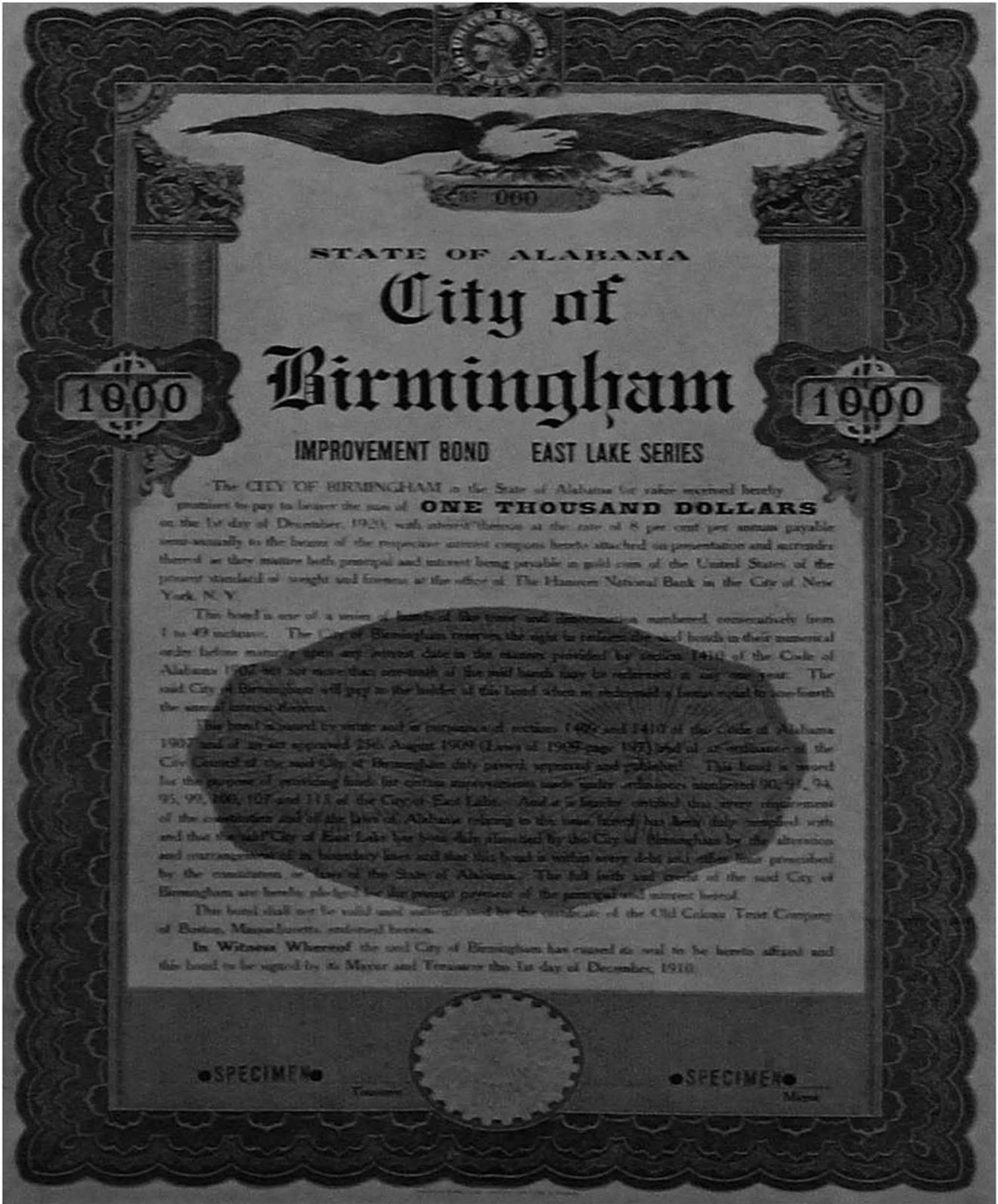
Speaking of this subject, it is well, of course, for the investor to be thus secured against all possible contingencies, but as a matter of fact no trouble to speak of does arise in actual experience. In the first place, the laws are such that the communities must meet these obligations, and in the next place, the communities really have no desire to avoid such obligations. If all this applies with more force to any one class of Municipal Bonds than to another, it is perhaps to school bonds. It is the most natural thing in the world that a community which decided to build a school house for the education of its children should regard the payment of the bonds issued to build such a school as one of its most sacred obligations. And there is another point in this connection, namely, that small communities regard their obligations in these respects as being just as sacred as the large communities do, and if there is any difference at all it perhaps would be in favor of the small communities where each individual citizen has a closer relation with the affairs of the community. And besides that, the smaller communities are hemmed in by just exactly the same laws as the larger communities are, and both would be required by the United States Courts to fully meet their obligations incurred in issuing bonds.

And this brings up another subject, namely, that

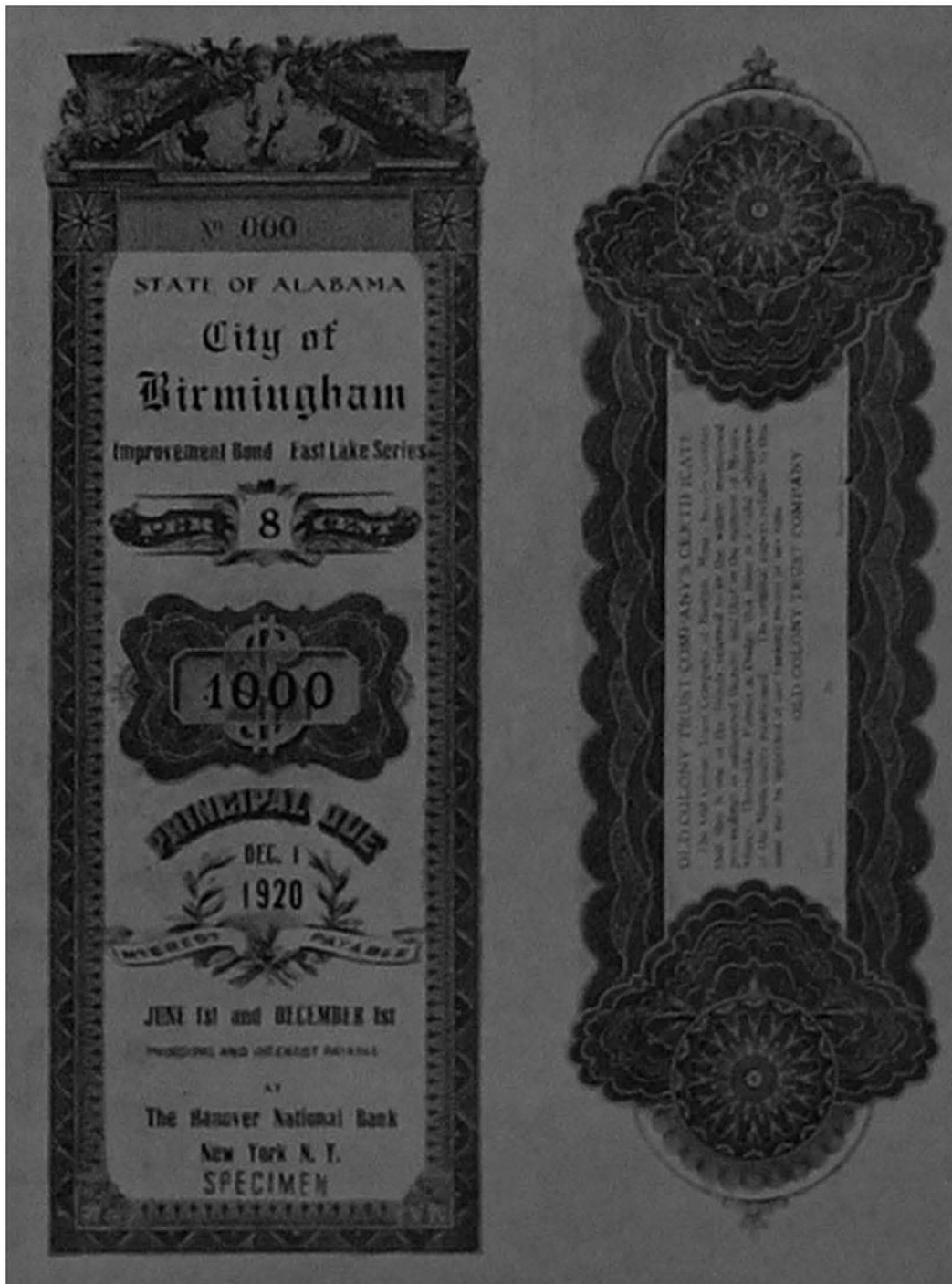
Municipal Bonds issued in communities in the Middle West and in South can be procured to net a very much higher interest return to the investor than bonds of the eastern and northern states. The current interest rates in these communities are higher in the northern and eastern states, and the bonds are the same in form and in safety. States in the Middle West and South have just as good bond laws as states in the East and North, and the laws of the United States are just as much in force in the Middle West and in the South as they are in the North and the East, and the moral risk in the Middle West and South is just as good as in the North and the East, and the people in those communities have just as much regard for their reputations and for meeting their obligations, and they will just as surely do so as the people in the North and East.

The laws in each state direct the manner in which municipal bonds shall be issued. These laws are generally different in each state and different for the various kind of improvements. According to these requirements of the law, the city council, school board or county commissioners pass the necessary resolutions and ordinances providing for the different steps for the proper issuance and sale of their bonds. Usually the law requires the question of issuing bonds to be voted upon by citizens of the community.

A great majority of municipal bonds bear the following rates of interest, 4 per cent., 4 1-2 per cent., 5 per cent. and 6 per cent., and generally sell at a premium. For instance, a \$1,000 6 per cent. Oklahoma school issue may be worth a 5 per cent. basis, that is, the market price of this bond may be such that it will pay the investor 5 per cent. interest each



**Municipal Bond and Coupons**



**Back of Municipal Bond**

year on the investment. By reference to a regular book of bond values, a 5 per cent. basis for a 6 per cent. ten-year bond is equivalent to 107.79 at \$77.90 premium for each \$1,000 bond. If, therefore, you pay \$1,077.90 for this \$1,000 school bond, you will be getting exactly 5 per cent. interest on your investment and at the end of ten years, you will have received back the exact amount of the original investment. Let us explain how this premium is calculated. Suppose a broker sold you this \$1,000 6 per cent. ten-year bond at par or \$1,000, and from the 6 per cent. interest which you receive each year, you agreed to pay back to the broker 1 per cent. each year. You would thus be getting the difference between 6 per cent. and 1 per cent. or 5 per cent. each year; the broker would get 1 per cent. each year, or 10 per cent. in all at the end of ten years.

This method, would, of course, be a complicated procedure, so instead of your paying back to the broker 1 per cent. each year for ten years, you would follow the universal custom, and at the time of purchase, you would pay the present worth of this series of ten payments of 1 per cent. each year, which is easily ascertained to be 7.79 per cent. premium. The price of any bond includes in addition to this premium, the interest which has been earned or accrued on the bond at the time of sale. This accrued interest is figured from the last interest payment, the purchaser getting back this accrued interest when he cashes the coupon, which is first payable after the date of purchase. To illustrate: Assume that on April 1st you paid for a \$1,000 5 per cent. bond at a cost of, say, 98 1-2 and interest, the coupons attached to the bond being payable January 1 and July 1. A

statement covering the cost would be rendered as follows:

\$1,000 5 per cent. bond at 98 1-2.....	\$985.00
Accrued interest from Jan. 1st to April 1st, at the coupon rate.....	12.50
Cost of unlisted bond.....	997.50
If the order had been executed on the New York Stock Exchange, add 1-8 of 1 per cent. commiss'n .....	1.25
Cost of listed bond.....	998.75

On July 1st the owner of the \$1,000 bond would cash the \$25.00 coupon and thus be reimbursed, the \$12.50 paid as accrued interest from January 1st to April 1st. The balance of the \$25.00 would be the interest accruing during the period the bond was actually owned by the buyer.

#### LEGAL INVESTMENT FOR SAVINGS BANKS

are stocks, bonds and other securities in which savings banks may invest their deposits. Each state has different laws regarding these investments. Up to 1893 a Savings Bank in New York State could not buy a bond issued by any municipality outside of the State of New York, nor could it buy the bond of a railroad, no matter how good nor how attractive in security or in yield. The first change was to admit the bonds of seven cities, Boston, Providence, Worcester, Cleveland, St. Louis, Hartford and New Haven, the bonds of such cities to be a legal investment for New York savings banks, so long as the cities had not defaulted in the payment of any principal or interest for a

stated period and the total debt did not exceed 7 per cent. of the assessed valuation and had been incorporated twenty-five years or more. A correspondingly general law affecting investments in the bonds of railroads also was passed, which in effect was that the savings banks could invest a certain per cent. of their deposits into first mortgage bonds of any railroad corporation, incorporated under the laws of any state or territory in the United States, which actually owns in fee not less than five hundred miles of standard gauge railroad, exclusive of sidings, within the United States; provided that at no time within five years next preceding the date of any such investment shall such railroad corporation failed regularly and punctually to pay the matured principal and interest of all its mortgage indebtedness, and in addition thereto regularly and punctually to have paid in dividends to its stockholders during each of said five years an amount at least equal to 4 per cent. upon all its outstanding capital stock. It provided further that during said five years the gross earnings in each year from the operations of said company, including therein the gross earnings of all railroads leased and operated or controlled and operated by said company, and also including in said earnings the amount received directly or indirectly by said company from the sale of coal from mines owned or controlled by it, shall not have been less in amount than five times the amount necessary to pay the interest during that year upon its entire outstanding indebtedness and the rentals for said year of all leased lines; and further provided that all bonds authorized for investment by this sub-division shall be secured by a mortgage which is at the time of making said investment, or was at



the date of the execution of said mortgage (1) a first mortgage upon not less than 75 per cent. of the railway owned in fee by the company issuing such bonds, exclusive of sidings, at the date of said mortgage, or (2) a refunding mortgage, issued to retire all prior lien mortgage debts of said company outstanding at the time of said investment, and covering at least 75 per cent. of the railway owned in fee by said company at the date of said mortgage. There are other restrictions, but these are the principal ones, and were arrived at after years of discussion and consultation with the most competent, able and disinterested bankers and lawyers. Bonds that are legal investments for savings banks are also legal investments for trustees of estates.

**CHAPTER IV.**

**PROMOTION AND FINANCING OF  
ENTERPRISES.**

## CAPITAL THE FOUNDATION OF BUSINESS.

**C**APITAL is the foundation and lifeblood of all business. No matter what line of business, the principal factor to be reckoned with is financing the proposition.

Lack of capital wrecks many enterprises. It is a common business condition to see business men with the knowledge of some product, industry or patent that should net them a fortune, handicapped, not by lack of business, but by lack of money.

There are several ways of financing a business—on a cash basis with your own funds; on a credit basis, making the supplier of goods give a medium or long-time credit, or borrowing from banks; by reinvesting your capital until there is enough available capital to run the business on; and by the sale of stock.

There are several advantages in financing a business by the sale of stock. The first is that it provides capital; the next, it gets interested stockholders. Further than this, it provides for assistance in the consultation and management by providing a board of interested directors. Lastly, a corporation rightly organized, the stock of which has been conservatively put upon the market, has a fair amount of commercial prestige.

The money obtained from the sale of stock is not borrowed; it becomes the actual property of the corporation. At times it is impossible to borrow on the good will and prospects of a business no matter how good they both may be. But when stock is offered covering such good will, the borrowing difficulty is done away with.

The interested stockholder is a man who plugs for business. There are few men in a community who after

investing are not able to swing some trade to a business, no matter how big that business is. A satisfied stockholder is one of the best assets of a company.

In the immediate management of a business the stockholders may be drawn upon for the knowledge which they professionally possess. There are times when even the most experienced business man is at a loss what move to take; also it is difficult to interpret with surety if certain policies are for good or for evil. Stockholders not only give an opportunity for securing a board of directors which will assist in the consultation and management, but often the advice of a small stockholder will be pertinent and exactly to the point.

A corporation rightly organized gives a fair share of commercial prestige. By right organization is meant that the backers of the corporation are men noted for business sagacity. They must be men who either have a reputation for large and profitable financial deals, or men who have the reputation for business shrewdness when rightly backed. Money and brains should be rightly mixed in the ideal business corporation.

When a business is considering whether or not to raise money by the sale of stock, the advantages alone should not be considered. There are a number of disadvantages in this matter of procedure, but all of these disadvantages are small under good business management.

Where stock is sold by a promoter a certain percentage of the proceeds must go to the man who does the promotion work. He may be paid either in stock or in cash or in both. Seldom a business is financed in which the cost of promotion does not range from five to twenty-five per cent.

## HOW TO DETERMINE THE VALUE OF STOCK.

The determination of the price at which to sell a stock—that is, the amount of value that lies back of the stock—is a difficult matter to determine. A great deal of the value of a stock is liable to be intangible. Take the case of a department store which has worked up a good business and has, say, inventory of \$50,000 on its shelves. The trade prospects alone may be worth another \$50,000. At this point, the problem of the size of the corporation—the amount of stock that is to be issued—is an important one. Shall it be \$50,000, the value of the stock? Obviously not. Shall it be \$100,000, the value of the stock, plus the good will and trade prospects? Shall it be \$150,000, capital enough to swing the proposition and make it much bigger? The first question is easily answered, the second not so easily. And yet it is to be remembered that the success of the corporation depends upon the stock being sold at its full value. And so the question is one of great importance. Whatever the value of the stock may be, it will be difficult to sell it at its full value. This is for the well-known trade reason that the man who brings money to invest in a stock demands some premium for his "risk." His money is sure to bring a small income at least—the three per cent. of the savings banks or Government bonds. If he is a shrewd investor and dabbles in real estate, his income may yield him seven, ten, or fifteen per cent. without what he calls risk. But when he exchanges his money for stock he has the feeling that there should be either a chance for a big return or that the returns, if smaller, should be positively sure.

THE FLUCTUATION OF STOCK AND ITS  
EFFECT UPON THE BUSINESS.

Stock once sold is closely watched by the investor. In case of a falling off in business he is pretty sure to know of it. That means that what would ordinarily be a business secret is common property of a large number. Investors are prone to collect their dividends every year and are not willing to sacrifice one year's dividends in order to bring up a business and obtain a better rate for coming years. The owner of a business is willing to make any reasonable sacrifice of this kind, and as a consequence, when he has to deal with investors who want dividends, he finds that he is up against a very different proposition. The indication of prosperity or adversity shown by a dividend or the paying of a dividend may have a favorable or unfavorable effect on the entire organization.

When stock is sold the buyers are liable to be enthusiastic about its possibilities—for a time. A few are able to hold their enthusiasm long after the transfer. This means that the depreciation to the general management of the business is liable to occur, and it becomes someone's duty to keep the stockholders in condition. They must not be allowed to become too dissatisfied or the stock will depreciate. Then, too, a man who has been sold one block of stock often is anxious to sell again at a profit to invest that money in some other proposition. A few of these sales tend to depreciate stock considerably below par.

WHAT TO PROMOTE.

The best way to secure propositions is to place the following advertisement or a similar one in either leading monthly magazines or in Sunday newspapers under the classified columns of Business Opportunities:

Have you any good propositions to offer the public? Patents, investments, etc. I incorporate and finance propositions of merit; large list of investors.

\_\_\_\_\_, \_\_\_\_\_ & Co.,

— State St., Boston, Mass.

From this advertisement you will receive all kinds of propositions and it is up to your good judgment to select one or more that you think would appeal to the people in your community and the public at large. After you have made your selection it is well for you to study the proposition thoroughly; first, as to the possibilities of future profits, and, second, as to the demand for the product. Always be sure and get a written agreement from the owner of the proposition, stating what your compensation is to be for promoting the enterprise. After you have secured your agreement and studied your proposition, interest two or three parties in your community to furnish sufficient money for the incorporation expenses. You must generally offer special inducements, such as a larger amount of stock than the ordinary investor would receive for the amount subscribed. I usually offer them three shares for one

and a place on the board of directors in the proposed company.

Never attempt to do your own legal work in the incorporation of a company, always consult a good corporation lawyer, as the proper drawing of the charter is one of the most essential features upon which the future success of the corporation depends. A poor charter is like a building with a foundation of sand.

The usual practice in promoting a company, is to take one-half of the capital stock, then proceed to sell the balance and then if a part of it is sold only, disaster follows, either through the lack of working capital, or through too high expenses of selling stock eating up the money received. A better way is to start with a certain sum for promotion expenses, this is generally taken out of the amount subscribed by the incorporators.

Never vote yourself any fixed amount of stock, and never vote for the purchase of a certain property or patent for which you are promoting the company. Always arrange with the owner of the proposition to have him transfer your share "agreed upon" in your name from a certificate issued to him. This will save you a lot of inconvenience, should the project not be a success, as it generally reverses back on the promoter.



HOW TO PROMOTE A COMPANY AND HOW  
TO SELL STOCKS AND BONDS.

Selling as a science has been studied but a short time. It has been considered in and judged by the light of results for thousands of years, but the study of the science from cause to effect instead of from effect to cause, is still in the making.

Information on selling stocks and bonds is to be had practically from but two sources: the technical business press and from the experience—often unwritten—of the masters of the art.

For this reason and because of the fact that the science is yet in its formative stage, any book on this subject is bound to be more of a mosaic of facts concerning selling stocks and bonds than a logical exposition of the science. However, in this volume every fact, principle or rule that could be gathered from any available source has, it is hoped, been embodied in the following pages.

"Salesmanship" may be interpreted as "ability to read human nature." It is not to be assumed that every man aspiring to become a salesman possesses this qualification, at the start, but careful observation, self-control, and close application will enable him to develop it: It is quite as important that a salesman should be a good listener as a talker, quick to perceive when he has said enough, and then stop. A salesman will at times sell his goods by talking, at other times he will get his orders quickest by letting his customers talk. Ability to read human nature will enable him to determine when he has said enough.

The vocation of salesmanship has always been a haphazard one and the candidate for the calling has been obliged to learn the why and wherefores of success in the school of experience. He has been obliged to practice the art of selling without understanding the science which underlies the art.

I want to call the attention of the reader to the fact that there are but four classes of salesmen in the world, viz.:

1. The Commercial Traveler, who sells in wholesale quantities to retailers, who resell in turn to the public.
2. The retail Salesmen, or clerk behind the counter.
3. The Specialty Salesman, including that class of salesmen and saleswomen who sell almost every conceivable product to individuals direct.
4. The Promoter or stock and bond salesmen who creates enterprises, who gets ideas and capital together, and usually through the instrumentality of the corporation, puts a given idea of enterprise before the public.

The science of salesmanship is of equal interest and value to each of these four classes, because it deals with fundamental laws, truths and principles which govern success in each and every branch of the calling.

We hear much about the "natural born salesman." We very frequently hear the statement made by able men that "salesmen are born, not made." Such an opinion is apt to be expressed when observing some particularly brilliant success that has been made, but which is really an isolated case and an exception rather than the rule.

The "born salesman" is a spasmodic salesman. As a rule he is not even balanced and his results are uncertain. I prefer the steady worker, the man who grinds, but whose results show a healthy and continuous increase. Give me a man with a good backbone susceptible of his becoming a successful salesman.

It is true that he must have a foundation upon which to build. I will call the stones of this foundation intelligence, education, appearance, persistence, self-control, and diplomacy. None of these is a gift, but an accomplishment that can be developed more or less according to the individual.

I would rather undertake to make a salesman out of one who was not born with great natural gifts, than to undertake to make a salesman out of one with those natural gifts who is not progressive enough to see the importance of cultivating and developing those gifts.

The matter of self-development, the development of the positive qualities and faculties of body, mind and soul, the natural product of which is the power to influence others—which is salesmanship in the abstract—is clearly a matter of education, education in its true and broad sense.

To go back to the derivation of the term, we find that "education" means a "drawing-out process." That drawing-out process does not necessarily have to be applied in the colleges. The education which comes of contact with the world is one of the best of all methods, thus with self-development, man is very largely the architect of his own character and the builder of his own future.

THE PROMOTER is one who urges or assists in the organization of corporations or joint stock companies. A promoter commonly makes the plans for the business operations to be carried on, estimates the possible profits, solicits subscriptions to the stock of the proposed corporation, and, in short, does all he can to bring about its organization. A promoter is held to stand in a fiduciary relation to the prospective company. Accordingly he is held to a very strict accountability as to his motives out of the proposed organization. Unless he discloses to the subscribers of stock the amount of profits he intends to make by affecting the organization, or by selling the company any lands or things of value, he must account to them for what he receives. If a promoter makes fraudulent misrepresentations as to the prospects of the intended corporation, any subscriber deceived thereby may cancel his subscription, and may recover any damages he may sustain from the promoter. If a person urges others to form a company and has something he has to sell, and does not himself become identified with the organization, he is not a promoter in the above sense, and may obtain the best price he can to induce the company to pay for his property.

A corporation, when organized, is not liable for any contracts entered into on its behalf by the promoter prior to its organization. It cannot ratify them, but may adopt them, but this amounts to making a new contract. A promoter may sometimes be held personally liable on such contracts.

## INVESTORS vs. SPECULATORS.

There are as many kinds of investors as there are kinds of people or kinds of stock. Aside from those who buy listed Wall Street stocks, whom I am not considering at all, investors may be divided into two general classes.

1. The Conservative Investor is the man who analyzes, who dissects a proposition, and who cannot be expected to buy a game of chance. He looks first to the safety of his principal, and is satisfied with a small but sure income. Offer too much and you lose him. The conservative man insists upon good people back of the proposition. You must have more than a series of strong statements to satisfy him. He wants mercantile agency ratings, and he has the ability to dissect a Dun's or a Bradstreet's report. He must have bank or other references, and this of course, cuts out all promotion schemes and experiments.

2. The Great Army of Unnamed Nervy Investors with an undeniable fondness for games of chance. Naturally there are a great many kinds and creeds in this army, but the symptom of all of them is the burning desire for large profits and quick returns on a small investment.

"An income for life on a small investment," reads the advertisement of a successful financial advertiser. "\$2,200 a year for life," reads another. This is just what they are looking for. A portion, if not all, of this class of people who buy "wild cat" stocks are irreverently called "suckers" by those who do business down Wall Street way. I regret to say that many of this class will buy anything that is offered to

them in the right way. What the proposition is amounts to little. It's what is said about it that counts.

There are three ways to reach investors:

1. By mail.
2. By newspaper or magazine advertisements.
3. By personal solicitation.

Each particular method has its advantages. Just which one or which combination to use depends entirely upon the proposition and its conditions. A combination of all is far better than any one of them if the proposition is big enough.

Reaching investors by mail. This sounds like an easy matter. It always should be done right. The materials needed for mail order work are:

1. Good investors' names to work from.
  2. A good prospectus.
  3. A follow-up system.
  4. The necessary office force to send out and properly follow up the inquiries and replies.
- Investors' names. In mail stock selling good names are more essential than any other one thing. You may have the best proposition in the world, you may present it to few or many; but if you are not appealing to the certain right men, you have a failure on your hands. The selection of names, therefore, is a mighty particular piece of business. At best there is waste enough. Directory names are practically useless and the percentage of waste is so great that no one can afford to use them.

What names to use depends entirely upon your particular proposition. There are no fixed rules.

I know a man who sent out 20,000 pieces of good printed matter with a gross return of less than \$100.

I leased a list of 2,500 original investors' letters and the broker threw in an odd lot of 125 names for good measure. This printed matter was sent to all, with the result that more than \$6,000 was received. At the close of the last follow-up, I investigated and found that 80 per cent. of the subscriptions came from the odd lot of names. A list of 250 names costing nothing was the means of bringing a broker I know more than \$40,000.

I mention these cases to show the difference between good and bad names and to emphasize the importance of getting the best names possible. There are as many ways to get good names as there are to spend a dollar. Letter brokers sell or lease original letters. The original letters come from investors all over the country in answer to newspaper or mail order advertising placed by brokers, promoters, tipsters and information bureaus.

I never use or advise anyone to use card written or printed lists of names which they can obtain from any one of a dozen or more brokers. Get the original letters and you can tell what sort of people you are working on. Be sure to get investors' names, and be sure that the names you buy are not worked to death. You may feel that physicians would be interested in your proposition, but you will find that it will not pay you to circularize them. It is true that physicians and other professional men are chronic investors, but the percentage of their earnings per capita is so small that you cannot afford to circularize them as a class.

Personal solicitation. The best way to sell any-

thing, whether stocks, bonds, furniture or soap, is by personal solicitation. Hunt up your investor, arrange your story in a way that will appeal to him, and get his subscription. No general rules can be laid down for such a campaign. Do not depend entirely upon your natural ability. Make sure before you start out that you know your proposition from start to finish. You must educate yourself up or down to your proposition. A salesman who is afraid of the difficulties he meets can never master them. He is like a rider who is afraid of his horse, who trembles at the least sign of skittishness and is dismounted at the animal's first plunge. Make up your mind that you can control every situation and your victory is half won.

Two of the most essential requirements in stock and bond selling are:

First, men who have the confidence of the people of their community.

Second, men of enthusiasm and energy.

#### THE PROSPECTUS.

My definition of a good prospectus is one that will sell the largest amount of stock in the shortest space of time at the lowest cost. I don't care whether you spend \$5 or \$5,000 on printing, whether it is printed on cheapest manila with muddy ink, or on the finest hand-made deckle-edge paper, if it doesn't sell stock it's a failure. If it doesn't do exactly what it was intended to do it's like the salesman who almost gets the order. It's like dynamite without the cap.

Oceans of financial literature constantly flood the mails. As a rule it is the poorest kind of mail that



"Uncle Sam" carries and anyone will agree with me that it should be the very best.

In writing a prospectus you must first make sure which class of investors could, would or should buy your stocks. Don't make any mistake at this point. Mistakes are fatal at this stage of the game. When you are positive of the class to whom you should appeal, pick out your strong points and write up your story in a way that the investor will be compelled to believe you. If your proposition should appeal to the great army of "take a chance" investors, you must tell a speculative story in a speculative way, speculative people buy speculative stock, conservative investors want a conservative story. Above all things, your proposition should be honestly stated, but it is of greater importance that it should sound honest. Many a straight proposition sounds crooked, is made to sound crooked by the man who tries to cover up possible weak points, instead of properly bringing out the strong points. What not to say is important. Say just enough and quit. Many a selling prospectus is ruined by improper arrangement of the matter. Start with your solicitation and when you are through with your final argument, quit.

When you have finished your solicitation, you have either got a subscription, or you have not, and all the wandering around that you may do among the strong points will do harm to your cause rather than good.

Answer fully and freely all the questions that every investor wants explained. He is going to hand over his good hard-earned money for a green certificate and must know all about it or he won't invest. Do not be afraid of writing too long a story. If you cannot make your matter interesting and readable enough,

the difference between a few pages and a great many will not count, for no one will read it anyway. If your prospectus is not full of human interest, you can be sure it will not pay, for it won't be read.

The great trouble in writing a prospectus is that when you come to reduce your proposition from your ideas to cold black and white, you cannot get your feeling, your enthusiasm, your conviction into it. What you must have is the rare knack or whatever you may call it, of conveying your red-hot enthusiasm through your prospectus to the reader without allowing it to lose force. No two propositions are alike. You must not assume that simply because you saw a gold mine prospectus you can pattern after it and sell your gold mine or industrial.

Every proposition must be treated on its merits, and if you follow a certain prospectus in preparing your own, you are more than likely to make a serious mistake. Your proposition has its advantages or you would not have the proposition. It must strike you that it is better than any other proposition or you would not be working on it. Don't pattern after some one else. Show your strong points. The real thing must be a living, breathing document with the power to convince, but the imitation will be born dead. The man who imitates is the man who is more damaged rather than the man who is imitated. You know that this is true. He who writes a successful prospectus must have the ability to paint a word picture, to make an image of security and profit that the most stupid reader can get focussed in his brain. He must be able to make things seem real. As a general thing, your

investors will be scattered all over the country, and if you are going to get their money you must paint your story plainly, so the man in Maine can actually see the mine in Mexico. Put your personality into your prospectus. The public is always looking for a leader, and if the convictions of that leader are contagious, your reader must catch the fever.

**CHAPTER V.**

**HOW TO INCORPORATE A  
COMPANY.**

## CORPORATIONS IN GENERAL.

**A** CORPORATION is an artificial person, like a state. It is a distinct existence—an existence separate from that of its stockholders and directors. It is an artificial being, intangible, invisible, and existing only in contemplation of law.

A corporation can be created by legislative enactment and by that alone. The domicile, residence and citizenship of a corporation are in the state where it is incorporated.

The Romans originated the idea of the corporation; yet it was not until the year 1837 that a corporation was formed in this country under general laws. Previous to that time a special act of the Legislature was necessary. The development of the modern corporation grew out of the legal difficulties in handling large enterprises through the partnership. In a partnership each partner is liable for all the debts of the concern and any member may bind the firm by a contract within the scope of the partnership business, without the knowledge of the other partners. Again, each partner has an equal voice in deciding the policies of the company irrespective of his proportionate financial interest therein; and the death of a partner dissolves the firm by operation of law.

The "Joint Stock Company" was formerly somewhat used in this country, especially in the state of Pennsylvania. It is in effect a large partnership with limited liability, whereby under the terms of the partnership the management is left to members who are chosen by the different members.

The United States Express Co. is perhaps the only large corporation that operates now under the Joint

Stock Company method. The method is practically obsolete.

The "Special Partnership" is a device authorized only by the statutes of different states and is resorted to in a limited way where a person wishes to invest in a business and limit his liability to his investment without taking any active part therein.

The statutes of most states provide that one may become partner by filing a certificate to that effect with the State Department specifying the amount of his contribution to the capital stock and limiting his annual dividends; and when such person complies with the requirements of the Statute he is under no personal liability for the debts of the corporation other than what he has contributed. The legal difficulties of management and liability arising out of a partnership, joint stock companies and special partnerships, have of necessity given rise to the modern corporation.

In a corporation legally formed and conducted, the stockholders are not liable for its debts; the amount invested may be lost, but the private fortunes of the stockholders are not involved. Each stockholder may vote, his vote not equally counting as one of many, but in proportion to his holdings in the corporation. The business is conducted not by the stockholders, but by the Directors and Officers chosen by them.

The holder or holders of a majority of the stock may conduct the business as if it were their own; provided, only that they keep within the purposes of the corporation, and do nothing to their own advantage which may be a fraud upon the minority stockholders.

The death of a stockholder does not affect the cor-

poration; his stock passes to his legal representatives at the time of his death, and they stand in his place. The sale by a stockholder of his interest does not affect the corporation; his rights pass to his vendee. The bankruptcy of a stockholder does not affect the corporation; his rights pass to his legal representatives in bankruptcy. The stockholder may pledge his stock without in any way affecting the corporation.

For these reasons except in a few isolated cases, all modern business conducted on a large scale, is carried on by corporations.

The fundamental basis of a corporation is its character. It was formerly granted by the king in England. Later, as before stated, it was granted by an act of the Legislature—a separate Act being passed for each charter.

At present the constitutions of most of the states require that in all possible cases the Legislature shall pass general Acts, whereby, by the filing of prescribed forms, any number of persons may form a corporation without applying directly to the Legislature. These general Acts specify the contents of the instrument to be filed and also the powers of the corporation. Under the laws of most of the states a corporation may by its charter be authorized to pursue more than one line of business. Most charters are now drawn covering a great variety of enterprises, although the real purpose of the incorporators may be to pursue only one enterprise.

## WHERE TO INCORPORATE.

In general a corporation should be formed under the laws of the state in which it intends principally to carry on its business. In some cases this is impossible, as many states impose severe hardships, long routine and red tape systems for the organization of a company; others require a large organization or annual tax or expense which makes corporation in such local states prohibitive from a practical business standpoint. For instance, in Illinois, the formation of a corporation involves so much of the capital of a proposed company in fees and expenses and in attending to all of the requirements of the law that the advantages to be attained by incorporation are rarely sought by business men. Some states require the filing of by-laws, the approval by politicians, constituted commissioners of corporations (an apparently meaningless office which does not serve any good end), the filing of an impression of the corporate seal, and such other nonsensical performances as disgust men of commerce and affairs and they will have none of it.

By reason of these hardships imposed by some of the states, a few, such as New Jersey, South Dakota, Maine, Delaware, New York, Arizona, Nevada and Massachusetts have adopted modern laws, whereby, with very little difficulty and expense, business men are allowed to associate themselves together with all of the advantages of incorporation. To these states then, competent attorneys send their clients for charters when local laws are undesirable, and incorporation is effected there in such a manner as will permit of registration in the local state, when compulsory, with very little difficulty.



A careful analysis of the laws of the principal incorporating states leads in general, to the following conclusion:

**First.** A corporation capitalized for a small amount should be formed under the laws of New York State, there being no annual franchise tax in such state for corporations employing no capital there.

**Second.** A corporation desiring a large capitalization, where the stockholders will be scattered over a large area, will find many advantages through incorporation in Delaware. The amendments of 1907 have made the laws of that state very desirable. Stockholders' meetings can be held in any state. Directors are given unlimited control of the assets of the corporation and through charter provision by vote of stockholders are even granted the right to mortgage or dispose of the entire assets of the company. The annual tax is very small, varying from \$10.00 on a capitalization of \$100,000, to \$50.00 on \$1,000,000.

**Third.** The laws of New Jersey are still in favor where large capitalists seek to promote an enterprise, but it should be borne in mind that with its advantage in the matter of favorable legislation, together with the fact that all of the principal questions of corporation law have been well adjudicated, the annual franchise tax is \$1.00 per thousand on issued stock. In this connection it might be well to add that there is no legislation requiring any portion beyond original subscription, to be paid in at any time, thus a corporation may be formed for \$1,000,000 and never actually issue more than \$2,000 of its capital stock.

Fourth. If a large capitalization at a minimum of expense and a maximum of privilege is desired, then South Dakota seems most inviting. The amendments to the laws of that state in 1907 eliminated the objectionable features, and it stands today foremost as a western state for incorporation.

#### NEW YORK.

The advantages of incorporating in New York are as follows: The actual presence of incorporators is unnecessary. No cash is necessary to obtain a charter. There are no published reports. There is no personal liability. No list of stockholders is required. Directors are not required to be stockholders. One person may be President and Treasurer and not own any stock. There are no taxes if no capital is employed within the state.

The annual tax is 75 cents per thousand on issued stock, and above that is based upon earnings and dividends. Stockholders' meetings must be held within the state. Directors' meetings may be held anywhere.

#### DELAWARE.

No cash subscriptions are necessary to secure incorporation. Subscriptions may be paid for in cash, labor, property, contracts, etc. Only one of the Directors need be a resident of Delaware. Stockholders' and Directors' meetings may be held outside of Delaware. The annual tax is 10 cents per thousand up to \$100,000, and above that a varied rate not exceeding \$50.00 on \$1,000,000. Directors are given almost unlimited power in the management of the corporation. Companies can be formed for the operation of railroads, railways, etc., without the State of Delaware.

SOUTH DAKOTA.

Capital stock and par value of shares are unrestricted in amount. No subscriptions necessary. Stock may be paid for in money, property, goodwill, patents, services, etc. There is no personal liability. Meetings of both stockholders and Directors may be held anywhere. No taxes.

NEW JERSEY.

Capital stock \$2,000 or more. Shares may have any par value. Subscriptions must be \$1,000. Subscriptions may be paid for in any of the usual ways. Incorporators may reside anywhere. Directors' meetings may be held anywhere. Annual tax is one dollar per thousand on issued stock.

MAINE.

Subscriptions for stock may be paid for in property, services or anything of the fair value for which stock is issued. Stockholders' meetings must be held within the state. No resident director is necessary, but a resident clerk with office must be maintained. Directors' meetings may be held without the state. The annual tax is graduated, not exceeding \$75 on \$1,000,000 capitalization.

ARIZONA.

No cash subscriptions necessary. Incorporators may reside anywhere. Stockholders' meetings (by reason of decision of the Arizona courts) must be held within the state. Directors' meetings can be held anywhere. There are no taxes.

## MASSACHUSETTS.

Incorporators are not required to be residents, but each incorporator must be a subscriber for stock; \$1,000 must be subscribed, but same may be paid in any of the usual ways. Directors' meetings may be held anywhere. The certificate of incorporation must contain the amount of stock issued for property. The certificate of incorporation must be approved by the Commissioner of Corporations. The par value must not be less than \$5. The basis of taxation is quite complicated, but is very fair and is assessed upon the actual value of the assets of the corporation and is a matter of no great consequence for small capitalizations.

## CHARTER FEES.

The States of New Jersey, Maine, Massachusetts, New York, South Dakota, Delaware and the Districts of Columbia and Arizona are principally resorted to in the formation of large corporations, and although the laws are in general the same in all the states, yet each one has its advantages.

One of the first advantages to be considered is the stability and uniformity of the corporation laws as interpreted by the courts in the state where the corporation is formed. In this respect New Jersey ranks very high, while Maine, Massachusetts and New York are considered good. The standing of the decisions of the courts of South Dakota, Delaware, Districts of Columbia and Arizona do not rank with the the states before mentioned.

The charter fees of these states and territories are as follows:

Capital	\$10,000	\$50,000	\$100,000	\$500,000	\$1,000,000
Mass.	\$25.00	\$25.00	\$25.00	\$125.00	\$250.00
Maine	10.00	50.00	50.00	50.00	100.00
N. J.	25.00	25.00	25.00	100.00	200.00
Del.	10.00	10.00	10.00	50.00	100.00
N. Y.	5.00	25.00	50.00	250.00	500.00
S. Dakota	10.00	15.00	15.00	20.00	25.00

Dis. Col., Forty cents for each \$1,000 of capital stock, provided no fee shall be less than \$25.00.

Arizona, Various small fees amounting to \$25.00, more or less, for any corporation, irrespective of its capital stock.

In each of the states there are small filing and recording fees usually about the same as fees for recording deeds. The annual franchise takes are as follows:

ANNUAL TAX.

Massachusetts. At the usual rate of such tax (about 1-6 per cent. of value of capital stock), less value of real estate, machinery, taxable property, State and non-taxable securities subject to maximum of 120 per cent. of value of real estate, machinery, merchandise and taxable securities, less value of real estate, machinery and taxable property outside State and non-taxable securities, minimum of one-tenth of one per cent. of market value of capital stock at time of assessment, less amount of local tax.

Maine. Capital up to \$50,000, \$5.00.

Over \$50,000 and not over \$200,000, \$10.00.

Over \$200,000 and not over \$500,000, \$50.00.

Over \$500,000 and not over \$1,000,000, \$75.00.

On each additional \$1,000,000, \$50.00.

New Jersey. On capital up to \$3,000,000, one-tenth of 1 per cent.

Over \$3,000,000, not over \$5,000,000, one-twentieth of 1 per cent.

For each additional \$1,000,000, \$50.00.

Manufacturing corporations having at least 50 per cent. of their capital invested in business within the state are exempt; those having less than 50 per cent. may deduct assessed value of their real and personal estate used in their business. Corporations paying mercantile license taxes are exempt.

Delaware. Beginning January 1st, 1908, the tax will be upon the authorized capital, for capitalization not exceeding \$25,000, \$5.00; capitalization not exceeding \$300,000, \$20.00; capitalization not exceeding \$500,000, \$25.00; capitalization not exceeding \$1,000,000, \$50.00; for each additional million or part thereof \$25.00. Any corporation showing by its annual report that it is not engaged in business shall pay one-half the above, but not less than \$5.00.

New York. On capital stock employed within the state:

If dividends 6 per cent. or over, one-quarter of a mill for each one per cent. of dividends, levied on each dollar of stock.

If dividends, less than 6 per cent., assets do not exceed liabilities exclusive of capital stock, or average price of stock below par or no dividend declared,  $\frac{3}{4}$  mill for each dollar of capital employed in state.

If dividends less than 6 per cent. or assets exceed liabilities on stock sold on average at or below par,

then  $1\frac{1}{2}$  mills, on each dollar of valuation, with certain limitations.

There are no annual fees in South Dakota, District of Columbia or Territory of Arizona.

#### DISSOLUTION OF CORPORATIONS.

Corporations are dissolved by an application to the Court by the Board of Directors; and also by the State incorporating them for refusing or neglecting to pay annual taxes or failing in other respects to comply with the laws.

In the case of the mismanagement of a corporation or its assets being imperiled by its inability to pay its obligations, thereby exposing itself to law suits, the courts will appoint a receiver for the corporation who takes charge of all its assets, and who runs the business in the place of the Board of Directors; and unless the corporation is reorganized by the contribution of more capital, the receiver winds up the company and distributes the assets among the creditors, giving the surplus, if any, to the stockholders.

This method is employed principally in the case of public service corporations like railroads, electric light companies, water companies, etc., for the reason that, serving the public generally, it is detrimental to the public for its business to stop even temporarily.

In case of mercantile and mining corporations, it is the practise, with few exceptions, to wind up insolvent corporations through the courts of bankruptcy. If the corporation is decreed bankrupt in the bankruptcy court it almost, without exception, is required to stop business immediately and its assets are sold to satisfy its creditors.

## THE CHARTER AND BY-LAWS.

Having decided where to incorporate, the next question is, how to incorporate.

In some of the States the certificate of incorporation is a formal document in which the matters which may be contained are defined by the statute. This is the case in Maine, Pennsylvania and South Dakota. In New York, New Jersey, Delaware, West Virginia and Massachusetts, however, the certificate of incorporation may contain provisions covering a wide variety of subjects. Business men interested in corporations desire to see clearly set forth in the incorporation papers the powers of the corporation and of the directors and officers, as well as the limitations and restrictions on the exercise of such powers. For this reason it is nearly always advisable to include in the certificate of incorporation, even though it may be unnecessary from a legal standpoint, a full and clear statement of such matters.

It is sometimes desired also that there shall be certain limitations on the powers of the directors, or restrictions on the rights of stockholders, to sell their shares of stock, to examine the books of the corporation, etc., or provision for voting trusts, or other provisions out of the ordinary. The time to provide for such matters is when the incorporation papers are drawn; it may be impossible to arrange for them later.

It is sometimes desired that certain provisions shall not be subject to alteration or amendment. It is usual, therefore, to include such provisions in the certificate of incorporation, rather than in the by-laws, the procedure for amending the former being usually more formal and requiring a larger vote of stockholders, and it is sometimes expressly provided, when permitted by



statute, that such provisions shall not be subject to change.

In other cases the same matters might be covered in by-laws. The by-laws should supplement the certificate of incorporation, and the two together should contain as far as practicable the powers of the corporation, all limitations and restrictions on such powers, and all regulations as to the management of the business of the company and the conduct of its affairs, and regulations concerning the issue and transfer of the shares of stock.

The forms of the certificate of incorporation and by-laws vary in each of the States, and the statute in some cases requires that certain matters shall be provided for in the certificate of incorporation and that others shall be provided for in the by-laws.

The following articles of association and by-laws are used in incorporating under the laws of Maine, and with a few minor changes are applicable to most States. A careful study of the statutory provisions of the particular State in which the corporation is to be formed is necessary, and familiarity with approved precedents is advisable. Owing to the frequent changes in the statutes, it is not expedient or even safe to follow too blindly the provisions of too old certificates of incorporation or other papers.

#### POWERS AND DUTIES OF OFFICERS.

The officers of the corporation, ordinarily, are a president, vice-president and one or more assistant secretaries or treasurers, and such other officers as may be provided for in the by-laws.

The officers of the corporation have such powers only as are conferred upon them by the by-laws of the com-

pany or by resolution of the board of directors. They are not general agents of the company, and consequently cannot bind the company without authority. It is not necessary that such authority shall in all cases be expressly given; from its manner of doing business, persons dealing with a corporation may assume that the officers who are accustomed to exercise certain powers and to do certain acts have the necessary authority, and such persons are not required to inquire as to the provisions of the by-laws relating to the powers of such officers. If the directors, therefore, are accustomed to leave the entire management of its business to the president or general manager the acts of such officer in the ordinary course of business of the company cannot be questioned.

Under the statutes of the different States certain reports are required to be made by corporations, and it is made the duty of certain specified officers to make such reports, and penalties are sometimes provided for failure so to do. It is important, therefore, for every officer of a corporation to be familiar with the duties imposed upon him in this respect.

As a rule, officers of a corporation are appointed for the period of a year, but hold their offices subject to removal by the directors at any time. If the by-laws do not give such power of removal they may be amended so as to provide for it, and the directors may proceed to remove an officer under the amended by-law. In cases of removal there may be questions of contract involved, and the directors should proceed cautiously so as not to involve the company in an action for damages. While the directors have the legal power to remove an officer, yet he may have a contract with the company to pay him a certain salary for a specified time, and

in such cases a removal would be a breach of such contract.

The by-laws may provide for the fixing of salaries of officers by the board of directors or by a committee or by the president or other officer.

Where salaries are fixed by the board and an officer is a member of the board, he should not vote on the resolution fixing his own salary. If such a resolution were carried by his own vote it would be invalid, and he would not be entitled to recover against the corporation except for the fair value of the services rendered. It is sometimes expressly provided in the by-laws that the fact that an officer is a director shall not preclude him from receiving a salary as such officer, or from participating in the meeting at which the amount of such salary is fixed.

## THE ARTICLES OF ASSOCIATION.

In accordance with Revised Statutes of the State of Maine, Chapter 47, Sections 6, 7, 8 and 10, we, the undersigned, whose residences are set opposite our respective names, hereby associate ourselves together by this written instrument for the purpose of forming a corporation under the laws of the State of Maine, the purposes of said corporation are:

1. To manufacture, buy, sell and deal in automobiles, automobile trucks and all vehicles of every name and description; included therein all the parts of automobiles, auto trucks, and all vehicles of every name and description.

2. In furtherance, and not in limitation of the general powers conferred by the laws of the State of Maine, and by the principles of the common law, upon corporations organized under the provisions of law authorizing the formation of this corporation, and of the purposes and powers hereinbefore stated, the corporation shall also have the following purposes and powers, it being expressly provided that the enumeration of specific powers shall not be construed to limit or restrict in any manner the aforesaid general powers of the corporation.

3. To carry on and license others to carry on all or any part of the several businesses enumerated in this paragraph, to wit: The business of manufacturers, merchants, traders, importers, exporters and dealers in and with goods, wares and merchandise of every description; of establishing, financing, developing, managing, operating and carrying on industrial, commercial, trading, manufacturing, mechanical, metallurgical, engineering, building, construction, contract-

ing, mining, smelting, quarrying, refining, chemical, ice, real estate, logging, lumbering, agricultural, plantation, dairying and maritime enterprises, undertakings, propositions, concessions or franchises in all their respective branches, of constructing, equipping, improving, working, developing, purchasing, selling, leasing, hiring, mortgaging, operating and dealing in and with public and quasi-public and development works and conveniences, including docks, harbors, piers, wharves, canals, reservoirs, embankments and improvements; sewerage, drainage, sanitary and other engineering works; water, steam, water power, water supply and refrigerating plants; warehouses, markets, buildings, tunnels, bridges, conduits, viaducts and other works, and conveniences of public or quasi-public use or utility; or purchasing or otherwise acquiring, maintaining, selling, pledging, mortgaging, leasing, hiring and fulfilling any contracts, franchises or concessions for or in relation to the construction, execution, equipment, improvement, management, operation or control of such works, and of undertaking, executing, carrying out, disposing of, or otherwise turning to account the same; and also so far as necessary or incidental to, connected with any, one or more or all of the corporate purposes, to undertake any lawful business transaction or operation undertaken or carried on by capitalists, or financiers, and to carry on a general financial business and financial operations of all kinds.

4. To construct, maintain, lease, own and operate railroads and tramways to be worked by steam, electricity or any other motive power, pneumatic tubes, pipe lines and other devices for the transmission and delivery of mails and parcels and other articles, and of

freight or passengers; to own, lease and operate, express lines; to construct, maintain, own, lease and operate station houses, depots, warehouses, terminals, terminal facilities, ferries, hotels, restaurants, theatres and other places of amusement or recreation, parks, gardens, pavilions, steamboats and other vessels, and to conduct a general transportation business by land and by water, in all its branches; to construct, maintain, own, lease and operate telegraph and telephones; to make, generate, sell, distribute and supply gas and electricity, or both, for lighting, heating, manufacturing or mechanical purposes, and to conduct a general telegraph, telephone, gas and electrical business, or either or any of them in all their branches.

5. Without in any particular limiting any of the objects, or purposes, or powers of the corporation, the business or purposes of the company shall be from time to time to do any one or more or all of the acts and things herein set forth, and all such other acts, things and business or businesses in any manner connected therewith or necessary, incidental, convenient or auxiliary thereto, or calculated directly or indirectly to promote the interests of the corporation or enhance the value of or render profitable any of its property or rights as such a corporation may lawfully do; and in carrying on its business, or for the purpose of attaining or furthering any of its objects, to do any and all acts and things, and to exercise any and all other powers which a co-partnership or natural person could do and exercise, and which now or hereafter may be authorized by law, and either as, or by and through principals, agents, attorneys, trustees, contractors, factors, lessors, lessees or otherwise, either alone or in conjunction with others, and in any part of the

world; and in addition to have and to exercise all the rights, powers and privileges now or hereafter belonging to or conferred upon corporations organized under the provisions of law authorizing the formation of such corporations.

6. The several clauses contained in this statement of purposes shall be construed as both purposes and powers, and the statements contained in each clause, shall, except where otherwise expressed, be in no wise limited or restricted by reference to or inference from the terms of any other clause, but shall be regarded as independent purposes and powers.

7. Provided, however, that nothing herein contained shall be construed to authorize the corporation to transact business in any other state, territory or country contrary to the provisions of the laws thereof, and that nothing in these purposes shall be construed to authorize the corporation to conduct the business of banking, insurance, savings banks, trust companies or of corporations intended to derive profit from the loan or use of money, or of safe deposit companies, including the renting of safes in burglar-proof and fire-proof vaults. Provided, also, that before it shall conduct a telephone, telegraph, gas or electrical business, or either of them in any city or town within the State of Maine, it shall acquire by legislative act the right so to operate within such city or town, and such business before such act, and the construction and operation of railroads or aiding in the construction thereof, are to be carried on only in other states, and jurisdiction when and where permissible under the laws thereof.

8. To obtain, register, purchase, lease or otherwise acquire, to hold, use, own, operate, develop and intro-

duce, to sell, assign, lease, pledge, mortgage, grant or acquire licenses in respect of and otherwise deal in and with or turn to account any and all copyrights, concessions, trade marks, formulae, secret processes, devices, trade names, and distinctive marks, patents, patent rights, applications for patents, brevets d' invention, and all inventions, licenses, privileges, improvements and processes used in connection with or secured under letters patent or otherwise of the United States or of any other country relating to or useful in connection with any lawful business of the corporation, including the good will of the same.

9. To enter into contracts or arrangements with any government or authority, national, state, municipal, local or otherwise, conducive to any of the purposes of this corporation, and to obtain from such government or authority any and all rights, easements, privileges, subsidies, gifts, franchises, charters, grants, patents or concessions relating to or for the promotion or protection of such purposes; to carry out, exercise, comply with and enforce the same; to sell, lease or otherwise dispose of the same or any interest therein to others, where such sale, lease or disposal shall be lawful under the laws of the government power granting the same.

10. To purchase, lease or otherwise acquire, in whole or in part, the business, good will, rights, franchises and property of every kind, and to undertake the whole or any part of the assets and liabilities of any person, firm, association or corporation, engaged in or authorized to conduct any business similar to any business authorized to be conducted by this corporation, or owning property necessary or suitable for its purposes, and to pay for the same in cash, in the



stock or bonds of this company or otherwise; to hold or in any manner dispose of the whole or any part of the business or property so acquired, and to exercise all the powers necessary or incidental to the conduct of such business.

11. To purchase, hold, sell, assign, mortgage, pledge or otherwise dispose of the shares of the capital stock of, or any bonds, securities or evidence of indebtedness created by this or any other state, territory or county, and while owner of such stock, to exercise all the rights, power and privileges of ownership, including the right to vote thereon. To guarantee any dividends, bonds, stocks, contracts or other obligations of any corporation in which this corporation is an owner or has an interest; to aid in any lawful manner such corporations, and to do all legal acts and things designed for the preservation, protection, improvement, development or enhancement of the value of any such corporation or of its stocks, bonds, securities, evidences of indebtedness, contracts or other obligations.

12. To join or consolidate with, and to enter into agreements and co-operative relations not in contravention of law, with any persons, firms, associations or corporations, governmental, municipal or otherwise, in and about the carrying on and out of any or all of the purposes of this company.

13. To create two or more kinds of stock with such classes and with such designations, preferences and voting powers or restrictions or qualifications thereof as shall be fixed and determined in the by-laws, or by vote of the stockholders at a meeting duly called for the purpose. (This is merely a recital of the statute which confers the powers upon all corporations.)

14. In the purchase or acquisition of property, business rights or franchises, or for additional working capital, or for any other object in or about its business or affairs, and without limit as to amount, to incur debt and to raise, borrow and secure the payment of money in any lawful manner, including the issue and sale or other disposition of bonds, warrants, debentures, obligations, negotiable and transferable instruments and evidence of indebtedness of all kinds, whether secured by mortgage, pledge, deed of trust or otherwise.

15. To remunerate any person, firm, syndicate or corporation for services rendered directly or indirectly, in selling, placing or guaranteeing the selling or placing of any shares of the capital stock, bonds, debentures or other securities issued, owned or controlled by the corporation, or by any other corporation in which it is interested, or in or about the formation, promotion or operation of the corporation, or in the conduct of its business and affairs or protection of its property and interests, either in cash, stock, bonds or other securities, by way of commissions or otherwise.

16. To conduct its business or any part or parts thereof in the United States of America, or either of them in the territories or District of Columbia, and in any and all dependencies, colonies or possessions of the United States of America, and in foreign countries or jurisdictions, without restriction as to place. To have one or more offices or agencies, and keep such books of the company outside of the State of Maine, as are not required by law to be kept within that State.



## MINUTES OF MEETINGS.

It is the duty of the secretary to keep minutes of all proceedings taken at the meetings of the stockholders and directors of the corporation, and when such minutes are properly authenticated they are the proper evidence of the transactions at such meetings, and cannot be contradicted by parol testimony, although mistakes may be explained.

Ordinarily the secretary of the company, or, in his absence, some person appointed to act as secretary of the meeting, will take notes during the proceedings and afterwards enter them at length in the minute book. It is advisable that all important resolutions should be written out in full at the time they are offered, and when passed handed to the secretary for entry in the minutes.

The minutes need not be written in the handwriting of the secretary, but may be prepared under his direction by a clerk or other person.

While, as a general rule, it is not essential to the validity of corporate proceedings that a record be made in the minute book, and such proceedings have been permitted to be proved by the testimony of witnesses, there are cases which have held that, where the statute requires minutes to be kept and proceedings taken for certain purposes to be entered in the minutes, unless so entered, such proceedings are invalid. It is advisable, therefore, as a matter of precaution, in every case to have the minutes contain a full record of proceedings taken. It is not necessary to make a record of mere discussions of the directors or stockholders which resulted in no action.

Many corporations have adopted the loose-leaf minute book, it being found convenient to have the minutes of

meetings typewritten and inserted in the proper place in such books. There would seem to be no legal objection to the keeping of minutes in this manner. Several styles of books have been devised for this purpose, and when provided with a lock and key, such a book is for all practical purposes as secure as though it were permanently bound.

In writing up the minutes of a meeting the following matters should always be set forth:

The time and place of holding the meeting.

Whether a regular or special meeting and how called.

The names of stockholders present in person or represented by proxy, or, in case of a directors' meeting, the names of the directors present.

The organization of the meeting by the election of a chairman and secretary, unless the by-laws provide that certain officers of the company shall act in such capacities.

The reading of the minutes of the last preceding meeting.

The business transacted at the meeting.

Adjournment, and, if the meeting is adjourned to a later time, the time and place of the adjourned meeting.

Action at meetings is usually by way of resolution.

There is no legal requirement as to the manner of framing resolutions for entry in the minutes. Any of the following forms may be adopted:

"Upon motion of Mr. Smith, seconded by Mr. Jones, it was resolved, etc."

The names of those voting for and against the resolution may be set forth.

"Upon motion, duly seconded, it was Resolved, etc."

"It was Resolved, etc."

The resolution itself should be framed in plain language and should be brief and to the point. In addition to the record of the proceedings taken at meetings, it is advisable to copy in the minute book all waivers of notice, notices and other papers referred to in the minutes of meetings, and all contracts, deeds and other instruments authorized at such meetings, and all reports made by the corporation for taxes and other purposes.

The following minutes are of a Maine corporation and explain themselves.

WAIVER NOTICE OF FIRST MEETING OF  
INCORPORATORS.

We, the undersigned, being all the signers of the following Articles of Association, hereby waive notice of the time, place and purpose of the first meeting of the signers of said Articles of Association as required by Section 7 of Chapter 47 of the Revised Statutes of the State of Maine, and acts additional thereto and amendatory thereof, and do hereby fix the day of

A. D., 1911, at o'clock in the forenoon as the time, and the office of No. Maine, as the place of said meeting, and we do hereby severally consent that said first meeting be held at the time, place and for the purpose aforesaid, to wit:

1. To organize into a corporation.
2. To adopt a corporate name.
3. To define the purposes of the corporation.
4. To fix the amount of capital stock, and divide same into shares.
5. To elect a President, not less than three Directors, a Clerk, a Treasurer, and all other necessary officers.
6. To adopt a Code of By-laws.
7. To act upon any further business which may properly come before the meeting.

Dated at , Maine, this day of  
, 1911.

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

RECORD OF FIRST MEETING.

Pursuant to the foregoing Articles of Association and Waiver of Notice of First Meeting of Incorporators signed by all the incorporators, a meeting of said signers of said articles was held at the office of

No. \_\_\_\_\_ St., \_\_\_\_\_ Maine, on the \_\_\_\_\_ day of \_\_\_\_\_ 1911, at \_\_\_\_\_ o'clock in the \_\_\_\_\_ noon.

Of the signers the following were present: John Smith, Richard Roe, John Doe.

The meeting was called to order by John Doe. John Smith was chosen Chairman and presided, and Richard Roe was chosen Clerk.

The Clerk was then duly sworn as appears by the following certificate:

State of Maine.

ss. \_\_\_\_\_ 1911.

Then personally appeared Richard Roe, Clerk of the meeting of associates, mentioned in the foregoing Articles of Association, and made oath that he would faithfully and impartially perform the duties of his office.

Before me,

\_\_\_\_\_  
Justice of the Peace.

The original Articles of Association and Waiver of Notice of first meeting of the Incorporators were presented and ordered to be made a part of this record.

On motion it was Voted: To organize a corporation under Sections 6, 7, 8 and 10 of Chapter 47 of the Revised Statutes of Maine and acts additional thereto and amendatory thereof.



On motion it was Voted: That the name of the corporation shall be The Blank Manufacturing Company.

On motion it was Voted: That the purpose of said corporation shall be as set forth, stated, specified and defined in the Articles of Association, which are expressly referred to and made a part of this vote.

On motion it was Voted: That the place of business of this corporation shall be at \_\_\_\_\_, Maine, but the corporation may maintain other general offices and places of business, at such other place or places, either within or without the state, as the Directors may from time to time determine to be for the interests of the corporation.

On motion it was Voted: That the capital stock of this corporation shall be and is hereby fixed at \_\_\_\_\_ dollars, divided into \_\_\_\_\_ shares of the par value of \_\_\_\_\_ dollars each.

On motion it was Voted: That the chairman appoint a committee of one to examine and report at once the names and residences of persons who have subscribed for stock in this company, and the amount of stock subscribed for by each. The Clerk was appointed as such committee and made the following report of the list of stockholders, and the report was accepted, and the persons therein named were declared to be stockholders in this corporation.

REPORT OF COMMITTEE.

Names.	Residences.	No. of Shares.

The following subscriptions for stock were then filed:

SUBSCRIPTION FOR STOCK.

Maine, 1911.

We, the undersigned, hereby severally agree, each with the other, in consideration of the mutual agreement herein contained, to take, pay for and receive the number of shares set opposite our respective names, of the capital stock of the \_\_\_\_\_ Company.

Names.	Residences.	No. of Shares.

On motion it was Voted: To have the following Code of By-laws:

## FORM OF BY-LAWS.

### Name, Location and Offices.

1. The title of the Corporation is \_\_\_\_\_.
2. The Company is located at \_\_\_\_\_, and its principal office is at the office of \_\_\_\_\_.
3. The Company may also have offices in such other places within or without the State of Maine as the Board of Directors may determine.

### Seal.

4. The Company shall have a circular seal containing the name of the Company, the year of creation, and the words “ \_\_\_\_\_ ”

### Organization and Stockholders' Meetings.

5. All Stockholders' meetings shall be held at the principal office of the Company.
6. All associates for the organization of this corporation shall be subscribers to the capital stock thereof. Such associates shall sign the Articles of Agreement for such organization either personally, or by attorney thereunto duly authorized, and may be represented by such attorney at the original meeting of associates or any adjournment or adjournments thereof. Prior to the filing of the certificate of organization with the Secretary of the State of Maine, the only business to be transacted at such meeting shall be that pertaining to the organization of this corporation, but at any adjourned meetings of such associates held after the filing of such certificate, at which all are present in person or by attorney, any corporate business may be transacted without previous notice thereof. Parties securing stock by transfer from the as-

sociates subsequent to the filing of such certificates shall be entitled to representation at such adjourned meetings, which shall be deemed to be stockholders' meetings of the corporation to all intents and purposes, but at said meeting they shall have but one vote irrespective of their holdings. Each associate, or subscriber to stock, shall at the original and any adjourned meetings, have but one vote, irrespective of the amount of his subscription. All the officers of this corporation shall be elected at organization by the associates, but thereafter they shall be elected in accordance with the provisions of Sections 13 and 19 of these by-laws. The stockholders of this Company shall have power to fill all vacancies in any of the offices of this Company, however occasioned, occurring at any time before the final adjournment of the associates' meeting; vacancies occurring subsequent to the final adjournment of said associates' meeting shall be filled in accordance with the provisions of Section 35 of these by-laws. All or any of the shares of stock subscribed for at or prior to the meeting of associates for the organization of this corporation, or at any adjournment thereof, may, before the issue of a stock certificate to any such subscriber, be transferred by him by an appropriate instrument of transfer signed by him or by his duly authorized attorney. A copy of such instrument inserted in the record of the Clerk of the Corporation, or of the Secretary of the Board of Directors, either or both, shall constitute the record of the transfer of such stock, and such record books are hereby made the "Corporation books" for all purposes in the premises. Section 38 of these by-laws is made subject to so much of the foregoing as relates to the transfer of stock subscribed for at or prior to

the meeting of associates. The following provisions of this Section relate to stockholders' meetings held after the said meeting of associates or any adjournments thereof, viz.: Stockholders entitled to vote may vote at all other meetings either in person or by proxy appointed by instrument in writing subscribed by the stockholder or by his duly authorized attorney, and granted not more than thirty days before the meeting, which shall be named therein. Before any such written proxy is voted upon it shall be filed with the Clerk. Such stockholders may also be represented at all meetings by a general power of attorney produced at the meeting. Such powers of attorney shall be good until revoked. Each such stockholder is entitled to one vote for each share of stock standing in his name on the tenth— day preceding such meeting, exclusive of the day of such meeting. The transfer books shall be closed for said ten — days. Shares hypothecated to the Company shall not be represented.

7. Stockholders entitled to vote holding a majority in amount of the stock issued and outstanding, represented in person or by proxy or by general power of attorney, shall be necessary and sufficient to constitute a quorum for the transaction of business. If less than a quorum be present, the meeting may be adjourned from time to time by a majority in interest of the stockholders present for a period not exceeding one month at any one time, without any notice other than by announcement at the meeting, until a quorum be present. Any meeting at which a quorum is present may also be adjourned, in like manner, by a majority in interest, of the stockholders present, for such time, or upon such call, as is determined by vote.

At any adjourned meeting, at which a quorum shall be present, any business may be transacted which might have been transacted at the original meeting.

8. The annual meeting of stockholders, after the year 19 , shall be held on the day in each year, at o'clock P. M., and the Secretary of the Board of Directors shall give notice thereof without being specially requested so to do. At such meeting the Company may transact any corporate business.

9. Special meetings of the stockholders shall be called by said Secretary at the written request of the President, or of two Directors, or of Stockholders entitled to vote owning a third of the stock issued and outstanding.

10. All stockholders' meetings, whether annual or special, shall be called by said Secretary by mailing a written notice thereof, stating the day, hour and place of the meeting and, in case of special meetings, the general nature of the business to be transacted, to each stockholder of record entitled to vote, at his last known post-office address, postage prepaid, at least five days, exclusive of the day of mailing, before the date of the meeting. Or, such meetings may be called by said Secretary by publishing notice thereof, stating the day, hour and place of meeting, and, in case of special meetings, the general nature of the business to be transacted, for three days in succession, the last publication to be at least seven days before the date of meeting, in such newspaper or newspapers of general circulation, published in such place, as the Directors may at any time by resolution determine. A copy of such resolution shall, before it shall take effect, be mailed to each stockholder

of record entitled to vote at his last known post-office address, postage prepaid. Such resolution shall thereafter remain in force as a by-law of the Company until by subsequent resolution of the Directors, similarly communicated, it shall have been altered, amended or repealed. Notice given in either of the foregoing modes shall be valid. A failure to give the notice for the regular annual meeting shall not invalidate the proceedings thereof. *Provided*, that any business of which the stockholders must by statute receive special notice shall not be transacted without such notice, but all other business may be transacted and the meeting adjourned until the requisite notice in the premises shall have been given.

11. If all the stockholders entitled to vote in writing waive notice of a special meeting, no notice thereof shall be required. All meetings of stockholders at which all who are entitled to vote are present in person or by proxy and sign a written consent thereto on the record thereof, are legal and valid for all purposes whether or not previous notice has been given, and at such meeting any corporate action may be taken.

#### Directors' Meetings.

12. The newly elected Board of Directors may hold its first meeting for the purpose of organization and transaction of business, without notice, at such time and place as shall be fixed at the annual meeting by vote of the stockholders; or the time and place of the first meeting may be fixed by the consent in writing of the Directors. Such meeting constitutes the "regular annual meeting" of the Directors.

13. At such meeting the Board shall elect a Presi-

dent and Vice-President from their own number, and a Secretary who need not be a member of the Board. In case such officers should not be elected at such meeting, they may be chosen at any subsequent meeting of Directors called for the purpose.

14. Regular meetings of the Board shall be held without notice on a day at an hour and place to be fixed by the Board.

15. A majority of the Directors in office shall be necessary and sufficient to constitute a quorum for the transaction of business, but a less number may adjourn a meeting from time to time until a quorum be present.

16. Meetings of the Board may be called by the President or any two Directors on one day's notice to each Director, either personally or by letter, telephone or telegram.

17. All Directors' meetings at which all are present and sign a written consent thereto, on the records thereof, are legal whether or not previous notice has been given.

18. The Directors may hold their meetings and have one or more officers, and keep the books of the Company, except the books required by law to be kept in this State, outside of Maine at any office of the Company or at such other places as they may from time to time determine.

**Officers of the Company.**

19. The officers of the Company shall be a President, Vice-President, Board of Directors, Clerk, Secretary, and Treasurer. The Directors shall be not less than three nor more than \_\_\_\_\_ in number, their number to be fixed at organization, and at



each annual meeting thereafter. One person may hold more than one office, if not contrary to law. All officers except the President, Vice-President and Secretary shall be elected annually by plurality vote of the stockholders at their regular annual meeting. They shall continue in office until others are chosen and qualified. In case the election of officers should not occur on the day of the annual meeting, such officers may be chosen at any subsequent meeting of stockholders, and directors, respectively, called for the purpose, or in the manner authorized by the stockholders, and directors, respectively, at such annual or subsequent meeting.

**President.**

20. The President shall be elected annually by the Board of Directors, as provided in Section 13 of the by-laws. He shall preside at all meetings of the stockholders and directors; shall have general superintendence and direction of all the other officers of the Company and shall see that all orders and resolutions of the Board are carried into effect. He shall execute all deeds, mortgages, bonds and other documents authorized by the Board requiring a seal, under the seal of the Company; shall keep said seal in safe custody and when authorized by the stockholders or the Board, affix it to any instrument requiring the same, and the seal when so affixed shall be attested by the signature of the Secretary or Treasurer. He shall be custodian of all bonds given to the Company by its officers and agents.

21. He shall from time to time, and whenever requested, report to the Board all matters within his knowledge which the interests of the Company may

require to be brought to their notice, perform such other duties as may be required of him by law, these by-laws and by the Board, and, in general have all the powers and duties usually vested in the office of President of a corporation.

**President Pro Tempore.**

22. In the absence of the President and Vice-President from any meeting of the stockholders or directors, a president pro tempore, who may be either a stockholder or a proxy for a stockholder, may be elected by a majority in interest of those present.

**Vice-President.**

22. The Vice-President shall be elected annually by the Board of Directors, as provided in Section 13 of the by-laws, and shall be vested with all the powers and shall perform all the duties of the President in the absence or disability of the latter.

**Board of Directors.**

24. The immediate government and direction of the affairs of the Company shall be vested in a Board of Directors elected annually as provided in Section 19. The Directors shall be and remain stockholders. In addition to the powers and authorities expressly conferred upon them, all the powers of the Company except as otherwise provided by law or by these by-laws, are vested in the Board of Directors.

25. Without prejudice to the general powers conferred by the last preceding clause and the other powers conferred by these by-laws, the Board shall have the following powers, namely:

a. From time to time to make and change rules and regulations, not inconsistent with law or these

by-laws, for the management of the Company's business and affairs.

*b.* To lease, purchase or otherwise acquire in any lawful manner for and in the name of the Company, any and all real estate and other property, rights or privileges whatsoever deemed necessary or convenient for the prosecution of its business, and which the Company is authorized to acquire, at such price or considerations as they think fit, and at their discretion to pay therefor either wholly or partly in money, stocks, bonds, debentures or other securities of the Company.

*c.* To sell or dispose of any real or personal estate, property, rights or privileges belonging to the Company whenever in their opinion its interests would be thereby promoted; and pursuant to the vote of the holders of a majority of the stock issued and outstanding, to sell, assign, transfer or otherwise dispose of the whole property of this Company.

*d.* To create, issue and make mortgages, bonds, deeds of trust agreements and negotiable or transferable instruments and securities, secured by mortgage or otherwise, and to do every other act and thing necessary to effectuate the same.

*e.* To determine from time to time whether and to what extent and at what times and places and under what conditions and regulations the accounts and books of the Company, or any of them, shall be open to the inspection of the stockholders; and no stockholder shall have any right of inspecting any account or book or document of the Company except as conferred by statute or authorized by the Directors, or by a resolution of the stockholders.

*f.* To appoint and at their discretion remove or

suspend such officers, agents or servants, not otherwise elected or appointed, including a General Manager and a Cashier of the Corporation, permanently or temporarily, as they think fit, and to prescribe their duties and determine their salaries or emoluments, and to require security in such instances and in such amounts as they think fit.

*g.* To confer by resolution upon any appointed officer of the Company, the power to choose, remove or suspend such officers, agents or servants.

*h.* To appoint any person or corporation to accept and hold in trust for the Company any property belonging to the Company, or in which it is interested, or for any other purpose, and to execute and do all such deeds and things as may be requisite in relation to any such trust.

*i.* To determine, except as otherwise provided by these by-laws, who shall be authorized on the Company's behalf to sign bills, notes, receipts, acceptances, indorsements, checks, releases, contracts and documents.

*j.* To delegate any of the powers of the Board in the course of the current business of the Company to any standing or special committee, or to any officer or agent, and to appoint any persons to be the agents of the Company, with such powers (including the power to sub-delegate) and upon such terms as they see fit.

*k.* By resolution to remove, for cause, any Director, and with or without cause any other officer of the Company, during his term of office. The passage of such resolutions shall, ipso facto, create a vacancy in the office in question, to be filled as provided in Section 35 of these by-laws.

**Compensation of Directors.**

26. Directors, as such, shall not receive any stated salary for their services, but by resolution of the Board, a fixed sum, and expenses of attendance if any, may be allowed for attendance at each regular or special meeting of the Board; *provided*, that nothing herein contained shall be construed to preclude any Director from serving the Company in any other capacity and receiving compensation therefor. Members of either standing or special committees may be allowed such compensation as the Directors may determine, for attending committee meetings.

**Executive Committee.**

27. There may be an executive Committee of Directors appointed by the Board, who shall meet at regular periods, or on notice to all by any of their own number; they shall advise with and aid the officers of the Company in all matters concerning its interest and the management of its business, and generally perform such duties and exercise such powers as may be directed or delegated by the Board of Directors from time to time, and they shall have authority to exercise all the powers of the Board when at any time a quorum fails to attend any regular or special meeting thereof. Minutes of the acts and proceedings of the Executive Committee shall be kept in a proper record book by the Secretary, and shall be laid before the Directors at their next meeting.

**Clerk.**

28. The Clerk of the Company shall be a resident of Maine, and shall be sworn to the faithful performance of his duties. He need not be a stockholder. He shall keep a full and accurate record of all stock-

holders' meetings, shall keep an office in said state as required by law, and shall have the custody of all books and papers belonging to the Company which are located in said office. He shall receive a reasonable compensation for his services. In the absence of the Clerk a clerk pro tempore may be chosen, who shall be a resident of Maine, and shall be duly sworn.

**Secretary.**

29. The Secretary shall be elected annually by the Board of Directors as provided in Section 13 of these by-laws. He shall give, or cause to be given, notice of all meetings of the stockholders and of the Board of Directors, and all other notices required by law or these by-laws, and in case of his absence or refusal or neglect so to do, then such notice may be served by any stockholders thereunto directed by the President or Vice-President, any two Directors, or any five stockholders. He shall keep true records of all meetings of the Board and perform such other duties as may be prescribed by the Board of Directors or President, under whose supervision he shall be.

30. The Treasurer shall keep full and accurate accounts of receipts and disbursements in books belonging to the Company, and shall deposit all moneys and other valuable effects in its name and to its credit in such depositories as may be designated by the Board of Directors.

31. He shall disburse the funds of the Company as may be ordered by the Board, taking proper vouchers therefor, and shall render to the President and Directors, at the regular meetings of the Board or whenever they may require it, an account of all his transactions as Treasurer and of the financial condition of

the Company. He shall sign all checks, drafts or orders for the payment of money.

32. He shall give the Company a bond in a sum, and with sureties satisfactory to the Board, for the faithful discharge of the duties of his office and for the restoration to the Company in case of his death, resignation, vouchers' money or other property of whatever kind in his possession.

**Resignations.**

33. Any Director or other elected officer or member of any Committee except the Clerk, may resign at any time. Such resignations shall be made in writing and shall take effect at the time specified therein. If no time is specified, it shall take effect from the time of its receipt by the Clerk, who shall record such resignation, noting the day, hour and minute of its reception. The acceptance of a resignation shall not be necessary to make it effective. The transfer by any Director of all his stock shall operate ipso facto as a resignation and create a vacancy in his office.

34. The Clerk may resign at any time by filing his resignation with the Register of Deeds in \_\_\_\_\_ County, Maine, said resignation to take effect from and after the time of its receipt by such Register.

**Filling of Vacancies.**

35. If the office of one or more Directors or other officer or Committee of the Company becomes vacant by reason of death, resignation, qualification, or otherwise, the remaining Director or Directors, although less than a quorum, may by a majority vote, choose or

appoint a successor or successors, who shall hold office for the unexpired term.

**Duties of Officers May be Delegated.**

36. In case of the absence of any officer of the Company, or for any reason that the Board may deem sufficient, the Board may delegate the powers or duties of such officer to any other officer or to any Director for the time being, *provided*, a majority of the Directors in office concur therein. This by-law shall not apply to the Clerk.

**Issue and Transfer of Stock.**

37. The President shall cause to be issued to each stockholder one or more certificates representing the number of shares owned by him in the Company, signed by the President or Vice-President and by the Cashier, Clerk or Treasurer and bearing the corporate seal. Neither the President or Treasurer shall sign blanks and leave them for use by the other, nor sign them without a knowledge of the apparent title of the person to whom they are issued. In case of the absence or disability of either of said officers, the signature of a majority of the Directors in his stead are sufficient.

38. The stock of the Company is transferable only upon its books by the holders of the shares in person or by their legal representatives, and upon such transfer the old certificates shall be surrendered to the Company by delivery thereof to the person in charge of the stock and transfer books and ledgers, or such other person as the Directors may designate, by whom they shall be cancelled, and new certificates shall thereupon be issued. A record shall be made of such transfer



and issue. Whenever any transfer shall be made for collateral security, and not absolutely, the fact shall be so expressed in the entry of said transfer.

39. The Company shall be entitled to treat the registered holder of any share as the absolute owner thereof, and accordingly shall not be bound to recognize any equitable or other claim to, or interest in, such share on the part of any other person, whether or not it shall have express or other notice thereof, save as expressly provided by the statutes of Maine.

**Loss of Certificate.**

40. Any person claiming a certificate of stock to be lost or destroyed, shall make affidavit or affirmation of that fact and advertise the same in such manner as the Board may require, and shall give the Company a bond of indemnity, in form and with one or more sureties satisfactory to the board, in at least double the par value of such certificate, whereupon the President and Treasurer may cause to be issued a new certificate of the same tenor with the one alleged to be lost or destroyed, but always subject to the approval of the Board.

**Stock Non-Assessable.**

41. The stock of this Company shall be forever non-assessable. This by-law shall not be altered or repealed, and shall form a condition upon which all stock of the Company shall be issued.

**Dividends.**

42. The Board of Directors shall, subject to the provisions of Section 47 of these by-laws, declare dividends out of the surplus profits whenever they deem it expedient. Before payment of any dividends or mak-

ing any distribution of profits there shall be set aside out of the net profits of the Company, such sum or sums, as the Directors from time to time in their absolute discretion think proper as a reserve fund to meet contingencies, or for equalizing dividends, or for repairing and maintaining any property of the Company, or for any such other purpose as the Directors shall think conducive to the interests of the Company. The Board of Directors shall close the transfer books for five days before the payment of any dividend.

**Statement of Condition.**

43. The Board of Directors shall present, when called for by the stockholders, a full and clear statement of the business and condition of the Company.

**Notice.**

44. Whenever notice is required by statute or by these by-laws to be given to the stockholders, or the Directors, or to any officer of the Company, personal notice is not meant unless expressly so stated; and any notice so required (other than by publication), shall be deemed to be sufficient if given by depositing the same in a post-office box in a special post-paid wrapper, addressed to such stockholder, Director or officer at his last known post-office address, and such notice shall be deemed to have been given at the time of such mailing, except where notice is given by wire, in which case notice shall be deemed to be given at the time the same is delivered to the telegraph company.

**Waiver of Notice.**

45. Any stockholder, officer or Director, may at any time waive any notice required to be given under these

by-laws. The presence of a stockholder, in person or by proxy, at any meeting, and the presence of a Director in person at any Directors' meeting, shall be deemed such a waiver.

**Amendments.**

46. The stockholders, by the affirmative vote of a majority of the stock issued and outstanding, may at any regular, or upon notice at any special meeting, alter or amend these by-laws in any manner not contrary to law or these by-laws.

RECORD OF FIRST MEETING CONTINUED.

On motion it was Voted: To proceed to the election of officers for the ensuing year by written ballot, and that the Clerk be a committee to receive, sort and count the votes thrown. Having attended to that duty he reported that for Directors he received——votes, being all the votes thrown; that for Treasurer he received——votes, being all the votes thrown; that for Clerk he received——votes, being all the votes thrown; that for Secretary he received——votes, being all the votes thrown; and the report was accepted, and the persons therein named were declared to be elected to the respective offices.

The Clerk was then duly sworn as per the following certificate:

State of Maine.

1911.

Then personally appeared the above named and being duly sworn, made oath that he would faithfully and impartially perform the duties of his said office.

Before me,

\_\_\_\_\_  
Justice of the Peace.

On motion it was Voted: To proceed to the election of an Executive Committee of——members, and that the Clerk be a committee to receive and sort and count the votes thrown. Having attended to that duty, he reported that for members of the Executive Committee he had received——votes, being all the votes thrown.

On motion it was Voted: To prepare a certificate of incorporation setting forth the name and purposes

of the corporation and other particulars required by said Chapter 47, and the same was accordingly done.

On motion it was Voted: To adjourn.

Adjourned.

Attest:

\_\_\_\_\_  
Secretary.

Clerk of Meeting of Associates.

RATIFICATION OF RECORDS.

We, the undersigned, being all the members of said corporation, hereby acknowledge that the above are true records of the organization of the aforesaid corporation, all the proceedings of the aforesaid meeting, and hereby consent, to approve, ratify and confirm all of the aforesaid proceedings and the above records.

Dated \_\_\_\_\_ Maine, this \_\_\_\_\_ day of \_\_\_\_\_, 191 .

A true copy of the records of the proceedings of the meeting.

Attest:

\_\_\_\_\_  
Clerk.

## ISSUE OF STOCK.

Shares of stock are "issued" when they are subscribed or a contract is made for the payment of the same in property or other considerations as permitted by the laws of the State under which the company is formed.

In the preceding part of this book will be found the statutory provisions as to the issue of stock. Where such issue is permitted stock may be issued for property of any kind which may be suitable for the purposes of the corporation. Thus stock may be issued for the assets and good-will of a going business, for real estate, mines, patents, or other property. In some of the States it is provided by statute that stock may be issued for services rendered to the corporation.

The statutes of several of the States now provide that where stock is issued in payment of property purchased the judgment of the directors, in the absence of actual fraud in the transaction, is final and conclusive as to the value of the property, and that such stock shall not subject the holders to any liability, either to the company or its creditors. It has been held, however, by the courts that gross overvaluation of property is strong evidence of fraud.

Where the capital stock of a corporation is not subscribed in full at the time of incorporation it is usually provided either by statute or by the certificate of incorporation that the directors may issue such stock from time to time to the aggregate amount authorized by the charter.

Where stock is issued for money it is usual to have subscriptions signed by the proposed stockholders. A subscription is not required to be in any particular form, but is binding if it clearly shows that the signer agrees to take and pay for a certain number of shares of stock

of the corporation, and is accepted by some person authorized to accept it on behalf of the company. Under the laws of the State of New York a subscription made after the incorporation of the company is not valid and cannot be enforced against the subscriber unless at the time of making it he pays ten per cent. of the amount thereof to the company.

A subscriber must pay the full par value of the shares of stock subscribed by him at such time as the directors shall require. The action of the directors in requiring a payment to be made on account of a subscription is called an assessment of the stock, and stock which is not fully paid is called assessable stock. An assessment must be made in accordance with the provisions of law and the by-laws of the company, and notice must be given to each stockholder affected thereby in the manner required. If a stockholder refuses to pay the amount of an assessment he may be sued by the company for the same, and the directors are also empowered to forfeit the stock and sell it to pay the amount due. In case of a forfeiture it is important to comply strictly with all the provisions of law. The purchaser of forfeited stock takes it subject to the payment of the amount unpaid and uncalled installments.

MINUTES OF SECOND MEETING, SHOWING  
TRANSFER OF PROPERTY.

At a meeting of the stockholders held January 28th at one o'clock in the afternoon at the office of the company in———, all the stockholders being present and waiving notice:—

Messrs. Charles Blank and John Doe stated to the stockholders that they were ready to transfer to the corporation their manufacturing business now carried on by them under the name of Blank & Doe in consideration of the capital stock of the company, less shares to qualify directors.

Mr. Smith and Mr. Brown were appointed a committee to report and investigate; they reported that the offer was a fair one, and that the value of the business now carried on by Messrs. Blank and Doe would be fairly worth the price mentioned in their offer:—

And upon motion of Mr. Smith it was unanimously voted that the offer of Messrs. Blank and Doe be accepted; and that the President and Treasurer be and they hereby are authorized and directed to issue to Messrs. Blank and Doe the capital stock of the company less qualifying shares for Directors upon their agreement to assign to the corporation their right, title and interest in the business now carried on by them.

Messrs. Blank and Doe then offered an agreement signed by them in form as follows:—



OFFER TO SELL BUSINESS TO CORPORATION.

Boston, Mass., Jan. 28, 1911.

To the Stockholders of the \_\_\_\_\_ Company.  
Gentlemen:—

We, Charles Blank and John Doe, at present doing business under the name of Blank & Doe as manufacturers, and being the only partners of said firm and having our place of business at 19 Broad street, do make and offer to you the following proposition:

Whereas, your corporation has been formed under the laws of the State of \_\_\_\_\_ under the name and style of the \_\_\_\_\_ Company; and

Whereas, it was and is the intention and object of the said incorporators to carry on and undertake the business now carried on by the aforesaid partnership; and

Whereas, we have examined into the value of our plant, machinery, apparatus, fixtures, good-will, contracts, stock on hand as per schedule hereto annexed wherever the same may be situated, and the value of our patents and licenses, and the same has been fully appraised by expert appraisers as fairly worth the sum of \_\_\_\_\_ dollars;

Now, therefore, we offer to sell, assign, transfer and set over unto the said \_\_\_\_\_ Company all the above and agree to license to your company during its existence or until the expiration of said patents all rights in and to certain letters patent numbered as follows: \_\_\_\_\_ for the sum of \_\_\_\_\_ dollars to be paid upon the transfer by us of the aforesaid in cash or full paid capital stock of the aforesaid company.

Yours truly,

BLANK & DOE.

Messrs. Blank and Doe then offered to contribute \_\_\_\_\_ shares of the capital stock of the company for the benefit of the treasury, the same to be held by the Treasurer for the time being in trust for the benefit of the treasury and to be sold from time to time at such price or prices as the Board of Directors may from time to time direct.

There being no further business, the meeting adjourned.

The above is a true record.

Attest:

CHARLES BROWN,  
Clerk.

**CERTIFICATE**

No. \_\_\_\_\_

For \_\_\_\_\_ Shares  
Issued to \_\_\_\_\_

Dated \_\_\_\_\_ 19\_\_\_\_  
FROM WHOM TRANSFERRED \_\_\_\_\_

Dated _____ 19____		
NO. ORIGINAL CERTIFICATE	NO. ORIGINAL SHARES	NO. OF SHARES TRANSFERRED

Received Certificate No. \_\_\_\_\_  
For \_\_\_\_\_ Shares  
this \_\_\_\_\_ day of \_\_\_\_\_ 19\_\_\_\_



**This Certifies that**  
 is the owner of \_\_\_\_\_ Shares of the Capital Stock of  
 transferable only on the books of this Corporation in person or by Attorney  
 upon surrender of this certificate properly endorsed.  
 IN WITNESS WHEREOF the said Corporation has caused this certificate to be signed  
 by its duly authorized officers and its corporate seal to be hereunto affixed  
 this \_\_\_\_\_ day of \_\_\_\_\_ 19\_\_\_\_

**Form of Stock Certificate**

For Value Received \_\_\_\_\_ hereby sell assign and transfer unto

\_\_\_\_\_ Shares  
of the Capital Stock represented by the within Certificate  
and do hereby irrevocably constitute and appoint

\_\_\_\_\_ Attorney  
to transfer the said stock on the Books of the within named  
Corporation with full power of substitution in the premises.  
Dated: \_\_\_\_\_ 19\_\_

In Presence of \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Notice: The Signatures in this assignment must correspond with the names on file with the Secretary of the State and the records of the corporation. This document is subject to the provisions of the laws of the State of New York.

## CORPORATION ACCOUNTING.

As explained in a previous chapter, a corporation is the creature of a state; and therefore, the books of a corporation differ from those of a partnership, joint-stock company or individual, for the reason that they must comply with the laws creating the corporation.

A stock certificate is the tangible evidence that the holder owns a certain number of shares in a corporation; it means that the original holder has paid for such stock in full in cash, property or service, assuming that the corporation is formed under the laws of Maine, Massachusetts, New York, New Jersey, Delaware, North Dakota or Arizona. Under the laws of Maine it is specifically provided that the transferee of stock takes it as fully paid and non-assessable—whereas in the other states mentioned the assignee takes the stock subject to any lack of payment in full on the part of the original subscriber. The states not mentioned provide for the payment of stock in cash before it is issued and for that reason they are not considered in financial transactions, except in regard to local affairs where incorporation fees, taxation and paid-up capital have no relation to the policy of the incorporators and promoters.

As we have said in a previous chapter, the promoter of an undeveloped mine, an unexplored patent or a factory with unused water power and antiquated machinery, may turn these various properties over to a corporation created by the owners of such properties for the whole capital stock of a corporation, less qualifying shares for directors.

When this is done in legal form, the grantors have received the capital stock in consideration for their

property and have thereby, in the absence of a fraudulent overvaluation committed no fraud upon future investors.

The promoters and grantors in such a case have gone through the legal requirements of incorporation, and up to this time have no funds for the promotion of their enterprise; and in order to raise money for the enterprise the grantors donate a certain number of shares to be held by a trustee (usually the treasurer of the corporation) for the benefit of the treasury of the company, it usually being provided that such stock held in trust may be sold from time to time at such price as the Board of Directors may determine.

In the opening of corporation books it must be borne in mind that the vote of the stockholders or the Directors must be followed for the reason that the corporation acting through its stockholders or Directors has the power to dictate its whole policy. Therefore Corporation Accounting as such pertains only to the bookkeeping arising out of the votes of the corporation, either through its stockholders or Directors—in other respects e. g. the transactions of agents in behalf of the corporation. Corporation bookkeeping differs in no respect from that of a partnership, joint-stock company or individual; and in so far as the general principles of bookkeeping cover corporations, partnerships, joint-stock companies and individuals embrace accounting of agents and servants we shall make no comment, as it is beyond the scope of this work; we will refer the reader to any standard work on bookkeeping and will now proceed to explain the principles of bookkeeping which are peculiar to Corporation bookkeeping.

**The Minute Book.**

The corporation acts through two channels, namely (1), through stockholders; (2), through Directors. The stockholders have power to declare dividends, to elect officers and to sell the property of the corporation.

The Directors have power to conduct all executive business of the company, either through themselves or their duly appointed agents. The minute book which is kept by the Secretary, records the proceedings of stockholders and Directors' meeting. It is the official record of the acts of the corporation, and is the source of all the power exercised by the agents or servants of the corporation. In opening the books of the corporation therefore, the vote of the stockholders or Directors is the basis for all entries.

**Stock Certificate Book.**

This is a book of stock certificates from which is taken the certificates which are given to each stockholder stating the number of shares held. When filled out with the number, name of stockholder and number of shares, it is detached from the stub upon which full particulars are made of each certificate issued. The entries upon the stubs are transferred to the

**Stock Ledger.**

This ledger is the book in which an account is kept of each stockholder, showing the number of shares held by him. When a stockholder receives a certificate of stock, it is entered to the credit side of his account; and when he transfers a certificate it is entered to the debit side of his account; therefore, each stockholder's account in a stock ledger will show the num-

ber of shares held by him so that a trial balance taken at any time will show that the stock standing to the credit of the stockholders is equal to the total stock outstanding.

An account is opened in the stock ledger with "Capital Stock," which is debited with all stock issued. The amount of the capital stock in this account will at all times be equal to the credit of other accounts in the stock ledger, so that the credit and debit will balance at any time.

Certain large corporations also have a

**Stock Transfer Book and Stock Register,**

the former is a record of all transfers of stock and the latter is a register of all stock issued. A Stock Register is kept by the Registrar—usually a Trust Company, Bank or some person or corporation independent of the company itself. The principal purpose of a Registrar is to prevent the over-issue of stock by the officers of the corporation.



**CHAPTER VI.**  
**TRUSTS AND COMBINATIONS OF**  
**CAPITAL.**

## TRUSTS.

**W**HAT is a trust? The question is easily put, but not so easily answered. That is to say, while answers are forthcoming, they are so diversified in character that even men who are supposed to think upon the same lines usually result in only adding more confusion to an already much confused subject. Thus, Mr. James B. Dill, the eminent corporation lawyer, has defined the "trust" as a dominant combination of money, property, business, of commercial power and energy; and Mr. Charles F. Flint, the so-called "father of trusts," defines it in this wise: "A combination of labor is a trade's union; a combination of intelligence, a university; a combination of money, a bank; an industrial combination is a combination of labor, intelligence and capital—work, brains and money." Even Mr. Dooley's conception of a trust as being "somethin' for an honest, ploddin', uncombined manufacturer to sell out to," is more expressive, even if not more accurate.

Mr. S. C. T. Dodd, general solicitor of the Standard Oil Co., in "The Personal Legal Status of the Trust," published in the Harvard Law Review, November, 1893, on the subject of "trusts," said, "the term 'trust' in its more confined sense, embraces only a peculiar form of business association effected by stockholders of different corporations transferring their stock to trustees." The Standard Oil Trust was formed in this way, and originated the name "trust" as applied to association.

Combinations in the form of business or trading are as old as our civilization, if not as old as the race itself. Before Greece and Rome, Solomon, King of Israel, said: "He that withholdeth corn, the people

shall curse him; but blessing shall be upon the head of him that selleth it."

It is apparent even at this early date, the thrifty Hebrew was familiar with the modern devices for increasing the price of bread, and it is equally apparent, in execution of schemes of this character, he was regarded, both by his countrymen and by the Great Monarch, with little favor.

But while the motives and ends of the financiers of olden times are the same as those of our own, we must admit that the capitalists of the last decade have outstripped the generations of the past in devising new methods for the accomplishing of their purposes. The success of our modern capitalists, however, is likely due to their opportunity rather than to their higher order of ability which existed in the great financiers of earlier periods.

As before stated, the term "trust" as applied to corporate combinations was first employed by the Standard Oil Trust; and it was a new use of the word "trust" as used in the English language or in the decisions of the Courts.

Under the agreement of stockholders in corporations engaged in the oil business, the different owners placed their stock in the hands of trustees, for which they received trust certificates of the new organization. The individuals who held stock representing the different corporations chose the trustees, each stockholder casting vote proportionate to the amount of his stock. In this way the trustees for the holders of the stock in the different corporations controlled the fortunes of the different companies as trustees; and hence it was called the "trust."

The purpose of the "trust" is to reduce the cost of

production, to prevent competition and regulate the price of products.

Combinations in restraint of trade are contrary to the common law which with statutory modifications obtains at the present time, both in England and in the United States. The first famous case in England, was the combination of tailors in London, who belonged to a club or a Guild; they made an agreement among themselves, fixing the price of clothing, and they were held criminally liable as forming a combination in restraint of trade. This guild represented practically all the tailors in the city of London at that time, and was, what we would call today, an absolute "trust," and should such facts be presented to our courts today, they would undoubtedly rule under the common law that such a combination is in restraint of trade, illegal, and those who participated criminally liable. In other words, an effective combination in restraint of trade is now, and has been for 300 years, under the English and American common law, illegal. It is the argument of the large corporations, notably the United States Steel Co., The American Tobacco Co., The American Sugar Refining Co., that they are not combinations in restraint of trade, but only large corporations carrying on a proportion only of the total business in their lines. For instance, the statistics show that the United States Steel Corporation do less than one-half of the annual business of this country in their line. The American Sugar Refining Co. probably handle less than one-third of the sugar produced and sold; and this general statement, modified by proportions, is true of all the so-called "trusts."

On the other hand, it is claimed by the government who at the time of publication of this book are prose-

cuting "The Sugar Trust," and the "Tobacco Trust" that although they do not sell more than one-half the gross product in their line, yet by having control of that amount they can practically dictate prices.

The following are some of the corporations organized for the purpose of controlling the products in which they deal:

CLASSIFIED STATISTICS OF TRUSTS.

No. I. THE GREATER INDUSTRIAL TRUSTS.

Name of Company.	Incorporation.		No. of Plants acquired or controlled	Total capital- isation stocks and bonds outstanding.
	Date.	State.		
1. Amalgamated Copper Co. ....	1899	N. J.	11	\$175,000,000
2. American Smelt & Refn. Co. (and affil- ated corporations) .....	1899	N. J.	121	201,550,100
3. American Sugar Refining Co. (and affil- ated corporations) .....	1891	N. J.	(about) 55	145,000,000
4. Consolidated Tobacco Co. (and affiliated corporations) .....	1901	N. J.	(about) 150	502,915,700
5. International Merc. Marine Co. ....	1902	N. J.	6	170,786,000
6. Standard Oil Co. ....	1899	N. J.	(about) 400	97,500,000
7. United States Steel Corporation .....	1901	N. J.	(about) 725	1,370,000,000
Totals of the Greater Industrial Trusts .....			1,528	\$2,662,752,100

AMERICAN FINANCIAL METHODS

No. II. LESSER INDUSTRIAL TRUSTS.

1. Acker, Merrill & Condit Co. ....	1908	N. Y.	8	\$8,500,000
2. Acme Harvester Co. ....	1902	Ill.	2	2,500,000
3. Adams, American, United States & Wells-Fargo Express (companies closely affiliated) .....	1866		10	60,000,000
4. Aeolian Weber Piano & Pianola Co. ....	1903	N. J.	12	9,500,000
5. Alabama Consol. Coal & Iron Co. ....	1899	N. J.	5	5,480,000
6. Alabama & Georgia Iron Co. ....	1899	N. J.	2	1,300,000
7. Alaska Peninsula Packing Co. ....	1908	N. J.	(about) 12	2,750,000
8. Allis-Chalmers Co. ....	1901	N. J.	4	26,250,000
9. Alpha Portland Cement Co. ....	1895	N. J.	3	1,250,000
10. Amalgamated Sugar Co. ....	1902	Utah	4	4,000,000
11. American Agricultural Chem. Company.	1899	Conn.	40	25,265,600
12. American Automatic Weighing Mach. Co.	1899	Eng.	5	1,350,000
13. American Axe & Tool Co. ....	1897	Pa.	5	2,000,000
14. American Barrel & Package Corporation.	1902	N. J.	3	5,000,000
15. American Book Company .....	1890	N. J.	3	5,700,000
16. American Box & Lumber Co. ....	1900	N. J.	4	500,000
17. American Brake Shoe & Foundry Company .....	1902	N. J.	5	5,500,000
18. American Brass Co. ....	1900	Conn.	9	10,000,000
19. American Butter Co. ....	1902	W. Va.	4	1,000,000
20. American Can Co. ....	1901	N. J.	123	22,579,600
21. American Can & Foundry Co. ....	1899	N. J.	17	60,000,000
22. American Caramel Co. ....	1898	Pa.	3	2,475,000
23. American Cement Co. ....	1899	N. J.	6	2,895,000
24. American Chicole Co. ....	1899	N. J.	6	2,000,000

25.	American Coal Co. ....	1898	Md.	3	1,500,000
26.	American Coal Products Co. ....	1902	N. J.	3	15,000,000
27.	American Colortype Co. ....	1902	N. J.	3	4,000,000
28.	American Cotton Co. ....	1896	N. J.	3	9,000,000
29.	American Cotton Oil Co. ....	1899	N. J.	(about) 60	22,485,700
30.	American Felt Co. ....	1899	N. J.	5	3,754,000
31.	American Fork & Hoe Co. ....	1902	N. J.	13	4,224,000
32.	American Fruit Products Co. ....	1902	N. J.	15	3,000,000
33.	American Ginning Co. ....	1899	N. J.	2	5,000,000
34.	American Glue Co. ....	1894	N. J.	2	2,100,000
35.	American Graphophone Co. ....	1887	W. Va.	5	2,802,000
36.	American Grass Twine Co. ....	1890	Del.	5	13,022,000
37.	American Hardware Corporation ....	1902	Conn.	2	5,000,000
38.	American Hyde & Leather Co. ....	1899	N. J.	22	22,716,000
39.	American Hominy Co. ....	1902	N. J.	10	4,575,000
40.	American Ice Co. ....	1899	N. J.	(about) 40	42,502,000
41.	American Iron & Steel Mfg. Co. ....	1899	Pa.	5	20,000,000
42.	American Lithographic Co. ....	1886	N. Y.	9	5,770,710
43.	American Locomotive Co. ....	1900	N. Y.	9	50,412,500
44.	American Lumber Co. ....	1901	N. J.	2	5,100,000
45.	American Machine & Ordnance Co. ....	1902	N. Y.	2	10,000,000
46.	American Mutoscope & Biograph Co. ....	1895	N. Y.	5	2,200,000
47.	American Oak Leather Co. ....	1902	Ohio	2	2,500,000
48.	American Packers' Association ....	1902	Del.	60	2,000,000
49.	American Pastry & Mfg. Co. ....	1899	N. J.	4	1,800,000
50.	American Pipe Mfg. Co. ....	1880	N. J.	12	2,000,000
51.	American Pneumatic Service Co. ....	1899	Del.	25	2,692,750
52.	American Radiator Co. ....	1899	N. J.	12	7,692,000
53.	American Refractories Co. ....	1902	Pa.	50	20,000,000
54.	American Saddlery & Harness Co. ....	1902	N. J.	11	9,000,000



55.	American School Furniture Co. ....	1899	N. J.	22	10,430,000
56.	American Screw Co. ....	1860	R. I.	2	3,250,000
57.	American Seeding Machine Co. ....	1908	N. J.	6	15,000,000
58.	American Sewer Pipe Co. ....	1903	N. J.	33	9,523,000
59.	American Shipbuilding Co. ....	1899	N. J.	9	30,000,000
60.	American Shot & Lead Co. ....	1890	Ill.	8	3,000,000
61.	American Soda Fountain Co. ....	1891	N. J.	4	3,750,000
62.	American Steel Foundries Co. ....	1902	N. J.	10	30,400,350
63.	American Stove Co. ....	1901	N. J.	9	5,750,000
64.	American Talking Scale Co. ....	1902	Me.	2	1,000,000
65.	American Thread Co. ....	1898	N. J.	13	16,890,475
66.	American Tube & Stamping Co. ....	1899	Conn.	2	3,800,000
67.	American Type Founders Co. ....	1892	N. J.	(about) 24	6,930,800
68.	American Union Electric Co. ....	1902	N. J.	6	5,200,000
69.	American Vulcanized Fibre Co. ....	1901	Del.	4	2,817,300
70.	American Waltham Watch Co. ....	1854	Mass.	2	4,000,000
71.	American Window Glass Co. ....	1899	Pa.	22	17,000,000
72.	American Window Glass Mach. Co. ....	1902	N. J.	2	20,000,000
73.	American Woodworking Machine Co. ....	1901	Pa.	11	1,630,000
74.	American Woolen Co. ....	1899	N. J.	27	40,601,000
75.	American Wringer Co. ....	1891	R. I.	2	3,500,000
76.	American Writing Paper Co. ....	1899	N. J.	31	38,000,000
77.	Ames Shovel & Tool Co. ....	1901	N. J.	7	5,000,000
78.	Anthony & Scoville Co. ....	1901	N. Y.	4	2,500,000
79.	Appleton (D.) & Company ....	1900	N. Y.	3	3,000,000
80.	Armour, Swift, National Packing, Cudahy (and affiliated interests) ....	1900	(about) 55	(abt) 110,000,000	
81.	Associated Merchants Co. ....	1901	Conn.	6	16,299,200
82.	Associated Oil Co. of California ....	1902	Cal.	(about) 40	45,000,000
83.	Atlantic Rubber Shoe Co. ....	1901	N. J.	5	10,000,000

84. Atlas Portland Cement Co. ....	1899	Pa.	2	10,000,000
85. Automatic Weighing Machine Co. ....	1902	N. Y.	2	2,800,000
86. Baltimore Brick Co. ....	1902	Del.	12	4,500,000
87. Bamberger-DeLamar Gold Mines Co. ....	1902	Wyo.	7	5,000,000
88. Bigelow Corset Co. ....	1899	Mass.	2	4,455,000
89. Bingham Consol. Mining & Smelt Co. ....	1901	Me.	4	10,000,000
90. Bliss (E. W.) Company ....	1892	W. Va.	2	2,750,000
91. Bon Air Coal & Iron Co. ....	1902	Me.	2	5,335,000
92. Booth (A.) & Company ....	1898	Ill.	5	5,550,000
93. Borax Consolidated Ltd. ....			20	12,000,000
94. Borden's Condensed Milk Co. ....	1899	N. J.	7	25,000,000
95. British Columbia Packers' Association. ....	1902	N. J.	46	4,000,000
96. Brunswick-Blake-Collender Co. ....	1882	Ohio	4	2,100,000
97. Bush Terminal Co. ....	1902	N. Y.	16	10,500,000
98. Butterick Co. ....	1902	N. Y.	6	12,000,000
99. California Fruit Cannery Association ....	1900	Cal.	20	2,891,000
100. California Wine Association ....	1894	Cal.	20	4,337,200
101. Cambria Steel Co. ....	1898	Pa.	2	50,000,000
102. Carbonate ....	1902	N. J.	2	1,200,000
103. Casela Company of America ....	1900	N. J.	5	6,492,000
104. Celluloid Co. ....	1890	N. J.	4	5,925,000
105. Central Coal & Coke Co. ....	1898	Mo.	2	7,000,000
106. Central Fireworks Co. ....	1896	N. J.	2	3,700,000
107. Central Foundry Co. ....	1899	N. J.	12	17,862,000
108. Central Stamping Co. ....	1891	N. Y.	2	485,200
109. Champion International Co. ....	1902	Me.	2	850,000
110. Chartered Co. of Lower California ....	1902	Me.	7	14,000,000
111. Chicago Pneumatic Tool Co. ....	1901	N. J.	7	2,250,000
112. Clarksburg Fuel Co. ....	1901	W. Va.	10	5,500,000
113. Cleveland Akron Bag Co. ....	1902	Ohio	4	2,000,000

114.	Cleveland & Sandusky Brewing Co. . . . .	1898	Ohio	11	12,000,000
115.	Colonial Sugar Co. . . . .	1902	N. J.	3	4,830,000
116.	Colorado Fuel & Iron Co. . . . .	1892	Colo.	7	48,000,000
117.	Consolidated Mercur. Gold Mines Co. . . . .	1900	N. J.	2	2,000,000
118.	Compressed Air Co. . . . .	1900	N. Y.	5	8,500,000
119.	Computing Scale Co. of America . . . . .	1901	N. J.	5	3,274,000
120.	Consolidated Car Heating Co. . . . .	1889	W. Va.	3	1,250,000
121.	Consolidated Cross Tie Co. . . . .	1902	N. J.	2	10,000,000
122.	Consolidated Naval Stores Co. . . . .	1903	Fla.	10	3,000,000
123.	Consolidated Railway Lighting and Re- frigerating Co. . . . .	1901	N. J.	(about) 10	20,000,000
124.	Consolidated Rosendale Cement Co. . . . .	1901	N. Y.	6	2,600,000
125.	Consolidated Wagon & Machine Co. . . . .	1901	Utah	2	1,225,000
126.	Consolidated Coal Co. . . . .	1864	Md.	4	12,500,000
127.	Continental Coal Co. . . . .	1902	W. Va.	4	6,250,000
128.	Continental Cotton Oil Co. . . . .	1899	N. J.	7	2,325,686
129.	Continental Gin Co. . . . .	1899	Del.	6	2,750,000
130.	Continental Railway equipment Co. . . . .	1902	N. J.	3	3,400,000
131.	Corn Products Co. . . . .	1902	N. J.	(about) 20	71,642,800
132.	Coxe Brothers & Co., Inc. . . . .	1882	P.	2	3,230,500
133.	Crane's Nest Co. . . . .	1902	Va.	2	20,000,000
134.	Crocker Wheeler Co. . . . .	1891	N. J.	3	1,000,000
135.	Crucible Steel Co. of America . . . . .	1900	N. J.	14	60,250,000
136.	Cuba Co. . . . .	1900	N. J.	3	8,000,000
137.	Cumberland Coal & Coke Co. . . . .	1899	N. J.	2	3,300,000
138.	Cuyahoga Wire & Fence Co. . . . .	1902	Ohio	2	1,550,000
139.	Daylight Glass Mfg. Co. . . . .	1902	Pa.	2	3,625,000
140.	Development Co. of America . . . . .	1901	Del.	5	4,000,000
141.	Diamond Match Co. . . . .	1889	Ill.	(about) 18	15,000,000
142.	Distillers' Securities Corporation . . . . .	1902	N. J.	93	50,366,000



**HOME OF THE JOHN HANCOCK MUTUAL LIFE INSURANCE  
COMPANY OF BOSTON**



On the opposite page appears a cut of the home office building of the John Hancock Mutual Life Insurance Company of Boston, which was incorporated under the laws of Massachusetts in April, 1862, and thus has completed an existence of fifty years, during which it has grown to rank among the leading old-time life insurance companies of the country. In the magnitude of its transactions it is exceeded by few; in the trustworthiness and excellence of the family protection it confers, by none. The company is doing business in seventeen states and the District of Columbia, and no better indication of the fact that the longer it is known the better and more widely it is liked by the American public need be provided than is conveyed in the following:

Summary of Twenty Years' Progress

	Dec. 31 1892	Dec. 31 1911
Assets .....	\$5,061,651.00	\$82,269,171.00
Income .....	3,144,613.00	25,876,824.00
Unassigned or Safety Funds..	429,024.00	7,395,790.00
Liabilities .....	4,632,627.00	74,873,381.00

Since organization, to June 30, 1912, the John Hancock has returned to policy holders for death losses, endowments, dividends and other policy claims the splendid total of over \$106,000,000.00.

143.	Eastern Steel Co. ....	1902	Pa.	4	5,700,000
144.	Eastern Kodak Co. ....	1901	N. J.	(about) 20	19,673,000
145.	Dupont International Powder Co. ....	1903	N. J.	(about) 40	50,000,000
146.	Electric Boat Co. ....	1899	N. J.	3	7,041,000
147.	Electric Storage Battery Co. ....	1888	N. J.	11	16,250,000
148.	Electric Vehicle Co. ....	1897	N. J.	4	2,475,000
149.	Elliott-Fisher Co. ....	1902	Del.	2	10,000,000
150.	Empire Steel & Iron Co. ....	1899	N. J.	17	7,781,400
151.	Fairmount Coal Co. ....	1901	W. Va.	5	18,000,000
152.	Fay (J. A.) & Egan Co. ....	1893	W. Va.	2	2,500,000
153.	Federal Chemical Co. ....	1901	Del.	2	4,000,000
154.	Federal Lead Co. ....	1900	Del.	12	5,000,000
155.	Federal Mfg. Co. ....	1899	N. J.	7	3,387,500
156.	Fireproofing Co. ....	1899	N. J.	5	3,000,000
157.	Fisheries Co. ....	1900	N. J.	10	3,500,000
158.	Freemont County Sugar Co. ....	1902	Utah	2	6,000,000
159.	General Chemical Co. ....	1899	N. J.	24	17,410,300
160.	General Electric Co. ....	1892	N. Y.	8	46,154,600
161.	Gilchrist Transportation Co. ....	1897	Ohio	3	10,000,000
162.	Gold Car Heating & Lighting Co. ....	1902	N. Y.	2	1,000,000
163.	Gottlieb-Bauernschmidt-Strauss Brewing Company ....	1901	N. J.	8	14,125,000
164.	Great Lakes Towing Co. ....	1899	N. J.	8	3,637,850
165.	Great Western Cereal Co. ....	1901	N. J.	10	4,350,000
166.	Greene Consolidated Copper Co. ....	1899	W. Va.	4	7,200,000
167.	GuKey (J. M.) Petroleum Co. ....	1901	Tex.	3	19,000,000
168.	Harbison-Walker Refractories Co. ....	1902	Pa.	17	31,100,000
169.	Hartford Carpet Corporation ....	1901	Conn.	2	5,000,000
170.	Herring-Hall-Marvin Safe Co. ....	1901	N. J.	4	3,300,000
171.	Heywood Brothers & Wakefield Co. ....	1897	N. J.	4	6,000,000

172.	Hudson River Water Power Co. ....	1899	N. J.	4	7,000,000
173.	Hydraulic Press Brick Co. ....	1895	Mo.	14	3,000,000
174.	Illinois Brick Co. ....	1900	Ill.	8	9,000,000
175.	International Harvester Co. ....	1902	N. J.	6	120,000,000
176.	International Nickel Co. ....	1902	N. J.	8	27,483,012
177.	International Paper Co. ....	1898	N. Y.	24	52,935,500
178.	International Power Co. ....	1899	N. J.	4	7,340,000
179.	International Pulp Co. ....	1893	N. Y.	4	5,000,000
180.	International Silver Co. ....	1898	N. J.	18	23,413,200
181.	International Steam Pump Co. ....	1899	N. J.	8	25,637,300
182.	International Time Recording Co. ....	1900	N. J.	5	2,140,000
183.	Johns (H. W.) Manville Co. ....	1901	N. Y.	2	3,000,000
184.	James & Laughlin Steel Co. ....	1902	Pa.	(about) 15	30,000,000
185.	Keystone Watch Case Co. ....	1899	Pa.	2	4,400,000
186.	Kirby Lumber Co. ....	1901	Tex.	(about) 25	21,000,000
187.	Lackawanna Steel Co. ....	1902	N. Y.	7	56,775,000
188.	Magnus Metal Co. ....	1899	N. J.	5	3,000,000
189.	Massachusetts Breweries Co. ....	1900	Va.	9	16,200,000
190.	Mississippi Wire Glass Co. ....	1901	N. J.	5	1,500,000
191.	National Biscuit Co. ....	1898	N. J.	80	56,524,000
192.	National Candy Co. ....	1902	N. J.	16	7,400,000
193.	National Car Wheel Co. ....	1903	N. Y.	4	2,500,000
194.	National Carbon Co. ....	1899	N. J.	11	10,000,000
195.	National Casket Co. ....	1899	N. Y.	5	6,000,000
196.	National Enameling & Stamping Co. ....	1899	N. J.	13	23,838,400
197.	National Fireproofing Co. ....	1899	Pa.	29	15,500,000
198.	National Glass Co. ....	1899	Pa.	19	5,500,000
199.	National Novelty Corporation ....	1902	N. J.	18	11,250,000
200.	National Rice Milling Co. ....	1892	N. J.	3	1,500,000
201.	National Steel & Wire Co. ....	1901	Me.	6	10,000,000

203.	New England Brick Co.....	1900	N. J.	37	5,750,000
204.	New York Air Brake Co.....	1888	N. J.	2	8,012,500
205.	New York Dock Co.....	1901	N. Y.	(about) 20	22,280,000
206.	Niles-Bement Pond Co.....	1899	N. J.	5	7,000,000
207.	North Star Mines Co.....	1899	N. J.	10	2,500,000
208.	Northern Commercial Co.....	1901	N. J.	4	5,120,000
209.	Ohio Grocery Co.....	1902	N. J.	25	11,250,000
210.	Otto Elevator Co.....	1898	N. J.	9	12,922,800
211.	Pacific Coast Biscuit Co.....	1899	N. J.	11	2,425,000
212.	Pacific Starch Co.....	1901	Mich.	2	500,000
213.	Penn-American Plate Glass Co.....	1900	Del.	2	2,000,000
214.	Pennsylvania Central Brewing Co.....	1897	Pa.	12	8,800,000
215.	Pennsylvania Coal & Coke Co.....	1902	Pa.	3	24,000,000
216.	Pennsylvania Steel Co.....	1902	N. J.	7	41,250,000
217.	People's Brewing Co. of Trenton.....	1899	N. J.	4	2,300,000
218.	Pioneer Pole & Shaft Co.....	1899	Ohio	14	2,750,000
219.	Pittsburg Brewing Co.....	1899	Pa.	13	19,500,000
220.	Pittsburg Brewing Co.....	1899	N. J.	207	(ab't) 84,000,000
221.	Pittsburg Plate Glass Co.....	1882	Pa.	10	10,000,000
222.	Pittsburg Stove & Range Co.....	1899	Pa.	9	2,000,000
223.	Pittsburg Valve Foundry.....	1900	Pa.	6	1,150,000
224.	Planters Compress Co.....	1900	Pa.	2	10,000,000
225.	Pneumatic Signal Co.....	1902	N. Y.	2	2,000,000
226.	Pocahontas Collieries Co.....	1902	N. J.	2	5,750,000
227.	Pope Mfg. Co.....	1902	N. J.	60	22,500,000
228.	Pressed Steel Car Co.....	1899	N. J.	2	25,500,000
229.	Pullman Co.....	1887	Ill.	2	74,000,000
230.	Pure Oil Co.....	1895	N. J.	15	10,000,000
231.	Quaker Oats Co.....	1901	N. J.	2	12,446,050
232.	Railway Steel Springs Co.....	1902	N. J.	14	27,000,000



233. Republic Iron & Steel Co. ....1899	N. J.	(about) 45	47,687,800
234. Rochester Optical & Camera Co. ....1899	N. J.	6	3,500,000
235. Rocky Mountain Paper Co. ....1900	N. Y.	2	1,350,000
236. Rogers (Wm. A.) Ltd. ....1901	Ont.	6	1,500,000
237. Royal Baking Powder Co. ....1899	N. J.	5	20,000,000
238. Rubber Goods Mfg. Co. ....1899	N. J.	17	24,993,100
239. Seacoast Canning Co. ....1902	N. J.	9	2,000,000
240. Sherwin-Williams Co. ....1902	Ohio	11	3,500,000
241. Singer Mfg Co. ....1873	N. J.	5	10,000,000
242. Sloss-Sheffield Steel & Iron Co. ....1899	N. J.	11	18,200,000
243. Somerset Coal Co. ....1901	Pa.	14	8,000,000
244. Springfield (Mass.) Breweries Co. ....1899	W. Va.	6	3,300,000
245. Springfield (Ill.) Coal Mining Co. ....1902	N. Y.	5	2,900,000
246. Standard Chain Co. ....1900	N. J.	12	3,558,000
247. Standard Milling Co. ....1900	N. J.	19	11,500,000
248. Standard Rope & Twine Co. ....1895	N. J.	21	21,551,400
249. Standard Sanitary Mfg. Co. ....1899	N. J.	9	5,729,900
250. Standard Table Oil Cloth Co. ....1901	N. J.	7	8,000,000
251. Standard Wall Paper Co. ....1903	N. Y.	2	1,250,000
252. Stillwell-Pierce & SmithValle Co. ....1892	N. J.	2	1,400,000
253. Susquehanna Iron & Steel Co. ....1899	Pa.	9	1,800,000
254. Temple Iron Co. ....1873	Po.	8	20,000,000
255. Tennessee Coal Iron & R. R. Co. ....1860	Tenn.	7	23,049,600
256. Texas & Pacific Coal Co. ....1888	Tex.	5	2,473,000
257. Tide Water Steel Co. ....1899	Pa.	2	2,100,000
258. Torrington Company .....	Me.	3	4,000,000
259. Trenton Potteries Trust (and affiliated corporations) ....1903	N. J.	(about) 45	50,000,000
260. Union Bag & Paper Co. ....1899	N. J.	10	27,000,000
261. Union Carbide Co. ....1898	Va.	7	6,500,000

262.	Union Iron & Steel Co. ....	1899	Del.	5	2,000,000
263.	Union Switch & Signal Co. ....	1882	Pa.	2	2,000,000
264.	Union Typewriter Co. ....	1893	N. J.	5	18,015,000
265.	Union Waxed & Parchment Paper Co. ....	1902	N. J.	11	3,200,000
266.	United Box Board & Paper Co. ....	1902	N. J.	26	27,435,500
267.	United Breweries Co. ....	1898	N. J.	13	9,000,000
268.	United Button Co. ....	1902	N. J.	3	2,332,000
269.	United Copper Co. ....	1902	N. J.	6	50,000,000
270.	United Engineering & Foundry Co. ....	1901	Pa.	4	5,500,000
271.	United Fruit Co. ....	1899	N. J.	14	17,989,000
272.	United Mattress Machinery Co. ....		W. Va.	5	800,000
273.	United Shoe Machinery Co. ....	1899	N. J.	12	20,656,750
274.	United States Cast Iron Pipe & Foundry Company ....	1899	N. J.	9	26,194,000
275.	United States Coal & Oil Co. ....	1895	Me.	2	6,000,000
276.	United States Envelope Co. ....	1898	Me.	10	6,725,000
277.	United States Finishing Co. ....	1899	N. J.	5	4,750,000
278.	United States Glass Co. ....	1891	Pa.	12	6,000,000
279.	United States Gypsum Co. ....	1901	N. J.	25	8,500,000
280.	United States Leather Co. ....	1898	N. J.	25	130,444,000
281.	United States Paving Co. ....	1900	N. J.	3	2,000,000
282.	United States Playing Card Co. ....	1894	N. J.	4	3,600,000
283.	United States Printing Co. ....	1891	Ohio	4	3,376,300
284.	United States Reduction & Refining Co. ....	1901	N. J.	7	12,706,300
285.	United States Rubber Co. ....	1892	N. J.	13	58,591,500
286.	United States Standard Voting Machine Company ....	1900	N. Y.	2	1,000,000
287.	United States Whip Co. ....	1893	Me.	4	2,000,000
288.	United States Bobbin & Shuttle Co. ....	1899	N. J.	6	2,120,000
289.	United States Wire & Supply Co. ....	1902	R. I.	2	2,000,000

290. United Tobacco Co. ....	1901	N. J.	4	10,000,000
291. Virginia Iron Coal & Coke Co. ....	1899	N. J.	(about) 32	17,641,600
292. Washburn Wire Co. ....	1900	Me.	3	3,750,000
293. Vulcan Detinning Co. ....	1902	N. J.	2	2,500,000
294. Western Stone Co. ....	1899	Ill.	7	2,522,500
295. Westinghouse Companies .....			(about) 16	44,025,500
296. Wheeling Consolidated Coal Co. ....	1902	W. Va.	5	5,000,000
297. Wisconsin Lime & Cement Co. ....	1900	N. J.	6	5,000,000
298. Yellow Pine Co. ....	1891	N. J.	8	2,500,000
(Total (298 Lesser Industrial Trusts.) .....			3,426	\$4,055,439,433

Summary of Industrial Trusts.	No. of Plants acquired or controlled.	Total capital- ization stocks and bonds outstanding.
7 Greater Industrial Trusts .....	1,528	\$2,662,752,100
298 Lesser Industrial Trusts .....	3,426	4,055,039,433
13 Important Industrial Trusts in Process of Reorganization or Readjustment .....	282	528,551,000
<b>GRAND TOTAL OF INDUSTRIAL TRUSTS.</b>		
318 Important Industrial Trusts .....	5,288	\$7,246,342,533

NOTE.—None of the above capitalization figures are duplicated. They represent not the amount of securities authorized or even issued, but simply those which are "afloat" or in the hands of the public.

THE CHARTER OF THE UNITED STATES  
STEEL CORPORATION.

The charter of the United States Steel Corporation is supposed to be one of the most carefully formed corporation charters in this country; for the benefit of our readers we will reprint the same; it is as follows:

COPY OF CHARTER.

We, the undersigned, in order to form a corporation for the purposes hereunto stated, in pursuant to the provisions of the Act of the Legislature of the State of New Jersey, entitled "An Act Concerning Corporations (Revision of 1896)," and the acts amendatory thereof and supplemental thereto, do hereby certify as follows:

1. The name of the corporation is the United States Steel Corporation.
2. (Clause designating office and agent in New Jersey.)
3. The objects for which the corporation is formed are:

To manufacture iron, steel, manganese, coke, copper, lumber, and other materials and all or any articles consisting or partly consisting, of iron, steel, copper, wood or other materials, and all or any products thereof.

To acquire, own, lease, occupy, use or develop any lands containing coal or iron, manganese, stone or other ores, or oil and any wood lands or other lands for any purpose of the Company.

To mine, or otherwise extract or remove, coal, ores, stone and other minerals, and timber from any

lands owned, acquired, leased or occupied by the company, or from any other lands.

To buy and sell, or otherwise to deal or to traffic in iron, steel, manganese, copper, stone, ores, coal, coke, wood, lumber and other materials, and in all the products thereof, and in articles consisting or partly consisting thereof.

To contract or purchase buildings, machinery, shops, boats, engines, cars and other equipment, railroads, docks, slips, elevators, water works, gas works and electric works, viaducts, aqueducts, canals and other water ways, and any other means of transportation, and to sell the same or otherwise to dispose thereof or to maintain or operate the same, except that the company shall not maintain or operate any railroad in the state of New Jersey.

To apply for, obtain, register, purchase, lease, or otherwise to acquire, and to hold, use, own, operate, and introduce, and to sell, assign or otherwise to dispose of, trade marks, trade names, patents, or inventions, improvements and processes used in connection with or secured under laws on patent of the United States, or elsewhere or otherwise, and to use, exercise, develop, grant licenses in respect, or otherwise to turn into account such trade marks, orders, licenses, processes and the like, or any such property or rights.

To engage in other manufacturing, mining, construction, or transportation business of any kind or character whatsoever, and to that end to acquire, hold, own, and dispose of any and all property, assets, stocks, bonds, and rights of any and every kind, but not to engage in any business hereunder which shall

require the exercises of the rights of eminent domain within the State of New Jersey.

To acquire by purchase, subscription, or otherwise, and to hold or to dispose of, stocks, bonds or any other obligations of any corporations formed for, or then or heretofore engaged in or pursuing, in one or more of the kinds of business, purposes, objects, or operations above indicated, or owning or holding any property of any kind herein named, or of any corporation holding or owning the stocks or the obligations of any such corporation.

To hold for investment, or otherwise to use, sell or dispose of, any stock, bonds, or other obligations of any such other corporation; to aid in any manner any corporation, whose stock, bonds, or other obligations are held or in any manner guaranteed by the company, and to do any other acts or things for the preservation, production, improvement, or enhancement of the value of any such stock, bonds, or other obligations, or to do any acts or thing designated for any such purposes; and, on any of such stock, bonds, or other obligations, to exercise all the rights, powers and privileges of ownership thereof, and to exercise any and all voting power thereon.

The business or purpose of the company is from time to time to do any one or more of the acts and things herein set forth; and it may conduct the business in any other states, and in the territories, and in foreign countries, and may have one office or more than one office, and keep the books of the company outside of the State of New Jersey, except as otherwise may be provided, by law; and may hold, purchase, mortgage, and convey real and personal property, either in or out of the State of New Jersey.

Without in any particular limiting any of the objects and powers of the corporation, it is hereby expressly declared and provided that the corporation shall have power to issue bonds and other obligations in payment of property purchased or acquired by it, or for any other object in or about its business; to mortgage or pledge any stocks, bonds, and other obligations, or any property which may be acquired by it, to secure any bonds or other obligations by it issued or incurred; to guarantee any dividends or bonds, or contracts, or any other obligations; to make and perform contracts of any kind or description and in carrying on its business, and for the purpose of attaining or furthering any of its objects, to do any and all their acts and things, to exercise any and all acts and powers which a copartnership or natural person could do and exercise, and which now or here-in may be authorized by law.

IV. The total authorized capital of the corporation is eleven hundred million dollars (\$1,100,000,000) divided into eleven million shares of the par value of one hundred dollars each. Of such total authorized capital stock, five million five hundred thousand shares, amounting to five hundred and fifty million dollars, shall be preferred stock, and five million five hundred thousand shares, amounting to five hundred and fifty million dollars, shall be common stock.

From time to time, the preferred stock and the common stock may be increased according to law, and may be issued in such amounts and proportions as shall be determined by the Board of Directors, and as may be permitted by law.

The holders of the preferred stock shall be entitled

to receive when and as declared, from the surplus or net profits of the corporation, yearly interest at rate of seven per cent. per annum and no more, payable quarterly on dates to be fixed by the by-laws. The dividend on the preferred stock shall be cumulative, and shall be payable before any dividend on the common stock shall be paid or set apart; so that, if in any year dividends amounting to seven per cent. shall not have been paid thereon, the deficiency shall be payable before any dividends shall be paid upon or set apart for the common stock.

Whenever the cumulative dividends on the preferred stock for all previous years shall have been declared, and shall have become payable, and the accrued quarterly instalments for the current year shall have been declared, and the Company shall have paid such cumulative dividends for previous years, such accrued quarterly instalments or shall have set aside from its surplus or net profits a sum sufficient for the payment thereof, the Board of Directors may declare dividends on the common stock, payable then or therefor out of any remaining surplus or net profits.

In the event of any liquidation or dissolution or winding up (whether voluntary or involuntary) of the corporation; the holders of the preferred stock shall be entitled to be paid in full both the (par amount) of their shares, and the unpaid dividend accrued thereon, before any amount shall be paid to the holders of the common stock, and after the payment to the holders of the preferred stock of its par value, and the unpaid accrued dividends thereon, the remaining assets and fund shall be divided and paid to the holders of the common stock according to their respective shares.

V. The names and post-office addresses of the in-



corporators, and the number of shares of stock for which severally and respectively we do hereby subscribe (the aggregate of our said subscriptions being        thousand dollars; is the amount of capital stock with which the corporation will commence business), are as follows:

(Here follow the names and post-office addresses of each of the incorporators, and the number of shares of stock subscribed for by each).

VI. The duration of the corporation shall be perpetual.

VII. The number of Directors of the company shall be fixed from time to time by the by-laws; but the number if fixed at more than three, shall be some multiple of three. The directors shall be classified with respect to the time for which they shall severally hold office, by dividing them into three classes, each consisting of one-third of the whole number of the Board of Directors. The Directors shall be classified with respect to the time for which they shall severally hold the office, by dividing them into three classes, each consisting of one-third of the whole number of the Board of Directors. The Directors of the first class shall be elected for a term of one year; the directors of the second class for a term of two years; and the directors of the third class for a term of three years; and at each annual election the successors to the class of directors whose terms shall expire in that year shall be elected to hold office for the term of three years, so that the term of office of one class of directors shall expire in one year.

The number of Directors may be increased as may be provided in the by-laws. In case of any increase of the number of directors the additional directors may be elected as may be provided in the by-laws by the directors

or by the stockholders at an annual or special meeting; and one of their number shall be elected for the then unexpired portion of the term of the directors of the first class, one-third of their number for the unexpired portion of the term of the directors of the second class, and one-third of their number for the unexpired portion of the term of the directors of the third class, so that each class of directors shall be increased equally.

In case of any vacancy in any class of directors through death, resignation, disqualification, or other causes, the remaining directors by affirmative vote of a majority of the Board of Directors, may elect a successor to hold office for the unexpired portion of the term of the director whose place shall be vacant until the election of a successor.

The Board of Directors shall have power to hold their meetings outside of the State of New Jersey at such places as from time to time may be designated by the by-laws or by resolution of the Board. The by-laws may prescribe the number of Directors necessary to constitute a quorum of the Board of Directors, which number may be less than a majority of the whole number of Directors.

Unless authorized by votes given in person or by proxy by stockholders holding at least two-thirds of the capital stock of the corporation, which is represented and voted upon in person or by proxy at a meeting specially called for that purpose, or at an annual meeting. The Board of Directors shall not mortgage or pledge any of its real property or any shares of the capital stock of any other corporation; but this prohibition shall not be construed to apply to the execution of any purchase money mortgage or any other purchase money lien.

As authorized by the Act of the Legislature of the State of New Jersey passed March 22 1901, amending the seventeenth section of the Act concerning corporations (Revision of 1896) any action which theretofore required the consent of the holders of two-thirds of the stock at any meeting, without notice to them given or require their consent in writing to be filed, may be taken upon the consent of, and the consent given and filed by, the holders of two-thirds of the stock of each class represented at such meeting in person, or by proxy.

Any officer elected or appointed by the Board of Directors may be removed at any time by the affirmative vote of the majority of the whole Board of Directors..

Any other officer or employee of the corporation may be removed at any time by vote of the Board of Directors or by any committee or superior officer upon whom such power of removal may be conferred by the by-laws or by a vote of the Board of Directors.

The Board of Directors by the affirmative vote of the majority of the whole Board, may appoint any other Standing Committees, shall have and may exercise such powers as shall be conferred or authorized by the by-laws.

The Board of Directors may appoint not only other officers of the company but also one or more Vice Presidents, one or more assistant Treasurers, one or more assistant Secretaries, and to the extent provided in the by-laws, the persons so appointed respectively shall have and may exercise the powers of the Vice President, of the Treasurer, and of the Secretary respectively.

The Board of Directors shall have power from time to time to fix and to determine and to vary the amount of the working capital of the company; and to direct and determine the use and disposition of any surplus or net profits over and above the capital stock paid in; and in its discretion the Board of Directors may use and apply any such surplus or accumulated profits in purchasing or acquiring its bonds or other obligations, or shares of its own capital stock to such extent and in such manner and upon such terms as the Board of Directors shall deem expedient; but shares of such capital stock so purchased or acquired may be resold, unless such shares shall have been retired for the purpose of decreasing the company's capital stock as provided by law.

The Board of Directors from time to time shall determine whether and to what extent, and at what times and places, and under what conditions and regulations, the accounts and books of the corporation, or any of them, shall be opened to the inspection of the stockholders, and no stockholder shall have any right to inspect any account or book or document of the corporation, except as conferred by the Statute or fixed by the Board of Directors or by a resolution of the stockholders.

Subject always to by-laws made by the stockholders, the Board of Directors may make by-laws, and from time to time may alter, amend, or repeal any by-laws; but any by-laws made by the Board of Directors may be altered or repealed by the stockholders at any annual meeting, or at any special

192      AMERICAN FINANCIAL METHODS

meeting provided notice of such proposed alteration or repeal be included in the notice of the meeting.

IN WITNESS WHEREOF, we have hereunto set our hands and seals the \_\_\_\_\_ day of \_\_\_\_\_ 1911.

(Signatures of the Incorporators.)

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

**CHAPTER VII.**

**VOLUNTARY ASSOCIATIONS.**

HOW TO ORGANIZE UNDER THE  
DECLARATION OF TRUST.

**T**HE Declaration of Trust is a document devised to allow a large number of persons to participate in an enterprise, without incorporation.

The Declaration of Trust is a document devised to allow a large number of persons to participate in an enterprise, without incorporation.

It has been developed chiefly in Massachusetts where the laws prohibit a corporation from dealing in real estate and where buildings and real estate are owned by many proprietors, especially in the city of Boston. Its use is confined principally to the ownership of land and buildings where there is little or no practical liability as a partner, and where the management is in the hands of trustees who perform few executive functions.

It is done in this way:—A building is erected or land purchased, and 100 or less people subscribe for different amounts. The property is put in the name of one or more trustees, who hold the property for the benefit of the subscribers in proportion to their respective shares. The subscribers choose the trustees; it being usually provided that each subscriber may vote in proportion to his subscription corresponding as far as possible to the rights of stockholders in a corporation.

While this form of agreement is adapted to the ownership of buildings and land it has also been resorted to in carrying out other commercial enterprises.

The original form of a Deed of Trust for the purpose of developing land and large buildings, is said to have been perfected by Hon. Richard Olney of Boston,

formerly Attorney General of the United States and Secretary of State.

So far as it is legally possible, it is a device to exonerate the trustees and shareholders from personal liability beyond the amount of their contributions to the trust, leaving the property only liable for obligations incurred in carrying out the purpose of the Trust.

If this could be entirely accomplished under the common law, there would be no need or use for corporations; and while the courts have not adjudicated the questions of liability arising under form of a Deed of Trust, yet it is the general opinion among lawyers that the shareholders, and possibly the trustees are personally liable for obligations incurred in behalf of the enterprise; but as these questions seldom or never arise in the handling of large buildings, and real estate, the question has never been determined by the courts of last resort.

It is an ideal arrangement for those interested apart from possible personal liability; there is no corporation to form, and no annual reports to make to the State, thereby making public the business of a private enterprise. The risk of personal liability for those interested will never make this form of doing business a popular one in lines of business where there exists the ordinary commercial hazard.

The trustees manage the property the same as trustees under wills and ordinary Deeds of Trust for heirs and legatees. They are accountable to their shareholders as beneficiaries, but the shareholders have no power in the management of the property other than in the choice of trustees. The following Agreement and Declaration of Trust may be copied and used with the exception of a few minor changes, as the name of the company, purposes of company, amount of capital, etc.:



FORM OF AGREEMENT AND DECLARATION  
OF TRUST OF THE NORD REALTY TRUST.

This agreement made and entered into this                      day of  
, 1911,                      by and between

(Insert here names of Subscribers, usually five.)

together with their heirs, executors, administrators and  
assigns, hereinafter called "Subscribers" and

(Insert here names of Trustees, usually three.)

together with their successors, hereinafter designated as  
"Trustees"

WITNESSETH, that

WHEREAS, it is desired by the "Subscribers" hereto and  
their assigns and such others as may become shareholders  
hereunder to engage in the business hereinafter set forth,  
and to contribute therefore property or otherwise for their  
interest herein as set forth by the shares set after the names  
of each respectively, and

WHEREAS, it is desired by the said subscribers that  
the said persons named as Trustees herein shall act as  
Trustees under the terms and conditions hereinafter set  
forth for the purpose of carrying on said business, and of  
holding all property which may come into their hands as  
Trustees as aforesaid; and

WHEREAS, the said persons herein named as Trustees  
are willing to accept the said Trusts as hereinafter set forth  
and upon the following terms and conditions.

NOW THEREFORE, the Trustees hereby declare that they  
will hold said property so as to be transferred to them,  
as well as all other property which they may acquire as such  
Trustees, together with the proceeds thereof, in trust, to  
manage and dispose of the same for the benefit of the  
holders from time to time of the certificates of shares issued  
hereunder, in the manner and subject to the stipulations  
hereinafter contained, to wit:—

NAME OF ASSOCIATION.

FIRST. The Trustees in their collective capacity shall be designated as THE NORD REALTY TRUST and under that name shall, as far as practicable, conduct all business and execute all instruments in writing in the performance of their trust.

TRUSTEES—ELECTION.

SECOND. The Trustees shall be three in number or more and shall be shareholders hereunder; and said Trustees shall hold office for the term of one year or until such further time as their successors have been duly elected and qualified and have accepted this Trust.

In case of the death, resignation or inability to act of any of the said Trustees, the remaining Trustees may accept any resignation and fill any vacancy for the un-expired term.

Upon a vacancy in the number of Trustees for any cause the power originally given to all of the Trustees hereunder shall vest in the remaining Trustee, or Trustees pending the due appointment of a Trustee or Trustees to fill such vacancy or vacancies.

In the event of a vacancy occurring in the Board of Trustees, the said vacancy shall not be filled except in the manner prescribed by the term of this agreement and declaration of trust so long as any Trustee remain hereunder; and it shall be in the discretion of the majority of the appointing body whether they shall at any particular time fill such vacancy, and their judgment shall be final in the matter.

The fact that a person who is a shareholder hereunder has been elected or appointed a Trustee hereunder, shall be final as to all other parties hereto as to the fitness and capacity of such person to act as Trustee, and to capacity of such person shall be reviewable only by the body appointing or electing him.

The removal of a Trustee is solely a question for the body appointing such Trustee, and any removal must be for cause shown by a vote of two-thirds majority of the appointing body; such vote shall not be reviewable in a court of law

or equity, and upon such a vote being taken, the powers of Trustee shall thereby forthwith cease and he shall ipso facto cease to be Trustee.

All resignations of Trustee shall be in writing, delivered to the Secretary of the Board of Trustees or his assistant, either in hand or deposited in the U. S. Mail. Such resignation need not be expected to be effected, as the same shall take effect at once as of the date of his letter of resignation, and he can be held thereafter only to account under the terms hereof for his prior doings with and concerning the property of this trust. He shall, upon demand of the Board of Trustees, give a quitclaim release of all his interest as Trustee in the property of this trust.

As soon as new Trustees have accepted this trust, the trust estate shall vest in the new Trustee or Trustees, together with the continuing Trustees, without any further act or conveyance.

#### POWERS OF TRUSTEES.

THIRD. The Trustees shall hold legally the title to all property at any time belonging to this trust, and shall have and exercise the exclusive management and control of the same without advice or direction from or being enjoined by action of the shareholders hereunder, or their assigns; they shall assume, but not personally, all contracts for and obligations and liabilities in connection with or growing out of the purchase of the property or contracts acquired hereunder and hereafter; and the shareholders hereunder shall have no rights whatever against such or any strangers to this trust; and to the extent and value of said contracts and property, but not personally, the said Trustees shall agree to hold any and all persons associated or acting with them harmless and indemnified from and against any loss, cost or liability upon, by reason of or in connection with any such property or contracts; they may adopt and use a common seal; they may sue for, receive and receipt for all sums of money at any time coming due to this Trust; they may employ counsel; they may begin, prosecute, defend and settle suits at law, in equity or otherwise, and compromise or

refer to arbitration any claim in favor of or against this Trust, in such manner and upon such terms as they may deem wise.

**POWERS TO TRANSACT BUSINESS.**

They are hereby empowered to purchase, sell, mortgage and deal in real estate and maintain buildings therein.

The said Trustees may do any, all and each of the acts and things aforesaid as principal purposes, and also as incidental to any one or more of the purposes aforesaid in which, for the time being, principal operations are being conducted, and further and as incidental to any, each and all of the aforesaid purposes, and in the same manner they may borrow or raise money; they may issue notes, bonds or other obligations for money so borrowed or in payment thereof, or in exchange for any real property, rights or franchises acquired or other value received; and they may secure such obligations by pledge, mortgage, deed of trust or otherwise upon the whole, or any part of the property for the time being held by this trust, and thereafter to be acquired; and they may pledge or sell such bonds or discount such notes or other obligations for such price and in such manner as they may deem fit; and in general they may do any and all things else now or hereafter which may be lawful.

**LIABILITY OF TRUSTEES.**

In dealing with the property of this trust and in the management of the business hereunder, the Trustees shall not be held to the usual standard of care for Trustees, but only to the standard of care of an ordinary individual (as if the said Trustees were the absolute owners of the property hereunder) dealing with his own property and having due regard to reasonable business and speculative chances, with the ultimate view of a general increase by means of frequent or otherwise turnings or conversions or employments.

The Trustees need not keep all of the funds and property of this association fully and productively invested;

they are authorized to and may set apart such property or money or both as they may deem necessary from time to time for a surplus account, sinking fund account, working capital or otherwise.

ASSIGNMENT TO CREDITORS.

The Trustees may make a general assignment of the assets of this trust for the benefit of the creditors of this trust, when in the opinion of the Trustees occasion may demand, and such assignments shall be binding upon the shareholders hereunder. So far as strangers to this trust are concerned, a resolution of the Trustees authorizing a particular act to be done shall be conclusive evidence in favor of such strangers that such act is within the power of the Trustees, and is a lawful act of the Board.

TRUSTEES POWER TO ACT.

In all matters pertaining to this trust and in their exercise of its powers, the Trustees shall have absolute discretion in the matter of whether or not to act; they shall be the sole judge of the adequacy of consideration; their judgment shall not be subject to review except when dishonestly formed.

Any Trustee hereunder shall be deemed to be acting in good faith when he acts open before all other Trustees and makes a disclosure of all material facts known to himself. The whole Board of Trustees shall be deemed to be acting in good faith when they act honestly according to their judgment without regard to the relations of any one of the Trustees with the subject matter under consideration.

MEETINGS OF TRUSTEES.

FOURTH. Stated meetings of the Trustees shall be held at the office of the Trustees on the first Monday of each month; and other meetings may be held from time to time upon the call of the President or any two of the Trustees. Notice of other than regular meetings shall be given by the Secretary when requested by the President or any two of

the Trustees. No notice shall be required for the regular monthly meeting. At any other time, if all of the Trustees are present and sign a waiver of notice of the meeting, a meeting may be held and business transacted as if due notice of said meeting had been given.

A majority of the Trustees shall constitute a quorum, and the concurrence of all of the Trustees present shall not be necessary to the validity of any action taken or done by them, but the wish of the majority of the Trustees, being present and voting at any meeting, shall be conclusive. The Trustees may hold their meetings at any place they may deem fit.

#### BY-LAWS.

The Trustees may make, adopt, amend, or repeal such By-laws, rules and regulations not inconsistent with the terms of this instrument as they may deem necessary and advisable for the conduct of their business and the government of themselves, their servants, agents and representatives.

#### ELECTION OF OFFICERS AND AGENTS.

FIFTH. The Trustees shall elect annually from among their number a President of the Board, a Secretary and a Treasurer, the Secretary and Treasurer may be the same person; and they shall have authority to appoint such other officers, servants or agents as they may from time to time deem necessary or expedient for the conduct of their business, and they may grant and delegate unto them and unto all or any of their officers such duties, discretionary or ministerial or both, as they may deem fit. They shall have authority to accept resignations and fill any vacancy in office of President, Treasurer and Secretary and other offices and agents for the unexpired term, and shall likewise have authority to elect temporary officers to serve during the absence or disability of any of the officers.

DUTIES OF OFFICERS—SALARIES.

The President, Treasurer and Secretary shall have the authority and perform the duties usually incident to these officers in the case of corporations, so far as applicable hereto, and shall have such other authority and perform such other duties as may from time to time be determined by the Trustees.

The Trustees are authorized to take reasonable salaries for their time devoted to the business of this trust.

SHARES.

SIXTH. The Shares herein shall be of the par value of \$5.00 each and they shall be 5,000 in number. As evidence of the ownership of said shares, the Trustee shall cause to be issued to each shareholder a negotiable (except as hereinafter set forth) certificate or certificates, which certificate shall be in substance in the following form, to wit:

FORM OF CERTIFICATE OF SHARES

THE NORD REALTY TRUST

Not Subject to Assessment.

NO. \_\_\_\_\_ Shares.

This certifies that \_\_\_\_\_ is the holder of \_\_\_\_\_ shares in THE NORD REALTY TRUST which he holds subject to an agreement and a declaration of trust dated the \_\_\_\_\_ A. D., 1911, and on file with the Trustees at their office in Boston, County of Suffolk and State of Massachusetts, which agreement is hereby referred to and made a part of this certificate.

No transfer of this certificate shall be of any effect as regards the NORD REALTY TRUST until this certificate has been surrendered and the transfer recorded on the books of the Trustees.

IN WITNESS WHEREOF, the Trustees under the said agreement and declaration of trust, herein designated as

the NORD REALTY TRUST, have caused their common seal to be hereto affixed and this certificate to be executed in their common name and behalf of their President and attested by their Secretary.

THE NORD REALTY TRUST,  
Trustees.  
By \_\_\_\_\_,  
President.  
Attest: By \_\_\_\_\_,  
Secretary.

FORM OF TRANSFER.

For value received, I hereby sell, assign, transfer and deliver to \_\_\_\_\_ shares of the within named shares of the NORD REALTY TRUST and hereby request that said transfer be recorded on the books of the NORD REALTY TRUST, Trustees.

Witness my hand and seal this \_\_\_\_\_ day of  
A. D., 1910.

Witness: \_\_\_\_\_

SEVENTH. The Trustees may sell and issue at public or private sale, and upon such terms and conditions and for such prices as they may deem expedient, the shares hereunder.

LOSS OF CERTIFICATE.

In case of the loss or destruction of any certificate or certificates issued hereunder by the Trustees, the Trustees may, upon such terms and conditions as they may deem expedient, issue a new certificate or certificates in place of the one lost or destroyed.

DIVIDENDS.

EIGHTH. The Trustees may from time to time declare and pay dividends out of the capital or principal of this trust or the net earnings from time to time received by them, but the amount of such dividends and the payment of them shall be wholly in the discretion of the Trustees.



ANNUAL MEETINGS—NOTICES.

NINTH. The fiscal year of the Trustees shall end on the first Monday of \_\_\_\_\_ of each year, beginning with the year 1911.

Annual meetings of the shareholders for the election of Trustees, the hearing of reports, and the transaction of other business which may properly come before the meeting will be held on the third Monday of \_\_\_\_\_ of each year beginning with the year 1911. The annual meeting of the shareholders shall be held in said \_\_\_\_\_ at the office of the Trustees; and notice of these meetings shall be given by the Secretary to each shareholder by mailing the same to his registered address at least ten days before said meeting. The notice shall contain a list of proposed business.

At least once each year, at the annual meeting of the shareholders, and so much oftener and at such times as the Trustees may deem expedient, the Trustees shall make a statement of the affairs of the trust, which statement shall be in the following form, to wit:

Assets	Liabilities
Current Expenses	
Current Income	
Losses	
Improvements	
Gains	

SPECIAL MEETINGS.

Special meetings of the shareholders may be called at any time upon seven days' notice as before stated, when ordered by the President or Trustees.

VOTING POWER.

At all meetings of the shareholders, each holder of shares shall be entitled to one vote for each share held by him, and any shareholder may vote by proxy.

No business shall be transacted at any meetings of the shareholders unless notice of such business has been given in the call for such meeting.

No business shall be transacted at any meetings of the shareholders unless notice of such business has been given in the call for such meeting.

No business, except to adjourn, shall be transacted at any meeting of the shareholders, until a majority of the shares outstanding are present in person or proxy.

DEATH OF SHAREHOLDER OR TRUSTEE.

TENTH. The death of a shareholder or Trustee during the continuance of this trust shall not operate to determine the trust, nor shall it entitle the legal representative of the deceased shareholders to an accounting, or to take any action in the courts or elsewhere against the Trustees; but the executors, administrators or assigns of any deceased shareholder shall succeed to the rights of such decedent under this trust upon surrender of the certificates of shares owned by him.

The ownership of shares hereunder shall not entitle the shareholders to the right to call for a partition or division of the property at any time nor for an accounting; nor advise or direct the Trustees, nor take action to enjoin the Trustees from acting excepting as hereinbefore stated.

PERSONAL LIABILITY OF SHAREHOLDERS AND TRUSTEES.

ELEVENTH. The Trustees shall have no power to bind the shareholders personally, and all persons, associations or corporations extending to, contracting with, or having any claim against the Trustees, shall look only to the funds or property of the Trust for payment of any debt, damage, judgment or decree, or any money that may otherwise become due or payable to them from the Trustees, so that neither the Trustees nor the shareholders present or future shall be personally liable under or by reason of such order, contract or obligation.

In the event of liability being claimed against the Trustees or shareholders or any of them as individuals, it shall be the duty of the Trustees hereunder to defend against any such claim of liability at the expense of the property of this

trust, and to settle forthwith any final decree or judgment or execution based on such a claim out of the property and assets of this trust.

RATIFICATION OF CONTRACTS.

The Board of Trustees, in its discretion, may submit any act or contract for approval or ratification at any annual meeting of the shareholders or any meeting of the shareholders called for the purpose of considering any such act or contract, and any act or contract of any description which shall be ratified or approved by a vote of the holders of the majority of the capital stock of this association, which is represented at such meeting in person or by proxy (provided that a lawful quorum of shareholders shall be there represented in person or by proxy) shall be as valid and binding upon this association and upon all of the shareholders as though it had been ratified and approved by every shareholder of this association.

TERMINATION OF TRUST.

TWELFTH. This trust shall continue for the period of twenty-one years after the death of the last survivor of the said Trustees named herein and such other persons now living as shall hereafter become Trustees of these presents before any person or persons not now living shall have become the only Trustee or Trustees hereunder; and, if the rules of law so permit, it shall further continue until the expiration of the terms of any contracts or leases, which may be then existing in relation to this trust or the trust property at the expiration of the time so limited; at which time the then Board of Trustees shall proceed to wind up its affairs, liquidate its assets, and distribute the same among the holders of the shares hereof, provided however, that if, prior to the expiration of the said period the holders of four-fifths (4-5) of the shares then outstanding shall at any meeting called for the purpose vote to terminate or continue the trust, and such vote is accompanied by the written consent of the then permanent Trustees hereunder, then the

said trust shall either be terminated or continue in existence for such further period as may be determined.

For the purpose of winding up their affairs and liquidating the assets of this trust, the then Board of Trustees shall continue in office until said duties have been fully performed.

AMENDMENTS.

This agreement and declaration of trust may be amended or altered at any annual or special meeting of the shareholders with the consent of the holders of at least four-fifths (4-5) of the shares then outstanding, provided notice of the proposed alteration or amendment shall have been given in the call for the meeting, and provided the asset of all of the trustees hereto is obtained in writing; and in case of such amendment or alteration the same shall be attached to and made part of this agreement, and a copy thereof shall be filed with the Trustees as aforesaid.

Wherever the Trustees hereunder may be engaged in business and wherever an attempt is made in any manner to compel the Trustees hereunder to do any act or otherwise, or wherever any claim is made involving the proper construction of the terms of this instrument and the respective rights and duties of the parties hereunder, this declaration and agreement of trust shall be construed and governed according to the laws of the

IN WITNESS WHEREOF the parties hereto have hereunto set their hands and seals and acknowledged these trusts, and the Trustees by their signatures here do hereby accept these trusts.

(Signature of Trustees.)

There personally appeared the above named

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

known to me, and acknowledged the foregoing instrument to be their free act and deed, before me, this day of \_\_\_\_\_

A. D., 1911

(Seal)

\_\_\_\_\_  
Notary Public.



CHAPTER VIII  
STOCK EXCHANGES.

## HISTORY AND METHOD OF BUSINESS.

A STOCK EXCHANGE is an institution where sales and purchases may be made of securities of corporations and municipalities, and, in some cases, of certificates representing commodities of trade, such as silver bullion, petroleum, etc. In their origin, stock exchanges appear to have been free to the use of anyone who wished to buy or sell, and it was probably with this function in view that some of the older exchanges, notably the Paris Bourse, were located in buildings erected at the public expense. It was quickly discovered, however, that in order to enforce bargains, some formal organization was necessary. Membership in Stock Exchanges, therefore, came to be limited on the general basis used by clubs and other associations. As the profits of the use of the exchange became large, possession of membership became a valuable privilege.

As far back as 1493 there were daily gatherings of traders who took their places in a public square of Amsterdam. They traded among themselves and for clients. This open air exchange continued for ninety-nine years. In 1592 the Dutch monarch regulated these meetings by law and sixteen years later the members of these gatherings built an exchange in the modern sense of the term. Business in bonds and shares formed the regular occupation of about 100 men and it is recorded that whoever required considerable sums for enterprise of any sort would apply to these men.

Here also, speculation or trading on margin originated, the first big deal being in the stocks of the Indian companies which were the first share organizations in modern Europe. One might dwell at length upon the influence which the Amsterdam stock exchange exercised

on international politics toward the close of the seventeenth century and especially during Holland's ferocious war with France.

Frequently the price obtainable at Amsterdam for the various Dutch government debt certificates and their negotiability determined the nature of the alliances which Holland was able to conclude in consideration of subsidies, which, through the exhaustion of its hitherto abundant resources, it was compelled to satisfy in bonds.

There has been some rather notable diversity in the business of the New York Stock Exchange and other American exchanges. For example, the Philadelphia Stock Exchange has long been noted as the market for various street railway securities. This was because Philadelphia capitalists had interested themselves particularly in that form of investment. For similar reason, the Boston Stock Exchange, though not an organization which commanded the resources and capital of New York, monopolized for many years and largely controls now, the trading in shares of copper mining companies.

Stock Exchanges in Continental Europe have in general devoted themselves to transportation enterprises of their own countries, to their own Government securities and to securities of other European governments which came to those markets to raise capital. More recently the Stock Exchanges of Paris, Berlin and Vienna have followed London's example in taking up on a large scale shares of incorporated industrial enterprises. These have been extensively exploited in this form. Stock Exchanges as an institution had origin at the time of the creation of public debts on the modern plan, at the close of the seventeenth century. The incorporation of the East India Company in London further developed



the possibilities of the raising of public capital for corporate uses through the medium of stock exchange trading.

In 1720 the enormous public speculation in the shares of the South Sea Company in London and of the Mississippi Company in Paris, brought stock exchange trading to a height never before conceived of. No city at that time, however, possessed a stock exchange in the sense now attached to the term. In London, transactions in stocks were conducted through stock brokers, whose headquarters were at Jonathan's and Garraway's Coffee Houses in Change Alley. There does not appear to have been any formal organization among these brokers.

The London Stock Exchange building was not erected until 1801; the Paris Bourse not until 1826. The New York Stock Exchange, even after it had become a formal organization, conducted its business in hired rooms until December, 1865, when the building was erected on Broad and Wall Streets, which has been replaced by the new structure on the same site, dedicated in April, 1903.

The history of stock exchanges is very largely a mirror of the financial history of the community in which they are situated. The New York Stock Exchange rose to a position of real prominence only after the Civil War. Even at that time the fact that it did not deal in gold as a commodity threw a great part of the community's highly speculative business over to the Gold Exchange, which was formed for the purpose exclusively. The dramatic incident of this period was the gold panic on Black Friday in September, 1869, when a combination of several unscrupulous speculators, among them James Fisk, Jr., and Jay Gould, attempted to corner and put to extravagant figures the gold supply of the market.

Operations on the stock exchange proper at that time were largely made up of the personal struggles of rival capitalists, notably in connection with the Erie and New York Central Railroads.

The completion of the Pacific Railway (1869) caused extensive speculation in the shares of the two trans-continental railways, and as capital increased and the railway mileage of the country extended, the transactions of the Exchange became more of a national rather than provincial character.

The New York Stock Exchange devoted itself during most of its history almost exclusively to securities of railway enterprises, even the dealing in U. S. Government bonds and in other American public securities being chiefly conducted outside the exchange. In recent years, however, along with the development of the London movement of industrial incorporation, the New York Stock Exchange has largely been utilized for the exploiting of shares of American companies of this nature. This movement which flagged during the hard times of the early nineties was revived in enormous volume during the great "boom" in trade which followed 1897. In the course of this time listing of industrial securities on the New York Exchange attracted an immense business to that branch of its activities. The New York Stock Exchange has never dealt to any extent in foreign securities, thereby reflecting the general tendency of American investors.

#### METHODS OF BUSINESS.

Stock Exchanges, as at present constituted, are limited in membership and governed by strict rules which cover both methods of business, rates of com-

mission to be charged, and conduct on the floor. The rules governing methods of business in New York prescribe a minimum commission of one-eighth of one per cent., on the face value of securities purchased for outside customers, one thirty-second of one per cent. for purchases made on account of fellow members, and one-fiftieth of one per cent., for purchase made on the order of another member on the floor.

In New York the Stock Exchange member may both transact business on the floor of the Stock Exchange and solicit business from outside customers. In London these functions are divided between the functionaries known as "jobber" and "broker" which correspond to the divisions in other English professions, as for example, the barrister and solocitor at law. Members of the London Stock Exchange are forbidden to advertise; New York Stock Exchange houses advertise freely. Agents de change in Paris are forbidden to solicit outside business.

Acceptance of a bid or offer of stock makes the transaction official on a Stock Exchange and holds each participant to the fulfilment of his bargain. Stocks thus sold must be delivered to the buyer by 2.15 P. M. of the ensuing day. The New York Stock Exchange practices daily settlement of such accounts. In London settlements are made fortnightly, the bargain being carried for the account, that is to say, on credit, during the intervening period.

No security can be dealt in on the stock exchange which has not been formally listed by the committee. In New York, a statement of the company's condition, with a balance sheet, is required before listing; also proof that proper facilities for transfer and registry of shares have been provided, and with bonds

that the mortgage has been properly drawn and recorded. Corporations unwilling to make public statements, have, however been allowed since 1885 to obtain a place in what is called the "unlisted department." Since stocks in this department enjoy all the facilities of "listed stocks," the discrimination has been entirely futile.

REQUIREMENTS FOR LISTING STOCKS AND  
BONDS ON THE NEW YORK STOCK  
EXCHANGE

The requirements for the listing of securities on the New York Stock Exchange are as follows: All applications to list securities must be addressed to the Committee, and should be filed with the Secretary of the Exchange on or before the Wednesday prior to their consideration.

REQUIREMENTS FROM APPLICANTS.

In all cases of application for an original listing of either stocks or bonds of railroad companies, it is required that there shall be filed a statement of the location and description of the property, and when possible also a map thereof. Said statements should give title of the company, when the corporation was organized and by what authority, route of road, miles of road completed and in operation, contemplated extensions, equipment, liabilities and assets, earnings, amount and description of mortgage lien or other indebtedness; also a statement of and liability for any leases, guarantees, rentals or car trusts, and terms of payment thereof; also the number of shares of capital stock authorized, the par value thereof, a list of officers and directors, the office of the company, transfer office and registrar, together with names of transfer officer and registrar. If it is a reorganization of another company, the particulars should be stated. Seven copies of this statement in type, or typewritten, signed by an officer of the company, should be furnished to the committee, together with a like num-

ber of copies of trust deeds, mortgages or other agreements pertaining to the application.

Applications to place bonds on the list (seven copies required) must give a description of the bonds, viz. The amount of authorized issue, names of trustees, date of issue and maturity, the par value of each kind of bond issued, series of numbers, rate of interest, when and where payable, whether the bonds are subject to earlier redemption by sinking fund or otherwise, whether bonds are issued in coupon or registered form, and whether they are transferable into other forms, and name of transfer agent and place of transfer, if said bonds have privilege of registration. The application should also state disposition of proceeds of the issue, and must be accompanied by a balance sheet and a statement of income account of a recent date. Seven copies of the mortgage, one being certified by the trustee to be a true and correct copy, together with evidence that it has been duly and properly recorded as a lien upon the property, and similar copies of other corporate documents must also be furnished. Bonds upon complete mileage only will be issued.

When application is made to place the securities of any railroad corporation upon the list, the applicant must present a certificate from a duly qualified civil engineer stating the actual physical condition of the property as of a recent date.

When application is made to list securities of a corporation which has been insolvent or has been reorganized, the exchange will require a full and complete financial statement of said corporation or of its predecessor, for a period covering at least one year prior to reorganization—i. e., a detailed state-

ment of earnings and receipts from every source, a detailed account of all expenditures, and the amount of all outstanding indebtedness of every nature in detail, and a balance sheet of the books of the reorganized company; also the amount and description of the various securities issued by such reorganized corporation, and the purposes and terms, in detail, under which they are to be or have been issued. If the property has been sold under foreclosure copies of the order of court confirming such sale, with a concise history of the proceedings, must be furnished, together with certificate from counsel that the proceedings have been in conformity with all legal requirements and that the title to the property is now fully vested in the new corporation and is free from all liens and incumbrances, except as distinctly specified.

When bonds are issued which by their terms are intended to replace one or more authorized prior issues, the Exchange will require evidence of the satisfaction of such prior liens, or a cancellation or cremation certificate of the bonds retired, as a condition precedent to listing.

Application for listing additional amounts of securities of railroad companies, already represented, upon the Exchange, should state the amount and character of the additional issue, the authority therefor and the application of the proceeds; if for the acquisition of new property, the application should describe said property.

In every case of listing bonds, the Committee must be furnished with a certificate from the County Clerk of each county in which the mortgaged property is located, that such mortgage has been recorded in each of such counties. Should the laws of the state in which

the property is located not require a record to be made in the several counties, a certificate of the Secretary of said state of the proper record of the same, or a copy of the mortgage with such certificate of record endorsed thereon, and certified by the trustee to be a true copy, will be required.

Original applications to list any securities of industrial or manufacturing companies must be accompanied by a copy of charter or act of incorporation, by-laws of the company, opinion of counsel that the securities have been legally issued, statement whether this is an original organization or a consolidation of several previously existing firms or corporations. If a consolidation, statement of financial and physical condition of constituent companies must be furnished; a full description of the property, real, personal and leased; nature and character of product, and general statement of the business proposed to be transacted; opinion of counsel that real estate owned is free and clear, except as to stated liens; report of responsible expert accountants, showing results of business each year for the period of at least two consecutive years if possible, and a balance sheet showing assets and liabilities of recent date; statement of special rights and privileges of directors, as conferred by charter or by-laws, and agreement that the company will not dispose of its stated interest in the constituent companies except on direct authorization of stockholders, and that it will publish at least once each year a properly detailed statement of its income and expenditures for such preceding period; and also a balance sheet, giving a detailed and accurate statement of the condition of the company at the close of its last fiscal year or of recent date.



Applications to list securities of all other companies must be accompanied with like information, as to property, financial condition and results of business, as indicated above.

Every application for listing securities must be accompanied by a check for the amount of \$50 for each \$1,000,000 or portion thereof, of the par value of each class of security presented for listing. Said checks should be drawn to the order of the "Treasurer of the New York Stock Exchange," and will immediately become the property of the Exchange.

#### TRUSTEES OF MORTGAGES.

The Committee recommends that a trust company or other corporation should be appointed trustee of each mortgage or trust deed. When a state law requires the appointment of a local individual trustee, then a trust company or other corporation should be appointed as co-trustee.

The Committee will not approve of an officer of an applicant corporation as a trustee of securities issued by it, nor will it regard such officer as counsel in regard to any legal question affecting the corporation.

In all places where two or three liens have been placed upon the same real property of a corporation seeking the listing of its securities upon the Exchange, each lien must be represented by a trustee or trustees entirely separate and distinct from those to whom any other liens upon the same property, either in part or entirely, have been entrusted.

The trustee must present to the Committee a certificate acknowledging the acceptance of the trust and giving the numbers and amounts of bonds executed in

accordance with the terms of the mortgage; in case the trust deeds shall require the deposit of collateral as security for the mortgage, the trustee shall certify to the deposit of such collateral, specifying it in detail. In the matter of additional issues of bonds, the trustee must certify that such increase has been made in conformity with the terms of the trust deed, and that the lien of the mortgage has been duly recorded against any new property acquired, or that the required additional collateral has been duly deposited.

It is requested that a trustee shall furnish opinion of counsel approximately in the following form:

"We have examined the mortgage, dated \_\_\_\_\_ made by the \_\_\_\_\_ Company to the \_\_\_\_\_ Trust Company of \_\_\_\_\_ as trustee, to secure an issue of \_\_\_\_\_ bonds of said company to an amount not to exceed \$\_\_\_\_\_. We are of opinion that the actions of the directors and stockholders in respect to this mortgage were in conformity with the laws of the State of \_\_\_\_\_, and are in accordance with the laws of all states in which property so mortgaged is situated, and that the mortgage and bonds therein referred to are in all respects valid and binding obligations of said company."

#### ENGRAVED CERTIFICATES REQUIRED.

The face of every bond, coupon or certificate of stock must be printed from steel plates, which have been engraved in the best manner, and which have such varieties of work as will afford the greatest security against counterfeiting.

For each document or instrument there must be at least two steel plates, viz., A Face Plate containing the vignettes and lettering of the descriptive or promissory

portion of the document, which should be printed in black, or black mixed with a color; also a Tint Plate from which should be made a printing in an anti-photographic color so arranged as to underlie important portions of the face printing.

These two printings must be so made upon the paper that the combined effect of the whole photographed would be a confused mass of lines and forms, and so give as effectual security as possible against counterfeiting by scientific or other processes. The imprint of each denomination of bonds must be of such distinctive appearance and color as to make them readily distinguishable from other denominations and issues. It is required that for each class of stock issued there shall be a distinctly engraved plate of one hundred shares, with said denomination engraved thereon in words and figures; and for certificates issued for smaller amounts than one hundred shares there shall be similar plates, distinctive in design and color, for each issue, and there shall be engraved thereon some device whereby the exact denomination of the certificate may be distinctly designated; and they shall also have conspicuously engraved thereon the words "Certificate for less than One Hundred Shares."

It is required that a sample of each issue of stocks or bonds sought to be listed shall be referred to the Committee for acceptance as to form, character and workmanship prior to application for their listing. No form of stock certificate or bond will be accepted unless it has been carefully engraved by some bank-note engraving company, whose work the committee on stock listing has been authorized by the Governing Committee to accept for admission to the list.

#### REGISTRATION.

The Constitution of the Exchange provides that all active stocks must be registered at some institution satisfactory to the Committee; each application must be accompanied by a letter from the registrar stating the amount of stock registered at the time of application.

The Exchange requires that a trust company, or other agency, shall not at one and the same time act as registrar and transfer agent of a corporation. The duties of such offices should be performed by different companies or agencies.

In any case of increase of capital stock, except for convertible bonds already listed, at least thirty days' notice of such intended increase must be given in writing to the Stock Exchange, and application must be made through the Committee on Stock Listing to the Governing Committee to have such new stock admitted to the list; the registrar will not be authorized to register any new stock until notified by this Committee that such stock has been duly listed.

All signatures upon securities must be written. Stamped signatures upon securities will not be accepted by the Committee.

#### CERTIFICATES OF STOCK.

The power of attorney endorsed upon a certificate of stock must contain a full bill of sale, must be irrevocable and must contain a power of substitution.

After a stock has been placed upon the list, any change in the form of certificates or place of registry or transfer must receive the approval of the Committee on Stock List.

All alterations or amendments proposed to be made to bonds or certificates of stock, subsequent to the original issuance thereof, must be submitted to the Committee as to approval in form and printing, as a condition precedent to listing.

The Committee will not favorably consider any impression which has been made by a hand stamp upon any security.

The Governing Committee may refuse to make new issues of stock a good delivery or allow dealings therein, and it may suspend dealings in the capital stock or in the bonds of any company, either for a time or permanently, as the case may seem to require.

#### CERTIFICATES OF DEPOSIT TRUST.

Institutions, firms or corporations which are depositories of securities under plans of reorganization, protective or associate action, are requested to accept on deposit only such securities as are good delivery in the exchange; provided, however, that in any case where said depositories find it necessary to accept securities which are not a good delivery, they shall issue therefor a distinctive certificate which will indicate such fact. Agreements for deposits or securities for protective or associate action must be limited to a specified time for continuance, within which a plan or reorganization or adjustment will be presented to the certificate holders for acceptance, or in default thereof such holders will be granted opportunity to withdraw the securities represented by their certificates, and their assent to said agreement thus terminated. Penalty for delay in depositing securities under any agreement should not be imposed until all holders of such securities shall have had reason-

able opportunity for so depositing, after the listing of the depository certificates upon the Exchange.

When bonds are deposited with institutions, firms or corporations which are depositories under plans of reorganization, protective or associate action, certificates therefor will be considered as representing the deposit of coupon bonds. When certificates are issued for deposits of registered bonds, said certificates must bear on their face evidence of such fact. Certificates of deposit for securities, whether for reorganization, protective or associate action, or for voting trustees, must bear the counter signature of some institution or registrar, in same manner as certificates for stock.

#### RECOMMENDATIONS.

The Exchange recommends to the various corporations whose securities are here dealt in, that they print, publish and distribute to stockholders, at least fifteen days prior to annual meetings, a full report of their operations during the preceding fiscal year, together with complete and detailed statements of all income and expenditures, and a balance sheet showing their financial condition at the close of the given period. The Exchange requests that stockholders of the several corporations take such action as may be necessary for the accomplishment of this recommendation.

#### UNLISTED SECURITIES.

All applications for quotation in the unlisted department must state name of corporation, date of incorporation, the state in which it is incorporated, if personal liability attaches to ownership and if stock is full paid;

authorized capital; preferred stock (cumulative or non-cumulative—per cent.); nature of preference or preferred over common stock in regard to voting, dividends and assets; amount of common stock; amount of each outstanding; par value of shares, preferred; par value of shares, common; transfer agent in New York and registrar elsewhere; also if certificates issued elsewhere are transferable in New York without discharge.

State how generally stock is distributed, about number of stockholders, and if any stock is in the hands of trustees for stockholders of acquired or constituent companies; dividend rates and dates of payment; balance sheet last issued, if of recent date. If incorporation is of recent date, a statement of the net earnings of the acquired or constituent companies for a period of three years must be made; if there is bonded indebtedness, give particulars—date of maturity; rate of interest; sinking fund requirements; amount authorized; amount outstanding, and if interest has all been paid. Bonded indebtedness of acquired or constituent companies (with particulars as above). State if acquired or constituent companies are owned in fee; if not, give amounts of various acquired or constituent companies' stock owned, also amount authorized. Give history of corporation (and if composed of old companies name them), location of plants, character of buildings, acreage and nature of business conducted at each plant. Give address (city only) of board of directors (classified, if in classes), list of officers. Furnish sample each kind of stock certificates. Furnish letter accepting transfer agency from transfer agent; letter from registrar accepting office; letter from counsel in re-legality of incorporation and by-laws.

The Committee will require that the articles of incorporation or the by-laws provide that the company shall not deal in its own shares or the shares of constituent or acquired companies, and that an annual report to stockholders be issued.

Every application for a quotation in the Unlisted Department for securities must be accompanied by a check for the amount of fifty dollars for each \$1,000,000 or portion thereof, of the par value of each class of security. Checks should be drawn to the order of the "Treasurer of the New York Stock Exchange."

#### RULES FOR THE DELIVERY OF STOCK ON THE NEW YORK STOCK EXCHANGE.

The rules for delivery of stock on the New York Stock Exchange are as follows:

Securities admitted to dealings upon the New York Stock Exchange, registered and transferable in the Borough of Manhattan, City of New York, in conformity with the requirements of Section 1, Article XXXIII of the constitution, are a delivery:

- (a) Certificates of stock for 100 shares or odd lots aggregating 100 shares, with irrevocable assignment for each certificate, and in the name of a member or his firm, registered and doing business in the Borough of Manhattan. Certificates for the exact amount or aggregating the amount of an odd lot.
- (b) Or with irrevocable assignment witnessed by, or correctness of signature guaranteed by, such member or his firm.
- (c) Or with irrevocable assignment and power of substitution, and a separate guarantee by such member or his firm, for each power of substitution.



(d) Coupon bonds payable to bearer, in denominations of \$500 or \$1000 each, with proper coupons of the bond's number securely attached. Small bonds, under \$500, only in special transactions.

The money value of a missing coupon may be substituted only with the consent of the Committee on Securities for each delivery.

(e) Registerable coupon bonds in denominations of \$500 or \$1000 registered to bearer, or when transfer books are closed with an assignment to bearer for each bond by a member or his firm or witnessed by a member, or the correctness of the signature guaranteed by a member or his firm, registered and doing business in the Borough of Manhattan.

(f) Registered bonds in denominations not exceeding \$10,000 properly assigned.

Securities contracted for in amounts exceeding 100 shares of stock or \$10,000 in bonds may be tendered in lots of 100 shares of stock or \$10,000 in bonds, or any multiple of either, and must be accepted and paid for as delivered.

Securities with assignment, or power of substitution, signed by an insolvent are not a delivery. During the close of transfer books, such securities, held by others than the insolvent, are a delivery if accompanied by an affidavit for each certificate or bond that said securities were held prior to the insolvency.

Securities with assignment, or with power of substitution, guaranteed by a member, or his firm, suspended for insolvency, are not a delivery and must be reguaranteed by a solvent member of his firm.

Securities in the name of a deceased person, or a firm that has ceased to exist, are not a delivery except during

the closing of the transfer books. The assignment must be proved or acknowledged before a notary public.

Securities with either the assignment or any power of substitution witnessed by a deceased person are not a delivery.

Securities assigned, or a power of substitution, by a firm that has dissolved and is succeeded by one of the same name, are a delivery when the new firm shall have signed the statement, "Execution Guaranteed," under a date subsequent to the formation of the new firm.

Securities in the name of a corporation, or an institution or in a name with official designation, are not a delivery unless assignment is sworn before a notary public. The notary public must also make a deposition that he has seen the minutes of the institution authorizing the person or persons signing to make the assignment. A certified copy of the resolutions of the proper authorities of the company in whose name the security stands, authorizing the assignment and giving date of adoption, must accompany the security.

Securities with an assignment, or a power of substitution, signed by trustees, guardians, infants, executors, administrators, assignees and receivers in bankruptcy, agents or attorneys are not a delivery.

Securities signed by a married woman are not a delivery. A joint assignment and acknowledgment by husband and wife before a notary public will make such security a delivery only while the transfer books are closed.

Securities in the name of an unmarried woman (without the prefix "Miss") or a widow are a delivery only when the assignment is acknowledged before a notary public.

Securities of a company whose transfer books are closed indefinitely for any reason, legal or otherwise, the assignment and each power of substitution must be acknowledged before a notary public.

Securities in the name of foreign residents are not a delivery on the day the transfer books are closed for payment of a dividend or registered interest, and reclamation can only be made on that day.

Securities in the name of foreign residents must be accompanied by an acknowledgment before a United States Consul or J. S. Morgan & Co., London, when required by transfer agents.

Several companies having transfer offices at Grand Central Station, New York, make this requirement.

Certificate of stock on which the name of a transferee has been filled in error may be made a delivery during the closing of the transfer books by ruling of the Committee on Securities. Necessary form of release, cancellation and reassignment will be furnished on application to the Committee on Securities.

An endorsement by a member or his firm, registered and doing business in the Borough of Manhattan, or the signature as a witness of such member, of a signature to an assignment or a power of substitution is a guarantee of its correctness. Each power of substitution, as well as the assignment, must be so guaranteed or witnessed.

The receiver of stock may demand delivery by transfer when the transfer books are open, and must give ample time in which to make the transfer. The seller may demand payment for the securities at the time and place of transfer when personal liability attaches to ownership.

When a claim is made for a dividend on stock after the transfer books have been closed, the party in whose name

the stock stands may require from the claimant presenting the certificate a written statement that he was the holder of the stock at the time of the closing of the books, a guarantee against any future demand for the same, and the privilege to record on the certificate evidence of the payment by cash or due bill.

"Coupon bonds issued to bearer, having an endorsement upon them not properly pertaining to them as a security, must be sold specifically as 'endorsed bonds,' and are not a delivery except as 'endorsed bonds.'" Extract from resolutions of Governing Committee, adopted May 23, 1883: A definite name of a person, firm, corporation, an association, etc., such as "John Smith," "Brown, Jones & Co.," "Consolidated Bank," appearing upon a coupon bond, and not placed there for any purpose of the company by any of its officers, implies ownership, and is an "endorsed bond" under the above resolution.

Any endorsement on a coupon bond, stating that it has been deposited with a State for bank circulation or insurance requirement, may be released and release acknowledged before a notary public; it will then be a delivery as a "released endorsed bond."

"Rights" to subscribe. Assignment of "rights," with the signature of the assignor witnessed and guaranteed in the same manner as other assignments as provided in these rules, are a delivery.

THE SYSTEM OF THE STOCK EXCHANGE  
CLEARING HOUSE.

In recent years the system of "clearing" stock exchange transactions, on the plan of the bank clearing house, has been generally adopted by stock exchanges. As introduced in the New York Stock Exchange in 1892, the system provides for the offsetting of securities which he may have contracted to receive. Thus if Broker A has sold 1000 Union Pacific shares to B and bought 1000 of the same shares from C, the two transactions are settled by the delivery of a thousand shares by C to B. The price may be different in the two transactions, but such differences are adjusted by the clearing house, to which the broker is "debtor" or "creditor" on his daily sheet. The same principle is followed even where the amounts bought and sold do not agree. Thus A, in the above case, may have sold 500 shares to B and bought 1000 from C. In that case, C delivers 500 shares to A and 500 to B, and payments are made accordingly. The economy consists in the lessening of the number of individual checks which must be drawn for settlements, and against which bank balances must be maintained.

The plan was adopted by the Frankfort Stock Exchange in 1867, at Berlin in 1869, at Hamburg in 1879, at Vienna in 1875, at London in 1876, and by various American Stock Exchanges between 1880 and 1887.

## THE CURB EXCHANGES.

The "Curb" is an institution which has grown to considerable proportions in recent years. "Curb trading" is so called because the transactions are usually conducted on the street outside of the entrance to the Stock

Exchange. Just recently the "Boston Curb Exchange" has been reorganized and now transacts its business in a building erected for that purpose.

In London, Paris, New York and Boston this trading has at times reached very large proportions, although the system which it represents is radically different in the four cities. In London, curb trading is utilized for the sake of dealing in foreign shares whose home market is open after the official closing of the London Exchange. For example, trading in American securities is conducted in Shorter's Court, behind the London Stock Exchange, frequently until six o'clock or later, the New York Stock Exchange, on account of the five hours difference in time, being actively at work at that hour. In Paris, the curb market, under its French title, the "Coulisse," has had a longer history. It has represented virtually a rival exchange, not subject to the numerous and rather vexatious limitations of the elder Bourse. The Coulisse has frequently been suppressed by law, but has invariably revived, and has probably conducted a larger total business than the Bourse itself, except perhaps, in Government securities. At present, the Coulisse conducts its operations on the portico of the Bourse and is a recognized institution. In New York and Boston, curb trading devotes itself exclusively to securities which have not been admitted to the list of the Stock Exchange. In this category are comprised many important enterprises, including shares of the Standard Oil Company and of the various banks. The Curb also provides a market for newly organized enterprises which have not reached a stage where they can apply for a place on the Stock Exchange list, and it gives an opportunity for fixing values of a forthcoming security before the shares or

bond certificates are formally issued. In the conversions of the United States Steel Corporation stock, for instance, the shares and bonds were bought and sold "when as and if issued" on the Curb, and on these terms their values fluctuated in some cases 14 or 15 points before the security itself ever legally existed. There is no restriction of the right to deal in the Curb Market, but in practice its privileges are limited to regular and responsible parties, whose position or credit is known to the other party to a bargain.

The New York Curb Market is an altogether out-of-door market. Its origin dates back about 50 years when a few brokers began to congregate on the curbstone outside of the Stock Exchange.

At that time only a few stocks were dealt in, most of which were also traded in upon the Stock Exchange. This practice gradually died out, then only stocks which had not been listed or had been thrown out of the Stock Exchange were dealt in. These stocks became known as unlisted securities, principal among these being bank, street railway, industrial stocks and bonds of every nature; in fact, a market for almost any security could be obtained from some broker. Unlike the present day curb, very few mining stocks were dealt in.

The growth of this curb market was gradual and healthy. There was no pretense of organization or membership. Any responsible broker could trade, most of these coming at 10 A. M. and staying until 3 P. M. were representatives of Stock Exchange houses.

This condition continued until the early years of 1900, when the great mining boom started, and the New York Curb instantly began to grow with a marvelous speed until, today, roped off in the center of Broad Street, just

below Exchange Place, there are congregated about 500 men and boys. This growth was entirely too rapid and reached its climax about 1905, when the first steps were taken to clean out the fake mining companies and their promoters. The City of New York also lent a helping hand at this time by roping off the present space, and keeping the brokers separated from the general public. This also allowed ample space for traffic, and therefore the New York Curb broker has no disturbing elements to interfere with trading.

The expense of maintenance is defrayed by subscriptions, and only brokers paying these subscriptions, are allowed the privileges of the Curb. Another income is derived from the fee charged for listing a new stock.

Although there is a list of regularly listed stock quotations, which are printed on the Curb sheets, any stock can be bought or sold on the curb, but no record will be made of such transaction; and much confusion arises through the fact that two sheets are published by different concerns giving these sales, and it rarely occurs that the sales reported by each will agree in every detail. It occurs, frequently that one sheet will record sales of a stock, and the other sheet will have no record of such sale. This is caused to a great extent by the method of reporting sales, which differs in the New York Curb from methods employed by Stock Exchanges.

The methods employed on the New York Curb are such that the "specialist" in each stock reports periodically during the day to a reporter from each sheet the sales he remembers in the particular stock in which he specialized. Therefore, it becomes guess work, but for all this the results are very favorable.

The New York Curb has a book of rules covering



the trading, which rules are similar to those used in the New York Stock Exchange. The rules are lived up to strictly, and even before these rules were put in print they were in use, all trading being conducted under the rules of the larger Exchange; and although no penalty was attached to any violation of them, they were never disobeyed, because every broker conducts his business with another broker on his word only, and his word is his largest asset. Once broken, it is worthless forever, and he will be unable to conduct his business except in a very inconvenient manner. In other words, he would be considered unreliable, and would be compelled to produce either the securities or cash or its equivalent before anyone would trade with him.

These rules constitute nothing more than a clear conception of right and wrong, and this is one of the first things a boy learns when he enters the employ of a brokerage house. These rules become second nature to him as he grows up in the business, and when the time comes for him to become a broker it is much easier to obey them than to violate them, and it is safe to say that the few times they are broken, the chief offenders are brokers who did not learn the business from the bottom up.

A man who has started at the bottom learns to realize the value of this privilege of trading in millions of dollars' worth of securities, for which he gives no security at the time of the trade other than his word, and if the public refused to trade with brokers who had not started at the bottom, there would be less suffering from dishonesty on the part of "so-called" brokers. These men only become brokers because they see some scheme by which they can rob the public; and if all the fakirs and dishonest brokers could be gathered together, and their

past looked into, the percentage would show that not one-tenth of one per cent. of them had entered the brokerage business after leaving school and had stayed at it, working their way up.

This does not apply to Curb brokers alone but applies to all brokers generally throughout the world.

While the stocks traded in on the New York Curb are mostly mining stocks they are in general of a much better class than those listed on the Boston Curb. Many of these mining stocks are listed on the Boston Stock Exchange, and in addition to these there are a number of industrial and railroad stocks and bonds actively traded in on the New York Curb. Among these selling at a price over \$100 per share are Standard Oil, Borden's Con. Milk, Am. Light & Traction and American Tobacco.

The Boston Curb Market came into existence October, 1905, when the mining boom was well under way. A few, perhaps half a dozen, employees of Stock Exchange houses, congregated on the curbstone at the back of the Stock Exchange on Exchange Place in practically the same manner as the New York Curb started.

It was only a matter of a few days before the members of the Mining Stock Exchange, which was then directly across the street in the basement of the State Mutual Building, came out and joined them. The last member of that organization to come out and join hands with the new-born Curb Market was Charles Dole, an ex-member of the Boston Stock Exchange, who later became the head of the new Curb Market, and through his efforts and knowledge of the business the Boston Curb sprang from obscurity to prominence. This was also due to the existing conditions, and in 1906, when the mining boom was at its height, the Bos-

ton Curb became a prominent institution, and a blessing to those who traded in unlisted securities, because they could be certain of getting a fair market for their stocks.

The Boston Curb started with a few stocks which were good ones. These stocks quickly grew in quantity, but not in quality, as many "wild cat" and "bogus" stocks were sold to the public through irresponsible corporations and promoters who had their stocks listed on this Curb. Although several efforts have been made to clean the Curb of these issues, not much progress has ever been made, or at least they have never been entirely eliminated. The real cause for this can be found in the fact that the list is composed almost entirely of mining stocks of the cheaper class, and mining stocks at their best are very uncertain; and added to this the inexperience of the committee who had charge of the work, and the great amount of other work they were called upon to do at the same time, it is not surprising that they failed to weed out all the undesirable stocks.

During its short existence the Boston Curb has had a very lively time from many causes. In its early life everything was serene, there being a minimum of trouble and a maximum of business. Its first troubles were caused by some people who complained to the police about blocking up the sidewalk. Shortly after this, in 1907, the panic came to disturb business, and in the same year the Stock Exchange divorced the Curb and withdrew all representatives of Stock Exchange houses. This was a severe blow and came near putting an end to the Boston Curb. It was at this time that Thomas W. Lawson came upon the scene and offered his support. This caused a split in the Curb. A meeting was held with little result, and later a conference

was arranged between about a dozen Curb members and Mr. Lawson at Young's Hotel. That night another informal meeting was held where only Curb members were present, when a plan for the following day was discussed. The following day a meeting was held to either accept or reject Mr. Lawson's offer, and also to elect a governing committee. After a close fight and a stormy discussion the committee was elected and Mr. Lawson elected as chairman.

From this time on the Boston Curb took on the appearance of an organization, resulting in an association bound by an agreement which each member signed. Regular commission rates were decided upon, and each member was compelled to deposit \$500 as a security in a trust fund. Each firm had the privilege of taking out as many memberships as desired, depositing \$500 for each one, and the number of representatives each firm could have on the floor was limited to the number of memberships owned.

Meanwhile, new trading apartments had been fitted up at Nos. 5-23 Doane Street—Adams Building—and on March 21, 1910, the Boston Curb Association formally opened its new quarters to the public.

The new building is a five-story stone and brick structure, which has been remodelled entirely for the purposes of the Boston Curb Exchange. The Curb itself occupies the fourth and fifth floors of the building, which have been equipped in an up-to-date manner for the rapidly growing business of the institution. The room is two stories in height, with a large skylight in the center and well lighted from both sides by the windows opening on the two side streets.

Everything that can possibly be desired in the way of light, heat and ventilation is provided. There are

nearly 4000 square feet of floor space in the trading room. Around it are arranged all the private telephone booths of the members, while in an alcove adjoining are the Exchange switchboard and public telephone station.

The efforts of the present governing committee have been untiring from start to finish, and today, when peace reigns supreme on the Boston Curb Exchange, much praise is being attributed to these gentlemen, and all others who in any way helped to make the new quarters what they are, and to bring the Exchange up to its present high standard.

## GLOSSARY OF STOCK EXCHANGE TERMS.

The Stock Exchange has a dialect or slang of its own, much of which had its origin at the time of the South Sea speculation in 1720.

REGULAR—Applied to stock sold for delivery the following day at or before 2.15 P. M.

PRIVILEGES—S. 3, B. 3, occurring in stock quotations, indicates that the buyer or seller, as the case may be, has the right to take or deliver the stock at any time within the number of days specified. So that S. 10, B. 60, records that the seller can deliver at once or at any time within 10 days, and the buyer can claim its delivery at once, or at his option, at any time within 60 days.

BULL—This term is applied to those who are purchasers of stock for long account, with the purpose of advancing prices, as a bull is supposed to desire to elevate everything within its reach. In other words, a "bull" is a buyer of stocks which he hopes to sell at a higher price. He may buy altogether with his own capital; but if he is merely a Stock Exchange speculator he borrows most of the requisite funds, depositing the purchased stock as security. He can usually borrow 80 per cent. of the stock value of his shares; the difference, 20 per cent., being his "margin." If the price falls, the lender calls on him to "make good his margin." If he fails to do so, and the margin continues "impaired," he is "closed out" by the sale of his collateral.

BEAR—This term is applied to those who sell stock short, with the purpose of depreciating values—as the instinct of a bear is for pulling and tearing things down. The "bear" is a seller of stocks which he hopes to obtain, later on, at a lower price. He may be selling his own holdings and delivering them to the purchaser.

But if he is a speculator he may borrow stocks as the "bull" borrows money. Generally he obtains the stocks by lending their equivalent in money to the owner. He is said to be "short" of stocks, where the "bull" is "long." The "bull" realizes when he sells to take his profits; similarly the "bear" "covers" when he buys in the market the stock in which he has been speculating, and returns the shares which he has borrowed.

**LONG AND SHORT**—If you buy a stock for an advance, you are, while holding it, said to be "long" of the stock. If you sell stock not in your possession, for delivery at some future time, believing that meanwhile you will be able to buy it in at a lower figure to meet such delivery, you are said to be "short" of that stock.

**CARRYING STOCK**—A broker, when he retains a stock in his possession until ordered to sell, is carrying the stock for his customer's account.

**BORROWING STOCK**—When you have sold short you will be compelled to borrow the stock where you can, for delivery to the purchaser, depositing with the party from whom you borrow, the moneyed value, to insure its return when called for.

**CORNER**—When a stock has passed into the possession of a Pool or Clique, which is a term applied to a combination of speculators who have bought it up for the purpose of advancing the price, any person who has sold for future delivery will find himself in a Corner. The pool can force him to pay any price for the stock with which to meet his contracts, possessing as they do the control of it.

**EX-DIVIDEND**—Indicates that the stock is sold without the dividend about to be paid on the same.

**BOOM**—A “boom” is a successful upward movement of prices; this term is of American origin. The opposite of a “boom” is a “slump.”

A “manipulated” market is one in which the speculators have caused an artificial appearance of real buying or selling. A “rigged” market is much the same thing, though in a more intensified form.

“Wash” sales are transactions in which buyer and seller are employed by the same person, with a view to creating a semblance of activity. They are prohibited under severe penalties by the Stock Exchanges, but are rarely detected and are very frequently utilized.

#### STREET.

“The Street said so and so,” “The Street was uneasy,” and such like expressions arise from the use of the term “Wall Street” or “State Street,” which designate the financial centers respectively of New York and Boston. Throughout the country at large “Street” means the financial center or pulse of New York.



CHAPTER IX.  
BROKERS.

## DUTIES AND LIABILITIES OF BROKERS.

**A** BROKER is an agent to make bargains and contracts between other persons in matters of trade, commerce and navigation for a compensation commonly called brokerage. When a broker is employed to buy or sell goods he is not intrusted with the custody or possession of them, and is not authorized to buy or sell in his own name. In this respect he differs from a factor and an auctioneer in two particulars.

(A) A broker may buy as well as sell, but an auctioneer can only sell.

(B) A broker cannot sell personally at public auction, for that is the appropriate function of an auctioneer; but he may sell at private sales, while an auctioneer does not. A broker is strictly a middleman, or intermediate negotiator between the parties, and for some purposes he is treated as the agent of both parties, but primarily he is deemed merely the agent of the party by whom he is originally employed. As soon as the negotiation is concluded he makes a memorandum thereof, a copy of which he gives to each party. If the transaction is a sale these copies are called bought and sold notes.

Brokers are of various sorts, such as bill and note brokers, merchandise brokers, real estate brokers, ship brokers and the like. As a rule, the name of each class fairly indicates its peculiarities.

A STREET BROKER is a broker between offices; one who buys from one banker and sells to another. These men have their uses and are frequently called upon by bankers to hunt up some security not dealt in actively upon the Stock Exchange. The bankers can

letter afford to pay the small commission asked them than to devote the time to that end themselves. Again, a banker may wish to get control of certain bonds and prefer to deal through a "street broker" rather than disclose his own identity.

A BOARD MAN is a broker, being a member of some exchange who goes upon the floor of such an exchange and transacts business. Such a man may buy and sell for his own firm or for some other; that is, a firm need not necessarily send upon the floor of the exchange some one of its members possessing a seat thereon, but may employ at fixed rates of commission some other member of the exchange to act in its stead. In any event the one actually doing the business upon the exchange itself is called the "board man."

TWO-DOLLAR MAN—A great many brokers, although owning Stock Exchange seats, may wish to employ others to buy or sell securities for them, and consequently employ brokers to act in their stead, to whom they pay a reduced commission amounting, usually, to \$2 per one hundred shares. There are exceptions to this rate, however, for the commission is less for stocks selling below certain fixed prices. Brokers acting in such capacity for others are known as "two-dollar men." Brokers acting one for the other as above must be members of the same exchange.

A CURB BROKER is one who usually, not being a member of the Stock Exchange, transacts business upon the "curb" or by going from office to office.

TRADERS are those who make a business of buying and selling securities upon their own accounts. They must not be confused with bankers who sell to regular clients or with brokers who execute orders on a commission for others. There are several classes

of "traders," so called; first, those who are not Stock Exchange members; second, professional traders, who differ from the first named only in owning Stock Exchange seats, who also have their orders executed by some other Stock Exchange members, and to whom they pay a very much reduced commission, in accordance with the Stock Exchange rules, but do not go upon the floor of the Stock Exchange to execute their own orders, although they would be privileged to do so, in which latter event they would become third room traders, that is, those upon the floor of the Stock Exchange who buy and sell securities for their own account. Such, of course, must be members of the Stock Exchange.

TIPSTER is one who advises another what to buy or sell, with the expectation of making a profit if the advice is followed, either by the business being done by the one giving the "tip" or being given an interest in the profits of any. Beware of a "tipster." An advertisement of ones being able to furnish "tips" on stock, returning fabulous wealth to those seeking the advertiser's advice, is a thing to be avoided like the small-pox. No legitimate broker does anything of this kind. A member of the Stock Exchange so advertising would be penalized by the officers of the Exchange. In the financial world there is no such thing as an "absolute certainty for the making of money." If it existed there would be no need to advertise regarding it.

A good example of a circular sent out by an irresponsible member of society of this kind, who advertised that all trades were made on either the New York Stock Exchange or the Consolidated Stock Exchange, is one which reads in part as follows:

"The funds are operated by us for our clients on

information which we receive, and which we are supposed to use for our benefit, and which we are not supposed to retail to the public at large. At the present time a certain low-priced railway stock has been cornered. It will mean a profit in from five to ten days of 200 to 300 per cent. In other words we will return every dollar you send to us, with 6 per cent. interest, inside of ten days if the movement does not take place as scheduled. If it does, we will return all the money you send, with the profits, less 5 per cent. of the profits, our commission. Why such generosity? Just to get acquainted with you, to get you for a permanent customer."

## RIGHTS OF BROKERS.

Brokers in exchange or board transactions are bound to obey their clients' instructions and they are responsible to the latter for any loss resulting from a breach of duty. To charge the broker, the instructions must have been communicated to him, and they must not have been waived or revoked by the principal. The liability of a broker depends upon the peculiar terms of his instructions, the construction of which, if in writing, is a question for the court. A broker cannot as against his principal, cancel an original contract for the future delivery of a commodity without the substitution of another person in the place of the party released, as provided by the rules of board of trade. If a broker acts through a correspondent, the latter is the agent of the broker and not the principal, although he takes orders directly from the principal.

In the absence of a special contract, the authority and duty of a broker depends upon the course of dealing in the particular community. A customer giving authority to a broker to negotiate a transaction in a certain market is presumed, in the absence of evidence to the contrary, to have authorized the broker to transact the business in question in accordance with the rules, customs and usages prevailing in that exchange; and this is so although the client does not in fact know what they are, provided that the rule or usage is one that merely regulates the mode of performing the contract of agency and does not change its intrinsic character, in which case the client is not bound unless he has knowledge of it when he employs the broker.

A broker is bound to act in compliance with his principal's instructions, in accordance with the customs and

usages prevailing in the market where he deals; and he must act as promptly as the nature of the case demands. Where, for example, a broker is ordered to purchase certain stocks, it is his duty to purchase promptly, report the transaction to the purchaser, receive the stock, and have the certificates ready for delivery whenever the purchaser shall pay for them. The broker must account to the principal for unexpended funds received from the latter and for all profits made in transactions entered in the principal's behalf. If a broker is employed to buy goods for the principal which are not in existence, and the price is paid, the principal cannot recover back from the broker, but must take action against the seller. So a broker employed to buy stocks does not necessarily guarantee its genuineness. The usual way of reporting the transaction to the purchaser or seller is by sending him a "bought" or "sold" slip, with a short letter of notice calling attention to the fact of the enclosed slips.

It is always well to keep a duplicate of the slip sent, thus having a receipt of the notification. These slips may be bought in blocks already printed from stationers in the large cities or may be printed to order with very little cost.

If a broker employed to invest money on good security falsely and fraudulently represents that a proposed security is ample, he is liable to the principal for the resulting damage. It is a fraud for a broker to make only fictitious purchases and report them to the principal as genuine, and in case he does so the principal may recover back any deposits he may have made with the broker. A broker is ordinarily liable for a sub-agent employed by him.

If a broker buys stock for a client, it is his duty to

deliver the same to him on demand on payment of the sum due him thereon. His obligation is to keep at all times on hand or under his control ready for delivery to the client on his paying him the sum due him therefor, either the particular shares purchased, or an equal amount of other shares of the same kind. He is not bound to keep the identical shares bought for his client separate from his other stocks, but it is sufficient if he keeps on hand an equal number of the same kind.

A broker may repledge collateral deposited with him to secure advances on margin transactions, but he may use the collateral only so that he can at any time promptly return it to the client when the latter pays his debt. Consequently a sale of the collateral is invalid. The principal is not entitled, when sued by the broker for the balance of an account, to have the value of the collateral deducted, but the broker is entitled to hold it until the debt is in fact paid.

A good many brokers use an especially prepared Buy or Sell Order complying with the foregoing.

Where a broker agrees for a commission and upon a deposit of a stipulated margin to make a short sale for a client, he is bound to carry the stock for a reasonable time so long as the margin remains intact. So a broker buying on margin has no right to sell without the client's authority while he has sufficient margins in his hands. If a broker agrees to carry an account for a certain time or until a certain event without further margins, he is liable in damages for closing the transaction before that time. A broker who agrees to make a short sale for a client on margin may, if the margin is not kept good, upon demand and notice, close the transaction by buying to cover the sale. So a



broker who makes a purchase on long account for a client on margin may sell the stock upon the client's failure to make the necessary advances on demand.

After a client has refused to put up margins the broker is under no obligation to prevent loss either by making advances or by closing the transaction by a purchase or a sale according to the nature of the transaction. Nor is a broker who has borrowed stock to cover a short sale bound to require the lender to put up margins to secure the seller against a decline of stock so loaned. To justify a broker in closing out the transaction upon depletion of the margins, it is incumbent upon him first to make demand of the client for further margins; and if a broker waives a default in complying with such demand, he cannot close the transaction until a new demand is made. In New York, if a broker buys on long account on margin he cannot sell the stock without notice, even though he has demanded additional margins and the client has failed to comply therewith, in the absence of a special agreement or a usage authorizing the sale. In other parts of the country a contrary view is taken, and notice of sale in addition to a demand for further security is not necessary. In addition to demand for additional margin and notice of an intent to sell, a broker who buys stocks on long account on margin cannot sell them out upon depletion of the margin without tender of the certificates and demand of payment of the balance due, in the absence of a waiver by the client of some one of these requisites.

A broker desiring to close out a transaction for short account on margin need not give notice to the client

of the time and place at which he will buy to cover the account, such notice being required only where stocks are pledged for the payment of a debt.

#### COMMISSION AND COMPENSATION.

To entitle a broker to compensation he must have been employed to negotiate the transaction in connection with which his services were rendered. Compensation for services rendered may be recovered under an oral contract, and need not be in writing; but this rule has been changed by statute in some States and it is therefore advisable to use a form of an order for either buying or selling. Should the transaction be other than Stock Exchange or Curb where the rates of commission are fixed by these institutions it is well to stipulate the amount of commission agreed upon.

#### COMPENSATION OTHER THAN COMMISSION.

A broker may be entitled to compensation other than a commission. Thus a broker employed to find a purchaser may be entitled to the reasonable or agreed value of services rendered under the contract of employment, although he does not effect a sale himself, and even though no sale is effected.

A broker who, in executing his orders, pays out or advances money on his client's account is ordinarily entitled to reimbursement. If the principal fails to deliver property which the broker has sold pursuant to the contract of employment, the broker may recover the amount in which he is obliged to answer to the buyer for the failure to complete the sale, or he may go into the market and buy like property at the best

price at which he can obtain it and hold the principal for any resulting loss. So a broker may recover from the principal the amount of moneys advanced in purchasing stock for him, and if the principal refuses to accept the property so bought, the broker may sell it at the best price obtainable and hold the principal responsible for any resulting loss. If a broker pays out money for his principal in a settlement of differences in a transaction on a stock or produce exchange, he is entitled to reimbursement thereof. If the principal fails or refuses to put up margins on demand, the broker may close out the transaction by buying or selling to fulfill the principal's contract and hold the latter for any resulting loss. So the broker may close out the transaction on the principal's becoming insolvent. The amount of the broker's recovery is not limited to the margins in his hands, but he may recover the full loss resulting from the operation; nor is it limited to what he has actually paid in the principal's behalf, but he may recover the amount for which he is legally liable. A broker is not entitled to reimbursement for losses sustained through his failing to follow the principal's instructions, or for expenses incurred by him beyond the limits of his authority, in the absence of ratification or estoppel. A principal not in default is not liable for a loss resulting from the transaction's being closed out before the settling day upon the broker's becoming a defaulter on the exchange, unless he ratifies the closing of the account before the settling day. The broker cannot claim reimbursement, however, where the transaction in question was fictitious, and no actual purchase or sale was effected. So if a broker having negotiated a time option contract for his principal cancels it before maturity by settling off against it contracts

held by him on the other side of the market, without substituting some person for the one from or to whom he may have purchased or sold originally, he cannot recover of the principal losses subsequently sustained in the operation.

THE BOARD ROOM is a room in a broker's office where customers may obtain quotations of sales made almost immediately after the transactions are made upon the various exchanges. "Tickers" are installed in all these rooms, but the method of displaying the information differs in various firms. In some the customers read it directly from the "tape;" in others a boy copies the quotations as fast as received, upon large sheets of especially ruled paper, with columns headed with the names of the securities, and in others the quotations are displayed upon a blackboard similarly arranged, that all may see from the various parts of the room. From the latter custom arises the name "board room." This term is also applied to the trading room of an exchange.

#### THE TICKER.

The ticker is a small printing machine operated by telegraph by which the outside world obtains reliable information as to the purchase of securities and commodities dealt in upon the principal exchanges of the world. It is the broker's never-failing source of information. The results are read from a narrow strip of ribbon or paper, which automatically unwinds as needed, and after passing between type-bearing wheels, runs out into the basket set for the purpose. This ribbon is called the "tape." The quotations appear on the "tape" in printed form, the name of each security being

abbreviated. The sale of ten shares of common stock of the Union Pacific Railway at 110 per share would be recorded: "10 U. P. 110." Men group about the "ticker" in the various offices, and follow the unwinding of the "tape" with keen interest, and the faster the "tape" travels, and the more audible the sound of the ticking, the greater the attention it attracts, as it indicates increased market activity or something of importance happening. Beside the stock "ticker" there are similar machines which furnish quotations upon various commodities, such as grain, cotton, coffee, etc., as the transactions take place in the large exchanges where such commodities are handled. The "ticker" was first introduced in 1857. The reading of the tape as it comes from the "ticker" is a somewhat difficult task even for those who have had more or less experience. To the average man it is a mysterious combination of letters and figures. The following is a full explanation of the readings as they appear on the tape. To begin, we will give full explanation on the general arrangements used to denote "sales," "bids" and "offers." When a price follows the name of a stock directly and has no intervening number between the name of the stock and the price, that means that exactly 100 shares were sold of the stock named, and at the price or figure that directly follows the name of the stock; thus, U. S. 55 means that 100 shares of United States Steel Corporation have been sold at \$55 a share. The figures 55 may be followed by other figures, thus: U. S. 55 10 $\frac{1}{4}$ . This means that 100 shares were sold at \$55 a share as explained above and that another lot of 10 shares were sold at 55 $\frac{1}{4}$  or \$55.50 per share. Now, when an error has been made by the telegraph operator in regard to the price of a certain stock, such

as this, U. S. 55 $\frac{3}{4}$ , and it should have been U. S. 55 $\frac{1}{4}$ , the last figure will be repeated several times, thus: U. S. 55 $\frac{3}{4}$   $\frac{3}{4}$   $\frac{3}{4}$ ; when that appears on the tape it means that there was an error in the price.

A "bid" alone without an "offer" is followed by the letter B, thus: U. S. 55B, meaning a bid for 100 shares United States Steel Corporation at \$55 per share has been made. Now, when an "offer" alone without a "bid" is recorded on the tape it will appear thus: U. S. O 55, meaning that 100 shares of United States Steel Corporation have been offered for sale at \$55. When a "bid" and "offer" appear on the tape together it will appear like this: U. S. 175... $\frac{1}{2}$ , meaning that 100 shares of United States Steel Corporation have been bid for at \$175 and offered at \$175.50, the bid and offer being separated by three dots.

When the number of shares sold and the price of the stock are so nearly alike that they may be taken for two sales, the amount of the sale will be followed by the letter "S" and a dot, thus: U. S. 55 S. 55, meaning that 100 shares were sold at \$55.

## THE SYSTEM OF BUCKET SHOPS.

The regular broker, who is a member of some Stock Exchange, when his customer sells "short," borrows the stock against such sale, being secured by the margin deposited by the customer; if the customer purchases, the broker buys the stock. In this way the broker is at all times prepared to complete the transaction, having the actual stock under his control.

On the other hand, a "bucket shop" is a place where no actual buying or selling is done, but where bets are made on the advance or decline of stocks dealt in upon the regular exchanges. The customer deposits his margin, which may be from one to ten points or per cent., and "buys" or "sells" the specified stock. The dealer accepts the margin and simply "buckets" the order; that is to say, he agrees to pay any losses that he may sustain should his customer make a winning bet; and while on the other hand if the customer loses, the bucket shop proprietor profits by the exact amount which the customer deposited as a margin.

Within the last few years bucket shops have been prohibited by the laws of most of the States, and the maintaining of them is a criminal offence. A contract between the customer and the bucket shop proprietor is a gambling contract forbidden by law and cannot be enforced in the courts. Bucket shops have been engaged in business for more than thirty years, and, until recent legislation forbidding them, they expanded to great proportions; it is conservative to say, even at the present time, that millions of dollars are annually lost in this form of stock gambling.

In consequence of the laws making the maintaining of the bucket shop a crime the proprietors of these

places usually equip their offices with all the furnishings usually seen in brokerage offices, such as telegraph instruments, tickers, etc., in order to elude the vigilance of the police. There are several ways in which the business is carried on, the simplest of which is the one which caters simply to local trade, and conducts business with no pretense of buying or selling the stock upon the exchange; and until within the last four or five years, before the present criminal laws were enacted, this was the most familiar type. They frequently operate a private wire system from large centers like Boston and New York to the small country cities and villages, where they maintain an agent who takes orders from local customers and transmits the orders to the home office. The same wire also furnishes the ticker service, that is, the quotations of the last sales upon the regular exchanges.

Another and more common form of bucket shop is the one that poses as "bankers and brokers," advertising extensively, but having no exchange memberships. Their methods of business are in effect the same as those mentioned in the first class, only they make a pretense of conducting a regular business when in fact they do not. Several cases have been exposed where these concerns have telegraph instruments in their offices apparently being operated during business hours when in fact they have no connection at all with the outside world. The purpose of this deceit is to induce the customer and the police authorities to think that stock is actually being sold upon the exchange.

Another class of bucket shops are run by exchange members. While this is against the rules of the exchange, and subjects a member to expulsion if found



guilty, yet it is practised to a greater or less extent by some houses.

The more common practice, however, among members of the exchange who desire to reap the benefits of bucket shop methods and at the same time not to subject themselves to the liability of the practice is to "sell their customers out." It is accomplished in this way: The brokerage house carrying a line of stocks "long" for different customers conceives the idea that the market is going down, and they go upon the exchange and sell the stocks which they are carrying "long" for their customers. If the market declines, of course the brokerage house wins; if it continues to advance, they lose. This plan is resorted to occasionally for self-preservation. In a rapidly declining market the customers may for one reason or another fail to respond when called for more margins, leaving the broker with the stock on his hands, which he cannot sell in time to protect himself—the reason being that sometimes within an hour the stock will decline in price a great deal more than the margin deposited by the customer; and in such panics it is impossible at times to have orders executed on time to protect the seller.

The usual cause of the failure of stock brokerage houses is the practice of selling their customers "short," which is practically, though not technically, "bucketing."

The bucket shop appeals to several classes of speculators, notably:

1. The small trader whose account is refused by legitimate concerns.
2. The trader who believes that he can more advantageously trade on board quotations than on open mar-

ket quotations. The small speculators supply the bulk of the bucket shop business.

Bucket shops as a rule have been run by men with little honesty of purpose. The real proprietors are usually concealed under some such name as "The New York Banking & Brokerage Co.;" or again, the business may be run in the name of clerks who have no financial interest beyond their weekly compensation.

The business when carried on with sufficient capital has been usually highly profitable. The amount of capital required to conduct a bucket shop depends on the volume of its business. It must have enough to withstand any initial losses with customers. Anywhere from five thousand dollars to one hundred thousand dollars is required to make the investment reasonably safe for the proprietors.

Some theories of successful bucket shop proprietors are:

That four out of five speculators lose money in stock speculation and that the steady player is sure to lose.

That the most certain losers are the small speculators and those who operate on a margin.

That the smaller the margin the greater the chance of loss by the speculator, hence the preference for small margins.

That to encourage a speculator to pyramid on his success and enlarge the scope of his transactions is to win all his money in the long run.

That it is policy to pay out winnings promptly to new customers, who, once satisfied of financial responsibility, are forever after credulous.

That speculators rarely draw down their profits, but persist invariably in wanting more, and in this fact exists the bucket shop operators' safety.

"Of course," explained a bucket shop broker to the writer, "this is a gambling game. There are thousands of tricks to it. The average speculator is a fool in believing that he can guess a game which he knows nothing about. For example, suppose a large bucket shop has persuaded its customers to buy in the aggregate 10,000 shares of Sugar on small margins. It is short just that much on the books. The operator will then make a play in the open market. He will send in a broker he employs to the Sugar crowd, and there are times when he has his own representative on the exchange, to sell the market off a couple of points in order to wipe out his customers' accounts. He is willing to lose \$1000 to make \$10,000. This has been done many times. And then again I have known clever adventurers to work precisely the same game with the bucket shops. They have planted orders in all the bucket shops and then have hastily manipulated the stock market to successfully execute a heavy winning play."

In conducting a bucket shop it is practically impossible for the proprietor to win in a rising market, for the reason that almost all bucket shop speculators are bulls. In a rapidly shifting market or in a declining market the bucket shop almost invariably wins.

The bucket shop has no use for customers who trade and take small losses. They want customers who will take long chances, and those who will pyramid their profits; the theory being that the customer who pyramids his profits is sure at some time to lose his total investment, for there always has been and always will be fluctuations in the market sufficient to wipe out the operator who is carrying his stock on small margins.

Experience teaches a bucket shop operator that the

average speculator will play the game in this way: He is a bull and buys stock. He is successful and runs \$100 into \$1,000. He then writes for or demands in person his principal and profits. The money is promptly paid. The successful speculator then concludes that the firm is financially sound. He believes that he is the one man in one thousand who can call the turns of the market. Fortune is in his grasp. Success makes him conceited, less careful and more daring. He returns the \$1,000 and possibly more. He may interest one or two friends to try the same parid road to fortune. He resumes trading on the bull side.

Giving him the best luck possible, we find that he has increased his \$1,000 to \$2,000. The chances are that he is now overtrading, or scattered all over the board—trading in too many stocks—and so extended that any sharp setback in the market will wipe him out. Along comes an unfavorable development. The market breaks 1, 2, 3, 4 or 5 points, and our speculating country customer is wiped out.

The lesson does not prove to be a valuable one. The speculator tries again. He has abandoned his idea that he is going to make a fortune. He now humbly aspires to "get even," or in other words to recover his lost money. In the attempt to get even he loses more money, and then sensibly quits gambling in stocks or becomes a confirmed "piker" and a victim of the gambling habit. Once acquired it is as hard to shake off as a taste for strong drink.

A contemporary writer says: "The large number of gambling places in the country known as bucket shops, with their frequent failures and resultant disclosure of their unscrupulous methods, yet with a train of victims which seemingly is larger after each new exposure, is

causing a great deal of moralizing these days, provoking inquiry whether the American people are more foolish and ignorant than they are usually thought to be, and whether this folly and ignorance is growing.

"There is no doubt that among the customers of these bucket shops there are many of the gullible sort who spend their lives and what little cash resources they possess in attempting to extract wealth from one visionary project after another. But the fundamental reason why bucket shops flourish is that American people as a people are irresistibly fond of financial speculation. While our countrymen can in no wise be called a nation of gamblers, and while great speculative manias, such as the South Sea Bubble, the John Law scheme or the tulip craze have never possessed the whole country, as each in turn swept over parts of Europe in the last two centuries, there exists a strong element in our national character wherein the love of venture and the dominance of a lively imagination hold full sway. This tendency, of course, is most noticeable in a period of great prosperity like that which so happily exists at present; and the most natural direction of this manifestation is in the shares of the great railway and industrial corporations through which the country's prosperity chiefly pulsates.

"The bucket shop offers the readiest road of speculation. The man in a country village who would hesitate to put \$10 upon a roulette wheel would willingly buy ten shares of a railway stock in the office of one of the numerous 'investment companies' or bucket shops of similar high name which are located in this town. Stock speculation through the regular channels of a Stock Exchange house is costly and complicated. The commissions and interest charges are large and most

of these houses do not care to accept small amounts or to deal in less than one hundred shares of stock, save for very well-known customers. It is carried on with difficulty by a speculator living in a small town where he does not have frequent access to market reports. And the customer of a Stock Exchange house may, if the market goes heavily against him, lose not only the margin of his investment, but find himself heavily in debt to his broker besides.

"Bucket shops do business on a very different principle. They neither buy nor sell the stocks upon orders given to them by their customers, and in very many instances they make no pretense of assuming to do this, nor do their customers have any idea that their 'orders' to buy and sell are obeyed. Both parties to the operation look upon it in its true light of a simple bet made that a stock quoted upon the New York stock Exchange will go up or down within certain limits. The commission charged by the bucket shop keeper is much less than that of a Stock Exchange firm. The bucket shop man is willing to deal in very small lots of stock, accepting very small margins. He charges his customer no interest for the money which, if the business was done in the usual way, would have to be borrowed to pay for the stocks actually purchased. Moreover, the bucket shop keeper allows his customer to begin or close his trade at a definite quotation as it appears upon the ticker of the Stock Exchange operations, and he closes the customer's account instantly upon the exhaustion of the margin, so that the customer is assured that no further claim is to be made upon him in case the market still continues to go against him. The bucket shop keeper, however, for his part often declines to allow an accumulated profit in certain

stocks to run beyond a certain figure, and he is generally willing to deal in but small lots of stocks. His whole system of doing business is one which presents very great inducements to the small speculator, and if these inducements could be offered by any responsible house having a membership in the Stock Exchange, that house would very soon have a monopoly of speculative operations conducted by the outside public in Wall Street.

"Where, then, does the bucket shop keeper make his money? In this, simply that, as his operations are, in reality, those of a series of bets with his customers, the bets, so far as the customers are concerned, take the form of guesses as to which way the stock market will go; and experience has demonstrated that such guesses of the general run of people are in the main incorrect, and that there is a steady, average profit to be had in miscellaneous accepting, or, as the slang of Wall Street has it, 'coppering' them. As most of the outsiders are 'lambs,' as they are called in Wall Street, they buy stocks rather than sell them, so that the customers of bucket shops find their greatest profits and the keeper of the concern his greatest loss in periods of prosperity and advancing markets. Then if the bucket shop man is a dishonest individual, as he usually is, he finds it convenient to fail at the proper time, sweeping into his own pocket all the margins and paper profits of his patrons. Many of these patrons, indeed, are far from being innocent and unsuspecting lambs. They have no illusions on the score of the game they are playing, and they know that the bucket shop keeper is probably a pretty 'crooked' person. They are apt to belong to that unhappy class of individuals known as the 'ghosts' of Wall Street, that is, men who once

did business there on a large scale, but have lost the money they won and are forced to gamble, if they gamble at all, in a very humble way. The question on which most of these men concentrate their attention is the possibility of the bucket shop failing, and after a prolonged 'bull' market, when they know that the proprietor of the concern is probably losing heavily, they take their profits in cash, if they have any, and beware the shop as a very dangerous locality.

"It is very clear, therefore, that the business of trying to speculate by means of bucket shops is extremely hazardous. If a man feels he must speculate, he ought to become a customer of a house having membership in the Stock or Consolidated Exchanges. And it is still as true as it ever was that the best way to make money is not to speculate at all."

TICKER ABBREVIATIONS.

FOR NEW YORK, BOSTON, CHICAGO, PHILADELPHIA AND  
PITTSBURG.

Alleghany Valley	AV
American Railways	ARC
Ann Arbor	AN
Atlantic City R.R.	ATL
Atchison, Topeka & Santa Fe	A
Atlantic Coast Line	AX
Baltimore & Ohio	BO
Boston & Albany	BA
Boston & Lowell	L
Boston & Maine	BM
Boston & Providence	BP
Boston Elevated	LV
Boston Sub. Elevated	BS



## 272 AMERICAN FINANCIAL METHODS

Boston & Worcester Elevated	WO
Brooklyn Rapid Transit	B
Buffalo, Rochester & Pittsburg	BR
Boston & Susquehanna	BSP
Burlington C. R. & No.	BC
Canada Southern	CS
Canadian Pacific	CA
Central of Georgia	CC
Central of New Jersey	J
Chesapeake & Ohio	CO
Chicago & Alt.	ALT
Chicago City Railway	CRY
Chicago & Eastern Illinois	CE
Chicago Great Western Railway	CW
Chicago, Indiana & L.	CI
Chicago & Northwestern	NW
Chicago Railways	CRY
Cleveland, Cincinnati, Chicago & St. Louis Ry.	CC
Cincinnati Ham. & Day	CRD
Cleveland & Pittsburg	PTT
Cleveland Loc. & Wheel	CLW
Colorado & Southern	CX
Colorado Midland	CM
Connecticut & Pass	CP
Connecticut River	CR
Continental Pass	CTL
Consol. Traction of N. J.	NJTRC
Cripple Creek	CCK
Delaware & Hudson	DH
Delaware, Lackawanna & Western	DL
Denver & Rio Grande	D
Des Moines & Ft. Dodge R.R.	DES
Detroit & Mack.	DE
Detroit United Railway	DU

Erie	ES
Fitchburg	FIT
George Ry. & Elect.	GA
German Pass	GMN
Gr. Bay & W.	GN
Gulf & Sh. Island	GF
Great Northern Ry.	GNR
Halifax Tram	HX
Hav. Elevated Ry.	HN
Hook Valley Ry.	HV
H. P. Mt. Joy & L.	HP
Hunt & B. T.	HB
Illinois Central	IL
Indiana, Illinois & Iowa	INA
Indiana Street Ry.	IND
Indiana Un. Tract.	IUT
Interborough-Metropolitan Co.	IB
Inter. & Gt. No.	IT
Inter. Tract.	INT
Interstate Rys.	IS
Iowa Central	IA
Kansas & Michigan	KM
K. C. Fts. & M. Ry.	KU
Kansas C. Ry. & L.	KORL
Kansas City Southern	KSU
Kansas C. M. & B.	KMB
Keokuk & Des Moines	KK
Lake Erie & Western	EW
La. Sh. & MS.	LS
Lake St. Lawrence	LAKE
Lehigh Valley	LV
Little Schuylkill	LS
Long Island	LI
St. Louis & Nashville	L

Maine Central	MC
Manhattan Ry.	M
Massachusetts Electric Co.	ME
Met. St. Ry.	MR
Met. W. S. El. Ch.	MV
Mexico Central	MXC
Mexico Tram.	MXT
Michigan Central	MC
Mine H. & Sch. Hav.	MH
Minneapolis & St. Louis	MGE
M. St. P. & S. S. M.	MSM
Missouri, Kansas & E.	KS
Mo. K. & Tex.	K
Missouri & Pacific	MP
Mobile & P.	MO
Montreal St. Ry.	ST
Morris & Essex	ME
N. Ch. St. Louis	CH
Nat. R.R. of M.	N
Newark Pass.	NEW
N. Y. Central	CEN
N. Y., Chicago & St. Louis	SL
N. Y., Lack. & W.	NL
N. Y., N. H. & H.	NH
N. Y., Ontario & Wisconsin	OW
N. Y., Phil. & Nor.	NYP
N. Y., Susquehanna	SW
Nor. & West.	N
Northern Central	NN
Northernwestern Elevated	NWL
North Pacific	NP
North Penn.	NPN
North Ry.	NOR
Nor. & Wor.	NW

AMERICAN FINANCIAL METHODS 275

Old Colony	OC
Penn. R.R.	PA
Peoria & East.	PE
Pere Marq.	POT
Philadelphia, Baltimore & Wash.	PEW
Philadelphia Company	PH
Philadelphia & Erie	PE
Phil. & Trenton	P&T
Phil. Rapid Transit	PRT
Phil. Traction	TRC
Phil., Wil. & Balt.	PWB
Pittsburg & St. Louis	PT
Pittsburg, Ft. W. & C.	FW
Pittsburg, McK. & Y.	PMY
Providence & Wor.	PW
R.R. Securities	RSY
Rys. Co. Gon.	RC
Reading	RG
Ridge Avenue	RAP
Rio de Janeiro Tramway, Lt. & P. Co.	RIO
Rio Gd. West.	RO
Roch. Ry. & Lt.	RRL
Rock Island	R
Rome, Wt. & Og.	RW
Rutland	RV
Sao. Ptl. & P.	SP
Sav. Electric Co.	SAV
St. Jes. & G. I.	JG
St. Louis & Santa Fe	SF
St. Louis S. W.	SS
Seab. Air L.	SB
Seattle E. Co.	SE
Second Avenue of Pittsburg	2d Ave
Second & Third	S&T

So. Side El.	SSL
Southern Pacific	SP
Southern Ry.	SB
Syracuse Rapid Transit	SYR
Texas & Pacific	T
Term. of St. Louis	TAS
Third Ave.	TAV
Third & Fifth Pass.	T&F
Tol. & O. Central	Y
Tol. Peo. & W.	TP
Tol. Ry. & Lt.	TD
Tol. St. L. & W.	TOW
Toronto Ry.	TY
Tri-City Ry. & Lt.	TCPR
Twin City R. T.	TW
Ul. & Del.	UD
Un. Elec. Ry. (Lon.)	LU
Union Pacific	U
Union Traction	UT
Union Traction (Ind.)	UTI
United of N. J.	NJ
United R.R. San Fr.	UNR
United of St. Louis	USL
Un. Rys. Inv. Co.	UW
Vandalia R.R.	VN
Ver. & Mass. Ry.	VM
Wabash	WA
Wabash, Pittsburg T. Ry.	WP
West Chicago St.	WCH
West End St.	WER
West Jer. & S. S.	WJS
West Maryland	WM
West Penn.	WPR

AMERICAN FINANCIAL METHODS 277

West N. Y. & Pa.	WNY
Wheel. & L. E.	WL
Winn. El. Ry.	WV
Wis. Cent.	WC
Worcester N. & R.	WNR

CHAPTER X.

TRADING ON STOCK AND COM-  
MODITY EXCHANGES.

## TRADING ON EXCHANGES.

**A**LL American development is the result of speculation. To go back to the first principles, even the discovery of America was a speculation on the part of the Spanish Queen. The sacrifice which she made in pawning her jewels to provide Columbus with ships and men bore fruit not alone to her and her people, but to all posterity, and it is to her extremely great speculative risk that this great nation, with its hundreds and thousands of millions of wealth, owes its existence.

Merchandising, manufacturing and in fact all business is speculation, for the simple reason that it is anticipating the future wants of others. Likewise the same principle applies to all investments, and on the correctness of the judgment exercised depends the success and profit of the undertaking.

Merchants buy goods for the purpose of trade and profit; they hold them for an advance, and generally sell when it comes. Men buy stocks on the same principle and sell for the same reason. As they engage in trade to make money, so they buy and sell stocks to make money.

Every man has seen in his own experience the results of speculation which go by the name of business enterprises. Take, for example, the man who decides that there is room for another hat store in the town in which he lives. The rent which he pays, the money which he invests for his stock and fixtures, the credit which he obtains from the manufacturer, are ALL a speculative risk, based upon his belief that a good active man can successfully carry on a hat business in opposition to the existing store. If he takes the trouble to study conditions, if he advises with his friends as to



the wisdom of the location which he has selected, etc., he makes a success of his venture. We refer to this instance because the conditions are identical with a speculation in securities. He has his original investment of capital just as a speculator in stock puts up a margin. He buys very much in excess of what he pays for in cash, just as the speculator buys very much more stock than his capital would pay for. In one case, the manufacturer supplies the money and borrows it from the bank, and in the other case the broker supplies the money and borrows it from the bank. The man who starts a store does not rely upon his own capital alone, but, based upon that capital, obtains credit from the manufacturer from whom he buys his goods. We mean the successful merchant does this. A man with \$1,000 or \$2,000 can hire a store, stock it with a small amount of goods, and make a living, but no great mercantile concern ever developed from such methods. The successful merchant puts his own money into his business, goes to the manufacturer and tells him just how much capital he has, and obtains a credit, with which he buys many thousands of dollars worth of goods upon his investment of \$1,000 or \$2,000. He is not buying upon credit, but is basing his purchase upon his own original capital investment. He is in the position of the man who buys stocks upon margin.

#### TRADING ON MARGIN.

We have spoken about the similarity between buying a \$10,000 stock of goods for a store, on a capital of \$1,000, and buying \$10,000 of securities on a capital of \$500 to \$1,000. The one instance you recognize as business credit; the other is called trading on margin.

To buy stocks on margin is to take advantage of one's credit, and it enables a man to secure all the profits as fully as though he had paid cash for the article, hence the great bulk of trading on the New York Stock Exchange and other exchanges is on the margin plan.

Instead of your paying the full value in cash you deposit five per cent. or more of the par value—that is, five dollars or more for each share that you buy—and the balance of the money to be paid in full for the stock, your broker will supply, and hold the stock for your account until it is sold. A margin of \$500 will buy just as much stock and secure just as much profit as the sum of \$10,000—were you to pay in full for the purchase. Your risk is a decline in the price of such stock, low enough to use up or exhaust your deposit of margin; in which instance you either put up more margin, or the broker is forced to sell to protect himself.

On the Stock Exchange there is, we will say, a stock selling at \$40 per share that has never yet paid a dividend. But you have reasons for thinking that a dividend will soon be paid, and at a rate sufficient to warrant an advance in the price of that stock to \$50 per share. You have, say, \$2,000, and with this sum you purchase 50 shares.

When you bought 50 shares of stock at \$40 a share with your \$2,000 the certificates were delivered to you, and you own this stock. But as far as dollars and cents are concerned you bought those 50 shares on margin of 40 points. On each share you paid just \$40. On a \$40 stock, 40 points would be too much margin. Ten points would be perfectly safe, and there would not be much risk in buying a security on a five-point margin. To illustrate the point, let us assume the deal

to be made on the latter plan. With your \$2,000 you purchase 400 shares of that same \$40 stock and the certificates are delivered just the same as in the first instance—except that the broker retains possession of them, instead of handing them over to you, because you have made a payment on them of only \$5 per share, and the broker pays the remaining \$35 per share out of his own pocket, provided he is not bucketing. So he keeps the stock as security for the amount you owe him, or \$35 per share.

When you buy 50 shares of a \$40 stock outright you require a capital of \$2,000. With that same amount of money you can buy 400 shares of the same stock on a five-point margin. Now, just figure out where you stand in each case in the event of an advance of five points—which means \$5 per share—in the price of the stock. The man who has bought 50 shares outright makes a profit on such an advance of \$250. The man who has bought 400 shares on margin makes a profit of \$2,000. Quite a difference—and each man's capital was identically the same.

#### MANIPULATION.

To men of some temperament, buying a stock for a long upward swing is as difficult as a real estate purchase in which they have to wait for several years before the real outcome can be seen. They are the class of men who, in mercantile business, like "quick sales and small profits."

It is not necessary for a man to sit beside the ticker and watch it every day to take advantage of fluctuations, because if he gets the right conception of the manipulator's plan he can usually judge a day or two

ahead when an upward movement is likely to meet with a temporary setback, and about how much decline in prices will create an opportunity for renewed purchases from which a new two or three-point profit can be made.

Those of our readers who are inexperienced in matters connected with the stock market may ask how it happens that such daily opportunities for profit can exist.

To properly explain both the daily fluctuations and the reasons why profits can be made by patient holders in certain stocks, it is necessary for me to say something about an individual who is a good deal of a bugbear to inexperienced speculators, but who is, in fact, one of the most essential factors in the creation of markets. I speak of the manipulator. In the first place, it might be well to say that the manipulator is only an agent. He represents and does all the detail work necessary to carry out the great plans of the great kings of finance.

The country periodically goes through long periods of gradually increasing prosperity, and after prosperity has caused undue inflation in prices and extraordinary extravagance, it is, of course, followed by a period of depression, which, however, is rarely as long or decisive as the period of prosperity.

During this temporary period of depression some badly managed railroads, or some which have been overcapitalized, undergo reorganization, and their securities gradually fall into the hands of large capitalists, who, while accumulating these securities, do all they can to increase a feeling of public distrust concerning them. In just such a manner the securities of the

Union Pacific Railroad were accumulated by Kuhn, Loeb & Co. and the capitalists allied with them.

The people who bought Union Pacific at the same time Kuhn, Loeb & Co. did, or even a year or two afterward, did it because they recognized that this important group of capitalists had not accumulated these securities to make a profit of one per cent., but had gone into the management of this railroad as a tremendous business proposition, and the men who bought the stock practically bought into partnership with this important group of railroad men and financiers. The details of the management of the railroad—which was part of the partnership business—and the equally important details of the management of the stock market and of the business, were both in the hands of this financial group.

Impress this thought thoroughly upon your mind. When you buy stock with which any important group of financiers is identified, and buy it with the idea of selling it later at a higher price, you are practically going into partnership with these men on that transaction.

If you buy stock in the Steel Corporation as an investment you are going into partnership with the officers and directors. This you will readily recognize.

If, on the other hand, you buy Steel stock as a speculation, with the idea of selling it at an advance, you are going into partnership with the group of capitalists who are looking out for the market interests of that stock. They may not be taking any active interest in the business management of the company. They select officers and directors to attend to that, and simply supervise these officers' work, to make sure that the business conditions are such as to warrant them in holding their stock in the corporation. Being assured of

this fact they entrust the work of making the stock more valuable in the market to an entirely different set of employees, who go by the name of "Manipulators."

Let us take the example of Union Pacific, after all the preliminary work has been done. The stock had been accumulated, the necessary arrangements for the reorganization of the road had been completed, ample capital had been provided, and plans for its management on a sound and economical basis had been arranged. That part having been completed, some one of the group of capitalists made their arrangements to take advantage of the improvement which was bound to follow in the stock market values of the stock. To do this a manipulator or set of manipulators were employed.

The first thing necessary is to make the stock look attractive to the speculator and to the investor. This can only be done by creating activity. Activity is shown by large recorded transactions, and when the natural transactions are small the manipulator has recourse to what are called "matched orders" or "washed sales." These transactions are made by giving orders to different brokers, one receiving an order to buy and the other to sell the stock. There is no real change of ownership, although the orders are usually given by different persons, so as not to conflict with the laws of the Stock Exchange. This expression, "wash sale," is very much misunderstood.

Even the money, or at least a part of it, which is on deposit in the savings bank, helps to carry on the business of the enterprising merchant and the stock transaction of the progressive man who speculates, because every savings bank keeps a certain part of its deposits

with a National Bank, which lends to stock brokers, merchants and manufacturers.

When wash sales take place in a stock in which 100 shares only are traded in every day or so, the intention may be to mislead the public; but when wholesale transactions are made in this manner it is evident that experienced manipulators have been engaged by some group of financiers to create a big, broad market for the stock, and that a ten, twenty, and perhaps thirty-point movement in the stock is sure to follow.

You have heard many inexperienced people talk of the volume of transactions, and more than half the time these people do not realize what this volume means. It means almost invariably that a great movement is pending in the stock, and if the stock has been dull previously it almost always means that the financiers connected with the company have perfected plans which are going to make the stock more valuable, and that they have employed the manipulators to help create that added value in the stock market. In other words, the commencement of great activity after a period of dullness is an invitation to the experienced speculator to join partnership with the big operators who have employed the people necessary to carry on the business of making that particular stock sell at a much higher price.

Of course, the big operators in the stock market and the men who create markets are just as anxious to sell at the top and buy at the bottom as the smaller operators, and to do this they are obliged to make a great number of intermediate minor movements, so that the great mass of speculators—known as “the public”—who are trading without the proper kind of advice, will be misled. Therefore, especially during the early stages

of a big movement in the market, the manipulator makes it seem as if the movement had culminated by causing downward movements of two or three per cent., which induce a great many speculators to sell their stocks and sometimes go "short" of the market. These momentary breaks with the rises that follow give great opportunities for daily trading.

An upward movement in the stock market might be likened to the incoming tide. A man standing on the seashore for only a few moments and watching the waves come in and then recede would be unable to tell whether the tide were rising or falling. Some waves would seem to come in further than those which had preceded and his first thought would be that the tide was rising. The next waves would not come in nearly as far, and the receding water would apparently go much further out of sea, and his thought would be that the tide was going out.

That is the situation in which the speculator who is trying to form an opinion without the aid of good advice frequently finds himself. He thinks that one moment the market is getting ready for a big rise, and a day later it looks to him as if it were getting ready for a big fall. He is one of the great mass of inexperienced or ill-advised speculators whom the manipulator is paid to fool.

The man who stands on the seashore, however, for even ten minutes, knows absolutely whether the tide is rising or falling. The stone which he has been watching and which was dry a few moments ago, is completely covered with water, although in watching each individual wave, he has felt in doubt as to whether it were an incoming or an outgoing wave. The man who has been watching before deciding, and has taken some



landmark upon which to base his opinion, is in the position of the experienced broker. He does not jump at conclusions, and when his opinion is formed it is safe to follow.

If a speculator is interested in a security concerning which he has the same absolute assurance that the man beside the sea has to whether the tide is coming in or going out, he is in a position to make his transactions in the market with absolute fearlessness. If he knows that every little downward movement is going to be followed by an upward one, and that in the end the upward movement will reach a level higher than the price at which the stock stands on the day he commenced his trading, he feels no hesitancy whatever about taking advantage of these temporary declines to increase his holdings of the stock.

We speak of this because many men miss their opportunity of money-making in the Stock Market by trying to buy stock at the lowest possible price. The most experienced broker in the world, in fact, the manipulator in charge of the stock market, movement, cannot tell the EXACT extent of this little intermediate upward and downward movement any more than the man standing on the seashore just how far each incoming wave will rise, or how far each outgoing wave will recede. We have seen many opportunities for great big profits lost because men were unwilling to buy at least some of their stock right at the market price. Orders to buy one or two per cent. lower have often been found to be just one-quarter or even one-eighth too low, and five and ten-point movements have been missed in this way.

It is therefore wisest for a speculator to give his order for his initial transaction in a stock at the market

price, being careful not to buy too heavily at first, so that he may be in a position to take advantage of any temporary recessions to add to his holdings.

#### SHORT SELLING.

The theory of short trading is a thorn in the side of every amateur. Anyone can understand how a profit can be made by buying something for one price; but at first it is a very difficult matter how you can sell a thing before you buy it.

As a matter of fact when you are selling stock short, you borrow the stock you sell, and later on, at your leisure, it is necessary to buy the same stock in order that you may be enabled to return your loan. Nothing could be more simple. When you are trading in anything the great point is to sell for more than you pay, and it does not make any difference whether you buy first or sell first. If your selling price is more than your buying price, you make a profit. If it isn't, you don't.

People often sell things "short" in other lines of business without knowing.

As an instance, a certain man, whom we call Jones, was recently in the office of his friend Brown, who is a capitalist. Brown remarked to Jones that he was about to buy a certain piece of property; said it had a frontage of 100 feet on Broadway and was to cost him \$2000 per foot, or \$200,000. He expected to close the deal with the agent that afternoon.

"Who owns the property?" Jones asked.

Brown's reply disclosed the fact that the owner was a personal friend of Jones.

After a moment's thought Jones suddenly said: "I'll

sell you that same piece of ground for \$198,000—a saving to you of just \$2000 on the deal.”

“Why, you don’t own the property, how can you sell it to me?”

“Never mind about that,” replied Jones. “If you want the property at those figures, draw up an agreement and I’ll sign it right now.”

The agreement is soon drawn and Jones agrees to deliver to Brown on or before a certain date that identical piece of ground, title clear, for the sum of \$198,000, or \$20 per foot less than Brown had expected to pay to the agent for the same property.

Jones is now “short” 100 feet of Broadway property at \$1980 per foot, and evidently expects to buy it at a cheaper price in order to fill his contract at a profit.

Here are the facts. The owner of the ground instructed his agent to sell for \$2000 per foot. The agent would receive 5 per cent. commission on the sale, or \$10,000. Therefore, the owner would receive only \$1900 per foot net, after paying his agent. Jones goes to the owner direct, who is a personal friend of his, and offers him \$1900 per foot for his property. The owner takes him up and the transfer is made. Then Jones goes back to Brown and delivers the property to him at the price named in their agreement, \$198,000.

As noted above, Jones originally sold 100 feet of ground at \$1980 per foot, and as we have seen, later bought it for \$1900 per foot, clearing just \$8000 on the deal. Or to be more exact, he first contracted to sell at a certain price, and later he delivered the goods, as per his agreement, having in the meantime been able to secure the property at the desired figure.

As an instance of a “short sale” in the stock market, we will assume that you have instructed your broker

to sell for your account, 100 shares of sugar at 145, and it afterward declined to 125, at which price you bought it back. You would have a profit of \$20 per share, or \$2000.

Any contractor in signing a contract for a building sells "short" the labor and materials which he requires to fulfill his contract. He agrees to deliver at a future date a building complete, at a certain price, expecting to secure the material and labor necessary thereto, at a lower price than he has contracted for, thereby realizing a profit on his contract.

"Short" Trading on the Stock Exchange is the same thing, except that instead of making a contract to deliver a certain number of shares of stock, the certificates are actually delivered; and not having the stock yourself with which to make the delivery, you borrow it from someone who has. When you finally purchase a like number of shares with a view to closing your trade, the certificates thus bought go to the man who loaned you the stock at the time you made the sale.

#### STOP ORDERS.

A "stop order" is a limit of price given by the client at which to close his trade in case the market reaches the limit.

This is only employed to stop a possible loss, and always secures you against any serious decline in the market. For instance, you buy 10 or 100 shares of Southern Pacific at 90, with a stop order at 87—the advantages are manifest. If the stock declines to 87—three per cent. stop order—your stock is sold out and you only lose three per cent., whereas had you not placed a stop order, and the stock declined ten or fifteen

points, your entire marginal deposit would probably be wiped out.

We think it is a good plan to work with stop orders. If you believe a certain stock is going up, come to some agreement with yourself as to how far it may fluctuate in a downward direction without actually indicating serious weakness, and then place your order to sell at that low point, to stop loss. This is a particularly good plan for some people to follow, as we know a great many traders who haven't the "Nerve" to say the word that will terminate their punishment when the price starts against them. These same traders, however, will rush in to receive an insignificant profit the moment it heaves in sight, and thus they limit their profits. So keep to the safe side and put your stop order at the same time you enter your original order to buy or sell, as the case may be.

There are two ways of general trading. One is followed by the man who terms himself a "scalper" and operates for small or fractional profits, and lots of them. The other is put into use by the trader who desires to operate only occasionally and who believes in buying or selling to stay for the long pull.

We favor working on one plan for a while and then switching over to the other, just as found advisable by existing conditions of the market; sometimes it is well to work one plan in one stock and the other plan in another stock simultaneously.

The idea is this: If you are willing to scalp out small or fractional profits, place your stop order a good distance from your buying or selling point. The farther away you put it (until you reach a reasonable limit) the greater are your chances of success. For instance, if you are willing to secure half-points, you would be

foolish to put your stop order only one-half point away, for that would limit your chances to exactly five in ten. Or, in other words, it would make an even thing of it—and hardly even then—when the broker's commission is considered.

If you put your stop order ten points away, that is going to the other extreme. As a rule you will find that your stop order should be placed from two to three points away, when you are scalping for profits from one-half to a full point.

For the trader who buys or sells for a long pull, the stop order should be placed either very close to buying or selling point or else very far away. For instance, if you think a certain stock is likely to advance about 20 points, buy and place your stop order ten or fifteen points below the figure at which you buy. Or, place it about a point away; if it caught, then wait patiently until the price declines two or three points more. Then buy again.

#### HOW MARKET MOVEMENTS ARE CAUSED.

It would take a big book to tell in detail everything that affects prices in Wall Street. We all know that when business is good, prices rise; when business is bad, prices fall. Usually, tight money, that is, high money rates, means lower prices, because people can get larger returns by selling their securities and lending the money, than they would by holding their securities and collecting the dividends. Sometimes, however, tight money does not cause serious declines, because it is the result of temporary conditions, which are created by general business prosperity, which of course will in turn create greater dividends for the securities. In this

latter instance, the holders of securities do not sell for the purpose of lending money at higher interest rates, but hold their stocks for the increased value which will follow increased dividends.

When tight money is caused by business prosperity, it is not a bear argument. When it is caused by other conditions it is usually followed by lower prices. Because of the money conditions the New York Bank statement is always eagerly read by investors, speculators and brokers.

#### THE BANK STATEMENT.

The Bank Statement is made up by the Clearing House every Saturday morning, and is compiled from a statement made by every bank in the Clearing House, which shows the conditions of each bank in the following particulars: The amount of cash on hand—specie and legal tender being separated; the amount of deposits, and the amount of loans. The amount of cash shown is not the amount on hand on the preceding Friday night, but is determined by adding the amount on hand each night during the week and dividing the sum by the amount of business days. For instance, if a bank has on hand at the end of business Saturday \$1,000,000, on Monday night \$1,000,000 and on Tuesday night has \$3,000,000, and then falls to \$1,000,000 on Wednesday, Thursday and Friday nights—amounting in all to \$8,000,000—that amount would be divided by six, the number of business days, and that bank's cash would appear in the Bank Statement as \$1,333,333, while in fact it really only had \$1,000,000 on the day that the statement was made. The deposits and loans are figured in the same way. The statement

which is published is made up by adding the average holdings of cash, the average deposits, and the average loans of all the banks.

The Bank Statement as it is published ends with a statement concerning the Reserve. This Reserve is a requirement of the National Banking Law, which says that a bank in large cities like New York must have in its vaults in actual cash at all times an amount equal to at least 25 per cent. of its deposits. The intention of the lawmakers was that a bank should always be prepared to pay any demands, and it was supposed that not over 25 per cent. of the depositors would ever call for their cash in one day. Let us assume that the total deposits of the New York banks are \$100,000,000 (they are of course very greatly in excess of this) the National Banking Law would require those banks to have at least \$25,000,000 in specie and currency in their vaults, and whatever amount they hold in excess of that \$25,000,000 would appear in the Bank Statement as the surplus Reserve. The Secretary of the Treasury is supposed to notify any bank that does not keep its full reserve on hand, that it must take steps to do so, or go out of business. For this reason, when a bank finds itself with a deficiency below what is called the legal reserve on hand, it is compelled to call on borrowers to pay their loans. Consequently, if there is only a small surplus above the Legal Reserve, Wall Street expects that money rates the following week will be much higher, because various banks will be obliged to call loans, and the borrowers will have to hunt around for some other money lender or sell their securities. For this reason, when the surplus reserve is low, and the Bank Statement shows a decrease in the surplus reserve held, there is usually considerable



selling of stock in anticipation of lower prices early the following week. When the surplus reserve is \$10,000,000 or over, a difference of a million or two either way does not affect speculation, but when the surplus reserve is only \$2,000,000 or \$3,000,000 even a comparatively small decrease is likely to cause a sharp decline in the stock market.

Of course, the two ways in which the cash in the banks decreases are through their payment to depositors in cash, or through their loaning money either on stock collateral or on notes made by merchants. Either way draws money out of a bank.

The manner in which the cash in a bank is increased is through an increase in its deposits, or as a result of a repayment of loans. As banks always like to keep themselves in a strong position—that is, with a much greater reserve than the National Banking Law requires—Wall Street is inclined to feel that when the loans are increased at a time when the surplus reserve is comparatively low it means that the demand for money from influential people is so great that the banks feel themselves obliged to increase their loans, when business prudence would dictate a decrease. Therefore, when the reserves are comparatively low, and the Bank Statement shows an increase in loans, even if accompanied by an increase in deposits, Wall Street grows somewhat bearish, and stocks are likely to decline. If, on the other hand, at a time of low reserves, the loans show a decrease, Wall Street heaves a sigh of relief and says that the bankers are working out the money problem successfully.

At certain periods of the year, however, bank reserves are always small, and at others they are always large, and while at one period a surplus reserve of

\$3,000,000 would mean "tight money," at another time of year it would simply indicate that the money was going to move the crops and would shortly return to New York in greater volume.

#### PUTS AND CALLS.

Stock privileges are contracts giving the bearer the privilege of buying or selling stock (selected and named in the contract) for any time between 10, 30, 60 and 90 days, or even longer at holder's option.

They are of four kinds, viz.: Puts, Calls, Spreads and Straddles.

The holder of a Privilege is entitled to all the profits of the stock named in the contract, which is virtually the same as if he owned the stock itself.

The object of issuing stock privileges is to enable persons of limited means to participate in Wall Street operations on such small sums of money as come within the reach of everyone.

Each privilege realizes a profit in proportion to the fluctuation of the stock beyond the price of contract during the 30 days. A rise or fall of \$1 per share gives a profit of \$100 on a contract for 100 shares of stock; \$5 gives a profit of \$500 on 100 shares of stock, and so on. A privilege may be closed at any time during the life of the contract; it is not necessary to wait until the day it expires, but is good until date of expiration, 30, 60 or 90 days, as the case may be.

#### A CALL.

A Call is a written agreement by which the issuer agrees to deliver to the holder the stock named in the contract within a certain time at a certain price at the option of the holder of the call. Illustration: B signs

a written agreement to deliver 500 shares of a certain stock to C at 100 at any time within 30 days if C demands or calls it. B sells this agreement to C for one per cent. (\$500). If within the 30 days the price of the stock advances so that C can sell it at a profit he sells it in the open market and calls upon B to deliver it. If he buys it at 100 it must go above 101 before he can make a profit, because he paid one per cent for the privilege. If the stock declines below 100, or in fact remains below 101, he would not, of course, call it. The object of a call is to CALL THE STOCK MARKET at a higher price, plus the price of the call. Within the price the customer would not, of course, call it, and the call expires. The customer, however, forfeits the \$500 paid for the privilege of calling the stock, whether he calls it or not. If a stock sells ex-dividend during the life of a call, the dividend goes to the holder of the call ONLY IF HE CALLS THE STOCK. Otherwise nothing is done and the call simply expires.

#### A PUT.

A Put is a signed agreement binding the issuer to receive from the holder the stock named in the agreement at a certain price within a certain time. A broker signs a printed order to receive 500 shares of a certain stock from a customer at 100 at any time within 30 days. The broker sells this put for \$500. If within the 30 days the stock declines in price, so that the customer may buy it in the open market at a profit, he puts (or sells) it to the broker at 100, the price agreed upon, and buys it in the open market at, say 95, thereby making five points (\$2500) profits, less the one point (\$500) he paid for the privilege (put). If the stock

advances, the customer will not, of course, put it to the broker for the reason that he then would have to buy it at a higher price in the open market.

The object (in a put) is to put it (or sell it) at one price, and buy it in at a lower price. In executing a call the customer CALLS it from the broker at a low price and sells in in the open market at a higher price. A PUT operates if the market price goes down, while a CALL operates if the market price goes up. If the customer does not execute his privilege it expires, and the amount of money paid for it (\$500) is forfeited.

If a dividend becomes due during the life of a PUT the customer pays the dividend to the broker only if he puts the stock. If he does not PUT the stock, the dividend is neither charged nor credited to the account.

#### A STRADDLE.

A Straddle is a double privilege in one contract, like a Spread, with the difference that it is always issued at the exact selling price of the stock. As there is no consideration of distance in a straddle the cost is greater and ranges from \$150 to \$1000, according to the activity of the stock. Having a straddle you are able to operate in buying and selling at once without waiting for it to go beyond the distance. A straddle is available at the first variation of a stock—thus, if you have a straddle on Pacific Mail at 30, which is the exact market price at the time of taking, all that the stock varies above or below that figure afterward forms part of the profit. Many operators for a rise in stock, or who are in the bull interest, deal only in puts, which seems going by contraries, but it is the same policy which takes a call for the purpose of selling short

against it any time when the tendency of the stock is downward. If the stock only declines to the price of the put you can buy the stock for an equal number of shares, placing the put in security in lieu of cash and reap the profits of the advance. If the stock declines instead of going up you make by the put all that you would lose by the purchase of the stock you thought would advance, and save your money; but if you had bought the stock without this protection in a regular way, on a moneyed margin, you would lose heavily if the decline was serious. Now, if by the illustration we have given of the working of a 200-share CALL, you had taken a 200-share PUT, and standing on 100 shares and buying against 100 shares, the profits by a decline of the stock would be exactly what they were shown to be by means of a 200-share call in an advance.

#### A SPREAD OR DOUBLE PRIVILEGE.

A Spread or Double Privilege embraces both call and put in one contract. The seller agrees to sell to or purchase from the bearer a certain number of shares of a specified stock. If you have a spread on 100 shares of Western Union, for instance, at par on the call side and at 98 on the put side, and the stock advances to 108, you call the stock on the maker of a privilege, realizing as a profit the difference of 8 per cent., or \$800, less the cost of the privilege and commission. On the other hand, should the stock decline to 90 you put the stock to the maker of the privilege, realizing the difference of 8 per cent., or \$800, less the cost of the paper and commission.

## DISTANCES.

Privileges are always issued at a certain distance from the market price, the distance being proportioned to the amount of money paid for the same, and to the activity of the stock selected for speculation. Distances are usually greater in stock liable to pool manipulation and consequently heavy fluctuations than in purely investment stocks, in which the rise and fall in values is graduated by the money market and the amount of general business transacted. Consequently, to the experienced operator, the greater the distance, within reasonable limits, at which a privilege is issued, the greater the profit to be expected. These privileges are issued by prominent members of the exchange or capitalists, running from one to six months, prices varying according to length of time they have to run.

## CLOSING CONTRACTS.

Opportunities frequently present themselves before the expiration of a contract to speculate on them in the general market. Thus, if, for illustration, you have a spread on P. M. at 39 on the put side and 44 on the call side, and the quotation of the stock when the privilege is made is 41 and the price of the stock advances to  $43\frac{1}{2}$ , and there are excellent reasons for believing that before a future advance is made a decline of one or two per cent. may be expected, you can sell the stock, putting up the cost difference of one-half per cent. between the price of  $43\frac{1}{2}$  and 44 (the call side of the contract) which serves you against any further possible loss. If the stock declines to 40 you close your short sale, realizing a profit equal to the difference between  $43\frac{1}{2}$  and 40, or \$350, less commissions, and

you can then reverse your tactics, purchasing against your put as a margin for an advance. In this way many of the shrewdest speculators on the street have realized large amounts, with very light and limited risks, besides taking an ultimate profit on the privilege itself, by putting to or calling the stock of the maker.

## GRAIN AND PROVISION SPECULATION ON EXCHANGES.

To understand the simplicity of grain speculation it is only necessary to keep this fact in mind: The grain market does but two things; it advances and it lowers prices, and it does one directly after it has done the other; and the greater the extreme to which it has done either, the more quickly and surely it will do the other. From the founding of the Board of Trade there is no record of prices to disprove this.

A man speculating in grain might be uninformed upon any and all the conditions that influence prices; he might be utterly indifferent to all statistics, news and gossip, and proceeding solely upon this theory of alternating declines and rises he will operate with surprising success. It is to the agricultural commodities of the farm that this absolute safety most particularly applies.

This is the surest of all ways of speculating in grain profitably. Examine the records of the Board of Trade and you can easily prove this to your own satisfaction. The continual see-saw and alternating reversal of prices which you will find, is an argument unanswerable and a fact indisputable. In no other commodities are the up and down changes more frequent and greater than in farm products; and he who buys and sells them on this system alone, may be invariably a winner, and never of necessity a loser.

## TRADING IN HOG PRODUCTS.

There is but one difference between trading in grain and trading in hog products, such as pork, lard, etc. The movements of these products are periodical rather than everyday fluctuations. They have months, per-



haps, of dullness, which may be followed by a whole year of serious decline or excited advance. This is owing to the fact that they are manufactured goods and not raw material. Just as cotton, wheat, corn, oats and other such raw materials have a daily change in price which does not at once disturb the trade value in muslin, flour, meal, etc., so the daily fluctuations in the price of live hogs is not immediately reflected in the price of these products.

#### MARGINS.

Grain and pork products may be traded in on margin the same as stocks and other securities, the amount of margin required being as follows:

Wheat—3c. per bushel	\$150 on 5,000 bushels
Corn—2c. per bushel	100 on 5,000 bushels
Oats—2c. per bushel	100 on 5,000 bushels
Pork—\$1.00 per barrel	250 on 250 barrels
Ribs— $\frac{1}{2}$ c. per pound	250 on 50,000 pounds
Lard—\$2.00 per tierce	500 on 250 tierces

#### COMMODITIES.

Commodities are dealt in on the Board of Trade in the following minimum quantities and in multiples of the same:

Wheat,	5,000 bushels
Corn,	5,000 bushels
Oats,	5,000 bushels
Pork,	250 barrels
Ribs,	50,000 pounds
Lard (340 pounds to a tierce),	250 tierces

Wheat is the only grain bought and sold on the Board for future delivery in quantities of less than 5,000 bushels. Trades of 1,000 to 4,000 bushels are made and styled "job lots." These trades may, by

accumulation, run into large amounts, but the transactions must be closed where opened—in the job lots crowd.

COMMISSIONS.

Commissions are fixed by the rules of the Board at the following minimum rates:

Wheat— $\frac{1}{8}$ c. per bushel round trade  
 Corn— $\frac{1}{8}$ c. per bushel round trade  
 Oats— $\frac{1}{8}$ c. per bushel round trade  
 Pork—5c. per barrel round trade  
 Hibs—25c. per 1,000 pounds round trade  
 Lard—64c. per tierce round trade

There is a brokerage of 25 cents on short-time indemnities of 5,000 bushels. The buyer of a long-time indemnity pays \$1.25 brokerage on each 5,000 bushels, but the seller receives the net price.

FLUCTUATIONS.

The smallest variations in the price of commodities denote losses or profits upon purchases or sales as follows:

Fluctuations.	Equal to
Wheat— $\frac{1}{8}$ c. per bushel	\$3.25 on 5,000 bushels
Corn— $\frac{1}{8}$ c. per bushel	6.25 on 5,000 bushels
Oats— $\frac{1}{8}$ c. per bushel	6.25 on 5,000 bushels
Pork— $\frac{1}{8}$ c. per barrel	6.25 on 250 barrels
Lard— $\frac{3}{4}$ c. per 100 pounds	21.25 on 250 tierces
Hibs— $\frac{3}{4}$ c. per 1,000 pounds	12.50 on 50,000 pounds

When trades are made in equal multiples of these minimum quantities the commodity may be bought at  $\frac{1}{15}$ c. lower, or sold  $\frac{1}{15}$ c. higher, by a purchase or sale on what is known as a "split." For example, a 10,000-bushel lot of grain may be bought or sold at the fractional figures  $\frac{3}{8}$  to  $\frac{3}{4}$ , and 500 barrels of pork at  $2\frac{3}{4}$ c. to 5c. This means one-half the lot at each price, amounting to  $\frac{1}{16}$  on a whole lot.

## HOW TO TRADE IN COTTON.

Cotton is quoted per pound in cents and hundredths of a cent; the hundredths are called points, and constitute the smallest fluctuation. The minimum trade is made for a contract of 100 bales of 500 pounds gross each. At 10 cents the amount represented by a contract is \$5,000; and at 11 cents, \$5,500; each cent per pound is equal to \$500 per contract, and each point amounts to \$5. The commission for the double transaction, buying and selling, is three points, or \$15 per contract. To safeguard himself against losses, the cotton broker or commission merchant requires the deposit of a certain amount, called margin. It varies from \$100 to \$500, according to the custom of the brokerage house and to the market situation. In a sluggish market and at low prices many houses accept \$100 margin, while in erratic markets and at high prices a larger margin is demanded before opening the account. A margin of \$100 covers an adverse fluctuation of 20 points, or, deducting the three points commission, of 17 points net. The calculation of differences in New York and New Orleans markets is extremely simple. Always reckon by points, and bear in mind that one point represents \$5 per contract of 100 bales. The New York market opens at 10 A. M. and closes at 3 P. M.; Saturdays at 12 noon. The New Orleans market opens at a few minutes past 9 A. M. New Orleans, or 10 A. M. New York, time, and closes at 2.30 P. M. New Orleans time; Saturdays at 12 noon New Orleans time.

NATURE OF USES OF COTTON CONTRACTS.

Many persons have little or no idea of Cotton Exchanges, and the trading in contracts for future delivery, and many believe that those contracts represent no real value and are of no legal validity. To show the incorrectness of this view we give below the form of the contract now in use in the New York Cotton Exchange:

NEW YORK COTTON EXCHANGE CONTRACT.

New York, .....191

"In consideration of one dollar in hand paid, receipt of which is hereby acknowledged,.....have this day sold (or bought from)..... 50,000 pounds in about 100 square bales of cotton, growth of United States, deliverable from licensed warehouse, in the Port of New York, between the first and last days of.....next, inclusive. The delivery within such time to be at seller's option in one warehouse, upon notice to buyer, as provided by the By-laws and Rules of the New York Cotton Exchange. The cotton to be of any grade from Good, Ordinary to Fair inclusive, and if Tinged or Stained, not below LOW MIDDLING with addition or deductions for other grades, according to the rates of the New York Cotton Exchange existing on the day previous to the date of the transferable notice of delivery.

"Either party to have the right to call for a margin, as the variations of the market for like deliveries may warrant, and which margin shall be kept good. This contract is made in view of and in all respects subject to the rules and conditions established by the New

York Cotton Exchange, and in full accordance with Section 92 of the By-laws."

Any person who sells such a contract is therefore legally obligated to deliver the cotton during the month named, and conversely, any person who buys such a contract is legally obligated to receive the cotton at seller's option of three days during the month named. The fact that the seller can relieve himself of his obligation by purchasing another contract of the same month's delivery, or that the buyer can do the same by selling a similar contract, in no way alters the case. In each instance the party merely transfers his obligation to another, and while such transfers may continue indefinitely, those who are at last parties to the contract when the month for delivery rolls around must fulfill the obligations they have assumed.

Moreover, it will be perceived that whoever buys such a contract will, when the month arrives, receive his cotton and have it for sale or use as surely as if he had bought bales and stored them away—the fulfillment of all contracts being secured by law under By-laws and Rules of the Cotton Exchange, while the variations in the market fluctuations are secured by the deposits of margin in a trust company. On the other hand, anyone who sells such a contract against cotton he expects to produce or receive, when the month for delivery arrives can deliver his cotton on the contract with the certainty that he will receive the price stipulated.

These contracts are simply a mercantile device by which parties dealing in, using or producing cotton may secure a fixed price at which on a certain date in the future they can buy if desired or sell if produced.

**CHAPTER XI.**  
**INVESTMENTS.**

## HOW TO SELECT AND JUDGE INVESTMENTS.

**I**T is a recognized fact that in times of great prosperity inexperienced investors usually buy a large number of undesirable securities. The following are usually the two chief reasons:

First—During such periods the cost of living is so high that investors are tempted to give too much thought to the amount of their dividends or income, thus neglecting to scrutinize with sufficient care the quality of the security to be afforded their principal.

Second—In times of great prosperity the high prices for raw materials, manufactured products, etc., lead owners and proprietors to believe that larger profits could be made if sufficient capital were available to extend their respective fields of operation. The natural result is incorporation, in many instances based largely upon estimated earnings and dreams of the future. As time goes on and the inevitable decline in the volume of business takes place, with lower range of prices all along the line, the inexperienced investor or broker, who may have placed a part of his funds in such enterprises, finds himself the owner of a class of securities from which little or no income is to be derived and for which there is absolutely no market.

It is only after experiences of this character that many investors and brokers learn to always make the question of security the primary consideration. However, it should not be understood that it is difficult to make a desirable investment in times of great prosperity. On the contrary, during such periods many long-established and sound corporations with whose securities well-informed investors and brokers are familiar, find it expedient to become heavy borrowers,

chiefly for the reason that enlarged facilities are essential to meet the increasing demands of their business. If the prevailing rates for money are high, which is usually the case at such times, the corporations have no alternative except to sell their securities at attractive prices.

The writer has no intention of dignifying by comparison with conservative investments, certain classes of speculative real estate, mining stocks, plantation stocks, and numerous questionable propositions. At the same time, considering the hundreds of thousands of dollars lost by misinformed investors, it is difficult to conceive how one writing upon the subject of investment can pass over such a deplorable condition without some comment.

The writer, therefore, takes this opportunity of cautioning his readers against having anything whatever to do with such propositions. If the scores upon scores of securities were all right, which it is claimed by their exponents will yield all the way from 8 per cent. to 50 per cent. annual income, where sound investments of permanent and progressive value only earn from  $3\frac{1}{2}$  to 6 per cent., then the promoters would experience no difficulty in readily securing capital from reputable bankers. The reputable banker with his special knowledge and years of training, and with the best investigating experts at his command, cannot get for his clients sound investments yielding more than from 5 to 6 per cent., excepting under abnormal conditions, when large and responsible corporations sometimes find it necessary to pay high rates of interest for short loans. This applies also the advertisements and literature of many companies, stating that they are offering securi-



ties directly to the public, thus saving buyers the banker's or broker's commission.

Investors who are attracted by very expensive advertisements and large type should first make inquiry as to whether the business had been submitted to reputable bankers, and, if so, discover the reasons that induced bankers to decline the purchase.

You should not be misled by the statement, often made, that subscriptions for such securities will be received through certain banks or trust companies. Such a statement by the sellers, while in some cases having the tendency to inspire the confidence of prospective buyers, has no direct bearing upon the subject. So long as a company selling its securities directly to the public is without bad reputation, any institution with which it may carry a reasonably large deposit account might feel perfectly justified in extending such an accommodation. Because of such action it is not customary in business circles to conclude that the institutions endorse the propositions. It is simply and purely an accommodation, nothing more, nothing less.